



ENERJİSA
Türkiye'nin Enerjisi
Energy of Turkey

ENERJİSA ENERJİ ANONİM ŞİRKETİ

**ANNUAL REPORT
FOR THE PERIOD OF
01.01.2017 – 31.12.2017**

(Convenience translation of a report originally issued in Turkish)

INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

To the Board of Directors of Enerjisa Enerji A.Ş.

1) Opinion

We have audited the annual report of Enerjisa Enerji A.Ş. ("the Company") and its subsidiaries ("the Group") for the period of 1 January 2017 – 31 December 2017.

In our opinion, the consolidated financial information provided in the annual report of the Board of Directors and the discussions made by the Board of Directors on the situation of the Group are presented fairly and consistent, in all material respects, with the audited full set consolidated financial statements and the information we obtained during the audit.

2) Basis for Opinion

We conducted our audit in accordance with standards on auditing as issued by the Capital Markets Board of Turkey and Independent Auditing Standards ("InAS") which are part of the Turkish Auditing Standards as issued by the Public Oversight Accounting and Auditing Standards Authority of Turkey ("POA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Annual Report* section of our report. We are independent of the Group in accordance with the *Code of Ethics for Independent Auditors* ("Code of Ethics") as issued by the POA, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3) Our Auditor's Opinion on the Full Set Consolidated Financial Statements

We have expressed an unqualified opinion in our auditor's report dated February 21, 2018 on the full set consolidated financial statements of the Group for the period of 1 January 2017 – 31 December 2017.

4) The Responsibility of the Board of Directors on the Annual Report

In accordance with Articles 514 and 516 of the Turkish Commercial Code 6102 ("TCC") and the provisions of the Communiqué II-14.1 on the Principles of Financial Reporting in Capital Markets ("the Communiqué") of the Capital Markets Board ("CMB"), the management of the Group is responsible for the following items:

- a) Preparation of the annual report within the first three months following the balance sheet date and submission of the annual report to the general assembly.
- b) Preparation and fair presentation of the annual report; reflecting the operations of the Group for the year, along with its financial position in a correct, complete, straightforward, true and honest manner. In this report, the financial position is assessed according to the consolidated financial statements. The development of the Group and the potential risks to be encountered are also noted in the report. The evaluation of the board of directors is also included in this report.

- c) The annual report also includes the matters below:
- Subsequent events occurred after the end of the fiscal year which have significance,
 - The research and development activities of the Group,
 - Financial benefits such as salaries and bonuses paid to the board members and to those charged governance, allowances, travel, accommodation and representation expenses, financial aids and aids in kind, insurances and similar deposits.

When preparing the annual report, the board of directors takes into account the secondary legislative arrangements published by the Ministry of Customs and Trade and related institutions.

5) Auditor's Responsibilities for the Audit of the Annual Report

Our aim is to express an opinion, based on the independent audit we have performed on the annual report in accordance with provisions of the Turkish Commercial Code and the Communiqué, on whether the consolidated financial information provided in this annual report and the discussions of the Board of Directors are presented fairly and consistent with the Group's audited consolidated financial statements and to prepare a report including our opinion.

The independent audit we have performed is conducted in accordance with InAS and the standards on auditing as issued by the Capital Markets Board of Turkey. These standards require compliance with ethical provisions and the independent audit to be planned and performed to obtain reasonable assurance on whether the consolidated financial information provided in the annual report and the discussions of the Board of Directors are free from material misstatement and consistent with the consolidated financial statements.

The name of the engagement partner who supervised and concluded this audit 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

February 21, 2018
İstanbul, Türkiye

Dear Shareholders,

In 2017, Enerjisa has successfully splitted the businesses to manage the upstream and downstream energy businesses, in which the company is the sector leader, separately in a more focused and effective manner given the very different dynamics of these two business lines. As of August 2017, the electricity distribution and retail operations continued to be managed by Enerjisa Enerji, while electricity generation, trade and natural gas operations were spun-off to a new Enerjisa Generation holding company. While going through the resulting organizational transformation process, the restructured Enerjisa Enerji prepared for the IPO within the set time period. The successful preparation of the IPO was of great importance both for its existing shareholders, E.ON and Sabancı Holding, as well as for Turkey overall.

Despite the high electricity demand growth in Turkey of 5.5% in 2017, which was a result of continued industrialization, urbanization, urban transformation and electrification trends, the excess power supply situation of the recent years continued. However, due to the significant reduction in new wind and solar capacities as well as the hydrology in 2017, the distribution of resources in total generation was differentiated. As a consequence and due to continued devaluation of the Turkish Lira, spot power prices in 2017 have increased by around 16%. In spite of these increasing spot market prices as well as the increasing Feed-in-Tariff cost for renewable energies, the regulated end-consumer tariff remained unchanged, creating significant profitability challenges in the electricity retail market. Nevertheless, the retail business of Enerjisa was able to create value for its shareholders by taking timely measures, including efficiency and collection improvements, and kept its overall sales volume and market share. Within the second year of the 2016-2020 regulatory period, Enerjisa continued to build its track record of high electricity supply quality, efficiency, innovative financing instruments and successful electricity infrastructure investments serving to around 20 million people. Risks were managed well in 2017, when risk management was critical.

In February 2018, a new era has started for Enerjisa with the successful IPO, which has attracted high demand among both local and international investors. I am confident, that Enerjisa will continue its strong growth in all fields of operations and show sector leadership supported by this important step, which has initiated the further institutionalization of the industry. The growth potential remains to be a fundamental result of Turkey's low electricity demand per person and household, compared to OECD and EU averages, which will grow as a consequence of economic growth, urbanization dynamics, young and dynamic population as well as electrification trends such as e-mobility. By meeting this rapid demand growth, Enerjisa will continue to create high and sustainable value for its shareholders, energy consumers, business partners and all its stakeholders through its operations supported by innovative infrastructure and customer solutions.

Hereby, I would like to extend my deepest gratitude first and foremost to the CEO, but also all managers and employees, for their great contribution in the success of Enerjisa.

Mehmet GÖÇMEN
Chairman of the Board of Directors

Restricted

1- GENERAL INFORMATION

- a) Accounting period that the report relates to : 01 January 2017 – 31 December 2017
- b) Trade-name of the Company : ENERJİSA ENERJİ ANONİM ŞİRKETİ
- Trade registration number : 800865
- Head office contact details and website address : Sabancı Center 4. Levent Beşiktaş-
ISTANBUL
Phone : 0212 385 88 66
Fax : 0212 385 88 55
e-mail : enerjisa-info@enerjisa.com
website : www.enerjisa.com.tr

c) The organization, capital and shareholding structures of the Company and related changes in the fiscal period

Members of the Board of Directors:

Name and Surname of the Board Member	Position	Date of Election as a Board Member	Expiry Date of the Term of Office
Mehmet GÖÇMEN	Chairman of the Board	10/11/2015	10/11/2018
Keith PLOWMAN	Vice-Chairman of the Board	10/11/2015	10/11/2018
Eduard Hans-Jochen KLEY	Member	10/11/2015	10/11/2018
Bariş ORAN	Member	10/11/2015	10/11/2018
Eva-Maria Verena VOLPERT	Member	02/11/2016	10/11/2018
Fezal Okur ESKİL	Member	01/04/2017	10/11/2018
Alan Richard BEVAN	Member	14/11/2017	10/11/2018
Levent DEMİRAĞ	Member	14/11/2017	10/11/2018

Board Members that have left the Board during the period:

Name and Surname of the Board Member	Position	Date of Election as a Board Member	Date of Departure
Seyfettin Ata KÖSEOĞLU	Member	10/11/2015	01/04/2017

Shareholding Structure of the Company:

Shareholder Name	Share / Voting Right			
	27.03.2017		15.11.2017	
	(TL)	(%)	(TL)	(%)
Hacı Ömer Sabancı Holding A.Ş.	4,795,342,710.00	50.0	590,534,483.56	50.0
DD Turkey Holdings S.A.R.L.	4,795,342,710.00	50.0	590,534,483.56	50.0
TOTAL	9,590,685,420.00	100.0	1,181,068,967.12	100.0

Changes that occurred in the Company Capital during the Period:

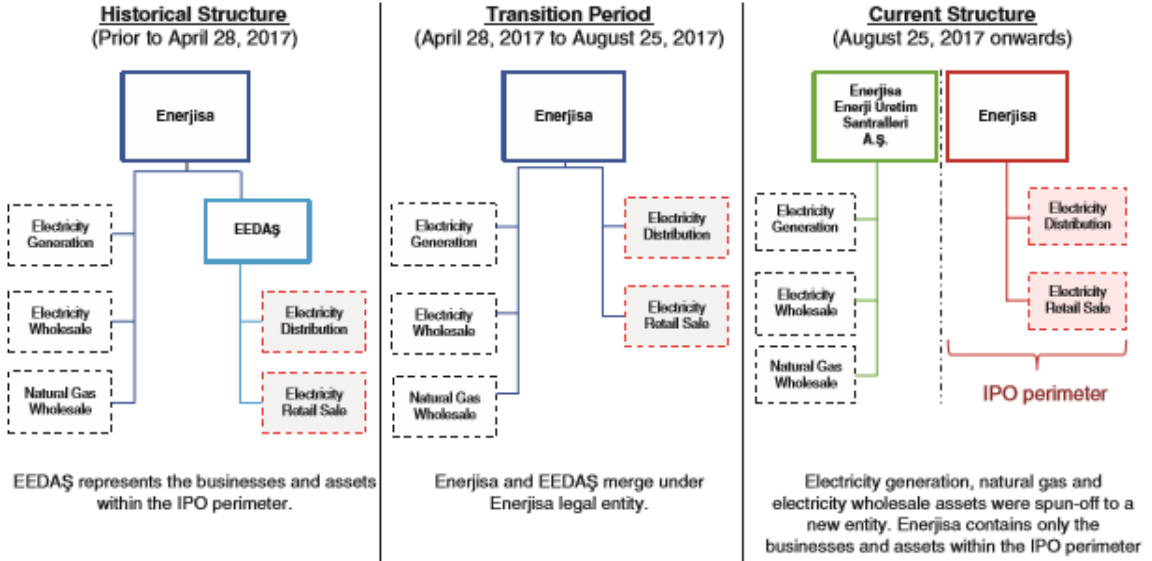
Until 2017, Enerjisa operated as the main company of Sabancı Holding and E.ON in relation to energy operations in Turkey. In April 2017, separation of the conventional electricity generation and wholesale (upstream) businesses from the more customer centric distribution and retail (downstream) businesses ("Corporate Reorganization") was realized by spin-off of upstream and downstream businesses.

On 28 April 2017 as the first stage of the restructuring, Enerjisa 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) and EEDAS dissolved without liquidation, leaving Enerjisa as the surviving entity. On 25 August 2017 as the second stage of the restructuring, a new company called Enerjisa Üretim Santralleri A.Ş. ("EÜSAŞ") was jointly established by Sabancı Holding and DD Turkey.

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 from Enerjisa Enerji A.Ş. to EUSAŞ as capital in kind and at their book values.

In this context, Enerjisa Enerji A.Ş.'s 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. The book value amount was calculated as TL 8,409,616,452.68 from the Balance Sheet dated 30.04.2017.

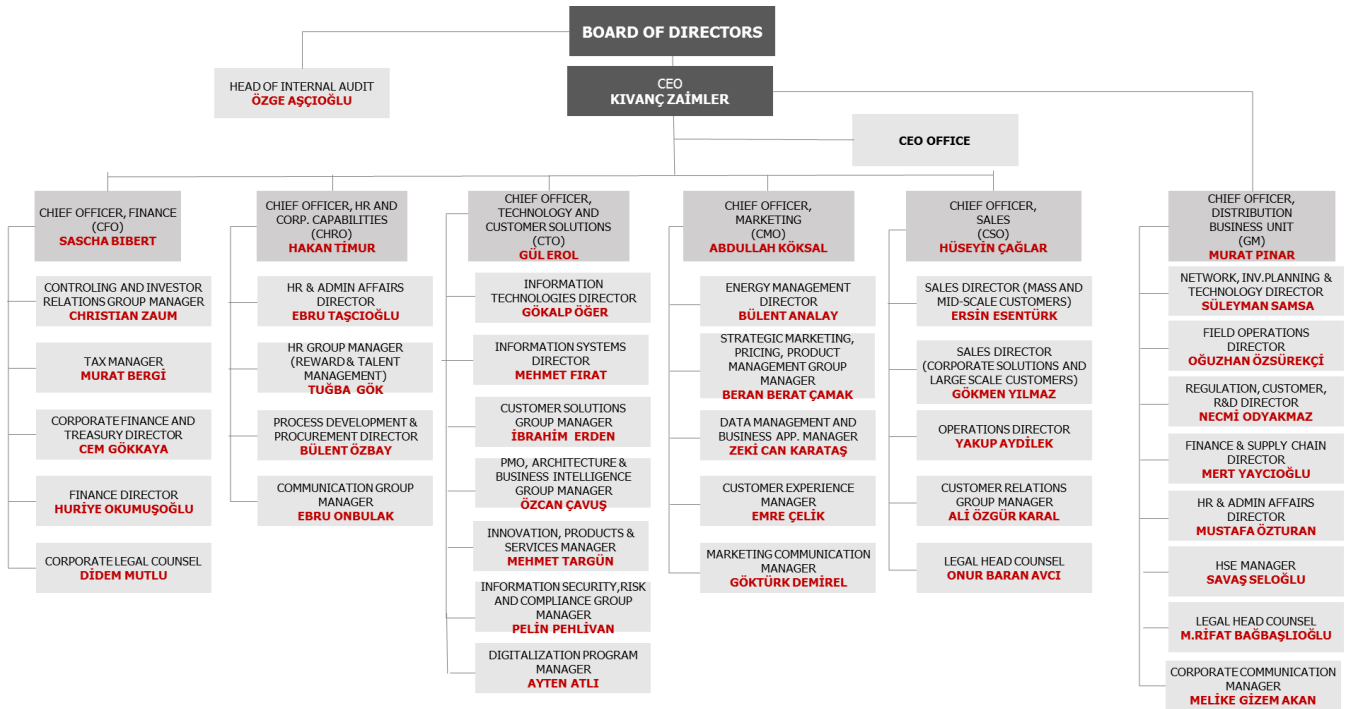
Below chart summaries the summary of the corporate actions and the impact on the business and assets:



ç) Remarks on privileged shares and voting rights of such shares, if any: Not available.

d) Information on the management body, senior officers and number of employees:

The organization of Enerjisa management is as below:



Senior Management:

- Kıvanç Zaimler, Chief Executive Officer (CEO)
- Sascha Bibert, Chief Financial Officer (CFO)
- Hakan Timur, Chief Officer, HR and Corporate Capabilities (CHRO)
- Gül Erol, Chief Officer, Technology and Customer Solutions (CTO)

- Abdullah Köksal, Chief Officer Marketing (CMO)
- Hüseyin Çağlar, Chief Officer, Sales (CSO)
- Murat Pınar, Chief Officer, Distribution Business Unit (GM)

The group has 9,712 employees as of 31.12.2017.

e) Rights and benefits granted to employees:

Employees working under the structure of Enerjisa Enerji A.Ş. are paid 12 salaries plus 4 monthly bonus payments in a year.

f) Information on the transactions executed by the members of the management body with the company on their own behalf or on behalf of others within the framework of the permission granted by the general assembly of the company as well as their activities under the scope of prohibition of competition, if any:

The Chairman and the Members of the Board of Directors may not execute any transaction with the company on their own behalf or for or on account of others, personally or indirectly, without the prior permission of the General Assembly. During the period of 01.01.2017 – 31.12.2017, the members of our Board of Directors neither executed any transaction with the company, nor been involved in any attempts that can compete with the company in its fields of operation.

2- FINANCIAL RIGHTS GRANTED TO THE MEMBERS OF THE MANAGEMENT BODY AND THE SENIOR-LEVEL EXECUTIVE OFFICERS

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- 31 December 2017	1 January- 31 December 2016
Short-term employee benefits	22,039	9,985
Long-term employee benefits	293	55
Termination benefits	181	741
	<u>22,513</u>	<u>10,781</u>

3- RESEARCH AND DEVELOPMENT ACTIVITIES

There are no research and development activities conducted by the company during the period of 01.01.2017 – 31.12.2017.

4- COMPANY'S OPERATIONS AND RELATED MAJOR DEVELOPMENTS

a) Information on the main developments during the related fiscal period:

Enerjisa Enerji A.Ş. 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 Corporate 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 100% of the three subsidiaries (electricity generation, wholesale trading and natural gas trading) by spin-off method to a newly company called Enerjisa Üretim Santralleri A.Ş. ("EÜSAŞ"), jointly established by Sabancı Holding and DD Turkey.

The Company has established 100% subsidiary Enerjisa Müşteri Çözümleri A.Ş. on 29 December 2017, in order to conduct its activities in customer solutions and distributed energy.

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 distribution and retail companies 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 AYEDAS, and AYEPSAS, in 2014 were taken and (iv) whether our distribution companies and retail companies are in abuse of dominant position. As of the date of this Report, the investigation process is ongoing and as per the procedural rules, the investigation is expected to be finalized before August 2018. 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.

b) Information on the operational developments during the related fiscal period:

The Company's main activities under the new structure are electricity distribution and retail services. As these activities are essentially the same as the EEDAS activities in the previous period, the Company is also the continuation of EEDAŞ.

The consolidated financial statements of the Group have been prepared comparatively with consolidated financial statements of EEDAŞ as of 31 December 2016, considering the Company, as the successor of EEDAŞ which represents substantially the same business and assets of the Group.

Operational earnings (EBITDA + Capex reimbursements excluding exceptional items) of Enerjisa Enerji A.Ş. have increased by +627mTL (+32%) from 1,938mTL in 2016 to 2,565mTL in 2017.

This increase in operational earnings was mainly driven by the Distribution segment, which as of the year-end 2017 contributed 91% of operational earnings for Enerjisa Enerji. First and foremost, the increase in earnings for the Distribution segment is a result of +404mTL higher financial income driven by both higher Regulatory Asset Base, which grew from 3.9bnTL as of year-end 2016 to 5.3bnTL as of year-end 2017, as well as the announced increase in regulatory WACC from 11.91% to 13.61%.

Furthermore, given the continued increase in Initial Capex Allowance, Capex reimbursements increased by +149mTL from 443mTL in 2016 to 592mTL in 2017. Next to increased returns from our Regulatory Asset Base, earnings contributions from efficiency gains and regulatory outperformance items increased as well, especially driven by Theft & Loss outperformance as well as theft accrual collections.

The contribution of the Retail segment slightly decreased in 2017, mainly driven by a contraction of margins in the liberalized market. This contraction in margins is a result of higher procurement costs, which could not be reflected to the end customer, given the regulated National Tariff that continues to act as a natural price cap for the liberalized market as well. So far the regulator has not fully reflected higher market prices to the National Tariff, leading to pressure on liberalized margins. This margin-related downside in the liberalized market was partially compensated by a 7% increase in sales volumes from 32.9TWh in 2016 to 35.2TWh in 2017.

Enerjisa Enerji A.Ş. underlying Net Income increased by 145mTL from 377mTL in 2016 to 522mTL in 2017. While EBITDA increased by 462mTL, this was partially compensated by higher financial expenses driven by both, higher net debt as well as higher average cost of financing. Net debt has increased from 6.5bnTL at the end of 2016 to 7.3bnTL at the end of 2017 as a result of continued high investment levels and consequently negative Free Cash Flow after interest and tax. Average cost of financing has increased from 11.6% in 2016 to 13.3% in 2017. The latter is mainly a result of higher nominal interest rates driven by higher inflation.

c) Information on the investments made by the Company during the related fiscal period:

As of December 31, 2017, Enerjisa with approximately 10.8 million distribution connection points and 26% market share has the largest number of connection points and with approximately 9.2 million customers is the leading downstream electricity company. The activities conducted by our Company, i.e. the umbrella company housing under its structure the operational companies such as İstanbul Anadolu Yakası Elektrik Dağıtım A.Ş. (İstanbul Anatolian Side Electricity Distribution Co.), Başkent Elektrik Dağıtım A.Ş. (Başkent Electricity Distribution Co.), Toroslar Elektrik Dağıtım A.Ş. (Toroslar Electricity Distribution Co.), Enerjisa İstanbul Anadolu Yakası Elektrik Perakende Satış A.Ş. (İstanbul Anatolian Side Electricity Retail Sales Co.), Enerjisa Başkent Elektrik Perakende Satış A.Ş. (Enerjisa Başkent Electricity Retail Sales Co.), Enerjisa Toroslar Elektrik Perakende Satış A.Ş. (Enerjisa Toroslar Electricity Retail Sales Co.) and Enerjisa Müşteri Çözümleri A.Ş. (Enerjisa Customer Solutions). Our Company does not make any direct investment, but participate in the operational companies under its structure.

b) Information on the internal control system and internal audit activities of the Company and the related opinion of the management body:

Internal audit activities related with the efficiency of the internal control system of the Company are planned and conducted by the Internal Audit Department. The audit results are shared with Enerjisa Enerji A.Ş. Audit Committee and the company management and the planned actions are monitored.

c) Information on the Company's direct or indirect participations/subsidiaries and the share ratios:

The direct participation shares held by the Company are as follows

	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group %		Principal activity
		31 December 2017	31 December 2016	
		Başkent Elektrik Dağıtım A.Ş.	Ankara	
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
Enerjisa Müşteri Çözümleri A.Ş.	İstanbul	100	-	Customer solutions and distributed energy services

d) Information on the own shares of the company acquired:

The company does not own any shares in the related period.

e) Information on private audit and public audit conducted in the fiscal period:

The financial reports of our Company for the period of 01.01.2017 – 31.12.2017 prepared in accordance with TAS was independently audited by Güney Bağımsız Denetim ve SMMM A.Ş., a member firm of Ernst & Young, one of the international independent audit companies.

There is no public audit conducted in relation to our Company within the period that ended by 31.12.2017.

f) Information on legal actions filed against the Company which might adversely affect the financial situation and operations of the Company and their possible consequences:

There are no cases filed against the Company within the period of 01.01.2017 – 31.12.2017, which may adversely affect the financial situation and operations of the Company.

g) Information on the administrative or judicial sanctions imposed on the Company and the members of its management body for practices in breach of the provisions of applicable legislation:

There is no judicial or administrative sanction imposed on the Company and the members of the Board of Directors for practices contrary to applicable laws and regulations.

h) Information and evaluation on whether the goals set in the previous periods were achieved, and whether the decisions of the general assembly were implemented, and if not, the related reasons for failure to achieve such goals or to implement such decisions:

There has been no major deviation from our Company's budgetary targets for the period of 01.01.2017 – 31.12.2017.

i) If any extraordinary general assembly meeting has been held during the year, information on such extraordinary general assembly meeting including the date of the meeting, the decisions taken in such meeting and the related activities:

The decisions taken by the Company in the Extraordinary General Assembly Meeting held on 10 May 2017.

-It was decided that the Board Membership of FEZAL OKUR ESKİL, elected as the Member of the Board in the place of SEYFETTİN ATA KÖSEOĞLU who resigned from Board Membership be approved and be allowed to hold and complete the remaining term of office of the member in whose place she was elected.

-It was decided that the Articles 4 and 8 of the Company's articles of association be amended and the new texts be approved as a result of the acquisition of Enerjisa Elektrik Dağıtım A.Ş. by the Company pursuant to the provisions of articles 136, 155/1 and 156/1 of the Turkish Commercial Code and articles 19 and 20 of the Corporate Tax Law.

The decisions taken by the Company in the Extraordinary General Assembly Meeting held on 25 August 2017:

- It was decided to transfer 100% of the shares in Enerjisa Elektrik Üretim A.Ş., Enerjisa Elektrik Toptan Satış A.Ş. and Enerjisa Doğalgaz Toptan Satış to Enerjisa Üretim Santralleri A.Ş. through a partial spin-off, as capital in kind and at their book values. The share capital was reduced by an amount equal to the total book values of the Enerjisa Elektrik Üretim A.Ş., Enerjisa Elektrik Toptan Satış A.Ş. and Enerjisa Doğalgaz Toptan Satış.

- It was decided to amend the Articles of Association article numbered 7 due to share capital decrease.

The decisions taken by the Company in the Extraordinary General Assembly Meeting held on 13 September 2017:

It was decided to amend the Articles of Association articles numbered 4,10,13,22 and 23.

The decisions taken by the Company in the Extraordinary General Assembly Meeting held on 14 November 2017:

-It was decided to amend the Articles of Association articles numbered 1, 4, 6, 7,.8, 9, 10,11,12,13,14,15,16,17,19,20,21,22 and 23 and accept new articles articles 24, 25,26 as approved by Capital Markets Board and T.R. General Directorate of Domestic Trade of Ministry of Customs and Trade.

- It was decided to increase the number of board members from six (6) to eight (8) with the amended Article 9 of the Articles of Association. According to the new Article 9 of the Articles of Association, it is required to appoint two (2) additional members. Alan Richard Bevan and Levent are appointed as the new members to the board of directors with an unanimous decision, provided that the term of their duty is limited with the same period as the members appointed during the Extraordinary General Assembly Meeting dated 10.11.2015

j) Information on the Company's donations and aids and its expenditures made on social responsibility projects during the year:

Our Company has made donations and aids at the amount of TL 7,100,000 within the period of 01.01.2017 – 31.12.2017.

k) If a company operating under a group of companies; legal actions taken with the parent company, or any subsidiary of the parent company in favour of the parent company or any subsidiary thereof upon the instructions of the parent company and all the other measures taken or avoided in favour of the parent company or any subsidiary thereof in the previous fiscal year:

There are no legal actions that we have taken with Hacı Ömer Sabancı Holding A.Ş., DD Turkey Holdings S.A.R.L. or any subsidiary thereof or in favour of them or any of their subsidiaries upon their instructions; and there are no actions taken or avoided in favour of ve Hacı Ömer Sabancı Holding A.Ş., DD Turkey Holdings S.A.R.L. or any of their subsidiaries.

l) The company's sources of finance and the nature and value of the capital markets instruments issued, if any

Enerjisa Group mostly uses sources of finance via the loans received from the Turkish banks in Turkish Lira. Enerjisa Elektrik Dağıtım A.Ş., one of the Group's affiliates that it acquired, issued a bond on 2 March 2017 with a nominal value of TL 405,000,000 and a maturity of 1454 days, floating interest and CPI indexed, with six months coupon payments.

Enerjisa Enerji A.Ş. issued two separate bonds on 1 August 2017 with a nominal value of TL 335,000,000 based on a maturity of 1820 days and 20 October 2017 with a nominal value of TL

100,000,000 based on a maturity of 1456 days. These bonds are floating rate and CPI Indexed with 6 months coupon payments. Including Enerjisa's Affiliate Başkent Elektrik Dağıtım A.Ş.'s bonds issued in 2016 the Group has a total of TL 1,190,000,000 bonds in circulation.

m) Events that occurred after the Balance Sheet Date

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 21 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.
- 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.

The application for Public offering of our company was made to the Prime Ministry Capital Markets Board ("the Board") on 15 November 2017; and the draft Prospectus was submitted to the approval of the Board. Within the framework of the relevant legislations, the draft Prospectus had been approved by the Board on 25 January 2018 in accordance with the Board decision 29833736-105.01.01.01-E.890. On the same date, approved Prospectus and Annexes were announced to the public on our website and on the Public Disclosure Platform.

Upon approval of initial public offering (IPO) prospectus by Capital Market Board, the shares of Enerjisa Enerji A.Ş., which were offered to public on 1-2 February 2018 started on 8 February 2018 in BIST Stars Market, at TL 6.25 base price, with ticker "ENJSA.E".

n) Other issues not included in the financial statements, but useful to know for interested parties

None.

o) If a company operating under a group of companies; information about whether a counter action was provided appropriate for each legal action and whether the measure taken or avoided caused the company to suffer a loss; and if the company suffered a loss, whether it was compensated or not according to the situation and conditions known by them at the time when the legal action or the measure mentioned in the subparagraph (i) was performed or taken or avoided:

To the best of our knowledge of current conditions, the legal actions taken by our Company with the controlling companies or any of their subsidiaries or in favour of the controlling companies or any of their subsidiaries upon the instructions of the controlling companies and all the other measures taken or avoided in favour of the controlling companies or any of their subsidiaries in the fiscal period of 01.01.2017 – 31.12.2017 were evaluated in the form of a report under the scope of all transactions performed between our Company and the controlling company and its affiliated companies during the Fiscal Period of 01 January 2017 – 31 December 2017, which were conducted in full conformity with the honest and fair accounting principles according to the conditions well known to us. Our company did not suffer any loss resulting from any transaction executed under known conditions in connection with the Fiscal Period of 01.01.2017 – 31.12.2017.

5- FINANCIAL SITUATION

a) Management body's analysis and assessment of the financial position and operational results, the extent of realization of planned activities, and the company's position against defined strategic goals:

Our Company's financial results for the period of 01.01.2017 – 31.12.2017 are provided in the enclosed Balance Sheet and Income Statement.

b) Company's sales, productivity, income generation capacity, profitability and debt to equity ratio within the year in comparison with the previous years, and information on any other issues that might suggest the company's operational results and future expectations:

The Company's gross profit as of 31 December 2017 is TL 3,932,491,000.

The Company's debt to equity ratio was 58% in the period of 01.01.2016 – 31.12.2016; and has been recorded as 56% in the period of 01.01.2017 – 31.12.2017.

There is no revenue risk predicted for the Company.

c) Determination about whether the Company's capital has remained without reserve or whether it has run into debt and the management body's evaluations related thereof:

The Company is not in a deep-in-debt (technical bankruptcy) situation according to the evaluations made pursuant to Article 376 of the Turkish Commercial Code.

d) Measures planned to improve the financial structure of the Company, if any:

Since the Company's financial and capital structures are strong, there are no measures planned to be taken to improve the financial structure of the Company.

6- AMENDMENTS TO ARTICLES OF ASSOCIATION MADE IN THE PERIOD AND THE RELATED REASONS

Since the Company has acquired Enerjisa Elektrik Dağıtım A.Ş. pursuant to the provisions of articles 136, 155/1 a and 156/1 of Turkish Commercial Code and articles 19 and 20 of the Corporate Tax Law; Article 4 (Operational Purpose and Line of Business) and Article 8 (Issue of Bonds and Other Documents) of the articles of association were amended.

It was decided to amend the Articles of Association article numbered 7 due to share capital decrease at the Extraordinary General Assembly Meeting held on 25 August 2017.

It was decided to amend the Articles of Association articles numbered 4,10,13,22 and 23 during the Extraordinary General Assembly Meeting held on 13 September 2017:

During the Extraordinary General Assembly Meeting held on 14 November 2017, the Articles of Association articles numbered 1, 4, 6, 7,.8, 9, 10,11,12,13,14,15,16,17,19,20,21,22 and 23 was amended and articles 24, 25,26 are added as new articles in line with the approval of the Capital Markets Board and T.R. General Directorate of Domestic Trade of Ministry of Customs and Trade. The amendment was made for comply with the legislation of Capital Markets Board and Turkish Commercial Law.

7- RISKS AND THE EVALUATION OF THE MANAGEMENT BODY

a) Information on, if any, the company's risk management policy to be implemented against the foreseen risks:

A corporate risk management structure has been established and the related procedures have been developed under the structure of Enerjisa, based on COSO, ISO 31000 and similar best practices. Risks are identified and evaluated on an individual Company and by departments basis; and the control methods are determined. Comprehensive revisions are conducted at the end of each quarter and interim revisions are conducted at the end of each month.

b) Information on the activities and reports of the early risk detection and management committee, if established:

Risks related with the Company's operations are revised at regular intervals and risk reports are prepared for submission to Enerjisa Board of Directors. A Risk Committee comprising the senior managers of Enerjisa convenes quarterly and reviews the risk reports and gives its opinions and evaluations related with the risks identified under the structure of Enerjisa . In addition, Enerjisa Board of Directors Risk Committee has also been established; and the group's financial, strategic and operational risks are referred to and escalated in this committee and further mitigation plans are discussed for relevant risks. Minutes of these meetings are archived.

c) Prospective risks with regard to sales, productivity, income generating capacity, profitability, debt to equity ratio and similar issues.

All risks affecting the profitability of Enerjisa are identified and their effects are evaluated under the scope of Risk Management. The principal risks include market risks (financial and commodity markets), credit Risks, operational risks (H&S, IT, environment, reputation) and regulatory risks. While risks are monitored, control mechanisms and actions plans are determined and the necessary actions are taken.

Best regards,

Report date: 21.02.2018

Kıvanç Zaimler, CEO

Sascha Bibert, CFO

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (TL), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

	Notes	Audited / current period 31 December 2017	Audited / prior period 31 December 2016
ASSETS			
Current Assets			
Cash and Cash Equivalents	27	172,750	74,570
Financial Assets	10	691,860	653,754
Trade Receivables	6	2,382,440	1,720,529
<i>Due from related parties</i>	5	40,859	15,801
<i>Due from third parties</i>		2,341,581	1,704,728
Other Receivables	7	439,967	393,471
<i>Due from related parties</i>	5	598	2
<i>Due from third parties</i>		439,369	393,469
Derivative Financial Instruments	25	44,054	3,886
Inventories	8	101,754	74,459
Prepaid Expenses	9	199,638	14,156
Assets Related with Current Taxes	23	11,215	238
Other Current Assets	16	57,939	4,487
		14,484,361	12,191,898
Non-Current Assets			
Other Receivables	7	473,505	230,735
<i>Due from third parties</i>		473,505	230,735
Financial Assets	10	5,746,571	3,639,552
Property, Plant and Equipment	11	137,925	58,010
Intangible Assets	12	7,703,430	7,891,350
<i>Goodwill</i>		2,730,031	2,730,031
<i>Other intangible assets</i>		4,973,399	5,161,319
Prepaid Expenses	9	4,840	1,516
Deferred Tax Assets	23	209,957	247,703
Other Non-Current Assets	16	208,133	123,032
TOTAL ASSETS		18,585,978	15,131,448

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (TL), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

LIABILITIES	Notes	Audited / current period 31 December 2017	Audited / prior period 31 December 2016
Current Liabilities		4,855,222	4,950,759
Short-Term Financial Liabilities	24	795,658	1,556,770
Short-Term Portion of Long Term Financial Liabilities	24	1,143,282	1,541,024
Other Financial Liabilities	24	30,009	25,087
Trade Payables	6	1,512,499	1,117,668
<i>Due to related parties</i>	5	145,093	126,061
<i>Due to third parties</i>		1,367,406	991,607
Payables for Employee Benefits	15	49,983	39,230
Other Payables		185,990	160,238
<i>Due to third parties</i>	7	185,990	160,238
Derivative Instruments	25	1,797	-
Deferred Income	9	605,658	165,733
Income Tax Liability	23	3,725	6,316
Short-Term Provisions		203,150	167,879
<i>Provisions for employment benefits</i>	15	45,912	29,462
<i>Other short-term provisions</i>	13	157,238	138,417
Other Short-Term Liabilities	16	323,471	170,814
Long-Term Liabilities		7,850,353	5,433,861
Long-Term Financial Liabilities	24	5,269,080	3,200,000
Other Financial Liabilities	24	279,657	245,134
Other Payables		1,140,458	880,004
<i>Due to third parties</i>	7	1,140,458	880,004
Deferred Income	9	1,161	25,617
Long-Term Provisions		69,544	56,442
<i>Provisions for employment benefits</i>	15	69,544	56,442
Deferred Tax Liabilities	23	1,090,453	1,026,664

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (TL), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

	<u>Notes</u>	<u>Audited / current period 31 December 2017</u>	<u>Audited / prior period 31 December 2016</u>
Equity		5,880,402	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 loss		(5,241)	(7,209)
<i>Accumulated loss on remeasurement of defined benefit plans</i>		(5,241)	(7,209)
Restricted Profit Reserves	17	185,265	139,190
Retained Earnings		690,597	268,586
Profit for the Period		988,009	377,393
TOTAL LIABILITIES AND EQUITY		18,585,978	15,131,448

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in thousands of Turkish Lira (TL), unless otherwise indicated.

Currencies other than TL are expressed in thousands unless otherwise indicated.)

	<u>Notes</u>	<u>Audited / current period 1 January- 31 December 2017</u>	<u>Audited / prior period 1 January- 31 December 2016</u>
Revenue	18	12,344,818	9,103,380
Cost of Sales (-)	19	(8,412,327)	(6,500,956)
GROSS PROFIT		3,932,491	2,602,424
General Administrative Expenses (-)	20	(1,518,648)	(1,227,836)
Other Income from Operating Activities	21	187,056	144,651
Other Expenses from Operating Activities (-)	21	(360,189)	(246,929)
OPERATING PROFIT BEFORE FINANCE INCOME / (EXPENSE)		2,240,710	1,272,310
Finance Income	22	88,491	39,729
Finance Expense (-)	22	(1,045,483)	(797,837)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		1,283,718	514,202
Tax Expense from Continuing Operations		(295,709)	(136,809)
Current Tax Expense	23	(51,342)	(148,215)
Deferred Tax Income / (Expense)	23	(244,367)	11,406
INCOME FOR THE PERIOD FROM CONTINUING OPERATIONS		988,009	377,393
PROFIT FOR THE PERIOD		988,009	377,393

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in thousands of Turkish Lira (TL), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

OTHER COMPREHENSIVE EXPENSE		Audited / current period 1 January- 31 December 2017	Audited / prior period 1 January- 31 December 2016
	Notes		
Other Comprehensive Income or Expenses not to be Reclassified to Profit or Loss in Subsequent Periods		1,968	3,604
<i>Gains on measurement of defined benefit obligation</i>	15	2,460	4,505
<i>Income Tax Relating to Other Comprehensive Income/ (Loss) Items that not to be Reclassified Profit or Loss in Subsequent Periods</i>	23	(492)	(901)
TOTAL COMPREHENSIVE INCOME		989,977	380,997
Earnings per share from continued operations			
Earnings per share (kr)	17	0,84	0,10