

We get our power from our energy source that rises and shines every morning in the sky. We redefine the relationship between our customers and electricity with our brand, which bears the color of light and happiness. We develop technological solutions that meet every need. To provide better service to our customers, we continue to develop innovative products and services with the latest technology at full speed.

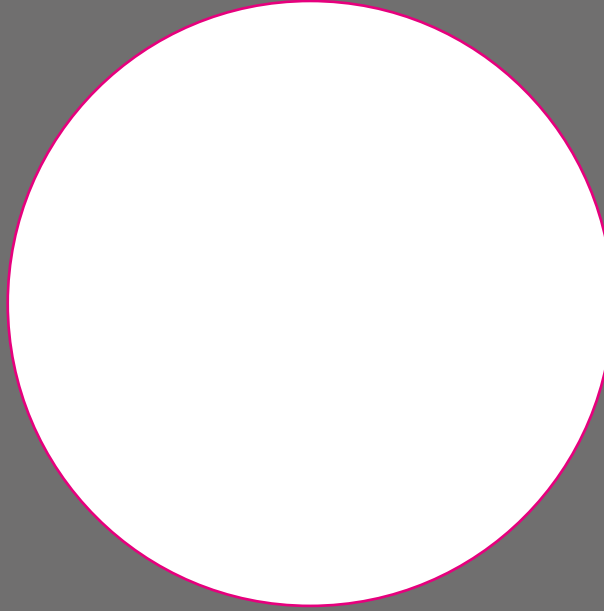
Because we are Enerjisa! “We are Turkey’s Energy!”

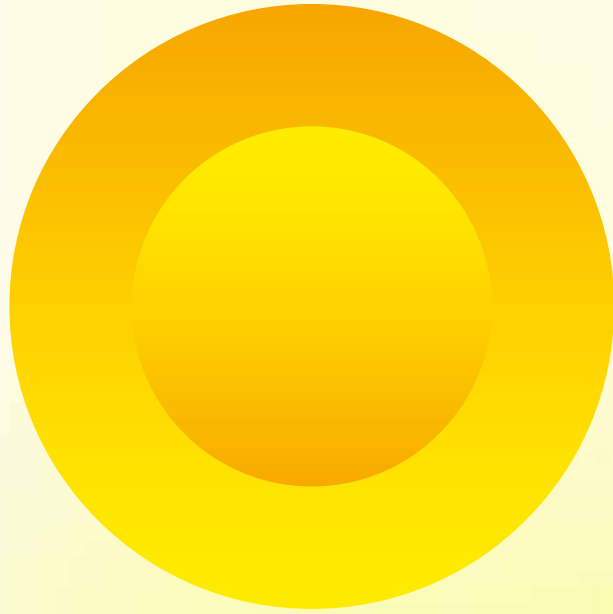
We always put people at the heart of our business. We believe that our customers and employees deserve the best of everything. We are committed to contribute to the local economy and people everywhere we operate.

We aim to bring high quality services to the energy industry and raise the quality of people’s lives. We believe that energy plays a very important role in this goal. As a result, we work for a better energy future.

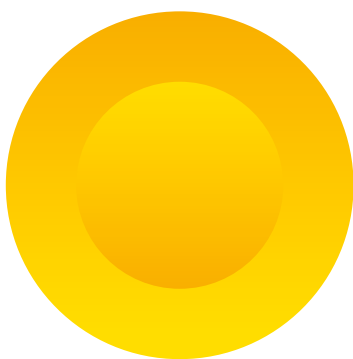
As the sector leader, we want to further strengthen our successful performance while maintaining strong, profitable growth. With this approach, we strive to meet the expectations of our investors who put their trust in Enerjisa.

With our faith in the future of Turkey, we will continue enriching our country and bringing energy to life.





**Turkey's
Energy**



ENERJISA

e-on | **SABANCI**

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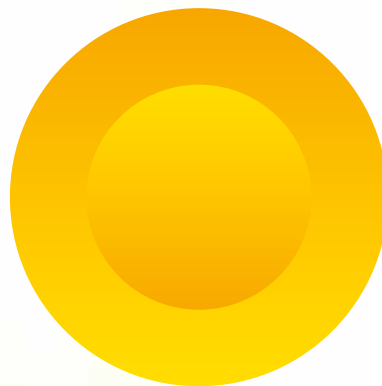
GLOSSARY

**Committed to provide
the best service to more
than 20 million customers,
Enerjisa Enerji A.Ş.
continues to lead the way in
the electricity distribution
and retail business.**

We strive to create value for our country and the sector. We put people at the heart of our business. We believe that serving people makes our investments meaningful. We prioritize network improvement and infrastructure investments every year while we focus on delivering innovative services and solutions to our customers.

**Because we are Enerjisa!
We are Energy of Turkey.**





Energy of Happiness

Our business operations are geared toward providing people with electricity – one of life’s basic needs. As we renew people’s lives every day, we continuously improve ourselves with the innovative initiatives and pioneering efforts we undertake. We offer people not only energy, but also happiness with exceptional service.

Enerjisa at a Glance

> 30%

underlying earnings
growth

**TL 1.6
billion**

infrastructure
investments

68%

proposed dividend
payout

2.9x

leverage
(net debt/operational
earnings)

**TL 5.3
billion**

regulated asset
base + 36%

**10.9
million**

network connections

35.2 TWh

retail sales volume +7%

**9.2
million**

retail customers

In 2017, Enerjisa Enerji A.Ş. completed its corporate restructuring and continued preparations to offer 20% of its shares to the public.

Enerjisa prepared for IPO

In 2017, Enerjisa Enerji A.Ş. completed its corporate restructuring and continued preparations to offer 20% of its shares to the public.

Turkey's "Most Admired Energy Company"

Enerjisa was chosen the "Most Admired Energy Company" for the 9th time by Capital Magazine, while it became the 12th largest company in Turkey according to the Capital 500 List.

The "Most Reputable Company" in the Energy Industry

According to the results of the 6th Reputation Research Turkey survey, Enerjisa was chosen the "Most Reputable Brand" in Turkey's energy sector for the 3rd time.

The largest real sector bond issuer with a total bond issuance of TL 840 million

Breaking many records with the CPI indexed corporate bond issuances in 2017, Enerjisa continued to contribute to the development of the Turkish capital markets and became Turkey's largest real sector bond issuer.

High credit rating to Enerjisa from Fitch

The long term credit rating of Enerjisa Enerji A.Ş. and Başkent EDAS was confirmed as AA (tur).

About Enerjisa

The largest electricity distribution and retail company in Turkey

“ENERGY OF TURKEY”

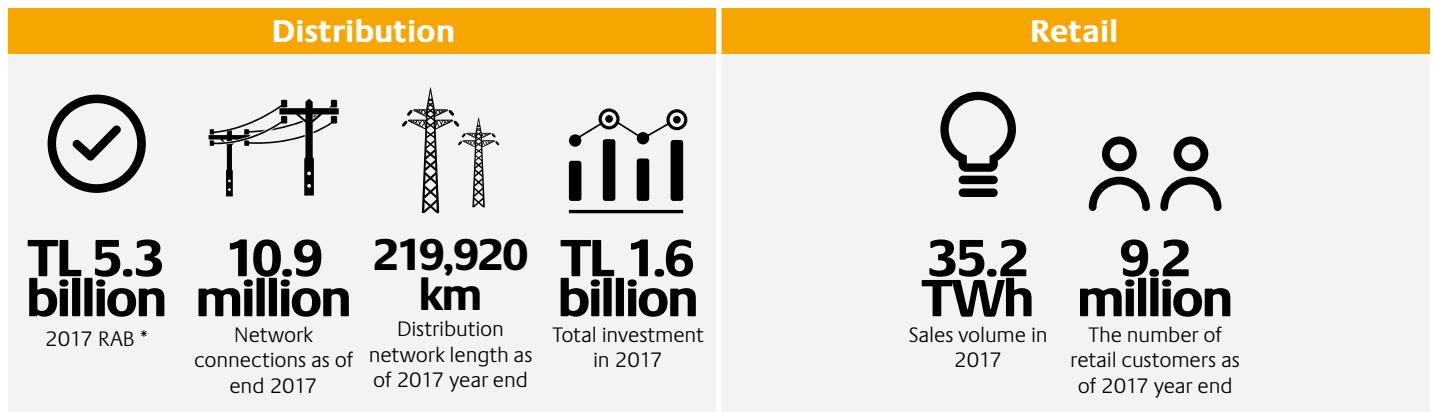
Enerjisa Enerji (“Enerjisa”), the leading player in Turkey’s electricity sector, operates in two core business areas: electricity distribution and retail.

As of December 31, 2017, the Company had 10.9 million network connections, consisting of approximately 26% of all network connections in Turkey, and 9.2 million retail customers, capturing about 22% of the retail electricity market. Enerjisa is the largest electricity distribution and retail company in Turkey.

Enerjisa conducts electricity distribution and retail sales through Başkent EDAS and Başkent EPSAS in the Başkent Region, which covers the provinces of Ankara, Zonguldak, Kastamonu, Kırıkkale, Karabük, Bartın and Çankırı; through AYEDAŞ and AYEPSAŞ in the AYEDAŞ Region, which covers districts on the Asian side of Istanbul; and through Toroslar EDAS and Toroslar EPSAS in the Toroslar Region, which covers the provinces of Adana, Gaziantep, Mersin, Hatay, Osmaniye and Kilis.

Electricity distribution is carried out by Başkent EDAS, AYEDAŞ and Toroslar EDAS while electricity retail is conducted by Başkent EPSAS, AYEPSAŞ and Toroslar EPSAS. Electricity distribution companies’ operations are limited to their respective regions. As incumbent retail companies, electricity retail companies exclusively sell electricity to regulated customers in their regions, as well as to eligible customers across Turkey without regional limitations. The Company operates in the capital Ankara; the Asian side of Istanbul, the largest city in Turkey; and major industrial and commercial cities with high population density, such as Adana, Gaziantep and Mersin.

Distribution market share 26% (10.9 million network connections)
Retail sales market share 22% (9.2 million customers)



*RAB: Regulated Asset Base. With prices as of December 2017.

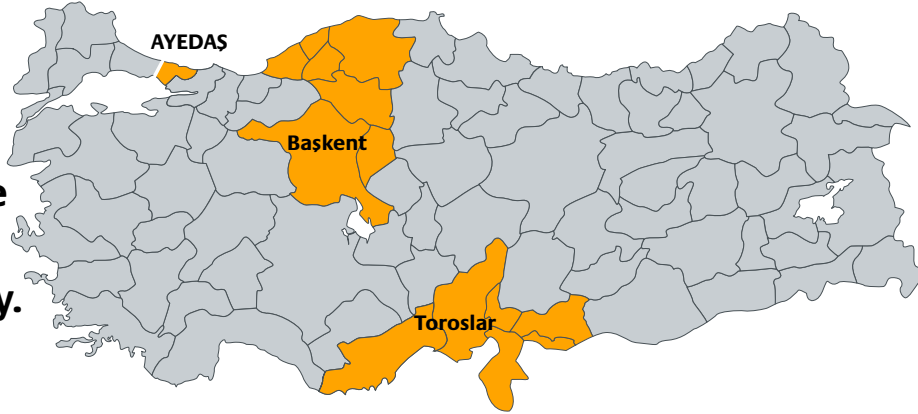
Electricity distribution and retail activities are carried out by Baskent Elektrik Dağıtım A.Ş., İstanbul Anadolu Yakası Elektrik Dağıtım A.Ş., Toroslar Elektrik Dağıtım A.Ş., Enerjisa Baskent Elektrik Perakende Satış A.Ş., Enerjisa İstanbul Anadolu Yakası Elektrik Perakende Satış A.Ş. and Enerjisa Toroslar Elektrik Perakende Satış A.Ş., which operate under parent company Enerjisa Enerji A.Ş. Additionally, Enerjisa Müşteri Çözümleri A.Ş. was established on December 29, 2017 to operate in the areas of customer solutions and distributed generation.



Enerjisa distributes electricity to one out of every four persons in Turkey.



Enerjisa distributes electricity to one out of every four persons in Turkey.



Enerjisa provides electricity distribution services to 20.9 million population in 14 cities – including the capital city Ankara, the Asian side of Istanbul, and highly-populated cities such as Gaziantep, Mersin, Hatay and Adana. The Company continues to bolster its leading position in the growing and expanding electricity sector with its operations and investments focused on operational excellence. Enerjisa is also the leader in Turkey's retail electricity market, which has developed

significantly after the liberalization process, in terms of both total customer numbers and sales volume. As the incumbent retail company in 14 cities, Enerjisa sells electricity to both regulated and eligible customers and eligible customers across Turkey.

Turkey's per capita residential electricity consumption, which is well below OECD and EU averages, economic growth and urbanization dynamics, young and dynamic

population present strong growth potential in energy demand. Enerjisa Enerji aims to create sustainable value for energy consumers, business partners, shareholders and all stakeholders. The Company meets the fast-growing demand with efficient, competitive, people and technology-oriented approaches that are supported by innovative infrastructure and customer solutions. Enerjisa's operations are geared toward bolstering supply security and quality in the most effective manner.



3

Distribution Regions

Baskent, İstanbul Anadolu
Region, Toroslar

Services offered in 14 cities to a population of 20.9 million

Baskent
7.3
million

AYEDAS
5.3
million

Toroslar
8.3
million

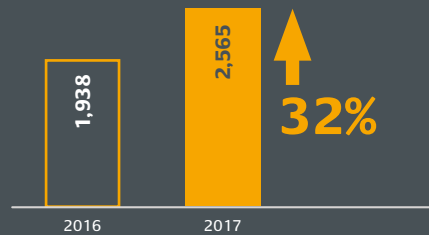
Key Financial and Operational Indicators

In 2017, Enerjisa was able to continue its track record of high earnings growth.

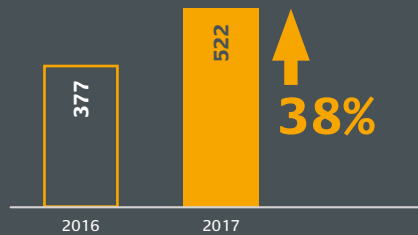
Consolidated Operational Earnings (EBITDA + Capex reimbursements excluding exceptional items) increased by 32%, from TL 1,938 million in 2016 to TL 2,565 million in 2017.

Financial Indicators

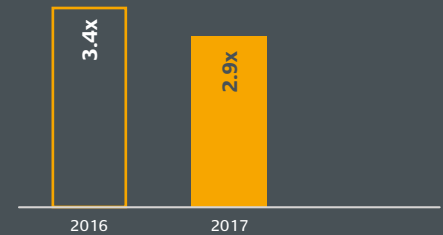
Consolidated Operational Earnings (TL Million)



Consolidated Underlying Net Income (TL Million)



Leverage (Net Debt/Operational Earnings)



	January 1 - December 31, 2017	January 1 - December 31, 2016	TL Change	% Change
Consolidated Operational Earnings (TL million)	2,565	1,938	627	32%
Consolidated Underlying Net Income (TL million)	522	377	145	38%
Net Debt (TL billion)	7.3	6.5	0.8	12%
Leverage (Net Debt/Operational Earnings)	2.9x	3.4x	-0.5x	-

Distribution business

Operational Earnings (TL million)	2,344	1,650	694	42%
Regulated Asset Base (TL billion)	5.3	3.9	1.4	36%
Infrastructure investments (TL billion)	1.6	1.6	0.0	0%
Network connections (TL million)	10.9	10.5	0.4	3%

Retail business

Operational Earnings (TL million)	247	290	-43	-15%
Retail sales volume (TWh)	35.2	32.9	2.3	7%
Number of customers (TL million)	9.2	9.0	0.2	2%
Liberalized gross profit margin (%)	3.5%	6.2%	-2.7%	-44%

In 2017, Enerjisa recorded operational earnings of TL 2,344 million in the distribution segment and TL 247 million in the retail segment.

In the distribution business segment, operational earnings (EBITDA + CAPEX reimbursements excluding exceptional items) jumped 42% to TL 2,344 million in 2017, up from TL 1,650 million in 2016. As a result, the share of the distribution business in Enerjisa's consolidated operational earnings increased to 91% in 2017, up from 85% in 2016.

The increase in Operational Earnings for the Distribution segment is mainly a result of maintaining the high investment level in the electricity distribution infrastructure of our three regions, which led to an increase of 36% in our Regulated Asset Base from TL 3.9 billion as of year-end 2016 to TL 5.3 billion as of year-end 2017. This significant growth in our Regulated Asset Base was especially driven by more than 300,000 new connections to our existing electricity network that were completed during 2017, as urbanization and population growth trends in our regions continue. Furthermore, Enerjisa has significantly invested in network quality improvements, reducing outage frequency and duration as well as technical and commercial electricity losses.

In the retail segment, Enerjisa was able to maintain its market share. With low churn and net customer acquisitions, the customer base reached 9.2m at the end of 2017. Moreover, Enerjisa benefitted from electricity consumption growth in line with the high economic growth in Turkey, which increased sales volume by 7% to 35.2 TWh during 2017. Nevertheless, despite the positive contribution of higher volumes, Operational Earnings for the retail business declined in 2017, mainly due to lower

liberalized segment profitability. The reason for this drop in profitability is the significantly higher power procurement costs in 2017 compared to 2016 that we were unable to pass on to end-customers as regulated National Tariffs were even below year-end 2016. These continue to act as a practical price ceiling for the liberalized market.

Consolidated Underlying Net Income (Net Income excluding exceptional items) increased by 38% from TL 377 million in 2016 to TL 522 million in 2017. The increase in Operational Earnings was partially offset by higher interest expenses related to both higher Net Debt, which increased from TL 6.5 billion in 2016 to TL 7.3 billion at the end of 2017, as well as higher weighted average interest rates, which rose by 170 bps, from 11.6% in 2016 to 13.3% in 2017. While the increase in Net Debt was a direct consequence of the continued high investment level, interest rates moved up in-line with the overall market development.

Although our consolidated Net Debt increased, our leverage as measured by Net Debt divided by Operational Earnings continued to decline, from 3.4x in 2016 to 2.9x at the end of 2017. As a result, in spite of the continued high investment levels, we have been able to strengthen our financial profile further.

Based on the Underlying Net Income of TL 522 million for fiscal year 2017, the Board of Directors proposes a dividend of TL 0.30/share to the Annual General Meeting to be held on March 29, 2018. This dividend payment implies a payout ratio of 68% and is therefore towards the upper ceiling of the communicated dividend policy of 60-70% of Underlying Net Income.

38%

In 2017, consolidated underlying net income increased 38% to TL 522 million, up from TL 377 million in 2016.

Key Developments in 2017

Electricity generation, wholesale trading of electricity and natural gas, electricity distribution and retail operations, which were conducted by Enerjisa before the corporate restructuring, were divided between Enerjisa and Enerjisa Üretim Santralleri A.Ş.

2017 was an exceptional year for Enerjisa as a key focus of the year has been on the preparation for the planned initial public offering, which was successfully completed on February 8, 2018.

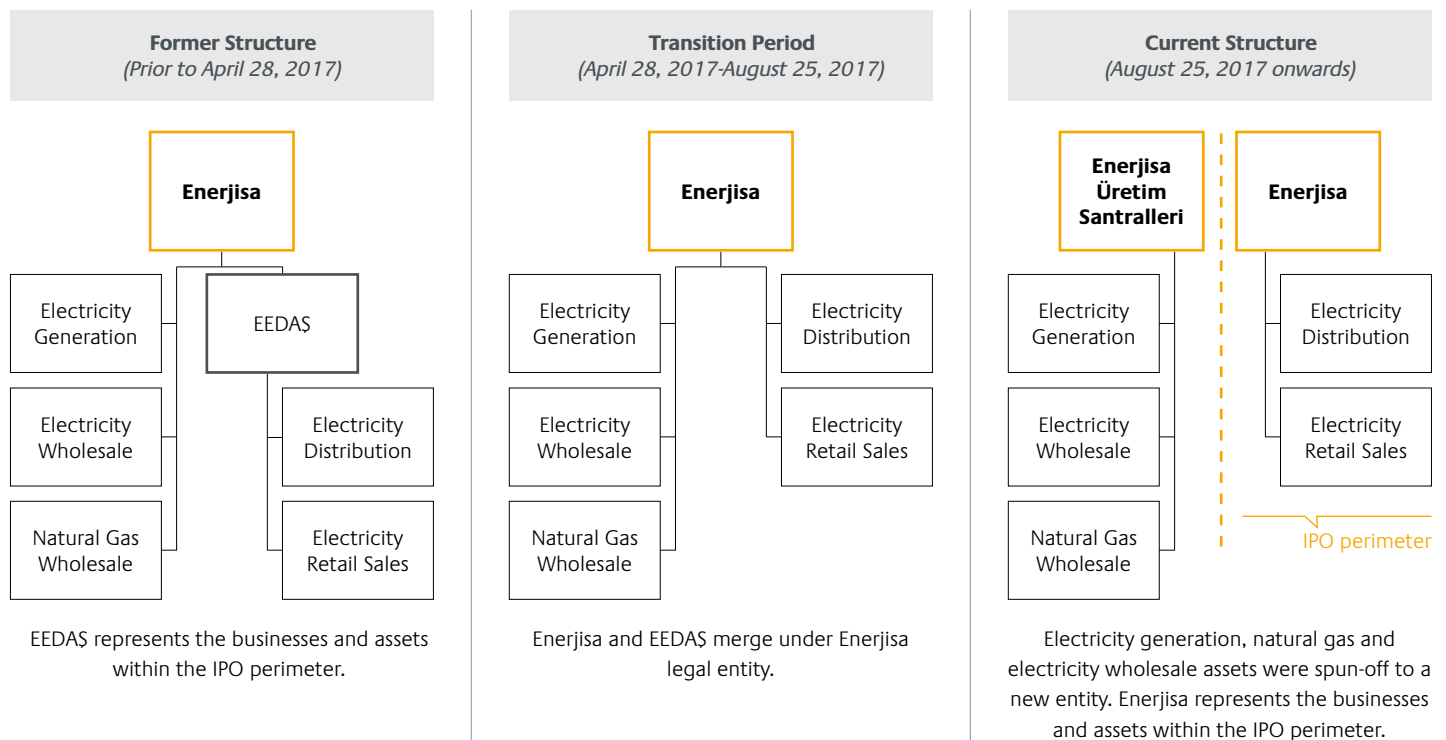
Enerjisa's shareholders, Sabancı Holding and E.ON, aimed to create two strong companies which can focus on market and customer needs through a strategic transformation in line with the focus strategy. In this context, it has been

decided to split Enerjisa into two companies, separating the conventional electricity generation and wholesale (upstream) businesses from the more customer-centric distribution and retail (downstream) businesses ("Corporate Restructuring").

The split was conducted in two main steps. First, Enerjisa merged with EEDAS ('transition period'), thereafter a new company (Enerjisa Üretim Santralleri) was created and all upstream

activities were spun-off under this new entity, leaving Enerjisa solely focused on the electricity distribution and electricity retail sales segments. As a result of the transaction, Enerjisa is the successor to the legal entity EEDAS, which is used for any prior year comparisons.

The effects of corporate restructuring on assets are outlined below:



Following the above transaction, 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 EEDAS. As a result, on January 1, 2018, 5,744 employees of Enerjisa were transferred to the relevant distribution companies.

Enerjisa leads the sector with its investments, innovative projects and pioneering practices in various business areas, embracing emerging global trends in technology and digitalization while capitalizing on the strong potential of Turkey's electricity sector.

We established a trade business unit under Enerjisa for the management of electricity sourcing operations for Enerjisa within the retail business. These sourcing management operations for Enerjisa were previously conducted by a unit under Enerjisa Electricity Wholesale Company, and following the 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.S. ("Enerjisa Customer Solutions"), for the main purposes of participating in and managing activities and companies dealing with customer solutions and related activities. The new legal entity, owned directly by Enerjisa, will be reported within the retail business segment going forward.

Next to the reorganization of Enerjisa, the company faced a number of important sectoral developments. Most notably were the changes that the regulator, EMRA, announced towards the end of 2017. The main changes were:

- For distribution companies, the weighted average cost of capital (WACC) rate applied for the revenue requirement calculations for the 3rd tariff period has been increased from 11.91% to 13.61%, applicable for the years between 2018 and 2020, as per EMRA's legislation dated December 7, 2017.
- As per EMRA's legislation change dated December 15, 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.

- Upon the recent decision of EMRA dated November 23, 2017, distribution companies are granted an additional operating expense allowance to cover for the costs of additional repair and maintenance personnel employed upon the requirement enacted by Ministry of Energy and Natural Resources.
- 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 for 2016-2017. This percentage has been increased to 40% for the entire regulatory period 2016-2020.
- The incentives to improve customer service quality for distribution companies in areas such as call center performance, health and safety obligations, customer satisfaction scores as well as outage reduction and increase in technical quality standards have been revised to a maximum of 5% of the yearly revenue requirement.
- Pursuant to the EMRA resolution dated November 30, 2017, the eligibility limit was further reduced from 2,400 kWh p.a. in 2017 to 2,000 kWh p.a. in 2018.

Major R&D and innovation projects:

- As of end-2017, the SCADA system includes more than 1,500 points.
- The mobile distribution application, introduced in 2015 as a first in the sector for fault detection, monitoring and managing planned outages, was relaunched in 2017 with a fresh design and enriched content.
- The Company rapidly continued the installations of Automatic Meter Reading (AMR) systems designed to read meters remotely in the distribution regions. The number of AMR devices installed climbed to 64,471 at end-2017 (2016: 51,010).

In 2017, significant progress was made in R&D efforts. The KRITA Smart Project, the first smart city R&D project in the Turkish electricity distribution sector, is being executed in collaboration with Gaziantep Metropolitan Municipality. Featuring next-generation energy technologies, the project consists of diverse key components, including smart lighting, electric transport, energy storage, solar energy generating units with tracking mechanisms, advanced software platforms and the Internet of Things. The project is scheduled for completion in 2018.

The Unmanned Aerial Vehicle (UAV, drone), developed and manufactured domestically in line with the needs of the distribution sector, is another pioneering effort of the Company. This state-of-the-art project ensures continuity of services provided by Enerjisa field operations, especially under challenging seasonal conditions. UAV also significantly contributes to Occupational Health & Safety (OHS) practices, a top priority for the Company.

In 2017, Enerjisa recorded significant advances in various innovation projects carried out internally and in collaboration with external stakeholders. The Company introduced several digitization practices within the framework of its Corporate Entrepreneurship Program "NAR."

Key Developments in 2017

Health and Safety, and Environmental Management are top priorities at Enerjisa. In 2017, the Company obtained OHSAS 18001 Occupational Health and Safety Management System and ISO 14001 Environmental Management System certifications for its three distribution regions.

Customer-focused projects:

- The mobile application developed for the retail segment offers customers innovative content, such as the amount of electricity they consume, consumption analysis and suggestions for saving electricity.
- Digitalization has been embraced as a strategic priority in the retail segment. To this end, the Company worked toward developing innovative products and services that offer efficient and competitive solutions to meet the growing demands of its large customer portfolio.

The “Save Your Energy” campaign, which was aimed at drawing attention to and raising awareness of energy efficiency, an area of huge potential for the Turkish economy and the energy industry, achieved very positive results.

Enerjisa maintains its leading position in key areas such as energy efficiency and distributed generation that are critically important for Turkey. In 2017, the Company commissioned three trigeneration (electricity-heating-cooling) projects, which provide solutions tailored to the needs of its customers, as well as two solar power plants in Mersin and Konya.

In 2017, Enerjisa introduced the Mobile Training Trailer, yet another ground breaking project in the energy sector. Equipped with technologies widely used in the energy sector, the Mobile Training Trailer offers all types of theoretical and practical training courses on field operations to students and teachers of vocational schools to help develop their technical skills. The trailer visits 14 cities under the Vocational Training Collaboration Agreement signed with the Ministry of National Education.

Health and Safety, and Environmental Management are top priorities at Enerjisa. In 2017, the Company obtained OHSAS 18001 Health and Safety Management System and ISO 14001 Environmental Management System certifications for its three distribution regions.

Enerjisa,
as the sector leader,
has launched many
innovative practices.



Strategy and Targets

We aim to increase and improve the quality of grid in our distribution regions while focusing on customers' needs, boost our profits and create value for our shareholders by expanding our retail sales activities across the entire country.

As a result of the reorganization in 2017, the newly formed Enerjisa has formulated its revised strategy and targets on its way to become the first listed electricity distribution and retail company of Turkey.

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, while focusing on customer needs.

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

- Capitalize on investment opportunities presented by the Turkish electricity distribution market and regulatory framework;
- Focus on operational and financial efficiency with a long-term management perspective;
- Benefit from the liberalization opportunity in the Turkish electricity retail market; and
- Leverage our customer base into new services and customer solutions.

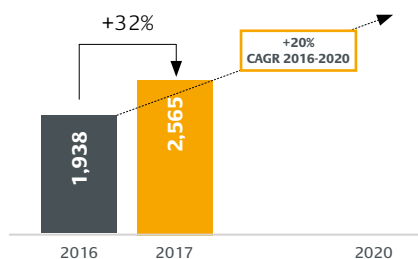
In order to benchmark ourselves against the implementation of above strategic priorities, we have committed to the following mid-term financial targets for the period 2016-2020:

- Grow Consolidated Operational Earnings (EBITDA + Capex reimbursements excluding exceptional items) with a CAGR of 20% p.a.
- Grow Consolidated Underlying Net Income (Net Income excluding exceptional items) with a CAGR of significantly more than 20% p.a.
- Share 60-70% of Consolidated Underlying Net Income as dividend with shareholders starting with the fiscal year 2017
- Do not exceed a leverage (Period End Net Debt/Consolidated Operational Earnings) of 3.5x

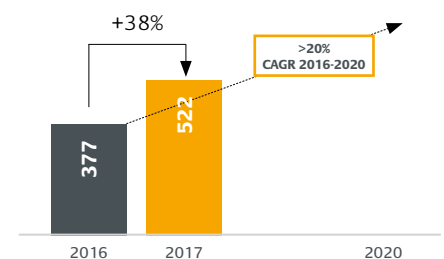
Fiscal year 2017 was a very promising start with regard to the delivery of Enerjisa to the above targets.

Medium Term Targets

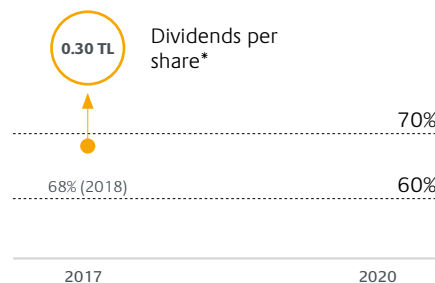
Consolidated Operational Earnings (TL Million)



Consolidated Underlying Net Income (TL Million)

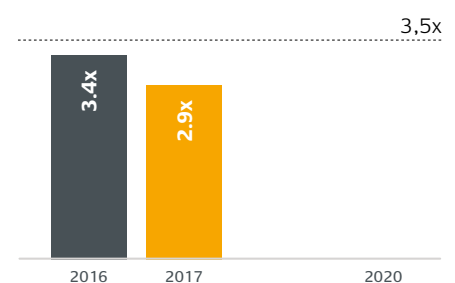


Dividend Policy: 60-70% of Underlying Net Income as dividends



*Dividend per 100 shares; the total number of outstanding shares is 118,106,896,712.

Leverage <3.5x Net Debt/Operational Earnings



Agenda for the Ordinary General Assembly Meeting

Agenda for the 2017 Ordinary General Assembly Meeting of ENERJISA ENERJİ ANONİM ŞİRKETİ to be held on March 29, 2017, at 2.00 pm

- 1) Opening and formation of the Meeting Council,
- 2) Reading and discussion of the 2017 Annual Report of the Board of Directors,
- 3) Reading the summary of the 2017 Independent Auditor's Reports,
- 4) Reading, discussion and approval of the 2017 financial statements,
- 5) Release of the members of the Board of Directors with regard to the 2017 activities,
- 6) Determination of the usage of the 2017 profit; dividend and dividend per share to be distributed,
- 7) Election of the members of the Board of Directors, determination of their duty term,
- 8) Determination of monthly gross fees to be paid to the members of the Board of Directors,
- 9) Election of the auditor,
- 10) Decision on the amendment to Article 4 ("Purpose and Field of Operation") of the Articles of Association provided that the required permits are granted from the Capital Markets Board and Ministry of Customs and Trade,
- 11) Approval of the Dividend Distribution Policy,
- 12) Approval of the Donation and Grants Policy,
- 13) Approval of the Remuneration Policy for Members the Board of Directors and Executives,
- 14) Informing the General Assembly regarding the donations and grants made by the Company in 2017,
- 15) Determination of an upper limit for donations to be made in 2018,
- 16) Granting permission to the Chairman and Members of the Board of Directors for the activities under Articles 395 and 396 of the Turkish Commercial Code.

Chairman's Message

Enerjisa Enerji – sector leader in two main business lines, electricity distribution and retail – entered into a new phase with our successful public offering in February, with strong demand from both domestic and foreign investors.

Dear Shareholders,

2017 was a period in which Turkey's energy industry continued to grow and improve, new initiatives in energy strategies were devised, and positive steps around regulation were taken.

This was also an important year for Enerjisa. By taking on a market and customer-based approach, we successfully completed our business activity-based decoupling process in August. This move was part of our strategy to ensure less complicated and more efficient management of our energy business in operation areas that have particular dynamics. Electricity distribution and retail sales began to be managed under the roof of Enerjisa Enerji.

In 2017, we undertook intensive efforts to prepare Enerjisa Enerji for a successful public offering. Furthermore, we adhered to our priority of generating value for our shareholders under dynamic market conditions. As always, our focus remains on healthy growth, operational excellence, and efficiency.

Enerjisa Enerji left behind a successful year with a solid performance under the dynamic market conditions of Turkey's expanding electricity sector. The strategic priorities in our fully-regulated distribution business line – of realizing a comprehensive investment plan to boost the regulated asset base and optimizing financing to decrease the impact of rising interest rates in Turkey – were successfully managed. The Company developed innovative and pioneering applications in the area of bond issuance. Value was also generated thanks to a good performance in further improving distribution efficiency, supply quality and customer satisfaction. Enerjisa Enerji was an active participant and contributor to the process of establishing the regulation framework under

the regulatory authority. The Company also continued to actively contribute to preparations for the post-2020 tariff period. During the year, Enerjisa Enerji undertook R&D projects in areas such as electric transport, smart city parks and continued on with its digitalization-based investments and operations.

2017 was a difficult year for the partly-regulated retail sector in which cost and regulated tariff balances were negative. Under these difficult market conditions, the sector's leading player Enerjisa Enerji has generated value thanks to its broad brand recognition coupled with improvements to its process, efficiency and cash proceeds. Compared to the previous year, the Company succeeded in increasing its total sales volume thanks to these efforts. Enerjisa Enerji continues to focus on opportunities in areas of utmost importance for Turkey, such as energy efficiency and distributed generation. In addition, the Company began operating three separate trigeneration projects, offering targeted solutions specially designed to meet customer needs, and two solar power plants in Mersin and Konya in 2017. Besides these projects, our Company is undertaking activities in areas that will come more to the fore in the future energy world, such as e-mobility, rooftop solar solutions, electricity storage, energy efficiency solutions in industry, and demand management. Digitalization and the retail business lines are also among the our top priorities going forward.

Enerjisa Enerji – sector leader in two main business lines, electricity distribution and sales – entered a new phase with our successful public offering in February. This transaction met with very strong demand from both domestic and foreign investors. By taking this major step, we generated important momentum that will create added value for the country's economy,

contribute to the development of capital markets, and foster institutionalization of the energy industry. In this role, Enerjisa Enerji will further grow in all its fields of activity and retain its position as sector leader.

Turkey's per capita and per household energy consumption figures are well below OECD and EU averages. On the other hand, Turkey boasts energy density figures that are above OECD and EU averages, economic growth and urbanization dynamics, a young and dynamic population, significant international electrification trends including e-mobility opportunities. All of which create demand for energy, and thereby harbor significant growth and efficiency potential. Enerjisa will continue to undertake efforts to ensure that energy demand is met under competitive and efficient conditions. In particular, the Company will adopt a people- and technology-focused approach supported by innovative infrastructure and innovative customer solutions. In this way, Enerjisa will create high and sustainable value for energy consumers, business partners and all shareholders.

In your presence, we extend our deepest gratitude to all our managers, employees and, in particular, to our CEO for their invaluable contributions to the success of our Company.

Yours sincerely,

Mehmet GÖÇMEN

Chairman of the Board of Directors



Board of Directors

Mehmet Göçmen

Chairman of the Board of Directors

Born in 1957, Mehmet Göçmen graduated from Galatasaray High School, and METU Industrial Engineering, and then received a Master's degree in Industrial Engineering and Operations Research at Syracuse University USA. Göçmen started his career in 1983 at Çelik Halat ve Tel San. A.Ş. Between 1996 and 2002, he served as General Manager of Lafarge Ekmel Beton A.Ş. and Vice President in charge of Business Development and International Affairs at Lafarge Turkey. Between 2003 and 2008, Göçmen served as General Manager of Akçansa. On August 1, 2008 he was appointed as Chief Human Resources Officer of the Group at Sabancı Holding. On July 20 2009, Göçmen was appointed as Chief Executive Officer of Sabancı Holding Cement Group. In June 2014, he was appointed as Chief Executive Officer of Sabancı Holding Energy Group and joined the Board of Directors in 2015. On March 30, 2017 Mehmet Göçmen was appointed as CEO of Sabancı Holding.

Keith Plowman

Vice Chairman of the Board of Directors

Born in 1958, Keith Plowman received his BS degree in the engineering program from the University of Wales, and his MBA degree from Aston University. In his career, he served within Powergen/E.ON in several engineering, operation and leadership roles in the fields of; project development, combined heat and power, renewable energy and thermal generation. In 2008, he was appointed as Executive Manager in charge of thermal power stations of E.ON Kraftwerke GmbH. In 2011, new businesses in Brazil and Turkey were added to his responsibilities. In April 2013, Plowman joined the Board of Directors of Enerjisa, and he became the Vice Chairman in September 2015.

Fezal Okur Eskil

Member of the Board of Directors

Fezal Okur Eskil, graduated from Boğaziçi University Industrial Engineering Department, and received an MBA degree from Georgia Institute of Technology, and a Master's degree in Industrial Engineering. Okur Eskil started her career in 2001 at AT Kearney in Chicago, and served as management consultant until 2005 focusing on several strategic and operational projects in various sectors. She joined Eczacıbaşı Baxter in 2006, and served as Operations Manager for one year. In 2007, she joined Phillip Morris International as a manager in the regional supply chain and led the process of transforming the supply chain in a region covering Turkey, Greece, Serbia and Romania. By the end of 2007, Okur Eskil joined Sabancı Holding Strategy and Business Development Group, and became Strategy and Business Development Director in 2013. Okur Eskil focuses on strategy and business development in the energy, retail and insurance business units, as well as new growth platforms and strategic portfolio management for Sabancı Holding. Currently, she is a Member of the Board of Directors of Enerjisa and Carrefoursa.

Eduard Hans Jochen Kley

Member of the Board of Directors

Born in 1959, Jochen Kley graduated from the University of Mannheim (Germany), Business Administration Department. He started his career in 1989 as an auditor. Between 1990 and 1992, Kley served as MMV CEO's managerial assistant in Mannheim. In 1993, Jochen Kley joined PreussenElektra AG, Germany, and worked as Cost Accounting and Investment Control Department Manager until 1997. In 1998, he was appointed as General Manager of PreussenElektra Netz GmbH & Co. KG (Hannover). Between 2000 and 2005, Kley served as General Manager of E.ON Netz GmbH, Bayreuth; between 2006 and 2012, he served as Senior Vice President in charge of Planning and Control at E.ON AG (Düsseldorf). In 2012, Kley was appointed as CEO and Chairman of the Board of Directors of Západoslovenská energetika, a.s. (Bratislava, Slovakia).

Barış Oran
Member of the Board of Directors

Barış Oran graduated from Boğaziçi University, Department of Business Administration and holds an MBA from University of Georgia. Beginning his professional career as an auditor at PriceWaterhouseCoopers in 1995, he held positions at Sara Lee Corp. (Chicago, IL) initially in audit, then in the finance and treasury/capital markets areas. Between 2003 and 2006, Oran served as responsible Senior Manager at Ernst and Young, first in Minneapolis, MN, then in the Europe, Middle East, Africa and India regions. Joining Kordsa in 2006, Oran held Director of Internal Audit, Global Director Finance, and Chief Financial Officer (CFO) positions, respectively. Appointed Sabancı Holding Finance Director in 2011, Barış Oran is Sabancı Holding Finance Director and a Member of the Boards of Directors of Brisa, Enerjisa Üretim, Enerjisa Enerji, Teknosa, Carrefoursa, Yünsa, Avivasa, Çimsa, Temsa and TUSİAD. He is also the Chairman of Bimsa.

Eva Maria Verena Volpert
Member of the Board of Directors

Verena Volpert has a BA degree in Business Administration. She joined E.ON in 2006. Volpert currently serves as Senior Vice President of Finance at E.ON in charge of: treasury, corporate and restructured finance, financing, control, financial settlements, asset management and insurances. As of January 1, 2018, Verena Volpert also assumed roles in E.ON Energie AG Company's Audit Committee. Before joining E.ON, Volpert served as Head of Finance Department at the media company Bertelsmann.

Alan Richard Bevan
Member of the Board of Directors

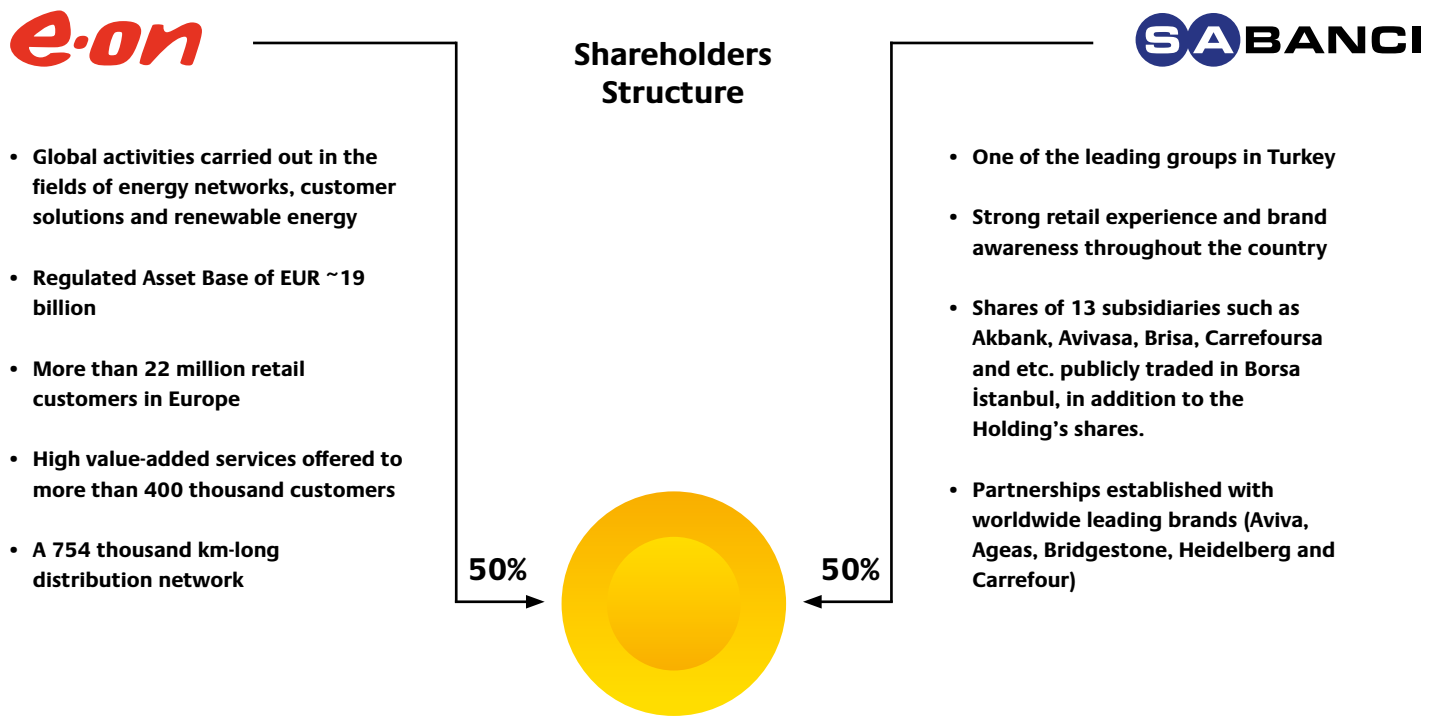
Alan Richard Bevan started working for E.ON UK in 2002 as Senior Vice President in charge of Mergers & Acquisitions. In 2010, he was appointed as Senior Vice President in charge of Mergers & Acquisitions at E.ON SE. Before starting his career at E.ON in 2002, he worked as the head of distribution and decision support unit of Powergen plc between 1999 and 2002. Alan Richard Bevan was appointed as a Member of the Board of Directors of Enerjisa in 2017.

Levent Demirağ
Member of the Board of Directors

Levent Demirağ is a graduate of Ankara University, Faculty of Political Sciences. He has assumed top management roles since 1994 at Sabancı Holding. Currently, he serves as has President of Financial Affairs, Accounting & Legal at Sabancı Holding. He was appointed as a Member of the Board of Directors of Enerjisa in 2017. In addition to his current role, Levent Demirağ assumes role in Board of Directors of; Bimsa, Temsa Automotive, Temsa Construction Equipment, Temsa Transportation and Exsa.

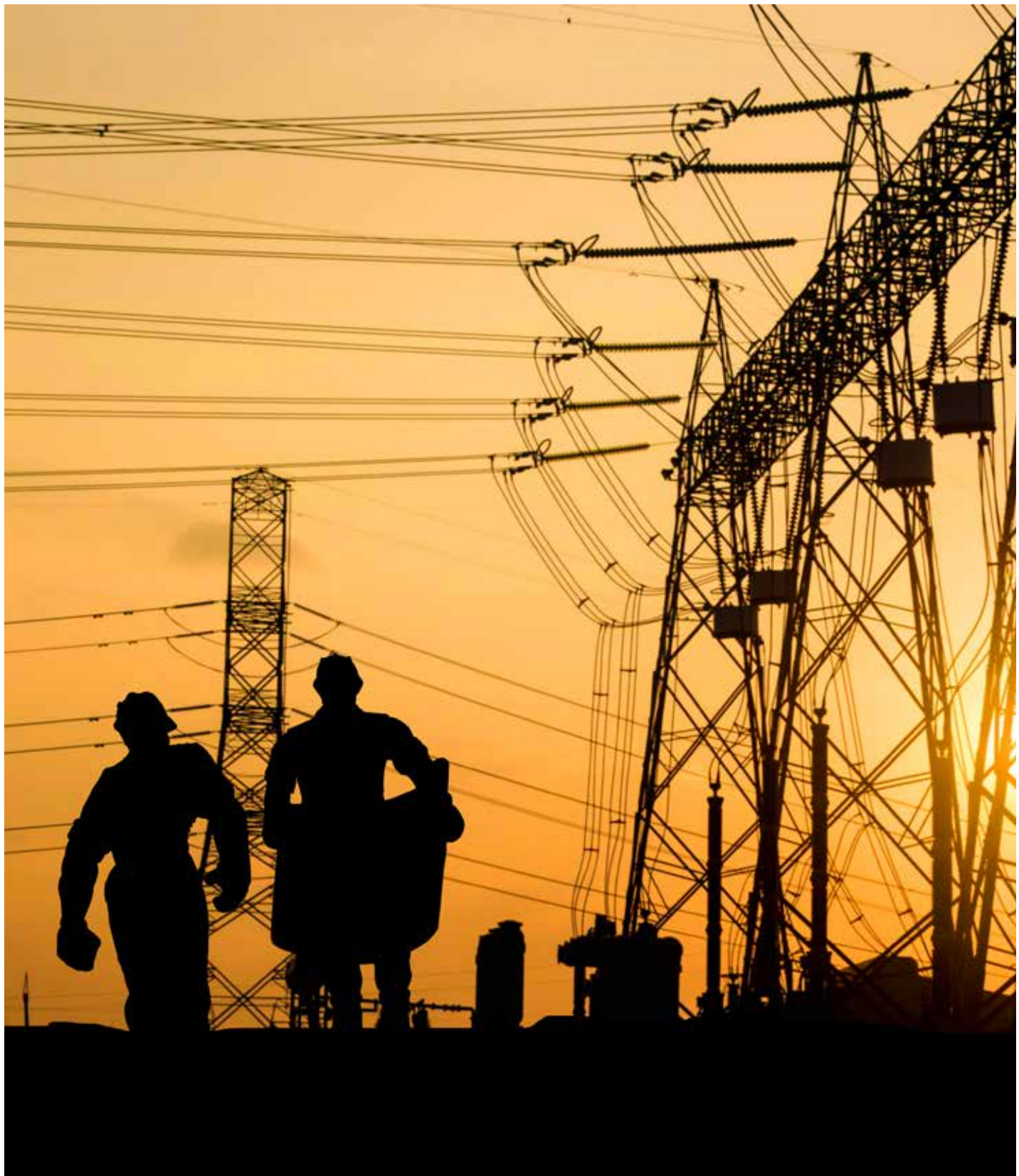
Capital and Shareholder Structure*

Enerjisa continues its operations and investments with the strength it gets from its strong shareholders: E.ON, which conducts activities in the energy sector worldwide, and Sabancı Group, which is one of the leading groups in Turkey.



Name of Shareholder	Share in Capital / Voting Right			
	27.03.2017		15.11.2017	
	(TL)	(%)	(TL)	(%)
Hacı Ömer Sabancı Holding A.S.	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

* Shareholder Structure before IPO.



CEO's Message

Today, more than 9 million customers trust us to provide electricity and related services. This makes us the undisputed number one electricity distribution and retail company in Turkey.

Dear Shareholders,

2017 was the beginning of a new era for Enerjisa. By focusing solely on electricity distribution and retail, we have ensured that Enerjisa can dedicate all of its resources to the customer-centric downstream business. As a result, our objective to serve our customers in the best way will be even more at the heart of all our efforts.

Today, more than 9 million customers trust us to provide electricity and related services, making us the undisputed number one electricity distribution and retail company in Turkey.

Having successfully completed our initial public offering on February 8, 2018, we are proud to say that not only do customers trust in our services, but similarly investors from Turkey and abroad trust in our Company's ability to deliver superior growth and profits in the future.

Looking back at 2017, we have left behind a very successful year in terms of both growth and profitability. Although many resources were focused on the reorganization of Enerjisa as well as the preparation of the IPO, our ca. 10 thousand employees delivered on our key strategic goals.

We have continued our high investment level of TL 1.6 billion in the electricity infrastructure of our regions in order to add a further 300,000 connections to our network, as well as to increase network quality by reducing outage frequency and duration as well as technical and commercial losses. As a consequence, our Regulated Asset Base reached TL 5.3 billion by the end of 2017.

We have diversified our financing by issuing further CPI-linked bonds with a total issuance volume of TL 1.2 billion, making us the largest real sector bond issuer in Turkey.

We have continued to invest in operational excellence and digitalized processes with a focus on customer relationship applications as well as network monitoring and operations.

We have acquired new retail customers and experienced low churn rates by offering high quality products and services, which differentiated us from competitors. Furthermore, we have focused our portfolio of liberalized corporate customers to increase profitability. Finally, we were able to rely on our risk management processes to limit the impact of compressed profit margins in the liberalized residential and SME customer segment.

We have completed innovative pilot projects in the area of smart cities, e-mobility, distributed generation and electricity storage in order to identify potential new services and customer solutions in a highly dynamic energy sector that is adapting to continuous technological innovation.

All of these activities have ensured that we continued our track record of growth in 2017 and have delivered on the targets we have committed to in the context of the recent IPO. Furthermore, these activities safeguard the future of this great company by enabling it to capitalize on the opportunities that the Turkish energy sector offers.

As Enerjisa, we will continue to work hard to deliver on the trust that both customers and investors have granted to us. Moreover, as the leading electricity distribution and retail company, we commit to create a better energy future for Turkey.

Yours sincerely,

Kıvanç Zaimler
CEO



Looking back at 2017,
we left behind a very
successful year in terms
of both growth and
profitability.



Executive Team



Kivanç Zaimler
CEO

Born in 1969, Kivanç Zaimler graduated from İstanbul Erkek Lisesi, İstanbul Technical University and Berlin Technical University Industrial Engineering Departments. He started his career in 1992 at Koç Group, and assumed various manager roles until 2008 in the Turkish Electricity Industry, RAM Foreign Trade and Aygaz companies, respectively. In 2008, Zaimler joined Enerjisa as Trade Director, and led the coordination of Enerjisa's natural gas business branch until 2013. Between 2013 and 2015, Zaimler served as Enerjisa Distribution Companies' General Manager in charge of the process of restructuring and integration of an organization distributing electricity to 3 distribution regions that covered 14 cities, 9 million customers and a population of 20 million people. Between August 2015 and March 2016, he served as General Manager of Enerjisa Sales Companies, and led the customer oriented new brand positioning activities in the process of preparing Enerjisa to free market. Since March 1, 2016 he has served as CEO of Enerjisa which runs a large portfolio in electricity generation, distribution, retail and sales. Actively assuming roles in various non-governmental organizations in the energy sector, Zaimler, who played professional basketball in the past, has also attended numerous professional development programs as well as trainings on personal awareness and individual development. Currently, Zaimler carries out mentoring and coaching on a voluntary basis.



Sascha Bibert
CFO

After graduating from high school in the USA and Germany, Sascha Bibert studied finance in London, Paris and Dortmund. In 1999, Bibert started his career as an analyst and portfolio manager in the banking sector. In 2005, Bibert joined Munich Re as Investor and Credit Rating Agency Relations Director. Later, as he joined E.ON in 2009 assuming the same role, Bibert continued his career in the energy industry. Before becoming Enerjisa's CFO in September 2014, Bibert served in a role in charge of the Accounting and Control Group at E.ON. He then served as Member of the Audit and Advisory Board in a waste-to-energy company which was a 51% subsidiary of a private equity company called "EQT."



Hakan Timur*
Chief HR and Corporate
Competencies Officer (CHRO)

Hakan Timur has a BA degree in Economics from İstanbul University, and a Master's degree in Energy and Technology Management from Sabancı University. With an experience of more than 20 years covering many industries and international responsibilities in his field, Hakan Timur joined Enerjisa as CHRO in April 2016. Since October 2017, he has served as Enerjisa's Chief HR and Corporate Competencies Officer in charge of all Human Resources functions, such as: talent management, industrial relations management and administrative affairs management. Furthermore, he is in charge of communication, process development and supply functions as well.

*Hakan Timur left his position as of February 1, 2018. As of June 2018, a new assignment has not yet been announced.



Gül Erol
Chief Technology and Customer
Solutions Officer (CTO)

A graduate of METU Industrial Engineering, Gül Erol has worked at Sabancı Holding for 21 years. Previously, between 1996 and 2009, she worked in various roles at Bimsa, and started working at Enerjisa in 2009. Currently, Gül Erol serves as CTO of Enerjisa in charge of leading the innovation strategy and culture, conducting corporate initiatives, carrying out customer solutions and information technology activities across the company.



Abdullah Köksal
Chief Marketing Officer (CMO)

Abdullah Köksal has a BS degree in Mechanical Engineering from Middle East Technical University, and an MBA degree from City University of New York. With 16 years of experience, Abdullah Köksal joined EEDAŞ in 2009. Köksal is in charge of energy management, strategic marketing, pricing and tariff management, product management, customer management, business analysis, data management and marketing communication.

*Abdullah Köksal left his position as of July 1, 2018. As of 15.06.2018 a new assignment has not yet been announced.



Hüseyin Çağlar
Chief Sales Officer (CSO)

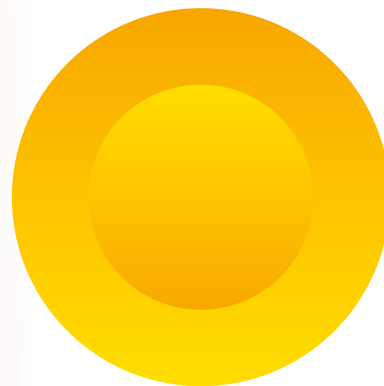
A graduate of Boğaziçi University Mechanical Engineering Department, Hüseyin Çağlar joined Enerjisa in 2016 as CSO in charge of three regions' retail companies. Çağlar has 20 years of local and global retail experience at Procter & Gamble and Vodafone.



Murat Pınar
General Manager in charge of the
Distribution Business Unit (GM)

A graduate of Karadeniz Technical University Electrical and Electronic Engineering Department, Murat Pınar started his professional career at Siemens, and served in various management roles between 1998 and 2006. He later worked for Nokia Siemens Networks as Director in charge of Field Operations in 13 countries including Eastern European and Central Asian countries as well as Turkey, Azerbaijan and Georgia. While serving as Program Director of Nokia Siemens Networks, Pınar joined Başkent EDAŞ in April 2010 and served as Group Director of Başkent, AYEDAŞ and Toroslar until August 2015.





Energy of Life

We distribute electricity to a huge population in a geographic area larger than that of 180 countries in the world. We deliver services to more than 20 million people in 14 cities located across three distribution regions. We give the energy of life to one out of every four persons in Turkey.

Distribution

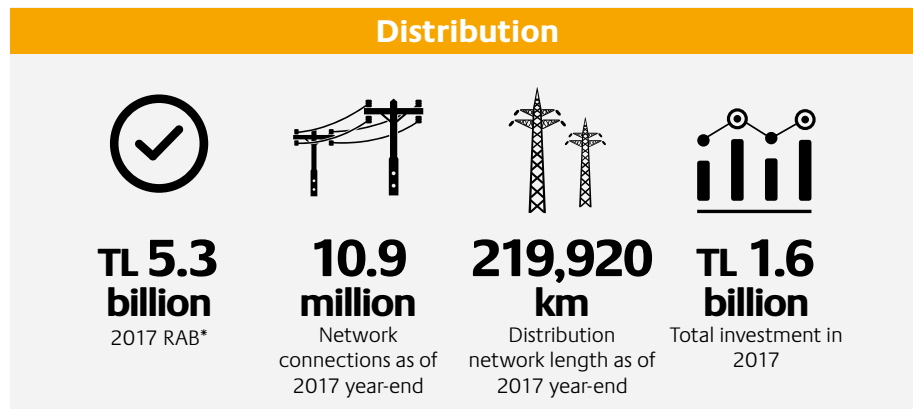
Enerjisa provides electricity distribution services to a population of 20.9 million through 10.9 million network connections in three distribution regions: Başkent, AYEDAŞ and Toroslar.

Electricity distribution is the delivery of electricity to end users via low voltage (under 36 kV) power lines. According to EMRA regulations, Turkey's distribution network is divided into 21 distribution regions. These regions have been operated by private distribution companies since the privatizations held between 2009 and 2013.

Regional distribution network operators are responsible for undertaking mandatory investments related to maintenance, repairs, environment, safety, renovation and expansion; reading and maintaining electricity meters; demand forecasting and preparing capex plans; monitoring theft/loss rates; supplying electricity in the event of technical and non-technical losses; taking all necessary technical and operational measures to reduce power theft/loss; and providing lighting in public areas in their respective regions.

Enerjisa centrally manages and monitors all its operations in its three distribution regions. The Company also plans and carries out all operations related to its distribution networks. As part of grid management processes, Enerjisa undertakes efforts to expand and renovate its network and boost the network's operational efficiency; as well as carrying out research and development efforts. These various activities enable Enerjisa to standardize network management processes in its three regions; create centralized procedures; determine key performance indicators such as complying with EMRA's technical, commercial and supply security standards; meet SAIFI, SAIDI, and theft and loss targets; plan system improvements; control and monitor local networks; and perform customer service operations.

**Enerjisa Enerji
constitutes
26% of
of the network connections
in Turkey.**



* RAB: Regulated Asset Base. With prices as of December 2017.

Distribution Companies

Başkent

Başkent Elektrik Dağıtım A.Ş. (“Baskent”) engages in the expansion, maintenance, and operation of electricity distribution grids in the cities within the Başkent Electricity Distribution Region. The Company distributes electricity to 7.3 million persons in Ankara, Bartın, Cankırı, Karabük, Kastamonu, Kırıkkale and Zonguldak. In 2017, Başkent distributed approximately 15.01 TWh of electricity via a 109,718-km long distribution network.

On July 1, 2008, Enerjisa won the privatization tender for the block sale of the entire shares of Başkent Elektrik Dağıtım A.Ş. with a US\$ 1,225 million bid. The share transfer was completed on January 28, 2009. Under the Transfer of Operating Rights (TOR) agreement signed with Türkiye Elektrik Dağıtım A.Ş. (TEDAŞ) on March 31, 2006, Başkent EDAS holds electricity distribution rights in a total of seven cities – Ankara, Kırıkkale, Kastamonu, Zonguldak, Bartın, Cankırı and Karabük – for a period of 30 years.

AYEDAS

İstanbul Anadolu Yakası Elektrik Dağıtım A.Ş. (“AYEDAS”) engages in the expansion, maintenance, and operation of electricity distribution networks in the districts within the Istanbul Asian Side Electricity Distribution Region. The Company distributes electricity to approximately 5.3 million persons residing on the Asian side of Istanbul. In 2017, AYEDAS distributed about 11.54 TWh of electricity via a 23,520-km long distribution network.

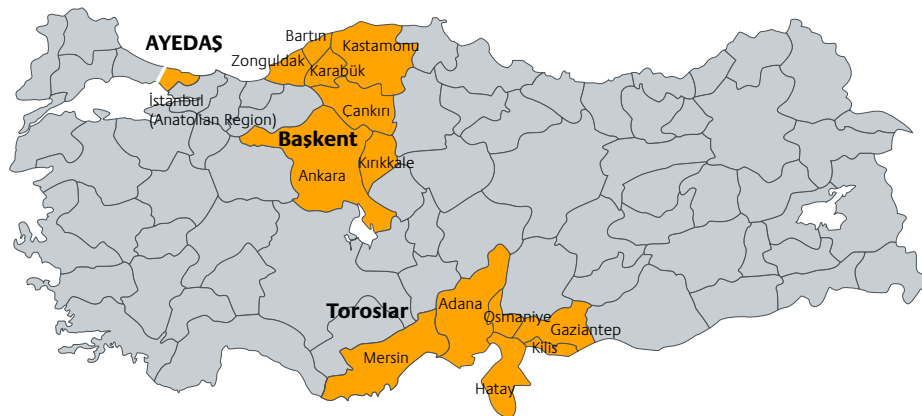
Enerjisa won the privatization tender for the block sale of the entire shares of AYEDAS with a US\$ 1,227 million bid. The share transfer was completed on July 31, 2013. Under the Transfer of Operating Rights (TOR) agreement signed with TEDAŞ on July 24, 2006, AYEDAS holds electricity distribution rights on the Asian side of Istanbul until December 31, 2042.

Toroslar

Toroslar Elektrik Dağıtım A.Ş. (“Toroslar”) engages in the expansion, maintenance, and operation of electricity distribution networks in the cities within the Toroslar Electricity Distribution Region. The Company distributes electricity to 8.3 million persons in Adana, Osmaniye, Gaziantep, Mersin, Kilis and Hatay.

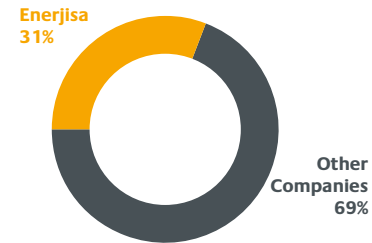
In 2017, Toroslar distributed about 15.23 TWh of electricity via a 86,682-km long distribution network.

Enerjisa won the privatization tender for the block sale of the entire shares of Toroslar with a US\$ 1,725 million bid. The share transfer was completed on September 30, 2013. Under the Transfer of Operating Rights (TOR) agreement signed with TEDAŞ on July 24, 2006, Toroslar holds electricity distribution rights in Adana, Gaziantep, Hatay, Kilis, Mersin and Osmaniye until December 31, 2042.

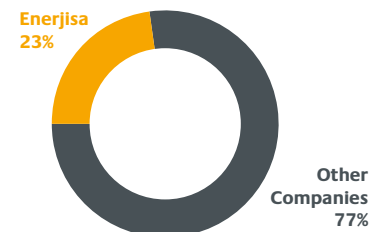


Services offered in 14 cities to a population of 20.9 million

Enerjisa's Share in Turkey's Regulated Asset Base (2016)



Enerjisa's Share in 2016-2020 CAPEX Allowance in Turkey (TL 18 Billion in total)



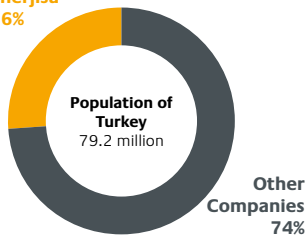
Distribution

Distribution Companies in Numbers

Population 20.9 million

Başkent	7.3 million
AYEDAŞ	5.3 million
Toroslar	8.3 million

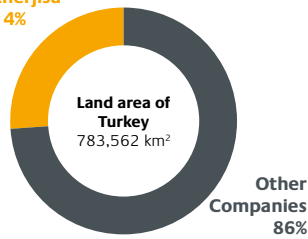
Enerjisa
26%



Area 109,663 km²

Başkent	61,141 km ²
AYEDAŞ	1,926 km ²
Toroslar	46,596 km ²

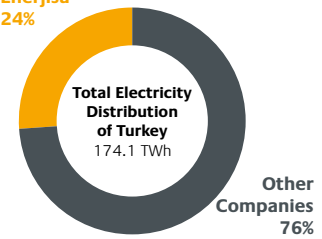
Enerjisa
14%



Distributed Electricity (Net) 41.78 TWh

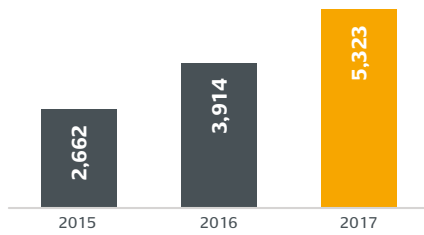
Başkent	15.01 TWh
AYEDAŞ	11.54 TWh
Toroslar	15.23 TWh

Enerjisa
24%

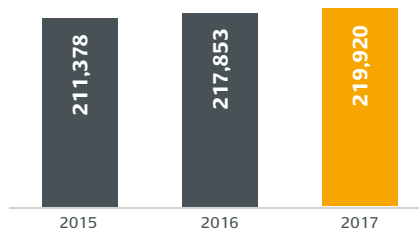


Source: Enerjisa, EMRA, Turkish Statistical Institute (TurkStat).

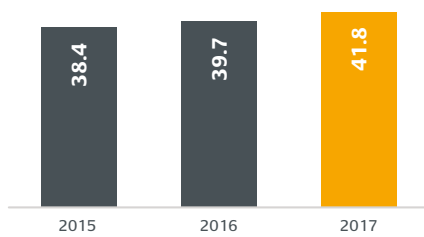
Regulated Asset Base (TL Million)



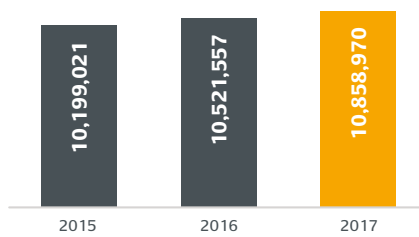
Total Distribution Network Length (Km)



Amount of Distributed Electricity (TWh)



Total Number of Network Connections



In 2017, EMRA announced several regulatory changes that will affect the electricity distribution industry.

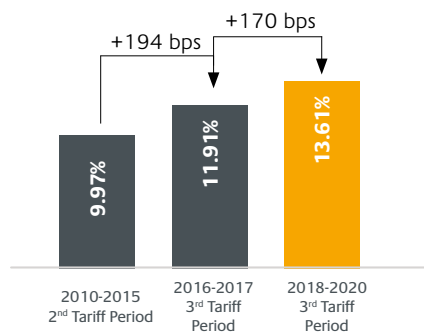
Sector Developments

Regulations

The regulatory changes announced by EMRA in 2017 include the following:

- For distribution companies, the weighted average cost of capital (WACC) rate (real and pre-tax), for the revenue requirement calculations for the third tariff period has been increased from 11.91% to 13.61%, applicable for years between 2018-2020 pursuant to EMRA's decision No. 7501-12, dated December 7, 2017.

Weighted Average Cost of Capital (WACC) Rate



- Under the regulatory amendment announced by EMRA on December 15, 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.
- Pursuant to EMRA's decision dated November 23, 2017, distribution companies granted an additional operating expense allowance to cover for the costs of additional repair and maintenance personnel employed, as required by the Ministry of Energy and Natural Resources. Companies will receive TL 63,000 annually to cover their operating costs associated with maintenance and repair staff.
- 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 during the period 2016-2017. Upon the recent legislation change, this percentage has been increased by 40% for the period 2016-2020. Distribution companies will retain 75% of the collections after legal action is taken to collect past due to receivables.
- EMRA raised reactive energy costs by 6.9-7.1% and distribution costs by 12-13% based on customer groups in the national tariff for first quarter 2018.
- The incentives to improve customer service quality (quality bonus) for distribution companies in areas such as call center performance, health and safety obligations, customer satisfaction scores as well as CAPEX ceiling realizations, outage reduction and increase in technical quality standards have been revised to a maximum of 5% of the yearly revenue requirement.

Distribution

Distribution companies are responsible for planning and managing their capex needs by taking into consideration energy demand and network requirements in order to provide the best available service to their customers.

Investments

Distribution companies are responsible for preparing and implementing investment plans by taking into consideration energy demand, network requirements and all investment needs within the company. They are also responsible for managing their investment budgets in addition to preparing a five-year investment budget, budget justification report and investment reports that are presented to EMRA.

**TL 1.6 billion
Total Investments
in 2017**

Investments by Distribution Regions (With June 2017 CPI Prices)



Our distribution companies constantly strive to improve service quality in order to boost customer satisfaction while focusing on quality and sustainability.

Customer-Focused Activities

Enerjisa Distribution Companies aim to enhance service quality with new practices and investments while constantly improving operational processes by focusing on quality and sustainability.

The Company works diligently to respond to customer applications within the shortest possible time. Customer applications and complaints submitted in writing or via other various channels, such as e-mail, phone, website, Registered Electronic Mail (REM), mobile application, sikayetvar.com, Twitter support account, Facebook account, and WhatsApp service line, are recorded in the SAP CRM module and shared with operational units.

The following efforts were carried out in 2017 to ensure effective customer relationship management:

- Customer-focused activities were evaluated by an international certifying organization and the Company was awarded ISO 10002 Customer Satisfaction Management System certification.
- The Mobile 186 application was entirely revamped with a new design, enriched content and new features, such as failure logging by sharing location, requesting lighting by sharing photographs, and following up on applications (meters, connection-disconnection, index, new connection, and the like).
- Customer document templates were improved for better legibility.

- All employees involved with demand management received training on competence building and customer orientation to increase their understanding of customer satisfaction.
- Customer experience roadmaps were created; in addition, improvement areas and system development requirements were analyzed to improve customer experience. Customer satisfaction is measured on a regular basis to track continuous improvement initiatives.
- Communication channels were diversified to enable customers to reach the Company via multiple channels. In 2017, new online channels were launched, including Twitter support account, Facebook account, WhatsApp service line, and the revamped mobile application.
- As a result of these CRM related efforts, Enerjisa Distribution Companies won the Bronze award in the category "Customer Services" at the 2017 Stevie International Business Awards, a prestigious competition that aims to recognize the most successful companies in the world. Enerjisa became the first Turkish company to win this award.

Enjoying an ever-expanding customer base, Enerjisa Distribution Companies conduct an extensive and comprehensive CRM operation. In 2017, the companies received 11,408,420 applications from customers. Customers can submit their requests/demands around the clock via multiple channels.

In 2017, the 186 Call Center made significant advances in digital transformation and achieved exceptional business results by applying a customer focused approach.

The Call Center operates with 800 agents in Ankara, Adana and Rize. The following activities were carried out in 2017 to improve service quality:

- Improvements were made to the Web Portal, which enables customer representatives to easily track problems such as power outages and other service complaints.
- The dashboard screen Saturn, which enables real-time monitoring of call center performance, was put into service.
- Text-to-speech and speech-to-text technologies are under development in order to better analyze customer demands.
- Efforts were undertaken to analyze repeat calls, and to develop CRM and Interactive Voice Response (IVR) systems to improve customer experience.
- Customer data sets were updated and enriched. With this effort, customer demands can now be recorded faster and more accurately.
- Surveys are conducted via the Call Center in order to understand customers' expectations, measure customer satisfaction and improve service quality.
- Local authorities are notified on a regular basis to improve information flow between local authorities. Surveys are conducted via WhatsApp to measure their satisfaction levels.
- A team of technical support experts was formed to improve service quality in technical matters such as power theft/loss, meters, and the like.

Distribution

In 2017, Enerjisa Distribution Companies received 21,622,621 calls. The response rate was 97.5% and service level was 89.1%. The Company's Call Center performance was well above the industry average.

Call Center Performance

In 2017, Enerjisa Distribution Companies received 21,622,621 calls through call centers. The response rate was 97.5% and service level was 89.1%. These rates are well above the industry average and meet EMRA's quality criteria.

Improvements to the Index Reading Process

Technical and non-technical losses are defined as the difference between the amount of energy distributed and the amount recorded in the end user's index. These are critical to reducing losses recorded in the index and are billed to the customer. The Company analyzed the system errors impacting index readings and detected faulty equipment and installations to ensure index readings are transferred to the live system accurately.

Theft and Loss Management

Distribution line losses are comprised of two basic components:

- (i) Technical Losses:
 - Losses that occur during the distribution of electricity via cables and conductors.
 - Losses that occur during transmission voltage conversion.
 - Losses caused by faulty connection points.
- (ii) Non-technical Losses:
 - Losses that occur due to illegal access to the grid or meter tampering.

Enerjisa's distribution network needs to be improved in order to reduce technical losses.

Between 2009 and 2014, the Company made improvements to aerial cables and electrical distribution equipment to cut technical losses in the Baskent Region. After taking control of AYEDAS and Toroslar Regions in 2014, the Company has also made improvements in these regions.

As a result of these improvements, the Company achieved the targets set by EMRA within three years after taking control of the AYEDAS Region. The efficiency ratio rose from -0.96% in 2014 to 0.83% in 2016 and to 1.18% during the nine month period that ended on September 30, 2017.

Enerjisa places great importance on meter management (i.e. replacing faulty, aged, uncalibrated meters) to minimize electricity theft.

Field teams are directed to read the meters on a regular basis. Electronic meters, which can take more precise measurements, have also helped boost theft detection capability as these meters display amperage and voltage measurements in the entire distribution process together with retroactive measurement data. It is also more difficult to tamper with electronic meters (such as preventing the operation or recording of the meter). Therefore, electronic meters are more effective in preventing illegal electricity usage. The Company constantly monitors theft/loss rates to bring them down to or below the target levels set by EMRA.

Improvements to Meter Operations

To reduce redundant data in the system and enter accurate/up-to-date data in the new system after the corporate separation, Enerjisa undertook a series of projects such as "Meter Updating Program," "OTR Primary-secondary" and "Utility Multiplier Controls."

False readings caused by phase errors in meters were detected and faulty equipment was replaced with new devices developed by the Company's engineers.

Improvements to the New Connection Process

Retail electricity installations are controlled according to subscription eligibility. As a result, installation of retail systems before going through the new connection filtering process is prevented.

Usage-day data is entered for temporary connections in order to perform subscription, connection, disconnection operations more easily and accurately. In addition, Enerjisa introduced new controls to prevent the creation of master data, in the event that equipment inspection cannot be made or that the meter reading unit is installed incorrectly. Automated e-mails are sent to licensed electricians to inform about whether their interior installation projects are approved or rejected. An additional document that includes rejection criteria is also sent to electricians whose projects have been rejected.

Improvements to the Index Reading Process

Enerjisa developed an index validation system, which runs on the terminal during a reading and alerts the reader of incorrect entries. The system blocks the reading result if the second entry is also incorrect. The system was developed on SAS and SAP systems. Data such as measurements in the past 12 months and installed power is taken into account while calculating limits per installation. The case integration method is used to track requests related to index reading (such as reading, investigation, and the like) from retail sales companies and other units within the distribution company.



Retail

Enerjisa provides service to 9.2 million customers in its three distribution regions: Başkent, AYEDAŞ and Toroslar.

As incumbent retail companies, retail companies sell electricity exclusively to non-eligible customers within the company's distribution regions as well as to eligible customers in their respective regions and in other parts of Turkey without regional limitations.

Enerjisa Retail Companies operate in 14 cities in three regions as incumbent retail companies within the regulated electricity market, under the supply license issued by the Energy Market Regulatory Authority (EMRA). Enerjisa's incumbent retail companies operate in the following regions:

- Enerjisa Başkent Elektrik Perakende Satış A.Ş. – Ankara, Kırıkkale, Çankırı, Kastamonu, Karabük, Bartın, Zonguldak
- Enerjisa İstanbul Anadolu Yakası Elektrik Perakende Satış A.Ş. – Asian Side of İstanbul
- Enerjisa Toroslar Elektrik Perakende Satış A.Ş. – Adana, Mersin, Gaziantep, Hatay, Osmaniye, Kilis

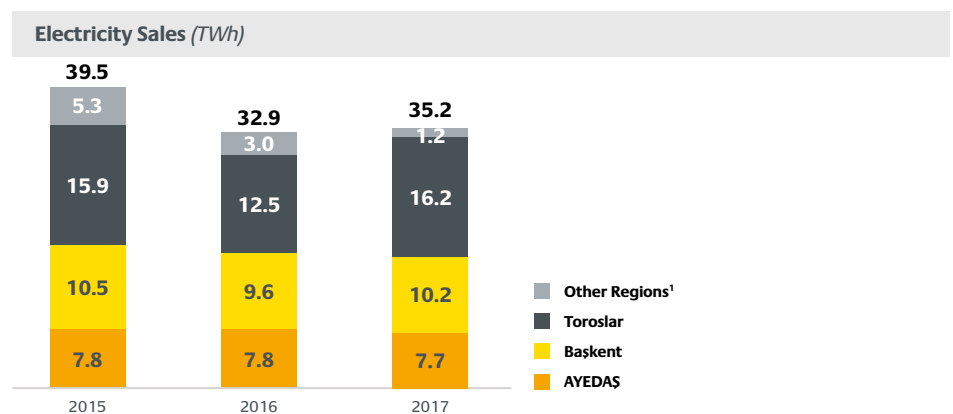
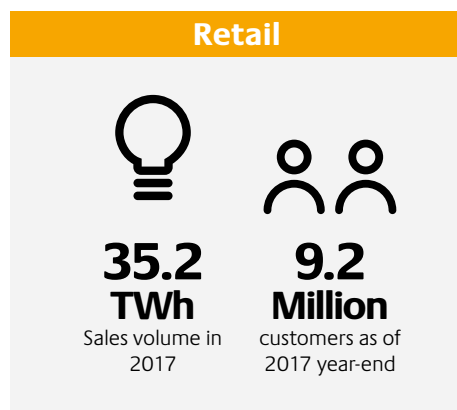
As an incumbent retail company, Enerjisa conducts retail activities in its regions. The Company's customer portfolio consists of residential, industrial and commercial customers. Additionally, Enerjisa engages in wholesale and retail sale of electricity to eligible customers across Turkey.

Providing service to about 9.2 million customers and more than 20.9 million users via both physical and digital channels, Enerjisa strives to fulfill customers' needs in the best manner possible, add value to electricity supply, and provide after-sales support.

Enerjisa Retail Companies provide their customers with access to electricity and perform other various operations – such as subscriptions, contracts, billing and collections – while investing in projects that make life easier for their customer base. Thanks to its innovative, market- and customer-focused business model and approach, expertise, and advanced technology infrastructure, Enerjisa develops products, services and solutions tailored to meet customers' demands and needs.

Backed by its main shareholders Sabancı and E.ON, Enerjisa is a trusted supplier of electricity for its customers.

Leader in the retail sector with a sales volume of 35.2 TWh



Enerjisa's retail activities are carried out by Başkent EPSAŞ, AYEPSAŞ and Toroslar EPSAŞ companies.

Retail Companies

Enerjisa Başkent Elektrik Perakende Satış A.Ş.

Enerjisa Başkent Elektrik Perakende Satış A.Ş. was established under Article 3 of the now repealed Electricity Market Law No. 4628 and Article 39 of the Regulation on Regulated Revenue and Tariffs and Reporting Principles in the Electricity Market, and in accordance with the legal requirement that distribution and retail supply activities must be undertaken by separate legal entities effective as of January 1, 2013. Distribution and retail activities were separated in accordance with the "Procedures and Principles concerning the Legal Unbundling of Distribution Systems and Retail Sales" issued by EMRA and other applicable laws and regulations.

Enerjisa Başkent Elektrik Perakende Satış A.Ş. provides service to more than 3.6 million customers, composed mainly of residential and commercial customers, in the Başkent Region (Ankara, Kırıkkale, Çankırı, Kastamonu, Karabük, Bartın, Zonguldak). The company invests heavily in upgrading its system and improving customer services.

Enerjisa İstanbul Anadolu Yakası Elektrik Perakende Satış A.Ş.

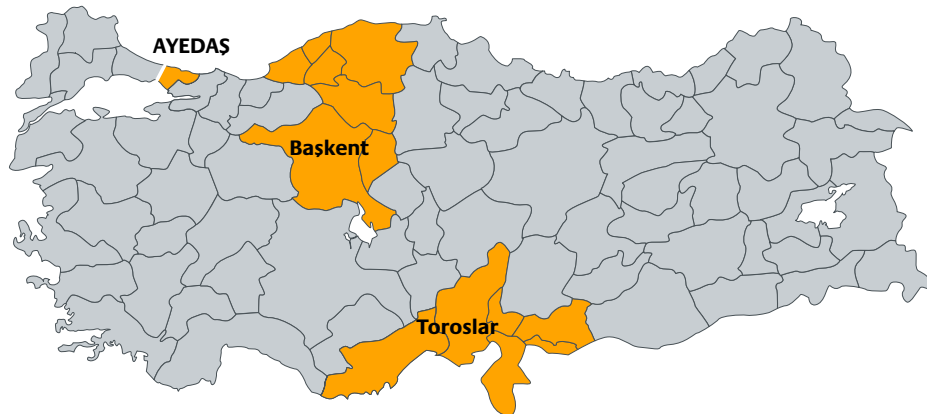
The shares of Enerjisa İstanbul Anadolu Yakası Elektrik Perakende Satış A.Ş. were transferred to Enerjisa through privatization after the share purchase agreement was signed on July 31, 2013.

Enerjisa İstanbul Anadolu Yakası Elektrik Perakende Satış A.Ş. provides service to more than 2.2 million customers, composed mainly of residential and commercial customers residing on the Asian side of İstanbul. The company invests heavily in upgrading its system and improving customer services.

Enerjisa Toroslar Elektrik Perakende Satış A.Ş.

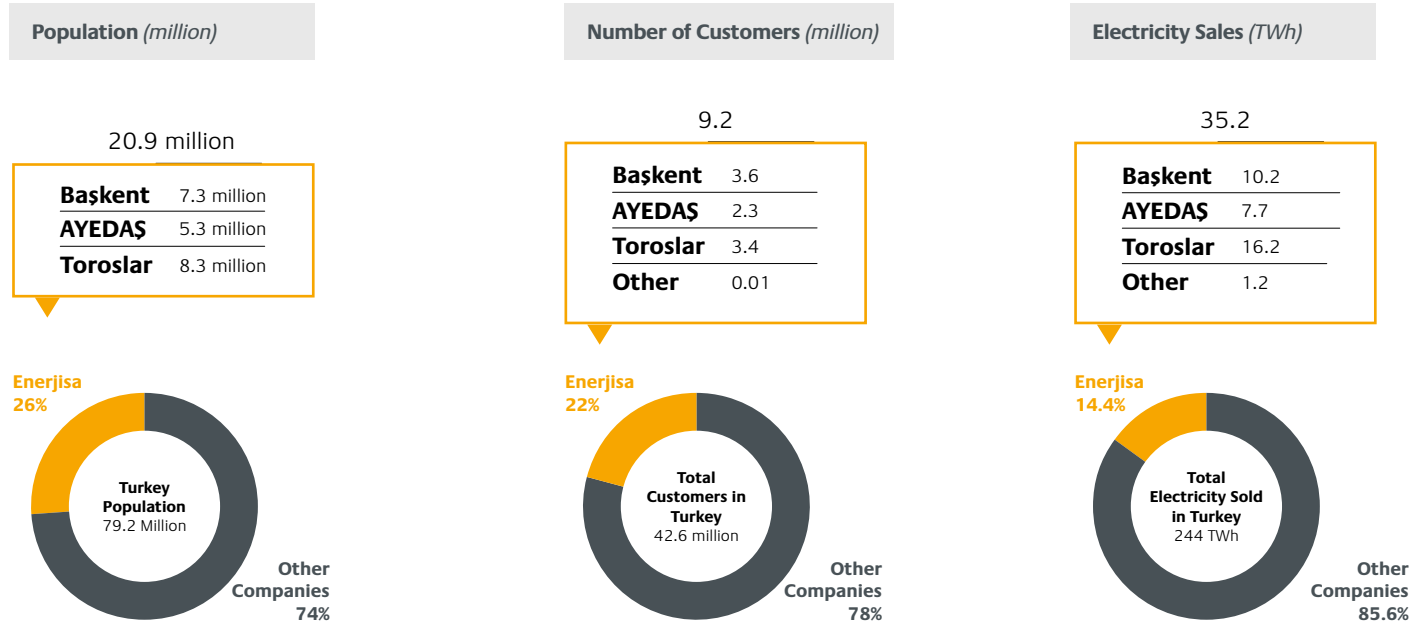
The shares of Enerjisa Toroslar Elektrik Perakende Satış A.Ş. were transferred to Enerjisa through privatization after the share purchase agreement was signed on September 30, 2013.

Enerjisa Toroslar Elektrik Perakende Satış A.Ş. provides service to more than 3.4 million customers, composed mainly of residential and commercial customers, in the Toroslar Region (Adana, Mersin, Gaziantep, Hatay, Osmaniye and Kilis). The company invests heavily in upgrading its system and improving customer services.



Retail

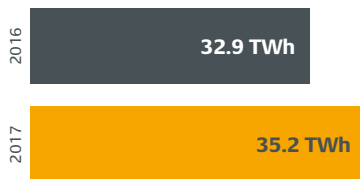
More than 350 experienced customer representatives perform approximately 2 million transactions annually at 69 customer service centers, which are visited by about 3 million customers each year.



Source: Enerjisa, EMRA, Turkish Statistical Institute (TurkStat)

Sales Volume

Total sales volume consists of sales made to eligible and non-eligible customers by incumbent retail companies in three regions as well as liberalized market sales in other regions. In 2017, sales volume increased 5.7% YoY.



Number of Invoices

Enerjisa issues more than 80 million invoices per year centrally and in the field.

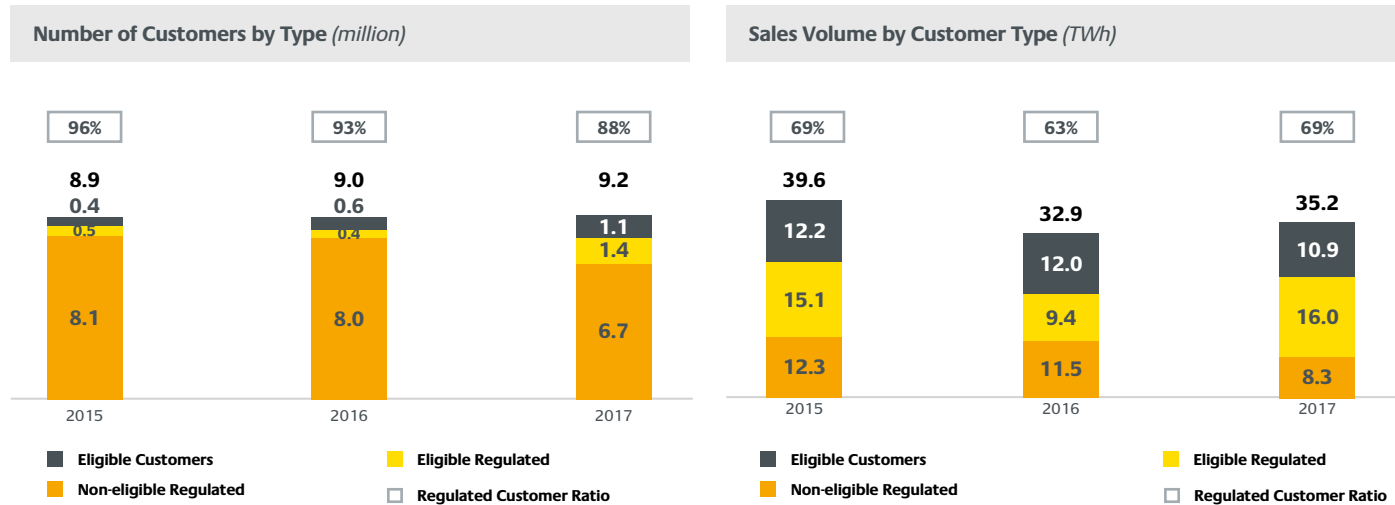
2017: 81.6 million
Monthly ~ 6.8 million

Collection Rate

As a result of effective collection management, collection rates increased by 0.37 points YoY to reach 99.49% in 2017.



As a result of effective collection management, collection rates rose 0.37 points YoY to reach 99.49% in 2017.



Customer and supplier types that emerged in the market with the liberalization process

Customers

Eligible Customers

Non-eligible Customers

Eligible Customers Using the Right to be Liberalized

- ✓ Customers whose electricity consumption exceeds the eligibility limit and who are therefore free to choose their supplier.
- ✓ Prices are determined according to free market conditions.
- ✓ Residential, commercial and industrial customers who consume large amounts of electricity.

Eligible, but Regulated Customers

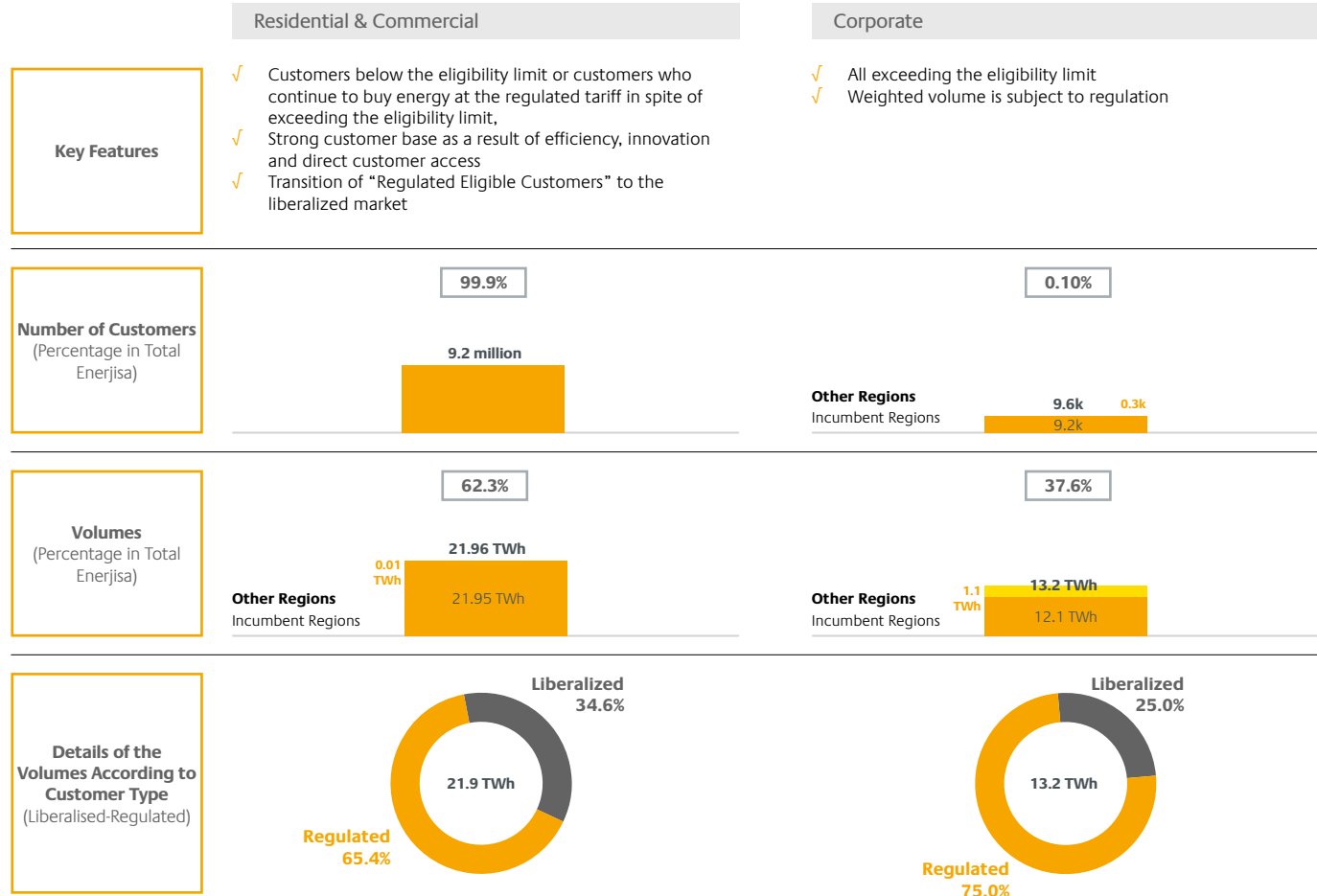
- ✓ Customers who continue to purchase electricity at regulated prices even though their electricity consumption exceeds the eligibility limit.
- ✓ Consumers who purchase electricity only from incumbent retail companies and at regulated prices.
- ✓ Mostly residential, commercial and industrial customers who consume large amounts of electricity.

Non-eligible Regulated Customers

- ✓ Customers who purchase electricity only from incumbent retail companies and at regulated prices.
- ✓ Mostly residential customers.
- ✓ In 2017, they accounted for approximately 10% of total sales and about 75% of the total customer base.

Retail

Strategy defined according to customer segments



Source: Company data.
Note: All data are given as of 2017 year-end.

Enerjisa offers products and services, and various energy solutions tailored to meet customer needs. Enerjisa's approach to customer service is to first and foremost benefit its customers.

Products and Services

Enerjisa offers products, services, and various energy solutions tailored to meet customer needs. Enerjisa's approach to customer service is to first and foremost benefit its customers.

Enerjisa manages its products and services according to individual and corporate customer segments.

The Company develops seasonal promotional campaigns and advantageous offers at either fixed or variable rates for its individual customers.

Commercial products are offered to corporate customers at either fixed or variable rates to meet their expectations and needs. Enerjisa also offers its customers project-based (independently of technology) energy solutions other than electricity sales, such as electricity generation, and energy efficiency, at the consumption point.

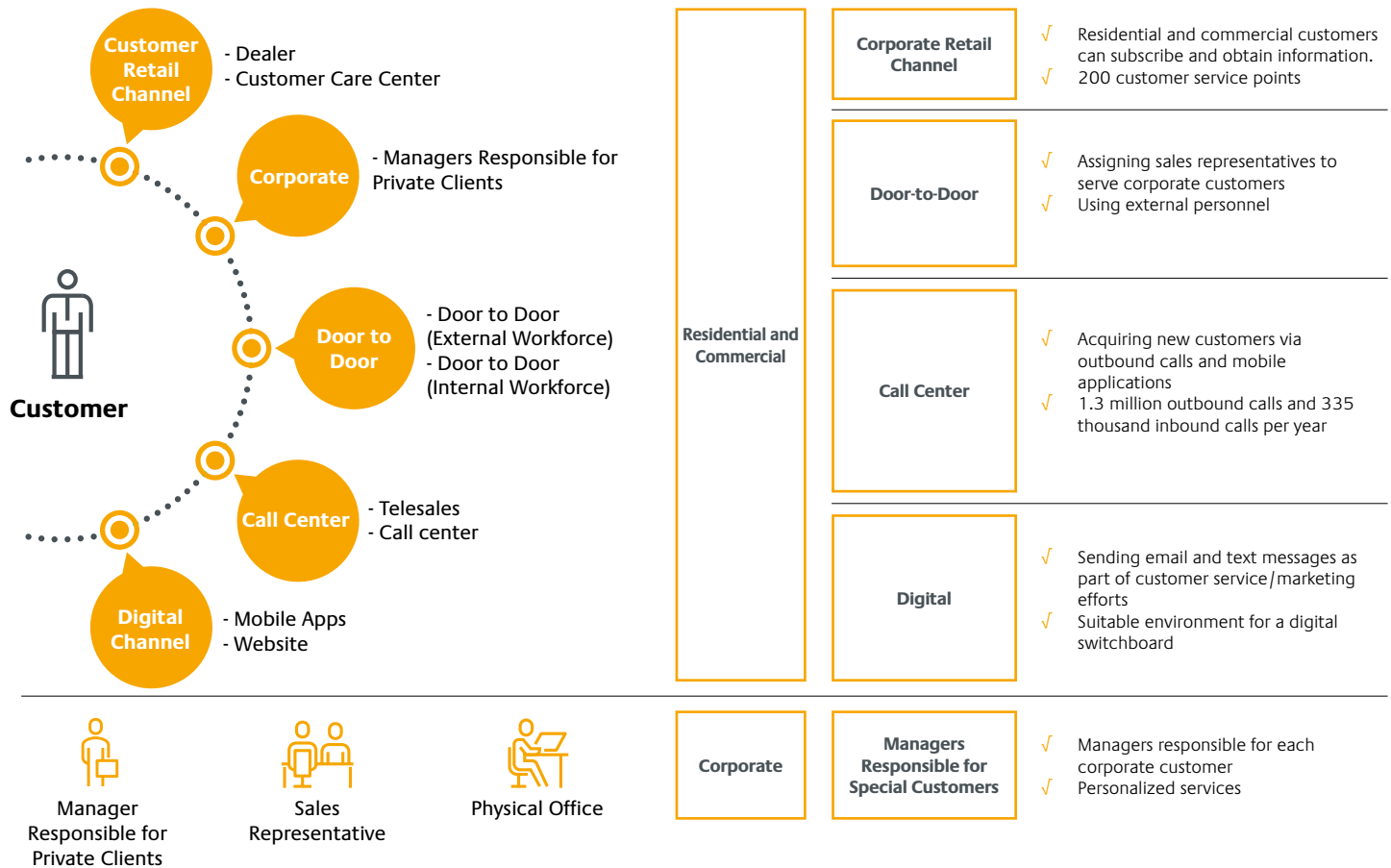


Retail

Many transactions – including applications, online appointment scheduling, bill payment, comparison of regional and seasonal consumption – can be performed easily and quickly via Enerjisa Mobile.

Sales Channels and Customer Segments

The Company reaches end customers via multiple channels.



Physical Channels

Customer Service Centers and Dealers

More than 350 experienced customer representatives perform approximately 2 million transactions annually at 69 customer service centers, which are visited by about 3 million customers each year.

Customers can schedule an appointment online via www.enerjisa.com.tr, the Enerjisa Mobile application and the Online Service Center before visiting a Customer Service Center. This way, they can perform their transactions quickly, without having to wait in line.

Transactions performed at Customer Service Centers:

- Subscriptions and contracts
- Bill payment
- Requests/inquiries

Nine mobile service vehicles offer high quality customer services in the Baskent and Toroslar Regions, providing easy access in places where there are not any Customer Service Centers, or at locations far from the city center.

Corporate Solutions and Corporate Customers

In addition to electricity sales, Enerjisa offers its corporate customers energy saving solutions. These include on-site power generation to meet their energy demand, energy efficiency consultancy and tariff advisory. The Company also provides other services to corporate customers, such as sales support and operational process management, profitability analysis and reporting, project management to support their sales targets, and central field coordination.

Corporate Solutions and transactions performed in the Corporate Customer Segment include:

- Electricity sales
- On-site power generation
- Energy efficiency consultancy and tariff advisory

Digital Channels

Alternative Sales Channels

The Company offers its customers multiple communication channels – including phone, WhatsApp, mobile application, www.enerjisa.com.tr and Online Service Center – and provides tailored solutions to increase customer satisfaction.

Transactions performed via Alternative Sales Channels:

- Contract operations
- Contract renewals
- Customer retention and recovery
- Subscription transactions through phone
- Approvals for electronic invoice archiving
- Contract demand management via WhatsApp, mobile application and Enerjisa online channel

Online Service Center

Both individual and corporate customers can perform many transactions related to electricity – viewing invoice details, comparing consumption, appointment scheduling, bill payment, submitting applications and complaints via Enerjisa Online Service Center (online.enerjisa.com.tr). The user base has reached about 462 thousand. At year-end 2017, the number of active users increased 85% over the previous year.



Mobile

Enerjisa mobile application can be downloaded free-of-charge from the App Store or Google Play in order to perform all transactions easily.

- Historical consumption data can be viewed and compared with other users in the region.
- Users can apply for electricity transactions and schedule appointments online.
- Users can pay their bills online or find the nearest payment center.
- Users can find suggestions for conserving electricity in the “Save Your Energy” section.
- Users can learn about planned outages in their region.

Retail

Brand Power

Thanks to the investments of the two shareholders – E.ON and Sabancı – and the long-term perspective it has embraced, Enerjisa has become one of the most recognized and trusted brands in Turkey. Capital Magazine has named Enerjisa the Most Admired Company in the Turkish energy industry each year since 2009.

With its brand investment strategy, Enerjisa aims to: (i) become the most recognized and reputable brand in the energy industry, (ii) be seen by customers as “a brand that values customers and creates value for them,” and (iii) be perceived as a reliable and innovative brand. The Company started to implement a long-term brand strategy to achieve these goals.

In the first stage of the brand relaunch process, Enerjisa rolled out a national advertising campaign in December 2015. With this campaign, the brand’s visual identity and tone of communication became more aligned with the brand strategy and more appealing to customers. Additionally, new brand elements – “Energy Button” and “Energy of Turkey” – were added to brands assets. In 2016 and 2017, Enerjisa launched another comprehensive marketing campaign focused on energy efficiency and technology. The campaign, which was rolled out under the slogan “Save Your Energy,” featured a brand mascot named “Pozitip.”

As a result of these branding and communication efforts, Enerjisa’s top-of-mind awareness score rose from 22% in April 2015 to 75% in January 2017 according to Enerjisa Brand Awareness

Surveys conducted by Future Bright. In addition, the Company’s spontaneous recall score increased from 47% in April 2015 to 93% in January 2017.

In 2017, Enerjisa was named the “Brand that Increased Its Reputation the Most in the Energy Industry” at the ONE Awards. The Company also won the “Best Communication Campaign” award at the 2016 Effie Awards; the Silver prize at the 2017 MIXX Awards Europe, which aims to recognize the best digital advertising campaigns; and the “Best Local Campaign” award at the 2017 MENA Search Awards.

In 2017, Enerjisa received the Silver Stevie award in the “European Social Responsibility Program of the Year” category with its social responsibility project titled “I am Saving My Energy,” which the Company has executed since 2010.

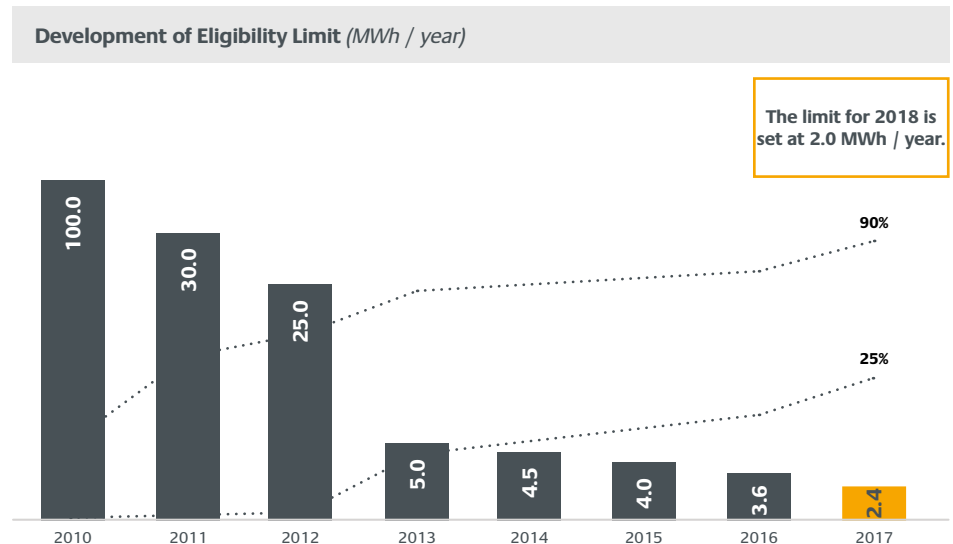
Sector Developments

The changes in eligibility limit should be evaluated in two separate stages, pre- and post-2013. In 2013, the eligibility limit was lowered from 25,000 kWh to 5,000 kWh in a major step toward market liberalization. This change marked important progress in expanding eligibility to small businesses and households, in addition to large and medium-sized companies and industrial facilities. It also created an electricity market consisting of large numbers of eligible customers. In terms of customer numbers, there was a 10% gap in the market in 2016, which then rose to 25% in 2017 after the eligibility limit was lowered to 2,400 kWh. Pursuant to EMRA’s decision dated November 30, 2017 and numbered 7474, the eligibility limit was further lowered to 2,000 kWh for the 2018 calendar year. The changes in the eligibility limit are shown on the adjoining graph.

Under the regulatory amendment announced by EMRA on December 15, 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.

While conducting retail activities as the incumbent retail company in its distribution regions, Enerjisa leverages its customer base, which consists of residential, industrial and commercial customers. In the fiscal year ending December 31, 2017, the Company sold 35.2 TWh of electricity. Enerjisa is the leading retail electricity provider in Turkey.

The Company monitors both active and inactive customer numbers. Customers who have been issued invoices in the last 12 months are considered “active customers” while those who have not been issued any invoices during the same period are considered “inactive customers.”

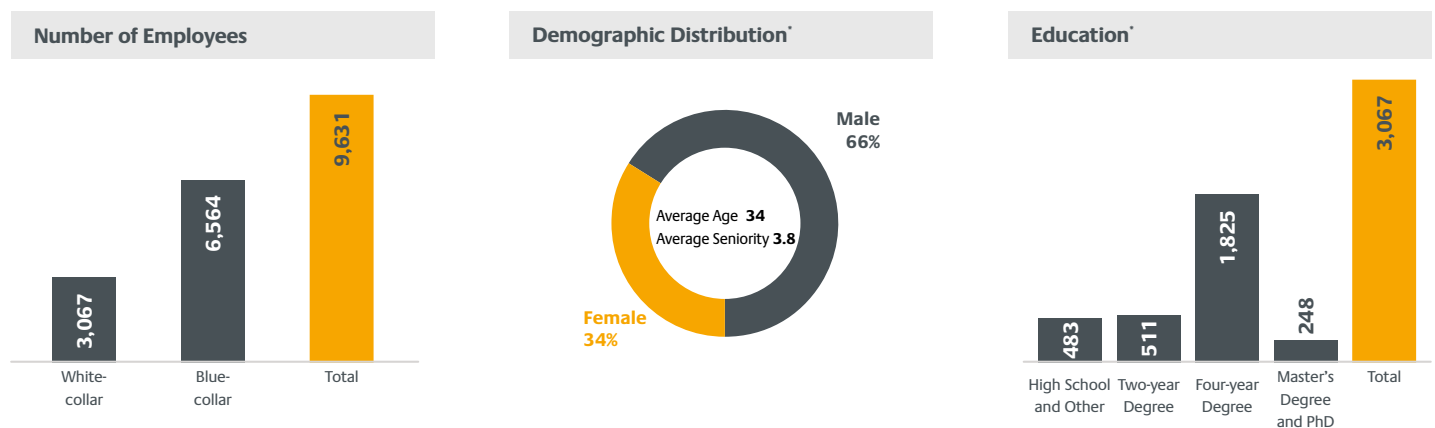




Human Resources

In line with its vision to become “the most preferred employer in the energy industry and to rank in the top 15 employers among all industries,” Enerjisa implements human resources processes and practices that are embraced by all employees.

Demographic Data



* Data shows the details of white-collar employees.

* The Company maintains effective communication with the headquarters of TES-İS Energy Workers' Union, which is affiliated with TÜRK-İS (Confederation of Turkish Trade Unions), as well as five TES-İS offices located in Enerjisa's three distribution regions. Some 6,564 blue-collar workers at the Company are members of TES-İS.

In line with its vision to become “the most preferred employer in the energy industry and to rank in the top 15 employers among all industries,” Enerjisa implements human resources processes and practices that are embraced by all employees.

The Company's HR practices are designed to:

- Create a positive organizational climate, internal communications and culture,
- Develop leaders and good management practices,
- Provide training and development opportunities for further growth and progress,
- Attract and retain talent by improving corporate reputation,
- Achieve organizational excellence to maximize stakeholder loyalty and satisfaction.

Talent Management

At Enerjisa, Talent Management means providing all employees with opportunities to understand and realize their potential, use their skills properly and effectively and thereby create value for the Company.

Enerjisa has a diverse workforce composed of about 10 thousand employees from four different generations. Valuing each staff member as a unique talent, Enerjisa closely follows emerging global trends in various areas and adopts new approaches for different employee profiles in line with its strategic priorities.

Enerjisa aims to attract and develop young talent and experienced professionals by using talent management practices that support its corporate vision. The Company believes that individual success is the key to organizational success. Therefore, Enerjisa implements a variety of talent management systems to measure and evaluate employee performance and competencies.

Leadership Development Programs and Tools

As part of leadership development efforts, Enerjisa designed and launched an experiential learning program – Leadership Acceleration Program, or LEAP – in 2017. LEAP is designed to familiarize senior managers with new tools and methods that will help them deal with present and future

business challenges, and to accelerate leadership development processes. The program started in December with 18 participants and will continue for about 18 months.

The Company also launched JUMP, a blended learning program. JUMP targets employees who have been promoted to management positions in order to help them improve their effectiveness in their current roles and develop their leadership skills. The program combines various learning methods, such as distance learning courses, practice workshops, and simulations to offer a flexible, social and personal learning experience. JUMP will continue for about a year. Four-hundred participants have already begun their self-development journey.

In 2017, the fourth edition of the Young Energy program, which aims to support and accelerate the development of young, high-potential employees, who are at the beginning of their careers, continued with 18 participants.

Managers at Enerjisa have also had the chance to participate in the leadership development programs organized by Sabancı Holding. Seven young employees with high potential graduated from the Young Talents of Sabancı Program, which offers networking opportunities and the experience of managing a company via simulations. In addition, four Enerjisa managers participated in SALT, Sa-EXE and SA-LAB programs.

In 2017, four employees participated in a leadership development program, jointly developed by A New Leader Association and Boğaziçi University. The program offers training courses, mentoring, coaching and networking opportunities.

Personal Development Programs and Tools

YODA Mentoring and Reverse Mentoring programs launched in 2017. This platform enables different generations working at Enerjisa to learn from each other. YODA Mentoring program started in 2017 with 36 mentors. Meanwhile, 14 employees representing the next generation were selected to provide mentoring to senior managers of Enerjisa under the YODA Reverse Mentoring program – a unique initiative in the industry.

The Wings Up program aims to foster balance and equality in all areas of life among female and male leaders at Enerjisa. This initiative started in 2016 with 64 female employees and continued with 130 female employees in 2017. The Wings Up program was expanded to include male employees in 2017; 110 male leaders joined the program during the year.

Professional Development Programs and Tools

In 2017, four Enerjisa employees participated in the seventh edition of the Future Forums program. This initiative aims to create a market- and customer-oriented culture across Sabancı Holding companies and teach participants to think beyond the boundaries of the industry and the market.

During the year, three Enerjisa employees participated in the I-Champ program, which was designed to build critical thinking skills for proper implementation of innovation projects. Enerjisa aims to boost the number of innovation projects and to build a culture of innovation across the organization through this program.

In 2017, 512 employees completed training courses on customer and sales orientation under the Sales School development program. This



effort aims to create a customer-oriented culture and develop sales skills. Participants also had the opportunity to work in the field in order to learn about and experience all sales channels.

A total of 8,493 employees of the Distribution Companies participated in the Pusula development program during the year. Participants attended personal and professional development courses as well as OHS training.

Enerjisa introduced the Mobile Training Trailer – a first of its kind project in the energy industry – in 2017. Equipped with technologies used in the energy sector, the Mobile Training Trailer offers all types of theoretical and practical technical training courses on field operations. The Mobile Training Trailer supports the professional development of Enerjisa employees, while also helping vocational school students and teachers and university students develop their technical skills. The trailer visits 14 cities where distribution companies operate under the Vocational Training Collaboration Agreement signed with the Ministry of National Education.

Under the new talent program “Enter,” which is aimed at university seniors or graduate students, 27 students from METU, TOBB, Gazi University, ITU, Yıldız Technical University and Cukurova University started working at the distribution companies. Additionally, a Technical Training Team of engineers was formed and began working under the HR and Administrative Affairs Departments of Enerjisa’s distribution companies. The Company organized case-based training programs in three regions to instruct blue-collar employees in effective customer management.

In 2017, Enerjisa continued supporting the professional and personal development of its employees with technical and professional training programs. These efforts include master’s programs, online foreign language courses, conferences and training courses on information security, competition law and ethics, among others.

Employee Group	Total Training Hours
White Collar	113,450
Blue Collar	269,999
Total	383,449

Digital Transformation of People Management

Enerjisa works constantly to improve its HR functions by focusing on digitalization. Digital processes enable the Company to obtain results faster and focus on operational excellence rather than executing operations that take a long time.

Enerjisa uses online tests to assess employee potential during the career management process. Thanks to the online testing system, the Company reduced the time required for succession planning by 50% in 2017.

Enerjisa uses online resume databases, online interviews and online tests during the recruitment phase, depending on the requirements of the position. This way, the Company can accelerate the hiring process and cut costs while reaching out to candidates in different geographic locations.

R&D and Innovation

Implementing new, innovative ideas that add value to people by closely following technological advancements, achieving growth through customer-focused solutions, and offering customers innovative, special services and solutions are among Enerjisa's primary objectives.

Enerjisa Distribution Companies effectively utilize technology in all projects and processes in order to provide world-class customer service. Implementing new, innovative ideas that add value to people by closely following technological advancements, achieving growth through customer-focused solutions, and offering customers innovative, special services and solutions are among Enerjisa's primary objectives.

Innovation, Digitalization and R&D Efforts in Distribution

We believe that investing in innovation and digitalization is key to achieving productive sustainability in the industry. The incentives offered by the Ministry of Energy and Natural Resources (MENR) and EMRA are very important for the future of the industry. Enerjisa supports MENR's vision and roadmap, and the Company develops its projects accordingly.

Projects

Electric Vehicles (EV)

Enerjisa executed a project to analyze the potential impact of the infrastructure required to charge electric vehicles on the distribution network. The Company rented 18 electric vehicles, which were driven by different user groups for a certain period of time. Enerjisa then created a model based on the data obtained. The Company used the model to analyze and simulate integration scenarios for electric vehicles and the distribution network.

The project was the first study integrating distribution transformer loads in Turkey with EV user profiles based on real field data. During the project, a total distance of 160,000 km was covered, and 35,000 kg of CO₂ emissions were avoided.

The following results were obtained from the scenario in the Baskent EDAŞ Region. Under this scenario, a pilot distribution transformer feeds 543 customers, most of whom are residential customers, and one out of every 10 subscribers owns an electric vehicle.

- Transformer loads increased from 17% to 30%.
- Line/cable loads rose from 45% to 80%.
- Total energy loss went up from 2% to 3.5%.
- The voltage drop rate increased from 5% to 9%.

Turkey Smart Grid Vision Project (TAŞ2023)

Today, smart grids are seen as the distribution networks of the future. Many countries in the developed world, mainly in Europe, conduct scientific and technical studies and execute pilot projects related to smart grids. Turkey needs to closely monitor these advanced technologies, lead the industry in liberalizing the electricity market and start developing strategies and roadmaps. Smart grid applications in Turkey will be based on a "Smart Grid Strategy" to be developed jointly by electricity distribution companies. It is important to evaluate next-generation smart grid applications that will enable customers to actively participate in the electricity market. These applications must be strategically planned by taking into consideration the

different needs of each distribution company, in order to build a cost-effective smart grid. To this end, maturity and adequacy levels of the systems that are/will be used will be determined through a situation analysis. In addition, Turkey's Smart Grid Roadmap will be developed before implementing smart grid technologies at distribution companies. Enerjisa Distribution Companies and ELDER (Association of Distribution System Operators) have jointly carried out the TAŞ2023 project with the aim of creating a smart grid roadmap. This effort started in 2016 with the support of EMRA. Under the project, smart grid components have been examined, examples from around the world have been analyzed, and all distribution companies in Turkey have formed groups to evaluate different topics and future investments. Relevant studies and reports have already been completed. The project is coordinated by ELDER and managed by Baskent EDAS. The strategy and roadmap for transitioning to the smart grid will be published and shared with industry stakeholders in the final phase of the project. As industry leaders, Enerjisa Distribution Companies took a leading role in this forward-looking effort, which will shape the future of the electricity distribution industry.



Management of Critical Infrastructure in Smart Cities (KRITA)

The KRITA project, financed by EMRA's R&D fund, was launched in 2015 in the Toroslar region. This effort is being implemented in the city of Gaziantep in collaboration with Gaziantep Metropolitan Municipality.

Scheduled for completion in the first half of 2018, the project scope is outlined below:

- Integration of 'Smart City' components and interoperation of next-generation energy systems,
- Development of software infrastructure and digital services that will enable information sharing between infrastructure operators and local authorities,
- Integrated implementation of smart meter infrastructure, renewable energy systems, energy storage system, electric transportation and charging infrastructure and smart lighting systems within the pilot implementation area.

The project will include developing technical procedures related to city-scale 'Smart Grid' applications and providing recommendations on regulations. In addition to its integrated approach and innovative aspects, KRITA will significantly contribute to Turkey's 'Smart City' and 'Smart Grid' vision.

In 2017, the Company installed a 'Smart Flower' in Gaziantep's Masal Park. The Smart Flower changes position to capture the sunlight in order to produce electricity. The electricity generated is used at charging stations for disabled vehicles and smart benches. In collaboration with TEMSA, Enerjisa introduced electric bus service on a busy bus route within the city. In 2018, the Company plans to install smart lighting, deploy storage systems and complete the software development.

Monitoring Distribution Lines via Unmanned Aerial Vehicles (UAV)

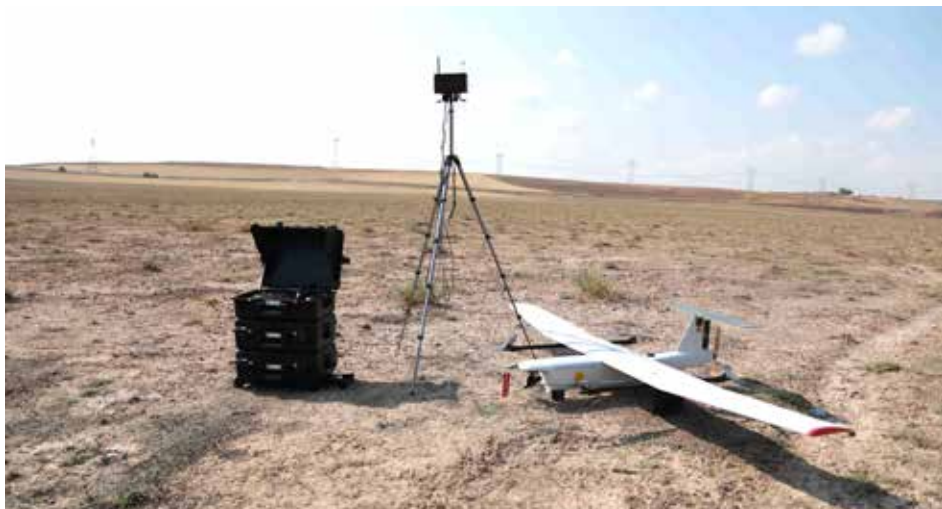
Unmanned aerial vehicles are becoming widely used across many industries. This project aims to use UAVs in the electricity distribution industry. UAVs will be used for taking close-up images of distribution lines, the main components of distribution networks. The images will then be analyzed via image processing techniques. Regional inventory data will be monitored and controlled based on coordinates. The Company purchased multicopter and fixed-wing UAVs and delivered them to the Grid Operations Department after conducting preliminary field surveys and running training programs. Field surveys continue with the monitoring of aerial power lines via GPS tracking and processing different types of images (thermal and optical).

Ongoing efforts include:

- Identifying maintenance needs in challenging regions and mountainous areas,
- Executing fault detection in rural distribution networks under challenging natural conditions,
- Determining the height of trees that need to be cut before failures occur,
- Taking thermal measurements of cabin entry-exit points and insulator connection points on utility poles,
- Conducting aerial inspection to determine new line routes,
- Determining spot coordinates for erecting utility poles (places without transportation, danger of wild animals, and the like)

UAV Design and Prototype Development for Electricity Distribution Operations

Enerjisa's R&D Department developed an unmanned aerial vehicle. This effort is aimed at taking close-up images of electricity distribution lines; transferring images to computers by use of various modeling and analysis techniques; detecting corrosion, sagging, icing on aerial power lines caused by weather conditions through live imaging (thermal and optical) and taking necessary actions; keeping grid inventory data up-to-date through regular monitoring of power lines; and eliminating Health & Safety risks associated with working at heights. Featuring an efficient design, the UAV can perform various operations related to the power grid, precisely detecting maintenance and repair needs of aerial lines. It is capable of vertical takeoff and landing, can fly horizontally and hover steadily. The UAV is equipped with a 360-degree camera, has a flight duration of at least 30 minutes, and weighs about 6.5 kg. As a first-of-its-kind device used in the energy sector, Enerjisa's UAV will help shape the future.



R&D and Innovation

During the past year, Enerjisa commissioned three trigeneration plants and two solar power plants to provide customers with solutions to on-site power generation.

Distribution 186 Mobile Application

In 2015, Enerjisa launched its distribution mobile application. The app is used for fault notifications, fault monitoring and finding out about planned power outages in three distribution regions. In 2017, the mobile application was revamped with a new design, features and functionality. The app relaunched on December 20, 2017.

The new features include:

- Failures – Lighting – Planned Outages
- Demand Queries (Service Ticket and Theft Order Number)
- Announcements
- Meter Transactions
- Index Transactions (Notification and Index Entry)
- Connection – Disconnection Transactions
- Widget Notification
- Transactions Related to New Connections and Licensed Electricians
- Frequently Asked Questions

Automated Meter Reading System

Automated Meter Reading (AMR) systems are being installed for remote meter reading of distribution connection points in three distribution regions. As required by law, lighting, high consumption and manufacturer's installations must be included in the AMR system. The number of installations included in the AMR system increased from 51,010 at the beginning of 2017 to 64,471 at year's end.

Improvements to Geographic Power Grid Data System

Enerjisa conducted field studies in three regions to collect and improve geographic grid data, which is critically important for operational information systems and reporting continuity of supply. So far, data collection has been completed in the AYEDAS and Baskent Regions while 55% of the work has been completed in the Toroslar Region.

SCADA Project

Enerjisa can instantly detect outages that occur in high-voltage lines in locations controlled by the SCADA system without having to wait for notifications from customers. In 2017, the Company became able to monitor and control 1,228 points in seven cities in the Baskent EDAS region, 168 points in AYEDAS Asian Side, and 478 points in six cities in the Toroslar EDAS region on a real-time basis via the SCADA system. Currently, Enerjisa manages the system at the modern SCADA Control Center located at Baskent EDAS. In 2018, Enerjisa aims to open new centers at AYEDAS and Toroslar EDAS.

Call Center Portal

The Distribution Call Center Portal will enable Enerjisa to instantly record and monitor failures reported by wireless operators, transfer and view information about planned outages through the service. The portal will also serve as a library/glossary/data bank for Call Center agents whenever they are confronted with a problem.

Theft/Loss Project

An infrastructure using advanced analytical algorithms was set up at Enerjisa Distribution Companies to detect electricity theft/loss. This project was designed to reduce non-technical losses based on data. Enerjisa successfully reduced the rate of losses notified by the field teams through a proactive approach. Other problems including meter failures have also been detected.

In the next phase of the project, the Company aims to optimize the routes for field operations.

Innovation Efforts in Sales Operations

In 2017, Enerjisa initiated new projects and efforts to better understand its customers; provide uninterrupted, safe and high-quality service via multiple channels; and foster a culture of innovation, digitalization, big data analytics and advanced analytics.

Digital Transformation: Under the digital transformation program launched in November 2017, Enerjisa will create a 2-year roadmap. This roadmap will focus on business, people, customers, processes and technology to identify digital opportunities, initiatives and vision. The Company will execute implementation in accordance with the devised plan and management strategy.

Innovation Ecosystem: In 2017, Enerjisa took major steps toward making innovation an integral part of its business activities. These efforts include the NAR Corporate Entrepreneurship Program in addition to collaborations with ITU Seed Scouting, Plug and Play Global Scouting, and innovative startups.

Advanced Data Analytics and Internet of Things: In a first-of-its kind effort in the energy industry, Enerjisa developed the IT systems infrastructure for the Internet of Things, Big Data and Advanced Analytics. This effort will allow for seamless collecting of data from smart devices as frequently as needed, processing collected data on a real-time basis, and using this data in business decisions.

Information Security: During the year, Enerjisa undertook comprehensive efforts related to ISO certifications, Cyber Security and Protection of User Data, and Security Assessments with the aim of delivering high-quality, uninterrupted customer service.

In 2017, the Company launched more than 70 projects related to the above referenced programs and objectives. Some of these projects are outlined below.

Short-Term Demand Forecasting for Eligible Customers

Enerjisa abandoned manual methods for calculating consumption forecasts related to energy trading on the day-ahead market and shared with the Market Financial Settlement Center. Instead, the Company started using analytical algorithms in demand forecasting. The system automatically selects the best forecasting models among thousands of analytical models through machine learning.

The short-term demand forecasting methodology was initially applied to eligible customers and significant improvements have been achieved. In 2018, Enerjisa will start using machine learning methods to calculate demand forecasts for regulated customers.

Retail E-Archive Project

As prescribed by the Tax Procedure Law, Enerjisa's invoices must be issued, retained and sent in printed format. The Retail E-archive project is designed to also prepare the invoices in electronic format and to retain and send the second copy electronically, in accordance with the requirements detailed in Tax Procedure Law General Communiqué No.: 433.

Under the e-archive effort, Enerjisa issues about 7 million invoices monthly and emails them to customers whose email addresses are registered in the system.

Enerjisa Customer Solutions

During the past year, Enerjisa commissioned three trigeneration plants – Sheraton Adana, Hilton Ankara and Hilton Adana, respectively – and two solar power plants located in Konya and Mersin to provide customers with solutions to on-site power generation.

EUROGIA 2020

Enerjisa was elected to the Board of Directors at EUROGIA2020, which is a cluster of the EUREKA network, a decentralized intergovernmental initiative that aims to support R&D projects by providing funding and granting the EUROGIA label. Mr. Murat Pinar, General Manager of Enerjisa Distribution Companies, represents the Company and serves as Vice Chairman of the Board of Directors. Thanks to this important role assigned to Mr. Pinar, Enerjisa, which has already achieved many firsts in the energy industry with innovative investments in energy efficiency and sustainability, has now joined the ranks of those companies that will decide which R&D projects will shape the future of Europe. EUROGIA2020 encourages cooperation and coordination among European companies by promoting the development of low-carbon energy technologies. This initiative aims to facilitate the deployment of existing technologies and support the development of highly innovative new technical solutions. Currently, 40 countries, mostly European countries, receive funding via Eureka Countries' national programs with the assistance of EUROGIA2020 Public Authorities Committee.



Under the e-archive effort, Enerjisa issues about 7 million invoices monthly and emails them to customers whose email addresses are registered in the system.



Occupational Health and Safety

Believing that all occupational accidents and diseases can be prevented, Enerjisa takes all necessary measures by pre-identifying all the risks that may harm the integrity of employees' health.

Our Occupational Health & Safety Policy

In its sales & distribution activities, Enerjisa Enerji A.S. aims to become the pioneering energy company both in the industry and in the world with the attention it gives to Occupational Health & Safety and the Environment. With this Approach:

- We Adopt Occupational Health & Safety as a natural part of our business.
- We aim to maintain and develop our occupational health & safety culture and Environmental awareness.
- We adopt the principles of sustainable development and pollution prevention as we carry out our activities.
- We meet our legal and other obligations regarding Occupational Health & Safety and the Environment.
- Believing that all occupational accidents and diseases can be prevented, we take all necessary measures by pre-identifying all the risks that may harm the integrity of employees' health.
- We periodically audit and keep the environmental impacts of our activities under control.
- We reduce the waste created as a result of our activities as much as possible at the source; we make sure that waste is recycled, recovered and disposed in a manner that does not harm the environment.
- We take the best sectoral and global practices into consideration; we set measurable targets regarding Occupational Health & Safety and the Environment; we regularly review the results, and continuously improve our performance and management systems.
- With the support of the management, we make sure our employees and stakeholders from every level of our organization collaborate and take part in the activities carried out to improve Occupational Health & Safety and Environmental practices.

We do not compromise on Occupational Health & Safety and the Environment.

2017 Sales & Distribution Occupational Health & Safety and Environmental Improvement Activities

NO.	TARGET	ACTION
1	OHSAS Leadership Training	OHSAS leadership training was given to the managers and engineers at the distribution companies
2	OHSAS Culture Activities	Managers attended the OHSAS culture development workshop organized with the "Dupont Safety" firm. As part of the OHSAS culture development project, field visits were organized with "Dupont Safety" firm.
3	Visible OHSAS Leadership	Within the structure of the sales & distribution companies, field visits were organized under the Occupational Health & Safety improvement plan, with the participation of the managers and engineers.
4	Traffic Safety	Defensive driving trainings were organized within the structure of the sales companies for all employees driving vehicles.
5	ISO 14001 Environment Management System and OHSAS 18001 Occupational Health & Safety Management System certification activities	Distribution companies completed ISO 14001 Environment Management System and OHSAS 18001 Occupational Health & Safety Management System certification activities, and were certified through TUV-NORD firm's audit.
6	Ergonomics in the Office	Within the structure of the sales companies, ergonomics conditions of office employees were examined, and improvement activities were carried out.
7	Process of Launching the First Aid Training Center	Within the structure of the distribution companies, the Delta First Aid Training Center was launched.
8	Process of launching OHSAS software	Within the structure of the distribution companies, trainings were given on the OHSAS software program modules, and the software was launched.
9	E.ON Romania electricity distribution company field visit	With the aim of benchmarking the OHSAS activities, a field visit was organized to E.ON company's electricity distribution company carrying out activities in Romania.
10	Participation in the A+A Occupational Health & Safety Expo	We participated in the international A+A Occupational Health & Safety Expo organized in Düsseldorf, Germany.
11	OHSAS Week Events	Events were organized at all locations on the occasion of OHSAS Week (May 4-10).

With the attention it pays to health and environment, Enerjisa aims to become the pioneering energy company both in the industry and world wide.

Best Practices

OHSAS Leadership Training

Regarding Occupational Health & Safety, 1-day or 2-day sessions of OHSAS Leadership Training was given to the managers and engineers within the structure of the distribution companies.

Visible OHSAS Leadership

The aim is to organize field visits according to a certain schedule in order to assess field efficiency of the business units, and Occupational Health & Safety processes, and to increase awareness in the frontline employees. About 11 thousand field visits were organized in 2017 within the structure of the sales & distribution companies – together with the field visits of the managers and engineers.

Traffic Safety

To increase the employees' safe driving awareness on the road, safe driving trainings were organized in collaboration with a professional solution partner in 2017 within the structure of the sales companies that have teams frequently driving vehicles. As part of the training organized in theory and practice sessions, potential threats in traffic were simulated.

Ergonomics in Office Activities

At the sales companies; assessment activities were carried out in order to minimize the ergonomic risks and protect employees' health. As a result of the activities carried out easy and comprehensible exercises everybody could do were determined and announced within the scope of office ergonomics. Furthermore, in order to bring ergonomics to a better level for all employees, office equipment appropriate for the working environment were identified and supplied where necessary.

ISO 14001 Environment Management System and OHSAS 18001 Occupational Health & Safety Management System Certification

At the distribution companies, an internal inspection team was established as part of ISO 14001 Environment Management System and OHSAS 18001 Occupational Health & Safety Management System certification activities. The internal inspection team was given "lead inspector" and "internal inspector" trainings under ISO 14001 and OHSAS 18001, and internal inspection activities were carried out. As part of the follow-up process, external inspections were carried out by TUV-NORD firm for ISO 14001 and OHSAS 18001 management systems, ISO 14001 and OHSAS 18001 management system certifications were received for three distribution companies.

Process of Launching the First Aid Training Center

At the distribution companies, training centers were established under the Delta First Aid Training Center. An application was made to the Ministry of Health, and trainings were given after receiving the relevant approvals to do First Aid training.



Sustainability and Corporate Social Responsibility

Enerjisa educates children about energy efficiency under a project titled “I’m Protecting the World’s Energy” with the aim of creating sustainable value for society.

Committed to adding value to life, Enerjisa executes social responsibility projects in the field of energy efficiency, a very important energy topic for our country. The Company strives to build a sustainable future through such social responsibility efforts and acts with a sense of responsibility toward life and the environment.

Approach to Social Responsibility

Among the biggest achievements of our companies are the social responsibility projects that touch people’s lives. In line with its approach to corporate social responsibility, Enerjisa undertakes significant improvements and introduces value-added innovations related to the environment, education and energy in order to improve the quality of life. In addition to social responsibility efforts, the Company participates in special initiatives by taking employees’ suggestions and societal needs into consideration.

Social Responsibility Projects

Under the energy efficiency project “I’m Protecting the World’s Energy,” Enerjisa educates elementary school students about energy efficiency and conservation in the cities where it operates. Since 2010, the Company has provided training to about 250,000 children at 520 elementary schools in 14 cities, with the support of 316 employee volunteers. The initiative is enhanced every year with innovations and newly added values. Detailed information about the project is available on www.enerjimikoruyorum.org.

Energy Efficiency Theater Group

Inspired by the idea of raising energy awareness through art, Enerjisa develops new social responsibility projects in the areas of culture and arts. For example, professional actors performed a version of the play “The Town Musicians of Bremen” adapted with the energy efficiency theme.

The Energy Efficiency Theater Group, which was formed by employee volunteers in 2015, staged a play for children. This entertaining play was about the subjects covered in the training programs.

The First International CSR Stevie Award in the Industry

Conducting its business operations with the aim of delivering the best distribution service, Enerjisa received the Silver Stevie award in the category of “European Social Responsibility Program of the Year” at the 2016 Stevie Awards,

which aims to recognize the most successful companies in the world. The Company won this award with its social responsibility project titled “I Am Saving My Energy.” Enerjisa Distribution Companies have executed this project in 14 cities for the past six years. To date, 250,000 students have received training on energy efficiency and conservation under this effort.

Enerjisa Distribution Companies place great importance on social responsibility initiatives that contribute to society. Therefore, Enerjisa undertakes efforts to raise awareness about energy efficiency – a very important topic for our country – among the general public, and especially elementary school children as they are our future. The Company organizes training programs and stages plays that are entertaining for young children to teach them about energy conservation. The Stevie Award received in 2016 was a great source of pride for Enerjisa and served as external confirmation that this meaningful project has been very successful.



Awards

Becoming Turkey's 12th largest company in the Capital 500 List, Enerjisa proved its sustainable success with the awards it received in 2017.



Capital

"Most Admired Energy Company" for the 9th time



Capital 500

Turkey's 12th largest company



Mobile Marketing Association (MMA) 2017 The Smarties Awards

2 awards with the world's first energy-saving digital application



Crystal Apple 2017

Crystal Apple with "The World's First Energy-Saving Digital Advertisement" and Silver Award in the web usage category
Crystal Apple awards for its "Don't Waste Your Energy" film



Mixx Awards Europe

Silver MIXX Award in the Responsive Display Advertising category



According to the results of the 6th Reputation Research Turkey

"Most Reputable Brand In Turkey"



MIXX Awards

Golden Award in the Rich Media Display Advertising category
Bronze Award in the Mobile Rich Media Display Advertising category
Bronze Award in the Experimental and Innovative category



Association of Advertising Agencies Contest

Silver Effie Award in the Real-Estate category



Stevie Awards 2017

Bronze Stevie Award to the distribution companies in the Customer Services of the Year category



TKSSD (Corporate Social Responsibility Association)

Award in the Responsible Consumption & Production category



International Stevie Awards

Silver Stevie Award in the Social Responsibility Program of the Year in Europe category



Best innovation project over the last decade in Europe

SEAS-Gölbaşı Micro-Grid Demonstration Project





Energy of the Future

As Energy of Turkey, we work for our country and pioneer the transformation underway in our industry. We shape our operations to offer a better choice – the energy of the future – to our people and our country. Because we believe our people deserve a better tomorrow.

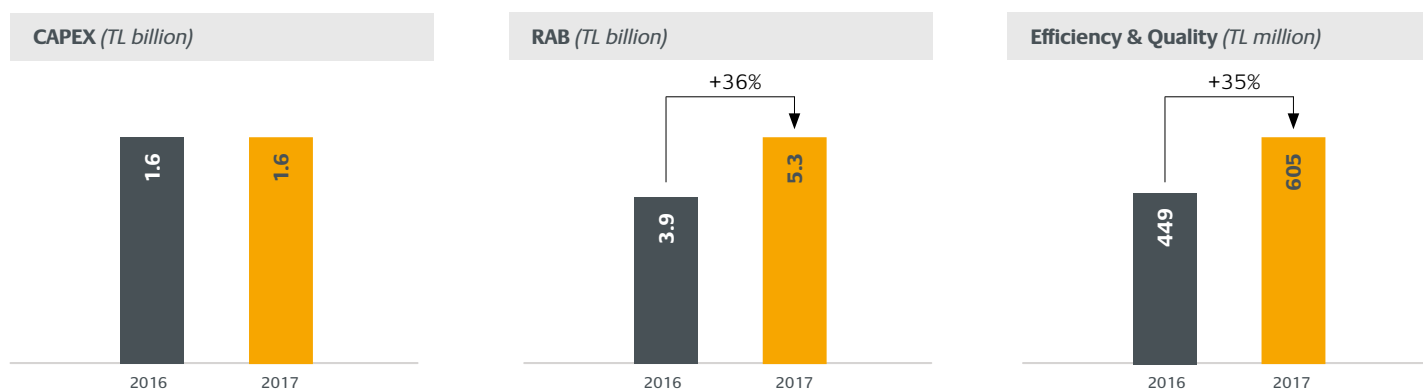
Distribution

Operational Earnings (EBITDA + Capex reimbursements excluding exceptional items) of our distribution business increased 42%, from TL 1,650 million in 2016 to TL 2,344 million in 2017. As a result, the distribution segment now comprises 91% of the consolidated Operational Earnings of Enerjisa, versus 85% in 2016.

Distribution: Reconciliation of Operational Earnings (TL million)

	1 January-31 December 2017	1 January-31 December 2016	Delta TL	Delta %
Sales Revenue	4,934	3,477	1,457	42%
Financial income	1,014	610	404	66%
Distribution revenue	3,146	2,166	980	45%
Pass-through transmission revenue	597	558	39	7%
Lighting sales revenue	177	143	34	24%
Cost of Sales	-1,402	-1,337	-65	5%
Energy purchases (Lighting, T&L)	-795	-779	-16	2%
Pass-through transmission cost	-597	-558	-39	7%
Other	-10	0	-10	
Gross Profit	3,532	2,140	1,392	65%
OPEX	-1,072	-837	-235	28%
Other Income/(Expense)	-143	-87	-56	64%
Operating profit before finance income/(Expense)	2,317	1,217	1,100	90%
Adjustment of depreciation and amortization	16	9	7	78%
Interest income related to revenue cap regulation	1	-19	20	-105%
EBITDA	2,334	1,207	1,127	93%
CAPEX Reimbursements	592	443	149	34%
EBITDA+CAPEX Reimbursements	2,926	1,650	1,276	77%
Fair value changes of financial assets	-467	0	-467	
Non-recurring income related to fiscal year 2016	-115	0	-115	
Operational Earnings	2,344	1,650	694	42%

The significant increase in earnings was mainly a consequence of higher financial income, which grew from TL 610 million in 2016 to TL 1,014 million in 2017. This sharp increase in the return on investment was mainly a result of continued high investment levels increasing the Regulated Asset Base as well as high inflation rates leading to both higher nominal investment returns, and a higher asset base. The Regulated Asset Base increased 36%, from TL 3.9 billion in 2016 to TL 5.3 billion at the end of 2017. The overall investment level was again TL 1.6 billion implying an overspending relative to the initial allowed Capex for 2017 of around 60%. The inflation rate (CPI) was announced at 11.9% for 2017, compared to 8.5% for 2016, adding to both the nominal investment return as well as the nominal Regulated Asset Base itself.



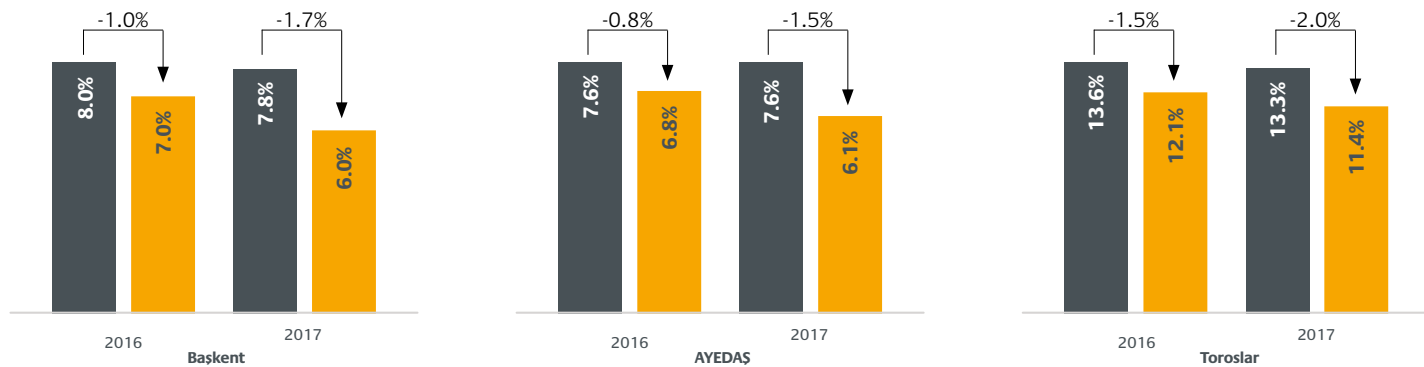
* Including CAPEX, Opex and T&L outperformance, as well as theft accrual & collection.

Capex reimbursements, the second guaranteed component of investment income representing the return of principal, increased 34%, from TL 443 million in 2016 to TL 592 million in 2017, in line with actual investments in previous regulatory periods as well as the initial Capex allowance in the current regulatory period. Furthermore, it is also a consequence of high actual inflation rates.

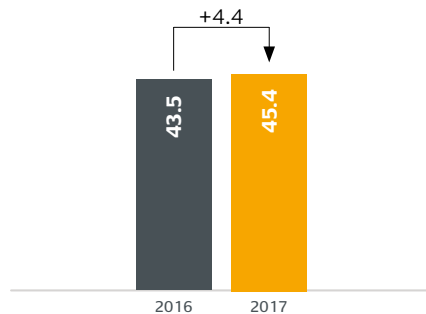
Next to guaranteed investment returns, earnings from efficiency & quality have increased as well. The total of Capex, Opex and T&L outperformance as well as theft accrual & collection income grew 35%, from TL 449 million in 2016 to TL 605 million in 2017. This was mainly a result of significantly higher theft accrual & collection income that contributed almost 50% of the total efficiency & quality earnings component in 2017, compared to around 12% in 2016. The reason for this significant increase is the relatively recent introduction of this new regulatory component. This significant increase is due to the fact that the distribution companies are granted the right to record 20% of invoiced amounts as income upon the detection of electricity theft, regardless of collection of such invoices for 2016-2017 and this percentage was increased to 40% for the entire regulatory period 2016-2020. The regulation, which was announced in 2016 with the transition to the current tariff period, was used to speed up the theft detection activities in the first year and create a significant amount of theft accrual. In 2017, the first significant collections from this accrual were realized. In addition, the regulator further increased incentives in December 2017 with retrospective application to 2016.

Theft and Loss Rate

■ Target Theft and Loss Rate ■ Actual Theft and Loss Rate



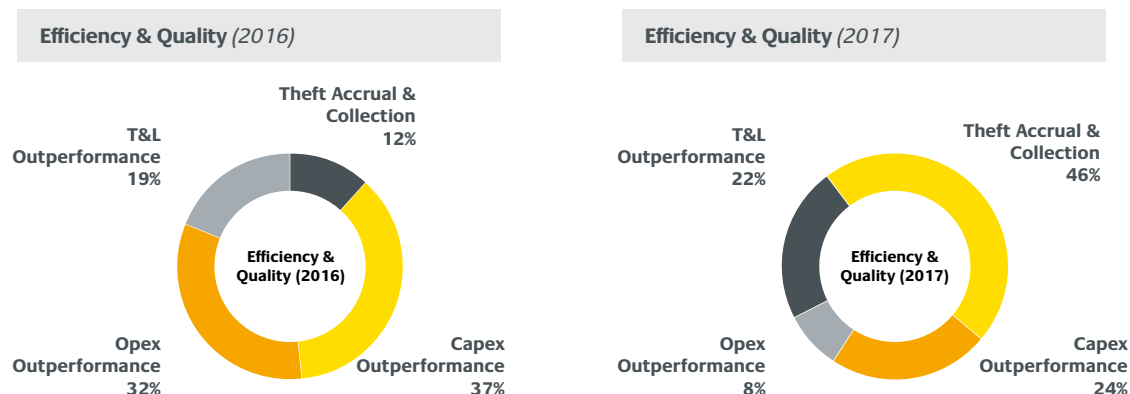
Gross Distributed Energy (TWh) Consolidated



Distribution

The second driver of the increase in efficiency & quality earnings is T&L outperformance, which grew by more than 60% from 2016 to 2017. This is mainly a result of significantly higher percentage outperformance on T&L rate targets for all three distribution regions, as well as 4.4% higher distributed energy.

Capex outperformance has remained stable, as both the nominal investment level as well as the percentage procurement outperformance has remained largely unchanged. The earnings contribution from Opex outperformance has decreased from around one-third of total efficiency & quality earnings to below 10%.



Despite the increase in Operational Earnings, operating cash flow before interest and tax remained stable in 2017 compared to 2016. One of the main reasons for this is the fact that any investment overspend compared to the original allowed regulatory CAPEX is not immediately reflected to regulated tariffs. Therefore, the related financial income, which is immediately accrued, becomes cash-effective at the beginning of the next regulatory period.

As our distribution business spent more in 2016, and continued to do so in 2017 driven by the significant needs of our networks, the gap between accrued financial income and cash earnings increases towards the end of the current regulatory period. Secondly, although fully cash-effective, earnings contributions from Capex outperformance are a positive contribution to our investing cash flow not the operating cash flow; therefore, they are reclassified accordingly. Finally, collection and payment shifts at year-end lead to working capital-related shifts of cash flows between fiscal years. Although the actual allowed nominal Capex as well as the percentage procurement outperformance is stable in 2017 compared to 2016, the cash-effective Capex spending increases from TL 1,512 million in 2016 to TL 1,705 million in 2017. This is mainly a result of remaining unpaid Capex at the end of 2016 that shifted payments related to fiscal year 2016 to 2017.

Consequently, Free Cash Flow before interest and tax for distribution is slightly negative at TL -59 million in 2017 compared to TL 121 million in 2016.

Distribution: Operational Earnings Breakdown and Reconciliation to Free Cash Flow before Interest and Tax (TL million)	1 January-31 December 2017	1 January-31 December 2016	Delta TL	Delta %
Financial income	1,014	610	404	66%
CAPEX reimbursements	592	443	149	34%
Efficiency & quality	605	449	156	35%
Tax correction	86	43	43	100%
Other	47	105	-58	-55%
Operational Earnings	2,344	1,650	694	42%
Financial income not yet cash effective	-577	-265	-312	118%
Capex outperformance	-142	-165	23	-14%
Other (non-cash, working capital and VAT)	21	413	-392	-95%
Operating Cash Flow before Interest and Tax	1,646	1,633	13	1%
Actual allowed Capex (nominal)	-1,573	-1,599	26	-2%
Capex outperformance	142	165	-23	-14%
Unpaid/previous year Capex and VAT	-274	-78	-196	251%
Cash-effective Capex	-1,705	-1,512	-193	13%
Free Cash Flow before interest and tax	-59	121	-180	-149%

Retail

Operational Earnings (EBITDA) from our retail business decreased 15% from TL 290 million in 2016 to TL 247 million in 2017. As a result, the retail segment now comprises less than 10% of the consolidated Operational Earnings of Enerjisa.

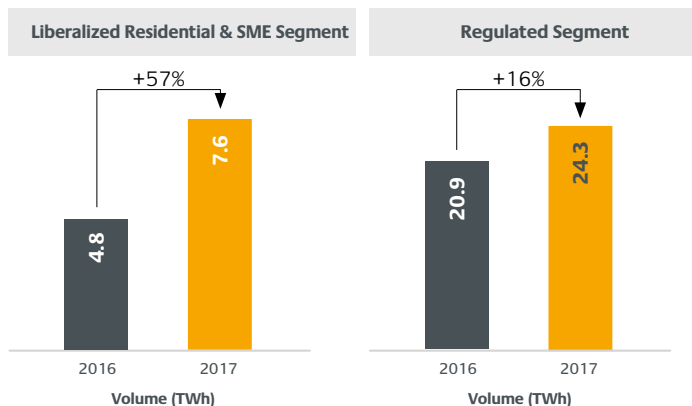
Retail: Reconciliation of Operational Earnings (TL million)	1 January- 31 December 2017	1 January- 31 December 2016	Delta TL	Delta %
Sales Revenue	10,520	8,495	2,025	24%
Regulated	5,075	4,052	1,023	25%
Liberalized	2,256	1,587	669	42%
Pass-through grid revenue	3,189	2,856	333	12%
Cost of Sales	-10,109	-8,030	-2,079	26%
Regulated	-4,740	-3,739	-1,001	27%
Liberalized	-2,180	-1,434	-746	52%
Pass-through grid cost	-3,189	-2,856	-333	12%
Gross Profit	411	465	-54	-12%
OPEX	-253	-223	-30	13%
Other Income/(Expense)	4	24	-20	-83%
Operating profit before finance income/(Expense)	161	266	-105	-39%
Adjustment of depreciation and amortization	8	0	8	
TradeCo-related pro-forma EBITDA adjustments ⁽¹⁾	0	-16	16	-100%
Adjustments related to fair value difference arising from deposits	79	40	39	98%
Operational Earnings (EBITDA)	247	290	-43	-15%

⁽¹⁾ TradeCo related EBITDA adjustments are the result of the transfer of large corporate customers, previously in the Enerjisa Wholesale customer portfolio, to the portfolios of the Company's retail sales companies as of 1 January 2017.

While revenues excluding pass-through grid costs increased from TL 5.6 billion in 2016 to TL 7.3 billion in 2017, this earnings decline is mainly a result of a significantly lower liberalized segment profitability.

The reason for this drop in profitability is significantly higher power procurement costs in 2017 compared to 2016 that we were unable to pass on to end-customers, as regulated National Tariffs were even below year-end 2016 and continued to act as a practical price ceiling for the liberalized market. Although eligible customer movements from the regulated to the liberalized market have markedly slowed during the year as a consequence of the lower than regulated profitability, volumes in the liberalized residential and SME segment still increased from 4.8 TWh in 2016 to 7.6 TWh in 2017 due to existing customer contracts that were signed between Q4 2016 and Q1 2017.

On the other hand, the contribution of regulated segment profitability continued to be seen. Although the regulated segment sales volume is expected to decrease due to the gradually decreasing eligibility limit, in 2017 the sales volume increased 16% to 24.3 TWh. This increase is a result of previously lost corporate clients returning to their incumbent supplier as competitors are unable to offer contracts in the liberal segment at lower prices than the regulated national tariff with the current level of power procurement costs. As a result of the increase in regulated segment corporate sales, total sales volume increased 7% in 2017 to 35.2 TWh, compared to 32.9 TWh in 2016.



Retail

Retail: Sales volumes (TWh)	1 January- 31 December 2017	1 January- 31 December 2016	Delta %
Regulated	24.3	20.9	16%
<i>Corporate</i>	9.9	5.2	90%
<i>Residential & SME</i>	14.4	15.7	-8%
Liberalized	10.9	12.0	-9%
<i>Corporate</i>	3.3	7.2	-54%
<i>Residential & SME</i>	7.6	4.8	58%
Total sales volume	35.2	32.9	7%

Retail: Gross profit margins (%)	1 January- 31 December 2017	1 January- 31 December 2016	Delta %
Regulated	6.4%	6.8%	-6%
Liberalized	3.5%	6.2%	-44%
<i>Corporate</i>	1.5%	-0.7%	-314%
<i>Residential & SME</i>	4.1%	15.4%	-73%
Total	5.6%	8.2%	-32%

In the context of significantly reduced liberalized margins, we have initiated efficiency measures resulting in a below inflation development of OPEX.

Bad debt related income and expense continue to provide a positive net earnings contribution, as collection rates remain high and late payment income largely offset any doubtful provision expenses. Similar to 2016, the retail business was able to realize around TL 93 million in bonus collections from the pool of previously written off receivables within 2017.

Despite lower Operational Earnings, the operating and free cash flow before interest and tax for the retail business only slightly declined in 2017 compared to 2016. This is mainly a result of a higher working capital reduction in 2017 compared to 2016 as well as slightly declining Capex mostly related to capitalized IT spend.

Retail: Operational Earnings Breakdown and Reconciliation to Free Cash Flow before Interest and Tax (TL million)	1 January- 31 December 2017	1 January- 31 December 2016	Delta TL	Delta %
Regulated gross profit	335	312	23	7%
Liberalized gross profit	76	145	-69	-48%
Opex	-246	-231	-15	6%
Bad debt related income and expense	82	64	18	28%
Operational Earnings	247	290	-43	-15%
Change in Net Working Capital	82	68	14	21%
Operating Cash Flow before Interest and Tax	329	358	-29	-8%
Capex	-30	-35	5	-14%
Free Cash Flow before Interest and Tax	299	323	-24	-7%

Consolidated

Consolidated Operational Earnings (EBITDA + Capex reimbursements excluding exceptional items) of Enerjisa increased 32%, from TL 1,938 million in 2016 to TL 2,565 million in 2017. This increase in Operational Earnings was mainly driven by the distribution segment, which as of year-end 2017, contributed 91% of consolidated Operational Earnings.

Consolidated: Reconciliation of Operational Earnings (TL million)	1 January- 31 December 2017	1 January- 31 December 2016	Delta TL	Delta %
Operating Profit Before Finance Income/ (Expense)	2,241	1,272	969	76%
Adjustment of depreciation and amortization	235	218	17	8%
TradeCo-related pro-forma EBITDA adjustments	0	-16	16	-100%
Adjustments related to fair value difference arising from deposits	79	40	39	98%
Interest income related to revenue cap regulation	0	-19	19	100%
EBITDA	2,555	1,495	1,060	71%
CAPEX Reimbursements	592	443	149	34%
EBITDA+CAPEX Reimbursements	3,147	1,938	1,209	62%
Fair value changes of financial assets	-467	0	-467	
Non-recurring income related to fiscal year 2016	-115	0	-115	
Operational Earnings	2,565	1,938	627	32%

* TradeCo related EBITDA adjustments are the result of the transfer of large corporate customers, previously in the Enerjisa Wholesale customer portfolio, to the portfolios of the Company's retail sales companies as of 1 January 2017.

The increase in Operational Earnings for the Distribution segment is a result of TL 404 million higher financial income driven by both the higher Regulatory Asset Base, which grew from TL 3.9 billion as of year-end 2016 to TL 5.3 billion as of year-end 2017, as well as higher inflation rates leading to higher nominal investment return rates. Furthermore, given the continued increase in Capex spending over the past years, Capex reimbursements increased TL 148 million, from TL 443 million in 2016 to TL 592 million in 2017.

Next to increased investment returns, earnings contributions from efficiency & quality increased TL 156 million, especially driven by theft accrual & collection income as well as T&L outperformance.

The contribution of the retail segment, on the other hand, decreased in 2017, mainly driven by a contraction of margins in the liberalized market leading to a gross profit reduction of TL 69 million from this customer segment. This contraction in margins is a result of higher procurement costs, which could not be reflected to the end-customer as regulated National Tariffs were even below year-end 2016 and continue to act as a practical price ceiling for the liberalized market.

Consolidated

Consolidated Underlying Net Income (Net Income excl. exceptional items) increased 38%, from TL 377 million in 2016 to TL 522 million in 2017. The increase in net financial expenses is driven by both higher Net Debt, which increased from TL 6.5 billion in 2016 to TL 7.3 billion at the end of 2017, as well as higher weighted average interest rates as a consequence of increasing nominal market interest rates. Weighted average interest rates for the loan portfolio of Enerjisa increased 170 bps from 11.6% in 2016 to 13.3% in 2017.

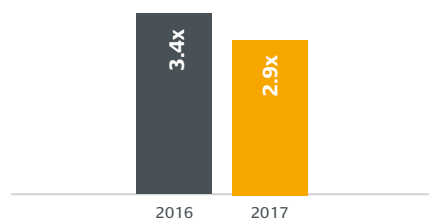
Consolidated: Reconciliation of Underlying Net Income (TL million)	1 January-31 December 2017	1 January-31 December 2016	Delta TL	Delta %
Operating profit before Finance Income/(Expense)	2,241	1,272	969	76%
Financial Income/(Expense)	-957	-758	-199	26%
Profit before Tax	1,284	514	770	150%
Taxation	-296	-137	-159	116%
Net Income	988	377	611	162%
Fair value changes of financial assets	-374	0	-374	
Non-recurring income related to fiscal year 2016	-92	0	-92	
Underlying Net Income	522	377	145	38%

The increase in Net Debt was mainly a result of Free Cash Flow before interest and tax not being sufficient to cover both interest and tax payments of the consolidated Group. While, consolidated Free Cash Flow before interest and tax in 2017 was TL 176 million, consolidated net interest and tax payments amounted to TL 885 million and TL 65 million respectively, leading to Free Cash Flow after interest and tax of TL -775 million. This cash shortfall is mainly a consequence of the investment profile at distribution resulting in higher financial income accruals that are not yet cash-effective.

Consolidated: Net Debt development	TL million
Net Debt (31 December 2016)	-6,493
Free Cash Flow before interest and tax	176
Net interest payments	-885
Tax payments	-65
Other (FX, interest accrual)	-78
Net Debt (31 December 2017)	-7,345

Although our consolidated Net Debt increased TL 852 million, our leverage as measured by Net Debt divided by Operational Earnings continued to decline, from 3.4x in 2016 to 2.9x at the end of 2017. As a result, we have been able to strengthen our financial profile further, in spite of the continued high investment levels.

Leverage



Financing

In addition to business cash flows, Enerjisa uses bank loans and issues bonds to source the required capital needed to fund our distribution investments, meet our obligations related to the acquisitions of the distribution rights in the Ayedaş and Toroslar regions, as well as to fund our working capital needs. For both loans and bonds, we seek to achieve a number of goals:

- Align our financing with our revenue streams
- Match loan maturities with our investment payback period
- Diversify our financing counterparties

In the case of bank borrowing, we obtained bank loans primarily from Turkish banks in order to source our financing in local currency, matching our revenue streams. Historically, we have had debt payable to the Privatization Administration, which was related to our acquisitions of the Ayedaş and Toroslar regions. By the end of 2016, we refinanced all of our debt to the Privatization Administration. Financing arrangements are generally obtained on a “clean” basis, with no recourse, and no guarantee granted to third parties.

In order to diversify our financing instruments, we started to issue CPI-linked bonds in the local debt capital market in 2016. As of the year-end 2017, our outstanding CPI-linked local corporate bonds were issued by the two legal entities Enerjisa Enerji A.Ş. and Başkent Elektrik Dağıtım A.Ş. under issuance certificates approved by the CMB. For investors, those bonds offer attractive real returns via inflation indexation; while for us as the issuer, they support our prudent financing strategy via matching financing cost with our inflation-indexed Distribution income streams.

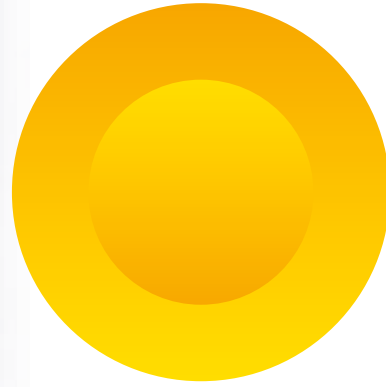
Our issuances during 2017 broke several records and made us the biggest real sector corporate bond issuer in Turkey. On March 2, 2017, we issued a CPI-indexed corporate bond with a volume of TL 405 million and a tenor of four years. This transaction was the largest issue size ever in the real sector Turkish corporate bond market. On August 1, 2017, we issued a CPI-indexed corporate bond amounting to TL 335 million with a five year tenor, which is the longest tenor ever in the Turkish private sector corporate bond market. The European Bank for Reconstruction and Development (“EBRD”) participated as an anchor investor in this issuance. On October 20, 2017, Enerjisa issued a CPI-indexed corporate bond amounting to TL 100 million with a four years tenor. Total bond volume issued within 2017 therefore amounted to TL 840 million and the total outstanding bond volume as of year-end 2017 amounted to TL 1.2 billion. This increased the portion of corporate bonds in our outstanding loan portfolio to 18% as of year-end 2017.

Issuer	Issue Amount (TL million)	Real Coupon Rate	Value Date	Redemption Date
Başkent EDAS	200	4.00%	15-Aug-16	12-Aug-19
Başkent EDAS	150	4.00%	30-Sep-16	27-Sep-19
Enerjisa Enerji	405	4.75%	2-Mar-17	23-Feb-21
Enerjisa Enerji	335	5.00%	1-Aug-17	26-Jul-22
Enerjisa Enerji	100	4.75%	20-Oct-17	15-Oct-21
Total	1,190			

Next to diversifying our portfolio of financing instruments, the issuance of corporate bonds also helped to increase the average maturities of our overall loan portfolio as the Turkish bank debt market provides only limited liquidity for long-term financing. Our debt portfolio includes no material FX exposure, as all loans and bonds are either directly denominated in or swapped to Turkish lira. The only exception is a TEDAS payable of EUR 68.6 million as of December 2017.

Being active in the debt capital market, Enerjisa obtained a rating by Fitch Ratings in 2016 for all legal entities issuing corporate bonds. On December 19, 2017, Fitch Ratings confirmed our national long-term rating at “AA (tur)” with a stable outlook for Enerjisa Enerji A.Ş. after already confirming the same rating for our Başkent EDAS subsidiary.





Energy of Growth

To be better, more innovative, and always with the aim of moving forward, we grow year after year with our capital investments. We constantly expand, overhaul and improve our network, while developing customer-friendly products, services, and innovative solutions for our customers.

Corporate Governance Principles Compliance Report

1. Corporate Governance Principles Compliance Statements

In 2017, Enerjisa complied with all relevant items included within the Corporate Governance Principles appended to the CMB's Communiqué on Corporate Governance no. II-17.1. For all items that were not yet mandatory for Enerjisa in 2017, preparations have been ongoing in order to be compliant as of the beginning of 2018. Enerjisa has embraced the principles of equality, transparency, accountability and responsibility of the Corporate Governance Principles published by the CMB.

PART I - SHAREHOLDERS

2. Shareholder Relations Department

Pursuant to the Communiqué on Corporate Governance no. II-17.1, the Enerjisa Board of Directors decided to structure an investor relations department which will be active as of 01.01.2018 and will report to the CFO. All related preparations have been completed accordingly.

3. Exercise of Shareholders' Right to Obtain Information

This item is out of the scope for fiscal year 2017. Corporations whose shares are not traded on the exchange have no obligation to provide information. There was no external party to use the right to obtain information.

4. Annual General Assembly Meetings

The General Assembly Meetings of Enerjisa and its subsidiaries are conducted according to the relevant items of the Turkish Commercial Code.

Furthermore, due to private sector bonds issued and outstanding by Enerjisa and Baskent EDAS within 2017, all requirements in the context of the Capital Markets Board's Communiqué "Special Events" No. II-15.1 were applied. The minutes of the General Assembly Meeting are published in the public disclosure platform (KAP) as well as on the Company website.

5. Voting and Minority Rights

According to Enerjisa's Articles of Association, no group or shareholder is granted privileges with respect to voting.

6. Right to Dividends

Not applicable, as there was no dividend payment in 2017.

7. Transfer of Shares

The transfer of Enerjisa shares is allowed under the conditions set forth by the Turkish Commercial Code, the Capital Market Legislation, the Energy Market Legislation as well as the Articles of Association.

PART II - PUBLIC DISCLOSURE AND TRANSPARENCY

8. Public Disclosure Policy

Pursuant to Capital Markets Board's Communiqué "Special Events" No. II-15.1 and Communiqué on Corporate Governance no. II-17.1, relevant preparations are completed and the Enerjisa Public Disclosure Policy was approved by the Enerjisa Board of Directors on 22.12.2017.

Furthermore, due to private sector bonds issued and outstanding by Enerjisa and Baskent EDAS within 2017, items 20, 21 and 22 of the Capital Markets Board's Communiqué "Special Events" No. II-15.1 were already applied and required Public Disclosure Platform announcements were published in the course of 2017.

9. Corporate Website

Enerjisa's corporate website is accessible under www.enerjisa.com.tr and the majority of the information on the website is also available in English in order to provide information to existing and potential international investors. Continuous improvement activities are ongoing.

10. Annual Report

Out of scope for fiscal year 2017.

PART III - STAKEHOLDERS

11. Informing Stakeholders

Our employees are regularly informed via meetings, seminars, trainings and mobile applications within the area of their responsibilities. There is a portal and a mobile application (İkon) which is used for information sharing to employees.

The customer disclosure policy is designed in line with Enerjisa's customer-oriented approach. Call centers, sales channels, SMS and other digital solutions like mobile applications are used to inform our customers.

12. Stakeholders' Participation in Management

Customers

Enerjisa performs monthly surveys to understand customer needs and increase satisfaction. Following these activities, reports are prepared and submitted to the Customer Experience Committee and to all other stakeholders to discuss priorities and monitor detected improvement areas. Customer-oriented projects are developed accordingly to focus on customer experience and increase customer satisfaction.

All communication channels are used to consider all stakeholders' (suppliers', business partners', etc.) feedback.

Employees

Employee participation in management is supported through involving employees in regular meetings, annual target setting and performance management discussions and in decision making process within the frame of their responsibilities.

Additionally, employees can share their feedback, recommendations and requests through various channels such as intranet, mobile applications, communication forms, recommendation systems (Fikir Kumbarası), 360 and 180 feedback systems and surveys. Data collected from these platforms are used to create action items to apply required changes.

In accordance with our Recommendation, Recognition and Award systems, participations are evaluated by responsible teams and awarded if necessary.

13. HR Policy

In line with the vision of being the «Preferred Employer» within the sector and being among the «First 15» within all sectors, Enerjisa acts in line with the following missions using «best in its field» and «joint embraced» HR and Corporate Proficiency procedures and applications.

- Creating a meaningful working environment featured with positive organizational climate, communication and culture,
- Developing leaders and best management applications,
- Providing training and development alternatives which enable various expansions and improvement opportunities,
- Enhancing our corporate reputation to gain and retain talent,
- Acting in accordance with our mission of providing operational excellence that will maximize stakeholder loyalty and satisfaction.

14. Ethics and Social Responsibility

Enerjisa employees are responsible for achieving their goals considering Enerjisa's ethical rules and employee values. Ethical rules which are structured based on the dynamic environment around Enerjisa, have a mission to bring employees together in each step of the business around the same responsible approach.

Additionally, Enerjisa acts with an awareness which aims to increase joint life quality through the activation of most value added improvements and innovations in the environment, education and energy areas.

PART IV - BOARD

15. Structure of the Board

The Enerjisa Board of Directors governs and represents the Company by defining the strategic objectives, determining the workforce and financial resources to be required by the Company and controlling the management performance.

The members of the Board of Directors are appointed for a maximum of three years. The members whose term of office has ended can be reappointed. Board members that are assigned in compliance with Enerjisa's Articles of Association are listed in the below table:

Name / Surname	Duty	Roles Within the Last 5 Years in the Issuer	Term of Office/Remaining Term of Office
Mehmet Göcmen	Member of the Board of Directors	Chairman of the Board of Directors	Appointed in 2015. Term of office to expire in 2018.
Keith Plowman	Member of the Board of Directors	Vice Chairman of the Board of Directors	Appointed in 2015. Term of office to expire in 2018.
Eduard Hans Jochen Kley	Member of the Board of Directors	Member of the Board of Directors	Appointed in 2015. Term of office to expire in 2018.
Eva-Maria Verena Volpert	Member of the Board of Directors	Member of the Board of Directors	Appointed in 2016. Term of office to expire in 2018.
Barış Oran	Member of the Board of Directors	Member of the Board of Directors	Appointed in 2015. Term of office to expire in 2018.
Fezal Okur Eskil	Member of the Board of Directors	Member of the Board of Directors	Appointed in 2017. Term of office to expire in 2018.
Alan Richard Bevan	Member of the Board of Directors	Member of the Board of Directors	Appointed in 2017. Term of office to expire in 2018.
Levent Demirağ	Member of the Board of Directors	Member of the Board of Directors	Appointed in 2017. Term of office to expire in 2018.

Further information and other duties of our Board of Directors are summarized on page 18 and 19.

Corporate Governance Principles Compliance Report

16. Operating Principles of the Board of Directors

The Board of Directors conducts its activities in a transparent, accountable, fair and responsible manner. Six Board meetings are held during the operating period. According to the segregation of duties within the Board Members of the Board of Directors, Mehmet Göçmen is the Chairman of the Board of Directors and Keith Plowman is the Vice Chairman of the Board of Directors.

17. Number, Structure, and Independence of the Committees Established under the Board of Directors

Internal Audit Committee:

The activities of the Internal Audit unit are regularly shared with the Audit Committee. Five Audit Committee meetings were held in 2017, and the Audit Committee was provided with information regarding: the evaluations and action plans about the audit/consultancy activities, the results of the symptom tracking activities, the consequences of ethic investigations, and important issues about other activities. Members of the Audit Committee are listed in the following table.

Name and Surname	Role
Keith Plowman	Audit Committee Member
Barış Oran	Audit Committee Member

Human Resources Committee:

The Enerjisa Human Resources Committee, which also acts as the Remuneration and Nomination Committee, was established to support the Enerjisa Board of Directors in respect of reward and other employee-related policies.

In 2017, the Enerjisa HR Committee convened three times. Information about performance target setting, year-end realizations, back-up procedures, organization review periods and related action items, reward mechanisms and key points regarding other critical operations are shared with the committee members.

Enerjisa HR Committee Members are listed in the below table.

Name and Surname	Duty in the Board
Mehmet Göçmen	Chairman
Keith Plowman	Vice Chairman

Early Risk Detection Committee:

The Enerjisa Board of Directors delegates the monitoring of risks to the Early Risk Detection Committee. Members of the committee are selected board members as well as the Enerjisa CFO. Aside from receiving regular Risks and Opportunities reports, each meeting agenda includes an in-depth review of a prioritized topic. The Early Risk Detection Committee reports directly to the Enerjisa Board of Directors.

In 2017, the Early Risk Detection Committee convened four times. Meeting dates and in-depth review topics have been the following.

Meeting Date	In-Depth Review Topic
1 08/02/2017	2016 Risk Reporting Performance
2 17/05/2017	Credit Risk Management
3 25/07/2017	IT – Cyber Security
4 08/11/2017	Approach to Risk Appetite at Enerjisa

The Board of Directors of our Company convened on 22 December 2018 and resolved pursuant to Capital Markets Law no. 6362 (“CML”), Turkish Commercial Code no. 6102 (“TCC”), Corporate Governance Communique (II-17.1) and the Articles of Association of our Company, that the (i) Corporate Governance Committee; (ii) Early Risk Detection Committee; and (iii) Audit Committee will be established in order to ensure that the Board of Directors fulfils its duties and responsibilities efficiently; the stated committees will commence their activities as of the date that the independent board members, who will be appointed in accordance with the Corporate Governance Communique (II-17.1) following the public offering of the shares of the Company, take up their position or as of the date of the first ordinary general assembly meeting to be held following the public offering of the shares of the Company, at the latest.

18. Risk Management and Internal Control

Risk Management:

Enerjisa's Risk Management Framework aims to define all risks and opportunities, which may cause a deviation from financial, operational and strategic plans and enables to assess, classify and mitigate these risks through various methodologies.

The ultimate goal of the framework is to provide transparency to management functions and influence decision making processes via regular reporting.

All risks and opportunities are identified through a detailed assessment process. For each risk and opportunity, the best, base and worst cases are simulated with their probability of occurrence. For the risks that are not easy to quantify, impact and occurrence levels are defined based on other approaches and prioritized accordingly. These assessments form the basis of the Enerjisa Risks and Opportunities reporting, which is presented to top management as well as to the Enerjisa Early Risk Detection Committee.

Internal Audit:

Enerjisa Internal Audit Department directly reports to the Audit Committee, which is a sub-committee of the Enerjisa Board of Directors, and administratively reports to the CEO per the necessity of independence and objectivity principles. The purpose of Internal Audit is to provide a reasonable assurance to the Board of Directors about the compliance of the Company and its subsidiaries' activities with laws, other applicable legislation, internal strategies, policies and procedures, and the effectiveness and adequacy of internal control and risk management systems. With these efforts and structuring, it is aimed to take preventive measures, protect the Company assets, improve business processes and provide added value for the entity by way of giving opinions and recommendations to increase operational efficiency. In accordance with this objective, internal audit activities are conducted in the manner defined through approved audit committee and internal audit charters.

The risk assessment results of the Company are updated every year, and the risk-based annual internal audit plan is submitted for the approval of the Audit Committee and the Board of Directors after obtaining the comments of the senior management. Each year, the audits within the scope of the approved audit plan are performed in accordance with international audit standards. This confirmation is certified through the independent quality assessment activity performed in 2013.

Internal Audit is responsible for the evaluation and examination processes of ethics notifications related for the employees and other stakeholders (shareholders, customers, suppliers, public institutions). In addition to its auditing function, Internal Audit also provides consultancy services in line with its vision and mission, as required by its principle of being a "reliable business partner" and upon the requests of the senior management.

19. Company Strategic Goals

The mission, vision and strategic goals of Enerjisa is determined and approved by the Enerjisa Board of Directors. Approved strategic goals are reviewed in each meeting and in case required revisions are applied.

20. Financial Rights

The rights, benefit and remuneration given to Board Members and Senior-level Executive Officers was noted in our Annual Report as a disclosure.

	1st of January - 31st of December 2017	1st of January - 31st of December 2016
Short term benefits given to executives	22,039	9,985
Long term benefits given to executives	293	55
Termination (dismissal) benefits	181	741
	22,513	10,781

Enerjisa does not have any practice of lending or supplying credit, to provide assurance or guarantee in countenance of the Board Members or senior managers in 2017.

Amendments to the Articles of Association

Since the Company has acquired Enerjisa Elektrik Dağıtım A.S. 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 (“Purpose and Field Of Operation”) and Article 8 (“Issuance Of Capital Market Instruments”) of the Articles of Association were amended at the Extraordinary General Assembly Meeting held on **10 May 2017**.

It was decided to amend the Articles of Association Article 7 (“Capital and Shares”) due to the 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 (“Purpose And Field Of Operation”), 10 (“Meetings of the Board Of Directors”), 13 (“General Assembly”), 22 (“Transfer of Shares”) and 23 (“Contributions to be made to Sabanci University And Sabanci Foundation”) 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 (“Foundation”),
- 4 (“Purpose and Field of Operation”),
- 6 (“Head Office and Branch Offices”),
- 7 (“Capital and Shares”),
- 8 (“Issuance of Capital Market Instruments”),
- 9 (“The Board of Directors and Its Term of Duty:”),
- 10 (“Meetings of the Board of Directors”),
- 11 (“Representation of the Company”),
- 12 (“Auditor:”),
- 13 (“General Assembly”),
- 14 (“Presence of a Ministry Representative in the Meeting:”),
- 15 (“Annual Report of the Board of Directors, Auditor’s Report and Year-End Financial Statements to be Submitted to Authorities”),
- 16 (“Activity Period”), 17 (“Distribution of Profit:”),
- 19 (“Announcements for the Company”),
- 20 (“Amendment of Articles Of Association”),
- 21 (“Merging Provisions”),
- 22 (“Transfer of Shares”) and
- 23 (“Contributions to be made to Sabanci University and Sabanci Foundation”) were amended and Articles
- 24 (“Compliance with Corporate Governance Principles”),
- 25 (“Dissolution and Liquidation of the Company”) and 26 (“Statutory Provisions”)

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 to comply with the legislation of Capital Markets Board and Turkish Commercial Law.

Risk Assessment

1. Risk Management Framework of Enerjisa

Enerjisa's Risk Management Framework aims to define all risks and opportunities which may cause a deviation from financial, operational and strategic plans and enables to assess, classify and mitigate these risks through various methodologies.

The ultimate goal of the framework is to provide transparency to management functions and influence decision making processes via regular reporting.

2. Key Risks and Opportunities

Due to the nature of the electricity distribution and retail business, Enerjisa is exposed to various risks and opportunities throughout the value chain. Based on their sources, risks and opportunities are classified in four categories and monitored accordingly.

2.1. Regulatory Risks and Opportunities

The electricity distribution and retail businesses are regulated businesses under the supervision of EMRA and are governed by the Electricity Market Law and relevant secondary regulations.

For regulated customers, Enerjisa applies 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 and a regulated retail sales tariff. EMRA determines the components of the National Tariff for each tariff implementation period, and the 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 to tariffs.

As the majority of Enerjisa revenue is generated from our electricity distribution operations and retail sales to regulated customers, which are both subject to regulated tariffs set by EMRA, any change in these tariff components and/or calculation methodologies mean a significant deviation from Enerjisa plans.

Additionally, 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 operations. These requirements and restrictions are audited by regulatory authorities (mainly by EMRA) and any non-compliance detected upon these audits may have an adverse effect on Enerjisa financial and operational plans.

Enerjisa engages in regular and constructive consultations with sector participants to monitor regulatory related risks and opportunities. Additionally, through transparent reports and structured projects, Enerjisa, as the market leader, actively seeks a rational fact-based discussion with all sector participants.

2.2. Market Risks and Opportunities

Enerjisa is subject to financial market risks relating to interest rate fluctuations due to our financial borrowings as well as foreign exchange rate fluctuations due to Feed-in-Tariff regulation.

Enerjisa is also subject to commodity market risks related to OTC price and volume fluctuations due to our sourcing strategy for the retail sales business and other commodity price fluctuations due to our raw material procurements (transaction are in local currency, but highly correlated with related commodity prices) for the distribution business.

Enerjisa uses systematic approaches to forecast market parameters such as price, rates, demand etc. Existing and expected exposures are monitored regularly and through hedging operations the risk exposure is kept at an optimum level. Hedging strategies, their effectiveness and further plans are discussed regularly in Finance and Commodity-related committees.

2.3. Credit Risks and Opportunities

Enerjisa retail companies are exposed to counter-party credit risk with respect to the collection of invoices for regulated and liberalized customers.

Enerjisa Distribution Companies are also exposed to counter-party credit risk in respect to their distribution system users, municipalities and provincial special administrations that are in our distribution regions and that use general illumination. However, as distribution companies receive reimbursements for overdue receivables from EMRA within two years, credit risk for our distribution business only has a cash flow rather than a revenue impact.

Enerjisa is exposed to credit risk with respect to its transactions with financial counterparties (mainly loan providers).

Risk Assessment

Enerjisa manages credit risks by requiring security deposits from regulated customers and letters of guarantee or other forms of security from liberalized customers to secure present and future invoices. Timely invoicing, efficient receivable management and credit scoring of large customers enables Enerjisa to mitigate credit risk as much as possible.

For the mitigation of financial counter-party credit risks, among reporting and monitoring activities, the diversification of banks as well as financial instruments in our loan portfolio is ensured.

2.4. Operational Risks

All processes throughout the value chain at Enerjisa are exposed to operational risks. These include Information Technologies (availability, integrity, security of data), Health and Safety (mostly in the distribution business), Environment and Reputation risks as the main categories that are identified and managed accordingly. For all types of operational risks, relevant procedures and policies are structured and published in Enerjisa's quality systems. Committees are assigned to review all event occurrences and to monitor existing mitigation actions.

3. Enerjisa Risk Monitoring Procedure

All risks and opportunities are identified through a detailed assessment process. For each risk and opportunity, the best, base and worst cases are simulated with their probability of occurrences. For the risks that are not easy to quantify, impact and occurrence levels are defined based on other approaches and prioritized accordingly. These assessments form the basis of the Enerjisa Risks and Opportunities reporting, which is presented to top management as well as to the Enerjisa Early Risk Detection Committee.

3.1. Enerjisa Early Risk Detection Committee

The Enerjisa Board delegates the monitoring of risks to the Early Risk Detection Committee. Members of the committee are selected Board Members as well as the Enerjisa CFO. Aside from receiving regular Risks and Opportunities reports, each meeting agenda includes an in-depth review of a prioritized topic. The Early Risk Detection Committee reports directly to the Enerjisa Board.

In 2017, the Early Risk Detection Committee convened four times. Meeting dates and in-depth review topics have been the following:

	Meeting Date	In-Depth Review Topic
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3	25/07/2017	IT – Cyber Security
4	08/11/2017	Approach to Risk Appetite at Enerjisa

Policies

Dividend Policy

Enerjisa Enerji A.S. ("Company")'s Dividend Policy ("Policy") is prepared in accordance with the provisions of the Turkish Commercial Code no. 6102, Capital Markets Law no. 6362, and Communiqué on Dividends (II-19.1) of the Capital Markets Board of Turkey ("CMB"), Capital Markets Legislation and the provisions of our Articles of Association. Under this Policy, the Company targets cash dividend distribution in an amount of up to 100% of the net profit recorded under the consolidated and audited annual financial statements which are prepared in accordance with International Financial Reporting Standards (IFRS), excluding any exceptional items.

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, the Company's investment and financing strategies and needs, amendments and developments in the applicable regulation, mid to long-term strategies the Company, capital and investment requirements, profitability, financial position, indebtedness and liquidity position, as well as domestic and global economic conditions. In line with these conditions, the amount of the distributable dividend may be lower than the targeted amount, or the Company 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. The Articles of Association of the Company determines that the Company may distribute advanced dividends in accordance with applicable legislation.

Unless all reserves required by law are set aside and the dividend determined for the shareholders as per these Articles of Association are distributed, it cannot be resolved to set aside other reserve funds, or to carry forward profit to the next year, or to distribute profit to the holders of dividend shares (shall be written if there are any holders of dividend share), members of the Board of Directors, employees of the partnership and to distribute profit to these persons unless the dividend determined for the shareholders is paid in cash.

Provided that all reserves required by law are set aside and the dividend determined for the shareholders as per these Articles of Association are distributed, the General Assembly can transfer a portion or all of the net profit to the extraordinary reserves. If the Board of the Company offers the General Assembly not to distribute dividend, the reason for not distributing dividends and information about the usage of undistributed profit needs to be presented to the shareholders at the General Assembly Meeting.

Remuneration Policy

Enerjisa Enerji A.S. ("Company")'s Remuneration Policy ("Policy") specifies the remuneration system and practices for our executives and Members of the Board of Directors who have administrative responsibility within the scope of the Capital Markets Law n.6362 and other T.R. Prime Ministry Capital Markets Board ("Capital Markets Board ") Corporate Governance Communiqué (II-17.1) and other Capital Markets Legislation.

Dividends, share options or the Company's performance-based payment plans are not used in remuneration of the Independent Members of the Board of Directors.

The expenses of the Members of the Board of Directors arising from the contribution they make to the Company may be reimbursed by the Company (expenses of transportation, telephone, insurance, and the like).

Our Policy: Remuneration and fringe benefits management is formulated and practiced in line with the main targets of the criteria that are fair, objective, appraising high performance, competitive, rewarding and motivating.

The main goals of our Policy are: (i) making remuneration by emphasizing the concepts of business magnitude, performance, contribution to business, information/skill and effectiveness; (ii) motivating the employees and increasing their loyalty by ensuring competitiveness in the market; (iii) maintaining remuneration balance within the Company and among the companies, and (iv) bringing human capital to our Company who have the appropriate competencies that will help our Company reach its targets.

The Business Family Model⁽¹⁾ we are implementing within our Company specifies the roles in the organization, main responsibilities, performance indicators, knowhow/skill/experience and competencies while our Policy is based on an objective system built on our Business Family Model.

Executives' remuneration is composed of 2 (two) basic components: fixed (base) and performance based.

As fixed remuneration, the system comprises a total of 12 base salaries per year. Within the scope of a certain portion of their annual gross remuneration, a varying remuneration (success premium) can be paid to the executives, within three months after the end of the relevant fiscal year, depending on their individual performance results as well as the Company's performance. The purpose of the varying remuneration management system within our Company is to reward success with the aim of: (i) motivating our employees to show high performance; (ii) supporting our employees to achieve our Company's budget targets; (iii) encouraging them to achieve business results beyond the targets; and (iv) and adopting a target oriented performance culture within our Company.

In order to support remuneration management with additional benefits, "fringe benefits" are considered as an important part of the total reward management system. The fringe benefits our Company offers cover the principles of being competitive, fair, and in conformity with market conditions. Thus, executives are provided with other benefits such as private health and life insurances; private pension with contribution from the Company, corporate phone and Company vehicle.

⁽¹⁾ "Business Family Model" means different roles dealing with the same kind of business. Each business family constitutes a homogeneous business position group that has similar characteristics and that work to assume a specific role within an organization. (e.g., operation management, professional, administrative, technological)

Statement of Responsibility

BOARD OF DIRECTOR'S RESOLUTION REGARDING THE APPROVAL OF THE FINANCIAL STATEMENTS AND ANNUAL REPORT**RESOLUTION DATE: 21.02.2018****RESOLUTION NUMBER: 132**

STATEMENT OF RESPONSIBILITY ISSUED AS PER THE 9TH ARTICLE OF THE SECOND SECTION OF THE CAPITAL MARKETS BOARD "COMMUNIQUE ON THE PRINCIPLES OF FINANCIAL REPORTING IN THE CAPITAL MARKETS"

Under the Capital Markets Board's "Communiqué II-14.1. On The Principles of Financial Reporting In Capital Markets" we hereby announce and declare that for the period between the 1st of January and the 31st of December 2017:

- a) We have reviewed the Company's Consolidated Financial Statements and Annual Report issued,
- b) We have concluded – within the framework of the information we have obtained in our area of duties and responsibilities at the Company – that they do not contain any inaccuracy in all material respects and is free of omissions that may be regarded as misleading as of the date the statement was made, and,
- c) We have concluded – within the framework of the information we have obtained in our area of duties and responsibilities at the Company – that the consolidated financial statements, issued in accordance with the applicable financial reporting standards, presents fairly the Company's assets, liabilities, financial situation, and profit and loss, and that the annual report presents fairly the progress and performance of the business, the consolidated financial situation of the Company, material risks and uncertainties that the Company is exposed to, and we declare that we are responsible for the representations we make.

Best regards,

ENERJISA ENERJİ A.Ş.

Independent Auditor's Report Regarding the Board of Directors' Annual Report



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

1) Opinion

We have audited the annual report of Enerjisa Enerji A.S. ("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:

- 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.
- 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.
- 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



ENERJISA ENERJİ A.Ş. & ITS SUBSIDIARIES

**CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2017
TOGETHER WITH THE INDEPENDENT
AUDITOR'S REPORT**



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Enerjisa Enerji A.S.

A) Report on the Audit of the Consolidated Financial Statements

1) Opinion

We have audited the consolidated financial statements of Enerjisa Enerji A.S. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and 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 position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"s).

2) Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"s). 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.

3) Key Audit Matters

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



Key Audit Matter	How key audit matter addressed in the audit
Rotation of auditors including audit of opening balances	
<p>Initial audit engagements involve a number of considerations not associated with recurring audits. Additional planning activities and considerations necessary to establish an appropriate audit strategy and audit plan include:</p> <ul style="list-style-type: none"> - Gaining an initial understanding of the Group and its business including its control environment and information systems sufficient to make audit risk assessments and develop the audit plan. - Obtaining sufficient appropriate audit evidence regarding the opening balances including the selection and application of accounting principles. - Communicating with the previous auditors. 	<p>A transition plan was implemented for the review of interim consolidated financial statements of the Group dated June 30, 2017, at the beginning of May 2017 before starting our limited scope audit work, and this transition plan has been implemented until the audit report sign off date.</p> <p>Our transition plan includes the followings:</p> <ul style="list-style-type: none"> - Close interaction with the previous auditor, including a process of file reviews and formal hand over procedures as prescribed by our professional standards. - Communicating with the previous auditor including reviews of audit working papers for previous periods. - Interaction with the previous auditor and evaluation of key accounting and audit matters and the uncorrected audit differences of the Group. - Providing information about transition plan to those charged with governance. - Conducting various meetings with the management to have a better understanding of the risks, internal controls and key audit findings. - Evaluation of comparative presentation of the consolidated financial statements of EEDAŞ as of 31 December 2016, as a result of restructuring explained in consolidated financial statements footnote 1 in detail, considering the Company as the successor of EEDAŞ which represents substantially the same business and assets of the Group.
IFRIC Interpretation 12- Service Concession Arrangements	
<p>In accordance with the terms of the service concession agreement with the government, the Group has applied the IFRIC Interpretation 12 financial asset model and identified it in a financial asset financial statements.</p> <p>Revenue calculated according to the effective interest method is accounted as “financial income from service concession agreement” by the Group. As of 31 December 2017, the Group has financial assets amounting to 6.438.431 thousands TL and accounted interest income amounting to 1.013.557 thousands TL in the statement of profit or loss between 1 January and 31 December 2017. Given the complexity of such transactions and application of the assumptions (basically includes inflation rate assumptions), we determined this significant to our audit and therefore considered as key audit matter.</p>	<ul style="list-style-type: none"> - The Service Concession Agreement was obtained and the contract conditions have been read. - Compatibility of the related calculation model has been evaluated. - Since the interest income is calculated based on the internal rate of return, calculation of internal rate of return has been checked. - The payments which were committed by the Republic of Turkey Energy Market Regulatory Authority (“EMRA”) as a consequence of the investments made were checked by the communiques of income requirements. - The rate of return has been checked from the communiques published in the Official Gazette. - The year-end financial asset amount in the financial statements was reconciled with the economic model of service concession contracts. - Furthermore, within the scope of the above mentioned specific accounting, the adequacy and sufficiency of the information included in the financial statements and explanatory notes for the users of the financial statements were evaluated.



Recoverability of deferred tax assets recognized over tax losses carried forward

As disclosed in footnote 23 to the consolidated financial statements as of 31 December 2017, the Group recognized deferred tax assets over the tax losses carried forward amounting to 144.143 thousands TL. Partially or fully recoverable amount of recognized deferred tax asset was estimated based on the Group Management's assumptions under current conditions. Business plans for the future, the loss amounts incurred in the last 5 years and the expiration dates of unused losses are taken into the consideration during the assessment. Given that the extent to which these assets are recognized is dependent on Group Management's assumptions, these assets are considered as key audit matter.

During our audit, we challenged the management's assumptions on the recoverability of tax assets by controlling the expiration dates of carry forward tax losses with the projected budgets approved by the management.

To examine the management's assumptions about the subject, we involved tax experts to our audit team from another entity that is a part of the same audit network. Calculation of related deferred tax assets is presented for the examination and evaluation to tax experts. In addition, the conformity of the disclosures in the financial statements to IFRS has been evaluated.

Revenue recognition of incumbent suppliers

Incumbent suppliers are obliged supply electricity on retail sales tariff regulated by the EMRA to the ineligible customers (regulated customers) in their respective distribution regions, eligible customers who have not used their eligibility right to become a free customer and to eligible customers as the last resource supplier. Along with that, the Company supplies electricity to eligible customers in the distribution regions through bilateral agreement based on free market conditions.

We examined the customer classification, EMRA communiques and the correctness of calculations mentioned in these communiques, calculations and seasonality of invoicing that are used in the calculation of Group's revenue. We also performed sample tests of key controls over information technology systems where the information used in these calculations is provided. The overall consistency of the inputs and parameters used in the calculations are evaluated.

Incumbent suppliers' revenue from the consumers subject to tariff regulation, is determined by the cost of carrying out their activities related to energy sales. In this context, the gross margin is taken into the consideration which is determined based on the depreciation expenses related to the investment expenditures required to carry out the activities, billing and customer services, operating expenses such as retail sales services, active energy costs and the costs to cover all the costs and services incurred to sustain the activity and the risks exposed. Therefore, the Group calculates and accounts for the revenue amount on consolidated financial statements prepared in accordance with IFRS on the basis of costs by considering gross profit margin determined by regulations.

To evaluate conformity of applied calculations to communiques and IAS, we especially focused on the accounting adjustments related to revenue recognition. The sources used for these adjustments and consistency of these adjustments with prior years are controlled.

In addition, the adequacy of the disclosures in Note 18 of the financial statements and conformity with IFRS were also assessed.

Furthermore, invoices of the subscribers other than eligible 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. 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.

Given the complexity of such transactions, we determined this significant to our audit and therefore considered as key audit matter.



Goodwill Impairment Test

As at 31 December 2017, there is a goodwill amounting to 2.730.031 thousands TL on the consolidated statement of financial position as a result of previous acquisitions. In accordance with IFRS, the Group performs an impairment test per each cash generating unit to assess whether there is an impairment in the goodwill amount.

The assumptions, sensitivities and results of the tests performed are disclosed in note 2 to the financial statements. These tests are assessed as key audit matter due to the complexity, the required estimates of management and the dependency on future market circumstances. We involved the valuation specialists from another entity that is a part of the same audit network to support our assessment about the assumptions and methods used by the Group in testing the discount rates per cash generating unit and assessing the model that calculates future cash flows.

Furthermore, we tested the expected growth rates and related expected future cash flows. We assessed whether these future cash flows, amongst others, were based on the strategic plan as prepared by the management.

In addition, within the scope of the above-mentioned special accounting, the appropriateness and sensitivity of the disclosures contained in the financial statements and the importance of these information for the users of the financial statement were questioned by us.

4) Other Matter

The consolidated financial statements of the Group for the year ended December 31, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on November 10, 2017.

5) 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.

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

In an independent audit, our responsibilities as the auditors are:

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.

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

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



February 21, 2018
İstanbul, Türkiye

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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ENERJİSA 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 also expressed in thousands unless otherwise indicated.)

ASSETS	Notes	Audited / current period 31 December 2017	Audited / prior period 31 December 2016
Current Assets		4,101,617	2,939,550
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
Inventory	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
Non-Current Assets		14,484,361	12,191,898
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

The accompanying notes form an integral part of these consolidated financial statements.

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 also 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
Equity		5,880,403	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 not to be reclassified to profit or loss in subsequent periods		(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

The accompanying notes form an integral part of these consolidated financial statements.

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 also expressed in thousands unless otherwise indicated.)

	Notes	Audited / current period 1 January- 31 December 2017	Audited / prior period 1 January- 31 December 2016
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		1,283,718	514,202
Tax Expense		(295,709)	(136,809)
Current Tax Expense	23	(51,342)	(148,215)
Deferred Tax Income / (Expense)	23	(244,367)	11,406
PROFIT FOR THE PERIOD		988,009	377,393
OTHER COMPREHENSIVE INCOME AND EXPENSE			
Other Comprehensive Income or Expenses not to be reclassified to Profit or Loss in subsequent periods			
		1,968	3,604
Gain on measurement of defined benefit obligation	15	2,460	4,505
Income Tax Relating to Other Comprehensive Income	23	(492)	(901)
TOTAL COMPREHENSIVE INCOME		989,977	380,997
Earnings per share			
Earnings per share (kr)	17	0.84	0.10

The accompanying notes form an integral part of these consolidated financial statements.

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Share Capital	Adjustment to Share Capital	Restricted Profit Reserves	Other Funds	Accumulated other comprehensive expenses not to be reclassified to profit or loss in subsequent periods	Accumulated Loss on Remeasurement of Defined Benefit Plans	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	(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
Balance as at 1 January 2017 ⁽¹⁾	3,964,528	-	139,190	4,340		(7,209)	268,586	377,393	4,746,828
Transfers	-	-	46,075	-	-	-	331,318	(377,393)	-
Restructuring effect of companies under common control	(2,783,459)	2,836,364	-	-	-	-	90,693	-	143,598
Restructuring effect of companies under common control ⁽²⁾	(2,783,459)	2,836,364	-	-	-	-	(52,905)	-	-
Merging effect of companies under common control ⁽³⁾	-	-	-	-	-	-	143,598	-	143,598
Total comprehensive income	-	-	-	-	-	1,968	-	988,009	989,977
Balance as at 31 December 2017	1,181,069	2,836,364	185,265	4,340		(5,241)	690,597	988,009	5,880,403

⁽¹⁾ 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.

⁽²⁾ With the decision of the Board of Directors on April 20, 2017, Enerjisa Enerji A.Ş. merged with Enerjisa Elektrik Dağıtım A.Ş. ("EEDAS") and the subsidiaries of EEDAS together with all their assets and liabilities with the takeover 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 due to local regulations (Note 1). Such amount has been classified as adjustment to share capital to comply with the International Financial Reporting Standards ("IFRS") requirements.

⁽³⁾ As of 31 December 2017 work force operating for distribution services, previously as a separate business line under Enerjisa Enerji A.Ş. has been transferred to distribution companies. Since the restructuring is a transaction between companies under common control, TL 143,598 deferred tax asset is accounted for under equity.

The accompanying notes form an integral part of these consolidated financial statements.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 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- 31 December 2017	Audited / prior period 1 January- 31 December 2016
Cash Flows from Operating Activities		1,859,021	1,859,439
Profit for the period		988,009	377,393
Profit for the period		988,009	377,393
Adjustments to reconcile net profit for the period		960,029	800,945
Adjustments related to the depreciation and amortization	11,12	235,331	217,938
Adjustments related to the depreciation of property, plant and equipment	11	18,674	8,552
Adjustments related to the amortization of intangible assets	12	216,657	209,386
Adjustments related to impairment loss	6	399,382	264,351
Adjustments related to doubtful provision expenses	6	399,382	264,351
Adjustments related to provisions		59,561	20,999
Adjustments related to provisions for employee benefits		40,740	27,802
Adjustments related to provision for employee termination benefits and unused vacation provision		33,455	23,198
Adjustments related to provision for bonus		7,285	4,604
Adjustments related to legal case provisions / collections		18,821	(6,803)
Adjustments related to interest (income) and expenses, net		880,120	695,445
Adjustments related to interest income	22	(88,491)	(39,729)
Adjustments related to interest expense	22	968,611	735,174
Unrealized foreign exchange loss	22	62,406	54,114
Adjustments related to tax expense	23	295,709	136,809
Adjustments related to change in fair value		(38,371)	-
Adjustments related to change in fair value gain of derivative instruments		(38,371)	-
Other adjustments to reconcile profit (loss)	27	(934,109)	(588,711)
Adjustments related to interest (income) / expense based on revenue cap regulation	21	934	(19,370)
Adjustments related to financial income from service concession arrangements	18	(1,013,557)	(609,628)
Adjustments related to revaluation differences arising from deposits and guarantees	21	78,514	40,287
Changes in operating assets and liabilities		(978,525)	(7,081)
Adjustments related to (increase) in trade receivables		(1,061,293)	(439,549)
Adjustments related to (increase) in trade receivables from related parties		(25,058)	(9,677)
Adjustments related to (increase) in trade receivables from third parties		(1,036,235)	(429,872)
Adjustments related to (increase) in inventories		(27,295)	(10,988)
Adjustments related to (increase) in other receivables and current assets		(1,106,123)	62,507
Adjustments related to decrease in other receivables from related parties		(596)	-
Adjustments related to (increase) in other receivables from third parties		(1,105,527)	62,507
Adjustments related to (increase) in trade payables		394,831	290,678
Adjustments related to (decrease) / increase in trade payables to related parties		19,032	(3,938)
Adjustments related to increase in trade payables to third parties		375,799	294,616
Adjustments related to increase in other payables and expense accruals		821,355	90,271
Adjustments related to increase in other payables to third parties		821,355	90,271

The accompanying notes form an integral part of these consolidated financial statements.

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 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- 31 December 2017	Audited / prior period 1 January- 31 December 2016
Cash Generated From Operating Activities		969,513	1,171,257
Payments for employment benefits	15	(24,821)	(18,332)
Tax payments	23	(64,910)	(145,032)
Tax payments		(64,910)	(145,032)
Other cash in-flows	27	979,239	851,546
CAPEX reimbursements related to service concession arrangements	10	591,706	443,235
WACC reimbursements related to service concession arrangements	10	437,167	344,804
Prior tariff adjustments related to service concession arrangements	10	(49,634)	63,507
Cash Flows from Investing Activities		(1,682,425)	(2,709,132)
Cash used for purchase of tangible and intangible assets	11,12	(126,611)	(64,192)
Cash used for property, plant and equipment purchases	11	(98,589)	(35,712)
Cash used for purchase of intangible assets	12	(28,022)	(28,480)
Interest received		65,445	39,729
Other cash out-flows	27	(1,621,259)	(2,684,669)
Capital expenditures related to service concession arrangements		(1,621,259)	(1,496,213)
Payment to Privatization Administration		-	(1,188,456)
Cash Flows from Financing Activities		(78,416)	772,160
Cash in-flows from borrowings		32,064,342	21,337,887
Financial liabilities received		32,064,342	21,337,887
Cash out-flows from borrowings		(31,191,933)	(19,924,143)
Repayments of the financial liabilities		(31,191,933)	(19,924,143)
Interest paid		(950,825)	(641,584)
Increase in cash and cash equivalents		98,180	(77,533)
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	172,750	74,570

The accompanying notes form an integral part of these consolidated financial statements.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

(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 to the Capital Markets Board (“CMB”) and its shares are publicly traded in Borsa Istanbul A.Ş. (“BIST”) with ticker “ENISA.E” since 8 February 2018. 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 reorganization, 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 reorganization, 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 consolidated financial statements of the Group have been prepared comparatively with consolidated financial statements of EEDAŞ as of and for the year ended 31 December 2016, considering the Company, as the successor of EEDAŞ which represents substantially the same business and assets of the Group.

Subsidiaries consolidated in the consolidated financial statements as of 31 December 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
Enerjisa Müşteri Çözümleri A.Ş.	Customer solutions and distributed generation services

Group’s operations are carried out only in Turkey.

The Group has 9,712 employees as of 31 December 2017 (31 December 2016: 9,085 employees).

The consolidated financial statements were authorized for issue by the Board of Directors of the Company on 21 February 2018. The General Assembly and certain regulatory bodies have the power to amend the consolidated financial statements after the issue.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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

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 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”), BAŞKENT EDAŞ 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.

As of 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.

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.

As of 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 a new tariff for the period between 1 January 2011 and 31 December 2015; and also in December 2015, EMRA has announced a new tariff for the period between 1 January 2016 and 31 December 2020.

Enerjisa Müşteri Çözümleri A.Ş.:

Enerjisa Müşteri Çözümleri A.Ş. was established on 29 December 2017, in order to conduct activities in customer solutions and distributed generation.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated.
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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

The accompanying 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 foreign currencies (currencies other than TL) 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.

2.4 Comparative Information and Reclassification of Prior Period Consolidated Financial Statements

The consolidated financial statements of the Group have been prepared comparatively with consolidated financial statements of EEDAS as of for the year ended 31 December 2016, considering the Company, as the successor of EEDAS 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 current period consolidated financial statements is changed, in order to maintain consistency, comparative information are also adjusted or reclassified in line with the related changes. The Group does not have any material reclassifications and adjustments in current year.

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.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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

2.9 Basis of Consolidation

The details of the Company's subsidiaries at 31 December 2017 and 31 December 2016 are as follows (As of 31 December 2016 the subsidiaries of EEDAS):

Subsidiaries

	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	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
Enerjisa Müşteri Çözümleri A.Ş. ⁽¹⁾	İstanbul	100	-	Customer solutions and distributed generation services

⁽¹⁾ The Company has established its wholly owned subsidiary Enerjisa Müşteri Çözümleri A.Ş. with capital of TL 52,000 on 29 December 2017, in order to conduct activities in customer solutions and distributed energy.

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.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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

- 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.

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 31 December 2017 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and 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.

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.

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated.
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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 retrospectively applied for annual periods beginning on or after 1 January 2017. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

Annual Improvements to IFRSs - 2014-2016 Cycle

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

- IFRS 12 “Disclosure of Interests in Other Entities”: This amendment clarifies that an entity is not required to disclose summarised financial information for interests in subsidiaries, associates or joint ventures that is classified, or included in a disposal group that is classified, as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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 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. In addition to this, the Group is also assessing the net presentation of pass through items which are included in expenses and also accounted as revenue by reflecting directly to the customers and presented as gross. 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. 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.

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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 has performed an impact assessment of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional supportable information being made available to the Group in the future. The impact of standard on all three aspects of IFRS 9 is as follows:

Classification and Measurement of Financial Assets:

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. The application of IFRS 9 will not have a significant impact.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

Impairment:

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group does not expect any significant impact on financial statements.

Hedge accounting:

The Group does not have any transaction subject to hedge accounting.

IFRS 4 Insurance Contracts (Amendments)

In September 2016, the IASB issued amendments to IFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will:

- a. give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 Financial Instruments is applied before the new insurance contracts Standard is issued; and
- b. give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 Financial Instruments until 2021. The entities that defer the application of IFRS 9 Financial Instruments will continue to apply the existing financial instruments Standard-IAS 39.

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

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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.

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 amendment are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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.

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 amendment are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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

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.

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Annual Improvements to IFRSs - 2014-2016 Cycle

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

- IFRS 1 First-time Adoption of International Financial Reporting Standards: This amendment deletes the short-term exemptions about some IFRS 7 disclosures, IAS 19 transition provisions and IFRS 10 Investment Entities. These amendments are to be applied for annual periods beginning on or after 1 January 2018.
- IAS 28 Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying IFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The Group is in the process of assessing the impact of the amendments 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.

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 amendments on financial position or performance of the Group.

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Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

On 7 February 2018, the IASB published Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” to harmonise accounting practices and to provide more relevant information for decision-making. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement occurs. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. 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.

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

Annual Improvements – 2015–2017 Cycle

In December 2017, the IASB announced *Annual Improvements to IFRS Standards 2015–2017 Cycle*, containing the following amendments to IFRSs:

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements — The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

IAS 12 Income Taxes — The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

IAS 23 Borrowing Costs — The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows *generally* when calculating the capitalisation rate on general borrowings.

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

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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 *Financial Instruments: Recognition and measurement*, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

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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: 2.12), 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:

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.

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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 Group is determined by EMRA and the revenue of the companies 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 accordingly.

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.

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 recognizes the revenue on an effective interest method as “Financial Income from Service Concession Arrangements” in profit or loss and other comprehensive income and “Financial Asset” on the consolidated statement of financial position.

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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.

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 TOR 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.

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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.

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.

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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.

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.

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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.

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.

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 Group 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.

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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.

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 date of statement of financial position, the Group makes the necessary corrections on the consolidated financial statements.

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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).

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 IFRS 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.

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Impairment test of Goodwill

Pursuant to IAS 36 Impairment of Assets, the Group tested goodwill as of 31 December 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 31 December 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 31 December 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 during 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 2015 to 2036 for BEDAŞ and from 2015 to 2042 for AYEDAŞ and TOROSLAR EDAS. 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.

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 EDAS) 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.

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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.

NOTE 3 - SHARES IN OTHER PARTIES

Subsidiaries

Name of Subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership (%)	
			31 December 2017	31 December 2016
BASKENT EDAS	Electricity Distribution Services	Ankara	100	100
EPS	Electricity Retail Services	Ankara	100	100
AYEDAŞ	Electricity Distribution Services	İstanbul	100	100
AEPSAS	Electricity Retail Services	İstanbul	100	100
TOROSLAR EDAS	Electricity Distribution Services	Adana	100	100
TOROSLAR EPSAS	Electricity Retail Services	Adana	100	100
Enerjisa Müşteri Çözümleri A.Ş.	Customer Solutions and Distributed Generation Services	İstanbul	100	-

Group Structure:

Principal Activity	Place of incorporation and operation	Number of subsidiaries wholly owned by the Group	
		31 December 2017	31 December 2016
Electricity Distribution Services	Ankara, İstanbul, Adana	3	3
Electricity Retail Services	Ankara, İstanbul, Adana	3	3
Customer Solutions and Distributed Generation Services	İstanbul	1	-

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.

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The following table contains information on the Group's sales and profit from its operations for the year ended 31 December 2017 and 31 December 2016.

1 January - 31 December 2017	Distribution	Retail	Unallocated ⁽¹⁾	Elimination	Total
Net sales	4,933,635	10,520,293	7,059	(3,116,169)	12,344,818
Cost of sales (-)	(1,402,091)	(10,109,475)	(16,930)	3,116,169	(8,412,327)
Gross profit / (loss)	3,531,544	410,818	(9,871)	-	3,932,491
Operating expenses (-)	(1,071,516)	(253,205)	(243,191)	49,264	(1,518,648)
Other income / (expense) from operating activities - net	(142,898)	3,732	15,297	(49,264)	(173,133)
Operating profit / (loss)	2,317,130	161,345	(237,765)	-	2,240,710
Financial income	5,692	208,936	127,431	(253,568)	88,491
Financial expenses (-)	(654,537)	(8,632)	(635,882)	253,568	(1,045,483)
Profit / (loss) before taxation on income	1,668,285	361,649	(746,216)	-	1,283,718
Current tax expense (-)	(34,227)	(17,115)	-	-	(51,342)
Deferred tax income / (expense)	(218,770)	(67,426)	41,829	-	(244,367)
Net profit / (loss) for the period	1,415,288	277,108	(704,387)	-	988,009

⁽¹⁾ Out of TL 235,331 depreciation and amortization expenses, TL 208,663 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. The Group management follows the performances of the operating segments excluding acquisitions related loans, therefore the amounts have not been distributed to the segments.

1 January - 31 December 2016	Distribution	Retail	Unallocated ⁽¹⁾	Elimination	Total
Net sales	3,477,328	8,494,889	1,867	(2,870,704)	9,103,380
Cost of sales (-)	(1,336,748)	(8,029,900)	(1,012)	2,866,704	(6,500,956)
Gross profit	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

⁽¹⁾ Out of TL 217,938 depreciation and amortization expenses, TL 208,663 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. The Group management follows the performances of the operating segments excluding acquisitions related loans, therefore the amounts have not been distributed to the segments.

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The information below includes information about the Group's financial status of its business segments related to the year ended 31 December 2017 and 31 December 2016.

As at 31 December 2017	Distribution	Retail	Unallocated ⁽¹⁾	Elimination	Total
Segment assets					
Cash and cash equivalents	16,948	92,250	63,552	-	172,750
Trade receivables	1,261,083	1,443,198	38,993	(360,834)	2,382,440
Inventories	101,754	-	-	-	101,754
Derivative instruments	27,232	10,042	6,780	-	44,054
Due from service concession arrangements	6,438,431	-	-	-	6,438,431
Property, plant and equipment	105,519	-	32,406	-	137,925
Intangible assets	2,242	46,403	7,654,785	-	7,703,430
Other receivables and assets	2,168,984	1,371,448	1,624,770	(3,560,008)	1,605,194
Total assets	10,122,193	2,963,341	9,421,286	(3,920,842)	18,585,978
Segment liabilities					
Bank borrowings	3,619,530	-	3,588,490	-	7,208,020
Other financial liabilities	309,666	-	-	-	309,666
Trade payables	862,860	1,002,664	7,809	(360,834)	1,512,499
Derivative instruments	-	1,797	-	-	1,797
Other payables and liabilities	2,739,623	1,396,687	3,097,291	(3,560,008)	3,673,593
Total liabilities	7,531,679	2,401,148	6,693,590	(3,920,842)	12,705,575

⁽¹⁾ The majority of intangible assets under unallocated part represents 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.

As at 31 December 2016	Distribution	Retail	Unallocated ⁽¹⁾	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 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

⁽¹⁾ The majority of intangible assets under unallocated part represents 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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31 December 2017	Distribution	Retail	Unallocated	Elimination	Total
Cash Flows from Operating Activities	1,596,860	314,205	(52,044)	-	1,859,021
Profit for the period	1,415,288	277,108	(704,387)	-	988,009
Adjustments to reconcile net profit for the period	138,674	47,604	773,751	-	960,029
Changes in operating assets and liabilities	(896,016)	11,169	(93,678)	-	(978,525)
Cash generated from operating activities	657,946	335,881	(24,314)	-	969,513
Tax payments	(48,912)	(14,763)	(1,235)	-	(64,910)
Other cash inflows	987,826	(6,913)	(26,495)	-	954,418
Cash Flows from Investing Activities	(1,705,002)	156,105	75,002	(208,530)	(1,682,425)
Cash used for purchase of property, plant and equipment and intangible assets	(83,743)	(29,882)	(12,986)	-	(126,611)
Interest received	-	185,987	87,988	(208,530)	65,445
Other cash out-flows	(1,621,259)	-	-	-	(1,621,259)
Cash Flows from Financing Activities	102,739	(430,279)	40,594	208,530	(78,416)
Increase in cash and cash equivalents	(5,403)	40,031	63,552	-	98,180
Cash and cash equivalents at the beginning of the period	22,351	52,219	-	-	74,570
Cash and cash equivalents at the end of the period	16,948	92,250	63,552	-	172,750
31 December 2016	Distribution	Retail	Unallocated	Elimination	Total
Cash Flows from Operating Activities	1,566,407	279,666	13,366	-	1,859,439
Profit for the period	675,180	299,795	(597,582)	-	377,393
Adjustments to reconcile net profit for the period	64,195	60,521	676,229	-	800,945
Changes in operating assets and liabilities	123,625	(92,271)	(38,435)	-	(7,081)
Cash generated from operating activities	863,000	268,045	40,212	-	1,171,257
Tax payments	(66,794)	(78,238)	-	-	(145,032)
Other cash inflows	770,201	89,859	(26,846)	-	833,214
Cash Flows from Investing Activities	(1,512,001)	84,132	(1,187,470)	(93,793)	(2,709,132)
Cash used for purchase of property, plant and equipment and intangible assets	(33,172)	(17,709)	(13,311)	-	(64,192)
Interest received	-	119,225	14,297	(93,793)	39,729
Other cash out-flows	(1,478,829)	(17,384)	(1,188,456)	-	(2,684,669)
Cash Flows from Financing Activities	(32,907)	(462,830)	1,174,104	93,793	772,160
Increase in cash and cash equivalents	21,499	(99,032)	-	-	(77,533)
Cash and cash equivalents at the beginning of the period	852	151,251	-	-	152,103
Cash and cash equivalents at the end of the period	22,351	52,219	-	-	74,570

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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⁾ 31 December 2017 31 December 2016

Demand deposits	13,943	4,307
Time deposits	11,407	-
Repurchase agreements	2,000	8,614
	27,350	12,921

31 December 2017

Loans provided by related parties	Original currency	Maturity	Current liabilities	Non-current liabilities
Akbank T.A.Ş. ⁽¹⁾	TL	30 March 2018	258,396	-
Akbank T.A.Ş. ⁽¹⁾	USD	6 July 2018	386,544	-
Akbank T.A.Ş. ⁽¹⁾	TL	29 July 2019	17,676	297,000
Akbank T.A.Ş. ⁽¹⁾	USD	5 August 2019	14,344	239,875
Akbank T.A.Ş. ⁽¹⁾	TL	9 September 2019	1,727	200,000
Akbank T.A.Ş. ⁽¹⁾	USD	27 September 2019	14,407	377,190
Akbank T.A.Ş. ⁽¹⁾	TL	9 January 2020	31,850	480,000
Akbank T.A.Ş. ⁽¹⁾	TL	2 June 2020	3,882	300,000
Akbank T.A.Ş. ⁽¹⁾	TL	2 June 2020	1,807	150,000
Akbank T.A.Ş. ⁽¹⁾	TL	30 September 2020	10,799	303,000
			741,432	2,347,065

As of 31 December 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 31 December 2017, the interest rates of USD intercompany loans utilized are in the range of 4.88%- 4.99% (31 December 2016: None).

As of 31 December 2017 and 31 December 2016, the Group has not given any collateral for the loans.

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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

⁽¹⁾ As of 31 December 2016, since the comparable financial statements of the Group are essentially EEDAS, 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 EEDAS's financial statements, it represents the loan given by Enerjisa Enerji A.Ş. to EEDAS.

Related party derivative instruments – Akbank T.A.Ş. ⁽¹⁾

31 December 2017				
	Contract Amount (USD)	Contract Amount (TL)	Assets	Liabilities
Forward exchanges	58,145	34,213	-	(240)
Cross currency swap	163,595	617,065	24,187	-
Foreign exchange swap	100,000	377,190	6,780	-
	321,740	1,028,468	30,967	(240)

31 December 2016				
	Contract Amount (USD)	Contract Amount (TL)	Assets	Liabilities
Forward exchanges	35,343	124,380	4,324	-
	35,343	124,380	4,324	-

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	31 December 2017		
	Receivables		Payables
	Current		Current
Balances with Related Parties	Trade	Other	Trade
Akbank T.A.Ş. ⁽¹⁾	2,489	-	-
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş. (“Bimsa”) ^(**) ⁽¹⁾	-	-	1,978
Çimsa Çimento Sanayi A.Ş. ⁽¹⁾	11,954	-	-
Akçansa Çimento T.A.Ş. ⁽¹⁾	18,464	-	-
Carrefoursa A.Ş. ⁽¹⁾	6,164	-	-
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. ⁽¹⁾	12	-	-
Enerjisa Üretim Santralleri A.Ş. ⁽¹⁾	872	598	141,130
Teknosa İç ve Dış Ticaret A.Ş. ⁽¹⁾	-	-	61
Temsa Global San. ve Tic. A.Ş. ⁽¹⁾	327	-	-
Aksigorta A.Ş. ^(*) ⁽¹⁾	9	-	1,890
Hacı Ömer Sabancı Holding A.Ş. ⁽²⁾ ^(*)	325	-	34
Brisa Bridgestone Sabancı Lastik San. Tic. A.Ş. ⁽¹⁾	243	-	-
	40,859	598	145,093

	31 December 2016		
	Receivables		Payables
	Current		Current
Balances with Related Parties	Trade	Other	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

⁽¹⁾ Includes rent expenses that are invoiced by shareholder, Sabancı to its group companies.

^(*) Includes premiums covered under the policies signed with Aksigorta A.Ş. and Avivasa Emeklilik ve Hayat A.Ş. which are operating as insurance companies.

^(**) Includes IT consulting and software fees that are billed to the group companies by Bimsa, one of the group companies.

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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- 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
	22,513	10,781

1 January - 31 December 2017

Transactions with Related Parties	Electricity sales	Electricity purchases	Interest received	Interests paid	Other income	Other expenses
Akbank T.A.Ş. ⁽¹⁾	27,523	-	16,512	411,983	-	1,377
Hacı Ömer Sabancı Holding ^{(2) (1)}	5,188	-	-	-	-	1,720
Hacı Ömer Sabancı Vakfı ⁽¹⁾	-	-	-	-	-	3,550
Sabancı Üniversitesi ⁽¹⁾	3,914	-	-	-	-	2,450
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş. ^{(1) (**)}	-	-	-	-	-	5,264
Çimsa Çimento Sanayi A.Ş. ⁽¹⁾	72,520	-	-	-	-	-
Akcansa Çimento T.A.Ş. ⁽¹⁾	66,896	-	-	-	-	-
Carrefoursa A.Ş. ⁽¹⁾	63,663	-	-	-	-	22
Enerjisa Üretim Santralleri A.Ş. ⁽¹⁾	318	-	-	-	7,416	1,312
Temsa Global San. ve Tic. A.Ş. ⁽¹⁾	3,074	-	-	-	-	-
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. ⁽¹⁾	-	828,799	-	-	1,082	1,796
Aksigorta A.Ş. ^{(1) (**)}	41	-	-	-	-	2,275
Brisa ⁽¹⁾	1,421	-	-	-	-	-
Enerjisa Doğalgaz Toptan Satış A.Ş. ⁽¹⁾	-	-	-	-	48	-
Avivasa Emeklilik ve Hayat A.Ş. ^{(1) (**)}	469	-	-	-	-	-
Exsa Export San. Mamülleri Satış ve Araştırma A.Ş. ⁽¹⁾	4	-	-	-	-	-
Teknosa İç ve Dış Ticaret A.Ş.	3,572	-	-	-	-	3
	248,603	828,799	16,512	411,983	8,546	19,769

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	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. ⁽¹⁾	825	-	14,884	257,432	-	-
Hacı Ömer Sabancı Holding	-	-	-	-	-	7
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş. ^{(1) (**)}	-	-	-	-	-	6,131
Çimsa Çimento Sanayi A.Ş. ⁽¹⁾	20,988	-	-	-	-	-
Enerjisa Üretim Santralleri A.Ş. ⁽¹⁾	-	-	-	-	1,000	-
Enerjisa Enerji A.Ş. ^{(1) (***)}	-	-	-	11,884	-	13,098
Temsa Global San. ve Tic. A.Ş. ⁽¹⁾	3,711	-	-	-	-	-
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. ⁽¹⁾	40,747	646,862	-	-	-	7,974
Aksigorta A.Ş. ^{(1) (**)}	7	-	-	-	-	453
Avivasa Emeklilik ve Hayat A.Ş. ^{(1) (**)}	-	-	-	-	-	315
Exsa Export San. Mamülleri Satış ve Araştırma A.Ş. ⁽¹⁾	8	-	-	-	-	-
Teknosa İç ve Dış Ticaret A.Ş.	118	-	-	-	-	-
	66,404	646,862	14,884	269,316	1,000	27,978

⁽¹⁾ Includes rent expenses that are invoiced by shareholder, Sabancı to its group companies.

⁽²⁾ Includes premiums covered under the policies signed with Aksigorta A.Ş. and Avivasa Emeklilik ve Hayat A.Ş. which are operating as insurance companies.

⁽³⁾ Includes IT consulting and software fees that are billed to the group companies by Bimsa, one of the group companies.

⁽⁴⁾ Includes consultancy fees invoiced by the group companies.

NOTE 6 - TRADE RECEIVABLES AND PAYABLES

6.1 Trade Receivables:

Current Trade Receivables	31 December 2017	31 December 2016
Trade receivables	3,617,454	2,737,656
Due from related parties (Note 5)	40,859	15,801
Allowance for doubtful receivables (-)	(1,275,873)	(1,032,928)
	2,382,440	1,720,529

As of 31 December 2017, trade receivables amounting TL 1,773,684 (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 overdue receivable balances.

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As of 31 December 2017, trade receivables amounting TL 608,756 (31 December 2016: TL 432,605) were past due but not impaired. The aging analysis of these trade receivables as of 31 December 2017 and 31 December 2016 is as follows:

Aging of receivables that are Due but not Impaired

	31 December 2017	31 December 2016
Up to 3 months	415,290	333,392
3 to 6 months	122,816	94,918
Over 6 months	70,650	4,295
	608,756	432,605

As of 31 December 2017, trade receivables of TL 1,275,873 were considered as impaired and a provision was provided for these trade receivables (31 December 2016: TL 1,032,928). The provision amount corresponding to the impaired trade receivable is determined based on the aging analysis retrieved 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. Group management books a provision for the overdue agricultural irrigation related receivables by more than 365 days.

Movement of allowance for the doubtful trade receivables are as follows:

	1 January- 31 December 2017	1 January- 31 December 2016
Balance at beginning of the year	(1,032,928)	(894,662)
Charge for the period	(406,764)	(264,351)
Amounts collected during the year	156,437	126,085
Other	7,382	-
Closing balance	(1,275,873)	(1,032,928)

The Group received guarantee letters amounting to TL 1,044,473 (31 December 2016: TL 477,204) and deposits and guarantees amounting to TL 1,140,458 (31 December 2016: TL 880,004) as collateral for its electricity receivables.

6.2 Trade Payables:

Current Trade Payables	31 December 2017	31 December 2016
Trade payables	1,367,406	991,607
Due to related parties (Note 5)	145,093	126,061
	1,512,499	1,117,668

Trade payables mainly arise from the Group's electricity purchases from Türkiye Elektrik Ticaret ve Taahhüt A.Ş. ("TETAŞ") and Enerji Piyasaları İşletme A.Ş. ("EPIAŞ"). The average maturity of the payables related to electricity purchases is between 18 - 20 days.

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NOTE 7 - OTHER RECEIVABLES AND PAYABLES

7.1 Other Receivables:

Other Current Receivables	31 December 2017	31 December 2016
Income accruals ⁽¹⁾	403,916	275,666
Due from related parties	598	2
Deposits and guarantees given	20,706	25,624
Receivables from personnel	213	176
Allowance for other doubtful receivables (-)	(3,123)	(3,123)
Other sundry receivables	17,657	95,126
	439,967	393,471
Other Non-Current Receivables	31 December 2017	31 December 2016
Deposits and guarantees given ⁽²⁾	205,134	161,011
Income accruals ⁽¹⁾	204,379	33,879
Other sundry receivables ⁽³⁾	63,992	35,845
	473,505	230,735

⁽¹⁾ 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 accompanying consolidated financial statements.

⁽²⁾ 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.

⁽³⁾ 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.

Movement of allowance for other doubtful receivables is as follows:

	1 January- 31 December 2017	1 January- 31 December 2016
Opening balance	(3,123)	(3,123)
Closing balance	(3,123)	(3,123)

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7.2 Other Payables:

Other Current Payables	31 December 2017	31 December 2016
Other payables	150,035	123,510
Deposits received	13,778	8,492
Lighting payables	-	28,236
New connection payables	22,177	-
	185,990	160,238
Other Non-Current Payables	31 December 2017	31 December 2016
Deposits received ⁽¹⁾	1,140,458	880,004
	1,140,458	880,004

⁽¹⁾ 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.

NOTE 8 - INVENTORIES

	31 December 2017	31 December 2016
Spare parts and equipments	100,772	72,531
Other inventories	982	1,928
	101,754	74,459

NOTE 9 - PREPAID EXPENSES AND DEFERRED INCOME

9.1 Prepaid Expenses:

Short-term Prepaid Expenses	31 December 2017	31 December 2016
Prepaid expenses	63,667	11,317
Inventory advances given	135,035	2,411
Personnel advances	857	345
Other advances given	79	83
	199,638	14,156
Long-term Prepaid Expenses	31 December 2017	31 December 2016
Prepaid expenses	4,840	1,516
	4,840	1,516

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9.2 Deferred Income

Short Term Deferred Income	31 December 2017	31 December 2016
Deferred income ⁽¹⁾	460,324	165,711
Advances received ⁽²⁾	145,334	22
	605,658	165,733
Long Term Deferred Income	31 December 2017	31 December 2016
Deferred income ⁽¹⁾	1,161	25,617
	1,161	25,617

⁽¹⁾ 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 accompanying consolidated financial statements.

⁽²⁾ Advances received are due to selling electricity back to EPIAŞ. These advances are netted off with invoices amounts issued at the end of the month.

NOTE 10 – FINANCIAL ASSETS

	Financial asset	
	31 December 2017	31 December 2016
Within one year	691,860	653,754
1-3 years	789,525	789,272
3-5 years	889,680	953,774
More than 5 years	4,067,366	1,896,506
	6,438,431	4,293,306
Current financial assets	691,860	653,754
Non - current financial assets	5,746,571	3,639,552
	6,438,431	4,293,306
	31 December 2017	31 December 2016
Financial assets at 1 January 2017	4,293,306	3,021,041
Investments	1,573,484	1,555,546
Collections	(979,239)	(851,546)
<i>CAPEX reimbursements</i>	<i>(591,706)</i>	<i>(443,235)</i>
<i>WACC reimbursements</i>	<i>(437,167)</i>	<i>(344,804)</i>
<i>Prior tariff adjustments</i>	<i>49,634</i>	<i>(63,507)</i>
Financial income	1,013,557	609,628
Fair value difference and other	537,323	(41,363)
Financial assets at 31 December 2017	6,438,431	4,293,306

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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	82,630	3,492	9,872	2,035	98,029
Disposals	-	-	-	-	-
Assets transferred on merger with the shareholder	-	-	2,049	-	2,049
Closing balance as of 31 December 2017	97,691	40,438	37,591	2,035	177,755

Accumulated Depreciation

Opening balance as of 1 January 2017	(1,052)	(15,775)	(2,840)	-	(19,667)
Charge for the period	(4,851)	(10,713)	(3,110)	-	(18,674)
Accumulated depreciation transferred on merger with the shareholder	-	-	(1,489)	-	(1,489)
Closing balance as of 31 December 2017	(5,903)	(26,488)	(7,439)	-	(39,830)
Carrying value as of 31 December 2017	91,788	13,950	30,152	2,035	137,925

	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

	Useful Life
Plant, machinery and equipment	5 years
Motor vehicles	3 years
Furniture and fixtures	5 years

Depreciation expense of TL 18,127 and TL 547 are accounted in general administrative expenses and cost of sales, respectively (2016 general administrative expenses: TL 8,552 and cost of sales: Null).

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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	-	-	-	-	28,022	28,022
Assets transferred on merger with the shareholder	-	-	-	-	1,679	1,679
Closing balance as of 31 December 2017	4,390,673	1,650,121	2,730,031	1,152	58,181	8,830,158
Accumulated Amortization						
Opening balance as of 1 January 2017	(699,371)	(208,586)	-	(1,150)	-	(909,107)
Charge for the period	(152,108)	(56,555)	-	-	(7,994)	(216,657)
Accumulated amortization transferred on merger with the shareholder	-	-	-	-	(964)	(964)
Closing balance as of 31 December 2017	(851,479)	(265,141)	-	(1,150)	(8,958)	(1,126,728)
Carrying value as of 31 December 2017	3,539,194	1,384,980	2,730,031	2	49,223	7,703,430

	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

Amortization expense of TL 216,657 is included in general administrative expenses (31 December 2016: TL 209,386).

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 EDAS signed TOR Agreements with TEDAŞ.

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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.

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 December 31, 2017, there is no impairment on goodwill (31 December 2016: None).

NOTE 13 - PROVISIONS

Current Provisions	31 December 2017	31 December 2016
Legal claims ⁽¹⁾	157,238	138,417
	157,238	138,417

⁽¹⁾ Legal claims are set for the probable cash outflows related to the legal disputes. As of 31 December 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 arbitration 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 126,397 (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	48,278	48,278
Reversal of provisions	(29,457)	(29,457)
Balance at 31 December 2017	157,238	157,238
	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

31 December 2017	TL Amount	TL
A. Total amount of Collateral Pledge Mortgage (CPM) given on behalf of the legal entity	37,454	37,454
-Collateral ⁽¹⁾	37,454	37,454
B. Total amount of CPM given against the subsidiaries included in full consolidation	1,714,899	1,714,899
-Collateral	1,714,899	1,714,899
Total	1,752,353	1,752,353
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 ⁽¹⁾	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

⁽¹⁾ 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 as announced by EMRA. According to the regulations, the Group is allowed to make transfers between the years. As of 31 December 2017, Group has an obligation to make further investments.

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 EPIAŞ. 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:

	31 December 2017	31 December 2016
Social security premiums payable	30,647	23,151
Payable to personnel	19,336	16,079
	49,983	39,230

Short-term Provisions Related to Employee Benefits:

	31 December 2017	31 December 2016
Bonus provisions	22,724	12,398
Provisions for unused vacation	23,188	17,064
	45,912	29,462

The movement of 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	19,719	5,694	25,413
Reversal / payments of provisions	(12,434)	-	(12,434)
Obligation transferred on merger with the shareholder	3,041	430	3,471
Balance at 31 December 2017	22,724	23,188	45,912
	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

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Long-term Provisions Related to Employee Benefits:

	31 December 2017	31 December 2016
Provision for employment termination benefits	69,544	56,442
	69,544	56,442

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 31 December 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 31 December 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 6.00% and a discount rate of 11.00%, resulting in a real discount rate of approximately 4.72% (31 December 2016: inflation rate of 7.00% and discount rate of 11.30%, discount rate of approximately 4.02%) Ceiling amount of TL 5,001.07 (full digit) which is in effect since 1 January 2018 is used in the calculation of Groups’ provision for retirement pay liability (1 January 2017: TL 4,426.16 (full digit)).

As of 31 December 2017 and 31 December 2016, 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 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	25,445	18,897
Interest cost	2,316	1,557
Retirement payment	(12,387)	(18,332)
Actuarial loss / (gain)	(2,460)	(4,505)
Obligation transferred on merger with the shareholder	188	-
Provision at 31 December	69,544	56,442

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NOTE 16 - OTHER ASSETS AND LIABILITIES

16.1 Other Current Assets:

	31 December 2017	31 December 2016
Deferred VAT	57,903	3,587
Other prepaid taxes and funds	25	181
Other	11	719
	57,939	4,487

16.2 Other Non-current Assets:

	31 December 2017	31 December 2016
Deferred VAT	208,133	123,032
	208,133	123,032

16.3 Other Current Liabilities:

	31 December 2017	31 December 2016
Taxes and funds payable	321,363	166,702
Other	2,108	4,112
	323,471	170,814

NOTE 17 - SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

17.1 Share Capital:

Shareholders	31 December 2017		31 December 2016	
	Share (%)	TL	Share (%)	TL
Hacı Ömer Sabancı Holding A.S.	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

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. ("EEDAS") and the subsidiaries of EEDAS together with all their assets and liabilities with the takeover 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 31 December 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).

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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 equity holders of the parent entity by the weighted average number of shares that have been outstanding during the year.

	1 January- 31 December 2017	1 January- 31 December 2016
Profit for the period	988,009	377,393
Weighted average shares ⁽¹⁾	118,106,900,000	396,452,800,000
Earnings per share (kr)	0.84	0.10

⁽¹⁾ For the year ended 31 December 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.

17.3 Restricted Profit Reserves:

	31 December 2017	31 December 2016
Restricted Profit Reserves	185,265	139,190
	185,265	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, if they do not exceed the capital or issued capital general legal reserves can be used to offset prior year losses or recapitalize the business in case of distress.

NOTE 18 – REVENUE

	1 January- 31 December 2017	1 January- 31 December 2016
Revenue from electricity sales and services provided	11,324,199	8,491,244
<i>Retail sales revenue</i>	7,076,392	5,399,751
<i>Retail sales service revenue</i>	254,541	243,962
<i>Distribution lighting sales revenue</i>	176,855	143,289
<i>Distribution service revenue</i>	3,146,508	2,156,927
<i>Transmission revenue</i>	596,713	547,314
<i>Other regions distribution revenue</i>	73,190	-
Financial income from service concession arrangements	1,013,557	609,628
Other sales	7,062	2,508
	12,344,818	9,103,380

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NOTE 19 - COST OF SALES

	1 January- 31 December 2017	1 January- 31 December 2016
Electricity purchases	(7,715,550)	(5,953,189)
<i>Retail energy purchases</i>	<i>(6,920,117)</i>	<i>(5,173,866)</i>
<i>Distribution related energy purchases</i> ^(*)	<i>(795,433)</i>	<i>(779,323)</i>
System usage fee ^(**)	(669,903)	(547,314)
Other	(26,874)	(453)
	(8,412,327)	(6,500,956)

^(*) Includes theft/loss and lightning related electricity purchases.

^(**) Includes pass-through of transmission and other regions distribution revenue.

NOTE 20 - GENERAL ADMINISTRATIVE EXPENSES

	1 January- 31 December 2017	1 January- 31 December 2016
General administrative expenses (-)	(1,518,648)	(1,227,836)
	(1,518,648)	(1,227,836)

Details of general administrative expenses are as follows:

	1 January- 31 December 2017	1 January- 31 December 2016
Payroll and employee benefit expenses	(670,614)	(539,642)
Depreciation and amortization expenses	(234,784)	(217,938)
Material expenses	(183,058)	(125,768)
Outsourcing expenses	(74,002)	(35,443)
Rent expenses	(53,928)	(39,535)
Attorney expenses	(45,880)	(35,152)
Consulting expenses	(33,296)	(43,432)
Maintenance expenses	(45,634)	(32,511)
Tax and duties	(27,122)	(23,282)
Security expenses	(22,305)	(22,357)
Travel expenses	(14,662)	(10,793)
Insurance expenses	(10,514)	(9,931)
Communication and IT expenses	(14,950)	(23,435)
Other expenses	(87,899)	(68,617)
	(1,518,648)	(1,227,836)

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NOTE 21 - OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

21.1 Other Income From Operating Activities:

	1 January- 31 December 2017	1 January- 31 December 2016
Power theft penalties	90,257	15,398
Late payment interest from electricity receivables	87,489	77,949
Rent income	6,144	6,303
Interest income related to revenue cap regulation	-	19,370
Penalty income	151	-
Lawsuit income	-	14,174
Income from derivative financial instruments	-	3,886
Other income	3,015	7,571
	187,056	144,651

21.2 Other Expenses From Operating Activities:

	1 January- 31 December 2017	1 January- 31 December 2016
Provision for doubtful receivables	(250,327)	(138,266)
Valuation differences arising from deposits and guarantees	(78,514)	(40,287)
Loss from derivative financial instruments	(1,846)	-
Interest expense related to revenue cap regulation	(934)	-
Penalty expenses	(275)	(38,393)
Other expenses	(28,293)	(29,983)
	(360,189)	(246,929)

NOTE 22 - FINANCE INCOME AND EXPENSES

22.1 Finance Income:

	1 January- 31 December 2017	1 January- 31 December 2016
Interest income from repurchase agreements	88,491	39,729
	88,491	39,729

22.2 Finance Expenses:

	1 January- 31 December 2017	1 January- 31 December 2016
Interest expense of borrowings ⁽¹⁾	(968,611)	(735,174)
Bank commission expenses	(14,466)	(8,549)
Foreign exchange gains / (losses) - net	(62,406)	(54,114)
	(1,045,483)	(797,837)

⁽¹⁾ As of 31 December 2017, there is no interest expense related to payables of Privatization Administration (31 December 2016: TL 41,780).

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NOTE 23 - TAXATION ON INCOME

Assets Related with Current Taxes	31 December 2017	31 December 2016
Prepaid taxes and funds	11,215	238
	11,215	238
	31 December 2017	31 December 2016
Current Tax Asset/Liability		
Current corporate tax provision	51,342	148,215
Less: prepaid taxes and funds	(47,617)	(141,899)
	3,725	6,316
	1 January-	1 January-
	31 December 2017	31 December 2016
Tax Expense/(Income) Recognized in Profit or Loss		
Current tax expense	51,342	148,215
Deferred tax expense / (income) relating to the origination and reversal of temporary differences, net	244,367	(11,406)
Total tax expense	295,709	136,809

Corporate tax

The Group is subject to Turkish corporate taxes. A 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%). However, in accordance with the addition of temporary 10th article to the Corporate Tax Law, 22% corporate tax rate will be applied to the profits of the entities related to their to 2018, 2019 and 2020 tax periods (for the entities with special accounting period, tax periods commenced in the related year) rather than 20%. The companies apply 20% (will be applied as 22% for 2018, 2019 and 2020 tax periods) tax rate over their quarterly profits when calculating their temporary tax payables; which they are obliged to declare via Advance Corporate Tax Declaration by the end of the 14th, and pay by the end of the 17th of the 2 month following the related period. Quarterly Advance Corporate Tax payments made within a year are deducted from the Corporate Income Tax calculated for the same fiscal year. Following the netting-off, if there is still remaining Advance Corporate Tax balance, it can be deducted from any other financial debt owed to the State or can be received in the form of a cash refund.

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.

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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.

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 as of 31 December 2017, the rate of 22% is used (2016: 20%).

As of 31 December 2017, the tax rate of 22% is used for the temporary differences expected to be realized / settled within 3 years (2018, 2019 and 2020) for deferred tax calculation since the tax rate applicable to 3 years as of 1 January 2018 has been changed to 22%. However, 20% tax rate is used for the current differences expected / expected to be incurred after 2020 since the tax rate applicable for post-2020 corporations is 20%.

Deferred Tax (assets) / liabilities	31 December 2017	31 December 2016
Differences arising from customer contracts and transfer of operational rights	984,835	1,026,568
Carrying amount differences of property, plant and equipment, intangible assets and concession arrangement differences	82,766	(126,332)
Provision for employment termination benefits	(4,604)	(1,737)
Provision for doubtful receivables	19,790	(4,693)
Provision for lawsuits	(32,063)	(24,088)
Provision for unused vacation	(4,962)	(2,366)
Effect of revenue cap adjustments	50,018	21,879
Late penalty payments	(17,244)	(13,576)
Adjustments due to system migration	(39,090)	(39,090)
Carry forward tax loss	(144,143)	(112,936)
Other	(14,807)	55,332
	880,496	778,961
	31 December 2017	31 December 2016
Deferred tax (asset)	(209,957)	(247,703)
Deferred tax liability	1,090,453	1,026,664
Deferred tax (asset) / liability, net	880,496	778,961

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Movement of deferred tax (assets)/liabilities is as follows:

	1 January- 31 December 2017	1 January- 31 December 2016
Opening balance	778,961	789,466
Charged to statement of profit or loss	244,367	(11,406)
Charged to other comprehensive income/expense	492	901
Sale of business line accounted for under equity	(143,598)	-
Closing balance	880,496	778,961

	1 January- 31 December 2017	1 January- 31 December 2016
Tax Reconciliation:		
Profit from operations before tax	1,283,718	514,202
	20%	20%
Tax at the domestic income tax rate of 20% (2016: 20%)	256,744	102,840
Tax effects of:		
- expenses that are not deductible in determining taxable profit	7,259	10,765
- unused tax losses	33,337	23,204
- other	(1,631)	-
Income tax expense recognised in profit or loss	295,709	136,809

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 2017, the Group recognized deferred tax assets amounting to TL 655,196 for unused carry forward tax losses amounting to TL 144,143 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- 31 December 2017	1 January- 31 December 2016
Expiring in 2018	66,110	90,338
Expiring in 2019	196,045	323,717
Expiring in 2020	46,370	71,963
Expiring in 2021	75,964	78,663
Expiring in 2022	270,707	-
	655,196	564,681

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The expiration dates of previous years' losses on which deferred tax asset was not recognized are as follows:

	1 January- 31 December 2017	1 January- 31 December 2016
Expiring in 2017	-	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	19,886	-
	842,327	814,345

NOTE 24 - FINANCIAL INSTRUMENTS

24.1 Financial Liabilities:

	31 December 2017	31 December 2016
Short-term liabilities	795,658	1,556,770
Short-term portion of long term bonds issued	20,876	14,382
Short-term portion of long-term liabilities	1,122,406	1,526,642
Total short term financial liabilities	1,938,940	3,097,794
Long-term liabilities	3,978,065	2,850,000
Bonds issued	1,291,015	350,000
Total long term financial liabilities	5,269,080	3,200,000
Total financial liabilities	7,208,020	6,297,794

The financial liabilities are repayable as follows:

	31 December 2017	31 December 2016
To be paid within 1 year	1,938,940	3,097,794
To be paid between 1-2 years	2,044,941	2,850,000
To be paid between 2-3 years	2,183,000	350,000
To be paid between 3-4 years	695,807	-
To be paid between 4-5 years	345,332	-
	7,208,020	6,297,794

As of 31 December 2017 and 31 December 2016, the Group has not given any collateral for the loans obtained.

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As of 31 December 2017 and 31 December 2016, details of short and long term financial liabilities in terms of interest and currencies are as follows:

31 December 2017			
Currency	Weighted average effective interest rate	Current	Non-current
TL	13.43%	1,452,245	3,361,000
USD ⁽¹⁾	4.92%	415,347	617,065
EUR ⁽¹⁾	2.68%	50,472	-
		1,918,064	3,978,065
31 December 2016			
Currency	Weighted average effective interest rate	Current	Non-current
TL	12.37%	3,083,412	2,850,000
		3,083,412	2,850,000

⁽¹⁾ Foreign currency risks associated with the USD and EUR denominated loans of the Group are fully hedged through foreign exchange swap and cross currency swap instruments.

As of 31 December 2017 and 31 December 2016, details of bonds issued are as follows:

31 December 2017			
Currency	Weighted average effective interest rate	Current	Non-current
TL	CPI + 4%-5%	20,876	1,291,015
		20,876	1,291,015
31 December 2016			
Currency	Weighted average effective interest rate	Current	Non-current
TL	CPI + 4%	14,382	350,000
		14,382	350,000

⁽¹⁾ As of 31 December 2017, the interest is CPI-indexed variable interest and the annual real coupon rate varies from 4% to 5% (31 December 2016: 4%).

As of 31 December 2017, the principal valuation of bonds is TL 101,015 (31 December 2016: TL 7,426).

24.2 Other Financial Liabilities:

	31 December 2017	31 December 2016
Other current financial liabilities	30,009	25,087
Other non-current financial liabilities	279,657	245,134
	309,666	270,221

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The other financial liabilities are repayable as follows:

	31 December 2017	31 December 2016
To be paid within 1 year	30,009	25,087
To be paid between 1-2 years	27,663	25,568
To be paid between 2-3 years	27,349	26,071
To be paid between 3-4 years	27,020	26,597
To be paid between 4-5 years	26,677	34,491
To be paid between 5+ years	170,948	132,407
	309,666	270,221

As of 31 December 2017 and 31 December 2016, details of short and long term other financial liabilities in terms of currencies are as follows:

31 December 2017			
Currency	Weighted average effective interest rate	Current	Non-current
EUR	4.70%	30,009	279,657
		30,009	279,657
31 December 2016			
Currency	Weighted average effective interest rate	Current	Non-current
EUR	4.70%	25,087	245,134
		25,087	245,134

After the acquisition of distribution regions, payment obligations of TEDAŞ denominated in EUR, which are in scope of loan agreements with European Investment Bank and World Bank have been transferred to the Group. Other financial liabilities are composed of EUR payment obligations of distribution companies to TEDAŞ in this scope.

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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 ("FIT"). Furthermore, in order to mitigate the foreign exchange risk arising from foreign currency denominated bank loans, the Group entered into forward exchanges, cross currency swaps and foreign exchange swap transactions. The details and fair values of the agreements as of 31 December 2017 and 31 December 2016 are as follows:

31 December 2017					
	Contract Amount (USD)	Contract Amount (EUR)	Contract Amount (TL)	Assets	Liabilities
Forward exchanges	112,246	34,043	577,102	13,087	(1,797)
Cross currency swap	163,595	-	617,064	24,187	-
Foreign exchange swap	105,071	-	396,317	6,780	-
	380,912	34,043	1,590,483	44,054	(1,797)

31 December 2016					
	Contract Amount (USD)	Contract Amount (EUR)	Contract Amount (TL)	Assets	Liabilities
Forward exchanges	41,363	-	145,565	3,886	-
	41,363	-	145,565	3,886	-

As of 31 December 2017 and 31 December 2016, movements of fair value of derivative financial instruments are as follows:

	31 December 2017	31 December 2016
Opening balance	3,886	-
Derivative financial (liabilities) / assets at fair value designated through income / expense	38,371	3,886
Total derivative financial (liabilities) / assets	42,257	3,886

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.

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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.

	31 December 2017	31 December 2016
	TL	TL
Total borrowings (Note 24)	7,517,686	6,568,015
Less: cash and cash equivalents (Note 27)	(172,750)	(74,570)
Net debt	7,344,936	6,493,445
Total equity	5,880,403	4,746,828
Total capital	13,225,339	11,240,273
Net debt / Total capital ratio (%)	56	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 the finance department. The 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 a 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.

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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:

Credit risk exposure based on financial instrument categories

	Receivables							
	Trade receivables		Other receivables			Bank deposits & repos	Financial assets excluding cash	Derivatives
	Related party	Other	Current	Non-current				
	Related party	Other	Related party	Other	Other			
31 December 2017								
Maximum net credit risk as of the balance sheet date ⁽¹⁾	40,859	2,341,581	598	439,369	473,505	172,750	6,438,431	44,054
The part of maximum risk under guarantee	-	2,228,751	-	-	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	40,859	1,732,825	598	439,369	473,505	172,750	6,438,431	44,054
B. Net book value of financial assets that are due but not impaired	-	608,756	-	-	-	-	-	-
C. Net book value of impaired assets	-	-	-	-	-	-	-	-
-Past due	-	1,275,873	-	3,123	-	-	-	-
-Impairment	-	(1,275,873)	-	(3,123)	-	-	-	-

⁽¹⁾ The factors such as collaterals received, that increase the credit reliability have not been taken into consideration in determination of the amount.

Credit risk exposure based on financial instrument categories

	Receivables							
	Trade receivables		Other receivables			Bank deposits & repos	Financial assets excluding cash	Derivatives
	Related party	Other	Current	Non-current				
	Related party	Other	Related party	Other	Other			
31 December 2017								
Maximum net credit risk as of the balance sheet date ⁽¹⁾	15,801	1,704,728	2	393,469	230,735	74,570	4,293,306	3,886
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	3,886
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)	-	-	-	-

⁽¹⁾ 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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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 31 December 2017 and 31 December 2016 are as follows:

31 December 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)	More than 5 years (IV)
Non-derivative financial liabilities						
Borrowings	7,208,020	8,593,963	653,754	1,742,125	6,198,084	-
Trade payables	1,512,499	1,512,499	1,512,499	-	-	-
Deferred income	606,819	606,819	-	605,658	1,161	-
Other payables	1,326,448	1,449,658	309,200	-	-	1,140,458
Other financial liabilities	309,666	309,666	12,465	17,544	108,709	170,948
Total liabilities	10,963,452	12,472,605	2,487,918	2,365,327	6,307,954	1,311,406

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)	More than 5 years (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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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.

	31 December 2017		
	USD	EUR	TL equivalent
Cash and cash equivalents	1,483	17	5,672
Financial liabilities ⁽¹⁾	(273,711)	(11,177)	(1,082,884)
Other financial liabilities	-	(68,579)	(309,666)
Derivative financial instruments	11,680	(398)	42,257
Trade payables	(28,526)	(3,613)	(123,912)
Net foreign currency position	(289,074)	(83,750)	(1,468,533)
	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)

⁽¹⁾ Foreign currency risks associated with the USD and EUR denominated loans of the Group are fully hedged through foreign exchange swap and cross currency swap instruments.

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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. Below sensitivities do not include related swap instruments that would largely offset any foreign currency risk.

	TL effect of USD		TL effect of EUR	
	2017	2016	2017	2016
Profit or (loss)	(109,036)	(1,799)	(37,818)	(38,446)

26.2.3.2 Interest rate risk management

As of 31 December 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.

Categories of financial instruments and fair values

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 carrying amounts of foreign currency denominated monetary assets which are translated at year end exchange rates are considered to approximate their fair values.

The carrying values of cash and cash equivalents are estimated to be at their fair values since they have short term maturities and have little impairment risk.

The carrying value of trade receivables and other receivables which are both discounted and provided provision for doubtful receivables are estimated to be at their fair values.

The fair values of short and long-term bank borrowings are assumed to approximate their book values which are calculated by adding the accrued interest as of the balance sheet date (calculated by effective interest rate method) on the principle.

Discounted values of trade payables are assumed to approximate their respective carrying values.

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In the balance sheet, derivate instruments are the only item that is recognized at fair value. The fair value of derivate instrument is determined by using valuation technique, which can be regarded as Level 2.

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
	31 December 2017	31 December 2016				
Derivatives	42,257	3,886	Level 2	Market Value	-	-
Deposits paid	205,134	161,011	-	CPI	-	-
Deposits and gurantees received (Note 7)	(1,140,458)	(880,004)	-	CPI	-	-
Financial assets	6,438,431	4,293,306	-	CPI	-	-

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NOTE 27 - EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

	31 December 2017	31 December 2016
Cash at banks	137,580	55,956
<i>Demand deposits</i>	<i>137,580</i>	<i>55,956</i>
Repurchase agreements	35,170	18,614
	172,750	74,570

As at 31 December 2017, TL 72,111 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 31 December 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 13.44% as at 31 December 2017 (31 December 2016: 11.80%).

Details of "Other adjustments to reconcile profit / (loss)" that presented on cash flow statement as follows:

	1 January 31 December 2017	1 January 31 December 2016
Adjustments related to finance (income) / cost based on revenue cap regulation	934	(19,370)
Adjustments related to financial income recognised relate to service concession arrangements	(1,013,557)	(609,628)
Adjustments related to valuation differences arising from deposits	78,514	40,287
	(934,109)	(588,711)

Details of "Other cash in-flows generated from operating activities" that presented on cash flow statement as follows:

	1 January 31 December 2017	1 January 31 December 2016
Net collections from financial assets related to service concession arrangements	979,239	851,546
<i>CAPEX reimbursements</i>	<i>591,706</i>	<i>443,235</i>
<i>WACC reimbursements</i>	<i>437,167</i>	<i>344,804</i>
<i>Prior period tariff adjustments</i>	<i>(49,634)</i>	<i>63,507</i>
	979,239	851,546

Details of "Other cash-out flows from investing activities" that presented on cash flow statement as follows:

	1 January 31 December 2017	1 January 31 December 2016
Capital expenditures related to service concession arrangements	(1,621,259)	(1,496,213)
Payment to Privatization Administration	-	(1,188,456)
	(1,621,259)	(2,684,669)

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NOTE 28 - EVENTS AFTER THE REPORTING 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 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.
- 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”.

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Glossary

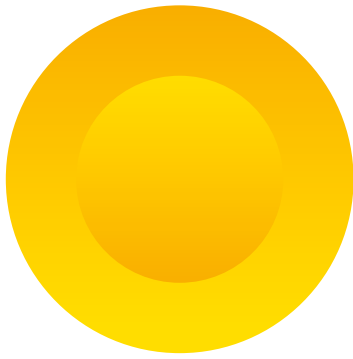
Actual CAPEX	The sum of the actual CAPEX is calculated by adding the regulated CAPEX and the additional CAPEX exceeding this upper limit.	CEO	Chief Executive Officer
Akbank	Akbank T.A.S.	CFO	Chief Financial Officer
AMRS	Automatic Meter Reading Systems	CHRO	Chief Human Resources and Corporate Capabilities Officer
A.Ş.	Incorporated Company	CMB	Capital Markets Board
AYEDAŞ	İstanbul Anadolu Yakası Elektrik Dağıtım A.Ş. (Anadolu Yakası Electricity Distribution Inc.)	CMO	Chief Marketing Officer
AYEDAŞ Region	The region where Ayedaş carries out activities covering İstanbul's districts; Kadıköy, Üsküdar, Beykoz, Ümraniye, Çekmeköy, Ataşehir, Maltepe, Kartal, Pendik, Tuzla, Sultanbeyli, Sancaktepe, Şile and Adalar	Corporate Customer	Customers consuming 400 MWh or more electricity per year
AYEPSAŞ	Enerjisa İstanbul Anadolu Yakası Elektrik Perakende Satış A.Ş. (Enerjisa İstanbul Asian Side Electricity Retail Sales Inc.)	Corporate Restructuring	The restructuring process – carried out in order to increase Enerjisa's operational and management efficiency and Enerjisa's IPO– of dividing Enerjisa into two companies by separating the customer oriented distribution and retail sales activities from the conventional electricity production and wholesale activities carried out by Sabancı Holding and E.ON.
Başkent EDAS	Başkent Elektrik Dağıtım A.Ş. (Başkent Electricity Distribution Inc.)	CO2	Carbon dioxide
Başkent EDAS Region	The region where Başkent EDAS carries out activities covering the provinces of Ankara, Kastamonu, Bartın, Zonguldak, Karabük, Çankırı and Kırıkkale	CPI	Consumer Price Index
Başkent EPSAŞ	Enerjisa Başkent Elektrik Perakende Satış A.Ş. (Enerjisa Başkent Electricity Retail Sales Inc.)	CRM	Customer Relations Management
BIST / Borsa	Borsa İstanbul / Borsa İstanbul A.Ş. (İstanbul Stock Exchange)	CSC	Customer Service Centers
CAPEX	capital expenditures – made in order to carry out Electricity distribution activities – subject to regulations of the Energy Market Regulatory Authority	CSR	Corporate Social Responsibility
CAPEX Reimbursements	One of the components of the regulated revenue obtained by the Company from the distribution segment. Not shown in the consolidated income statement, but shown under the item "Other Cash Inflows Related To Cash Flows From Operating Activities" in the cash flow statement within the scope of the Company's financial statements.	CSR	Corporate Social Responsibility Association of Turkey
CAPEX Efficiency	(CAPEX outperformance) An indicator describing the saving made in the CAPEX items at unit prices set by the Energy Market Regulatory Authority. If, at the end of a tariff year, the distribution companies of the Company accrue a cost lower – per CAPEX item with compulsory unit price – than the unit prices set by the Energy Market Regulatory Authority, the positive difference will be included in the revenue obtained by means of tariffs, and will remain within the distribution companies of the Company. Therefore, the CAPEX efficiency is the ratio of the "unit price based regulated CAPEX" to the difference between the "unit price based actual CAPEX" and the "unit price based regulated CAPEX".	CSR Association	Corporate Social Responsibility Association
		CSO	Chief Sales Officer
		CTO	Chief Technology and Customer Solutions Officer
		CTL	Corporate Tax Law n.5520 (date: 13.06.2006)
		DD Turkey	DD Turkey Holdings S.à.r.l.
		Distribution Tariff	The sums to be charged for using distribution systems and procedures and principles regarding the implementation of tariffs
		EBITDA	Earnings Before Interest, Taxes, Depreciation, And Amortization; means the net profit for the period before financial income/expense, tax expense and amortization expenses.
		EBRD	European Bank of Reconstruction and Development
		EDAS	Elektrik Dağıtım A.Ş. (Electricity Distribution Inc.) Elektrik Piyasası Endeksi
		EMI	Electricity Market Index
		EMRA	Energy Market Regulatory Authority
		E.ON	E.ON SE
		EEDAŞ	Enerjisa Elektrik Dağıtım A.Ş. (Enerjisa Electricity Distribution Inc.)
		ELDER	Electricity Distribution Services Association
		Eligible Customers	Real person or juridical customers who consume more than the electricity level stipulated by the Energy Market Regulatory Authority or who have the freedom to choose their supplier because of their direct connection to the power transmission system
		Enerjisa	Enerjisa Enerji A.Ş.

Glossary

Enerjisa Doğal Gaz Toptan	Enerjisa Doğal Gaz Toptan Satış A.Ş. (Enerjisa Natural Gas Wholesale Inc.)	Müşteri Çözümleri A.Ş.	Enerjisa Müşteri Çözümleri A.Ş. (Enerjisa Customer Solutions Inc.)
Enerjisa Üretim	Enerjisa Üretim Santralleri A.Ş. (Enerjisa Power Stations Inc.)	MVAR	Magnetic Variation
EPIAŞ	Enerji Piyasaları İşletme A.Ş. (Energy Markets Enterprises Inc.)	MWh	Megawatt Hour
EPS	Enerjisa Başkent Elektrik Perakende Satış A.Ş. (Enerjisa Başkent Electricity Retail Sales Inc.)	National Tariffs	The tariff determined for each quarter by the Energy Market Regulatory Authority covering the Distribution Tariff and Retail Sales Tariff
EPSAŞ	Elektrik Perakende Satış A.Ş. (Electricity Retail Sales Inc.)	Non-Eligible Customers	Real person or juridical customers who can purchase electricity only from the licensed retail companies in their regions
ETKB	T.R. Ministry of Energy and Natural Resources	OECD	The Organization for Economic Co-operation and Development
EU	European Union	OHS	Occupational Health & Safety
Euro	Currency of the European Union	OHSAS	Occupational Health & Safety System
EÜAŞ		Operating Expenses Efficiency	The ratio of the “regulated operating expenses” to the difference between the “actual operating expenses” and the “regulated operating expenses”
Final Consumer	Consumers who are connected to distribution grids	RAB	Regulatory Asset Base; According to the Communiqué On Regulating The Distribution System Revenue, Regulated Asset Base is the sum for each tariff year (as the beginning and end of the year) calculated according to the unamortized portion of the relevant capital expenditures. The Regulatory Asset Base can be briefly described as, the unamortized investment the company has made. This sum reflected into the tariffs as the sum payable in the first implementation, is updated as a closing value with accrued CAPEX at the end of the tariff period, and transferred to the next period. (The RAB opening value in 2006 is “0”.)
Fitch	Fitch Ratings	Regulated Customers	Non-eligible customers and eligible customers who prefer to purchase electricity from Enerjisa at the Retail Sales Tariff
GM	General Manager	REM	Registered Electronic Mail
GPS	Global Positioning System	Residential / Commercial	Customers consuming up to 400 MWh electricity per year
IAS	International Accounting Standards	Privatization Administration, ÖİB	T.R. Prime Ministry Privatization Administration
IFRS	International Financial Reporting Standards	RERSM	Renewable Energy Resources Support Mechanism
Incumbent Retail Company	The retail company established within the scope of the legal requirement to separate the distribution and retail sales activities or the supply company authorized by the Energy Market Regulatory Authority as the final resource supplier		
ISO	International Standards Organization		
ITU	Istanbul Technical University		
KAP	Public Disclosure Platform		
KGK	Public Oversight, Accounting and Audit Standards Authority		
Km	Kilometer		
Km2	Square Kilometer		
KRITA	Critical Infrastructure Management In Smart Cities Project		
KWh	Kilowatt Hour		
LEAP	Leadership Acceleration Program		
MBA	Master of Business Administration		
METU	Middle East Technical University		
Ministry of Economy	Ministry of Economy of the Republic of Turkey		
MIXX Awards	Mixx Marketing and Interactive Excellence Awards		
MMA	Mobile Marketing Association		

Retail Sales Tariff	The retail sales tariff arranged for electricity energy and/or capacity sales made by the incumbent retail companies to non-eligible customers, eligible customers who have not chosen their supplier, and customers within the scope of final supply
RRROR	Real Reasonable Rate of Return
R&D	Research and Development
Sabancı Holding	Hacı Ömer Sabancı Holding A.Ş.
SAIDI	System Average Interruption Duration Indices
SAIFI	System Average Interruption Frequency Indices
SALT	Sabancı Leader Team Project
SAP	System Analysis and Program Development
SAP CRM	SAP Customer Relations Management
SCADA	Supervisory Control and Data Acquisition
SEAŞ	Soma Elektrik Üretim ve Tic. A.Ş. (Soma Electricity Generation & Trade Inc.)
SME	Small and Medium Scale Enterprises
SMS	Short Message Service
TAS	Turkish Accounting Standards
TAS 2023	Türkiye Akıllı Şebekeler 2023 (Smart Grids Turkey 2023)
TCC	Turkish Code of Commerce
TEDAŞ	Türkiye Elektrik Dağıtım A.Ş. (Turkish Electricity Distribution Inc.)
TEİAŞ	Türkiye Elektrik İletim A.Ş. (Turkish Electricity Transmission Inc.)
TETAŞ	Türkiye Elektrik Ticaret ve Taahhüt A.Ş. (Turkish Electricity Trade & Contracting Inc.)
TFRS	Turkish Financial Reporting Standards
TL	Turkish Lira
TOR	Transfer of Operating Rights agreement
Toroslar Region	The region where Toroslar carries out activities covering the provinces of; Adana, Osmaniye, Gaziantep, Mersin, Kilis and Hatay
Toroslar EDAŞ	Toroslar Elektrik Dağıtım A.Ş. (Toroslar Electricity Retail Sales Inc.)
Toroslar EPSAŞ	Enerjisa Toroslar Elektrik Perakende Satış A.Ş. (Enerjisa Toroslar Electricity Retail Sales Inc.)
T.R.	Republic of Turkey
TURKSTAT	Turkish Statistical Institute

TÜSİAD	Turkish Industry & Business Association
TÜV-NORD	Teknik Kontrol ve Belgelendirme Belgelendirme A.Ş. (Technical Control and Documentation Inc.)
TWh	Terawatt Hour
USD	Currency of the United States of America
VAT	Value Added Tax
Verbund	Verbund International GmbH
VR	Virtual Reality



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