

Zorlu Enerji 2017 Annual Report

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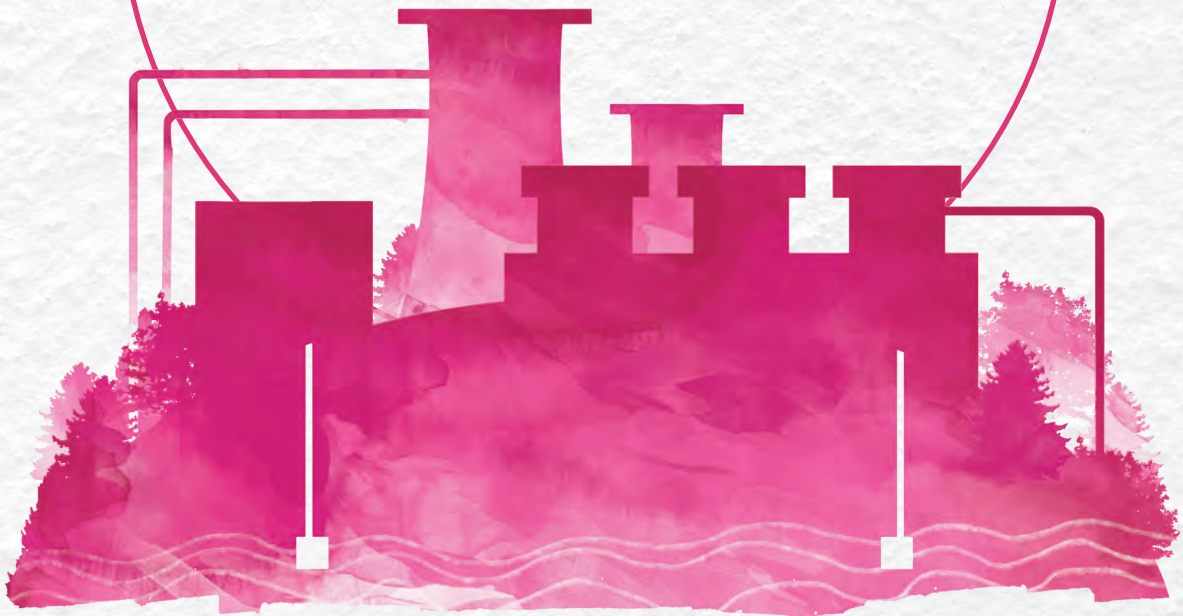
DIRECTORY



4 Geothermal
Power Plants
in Turkey

240 MW of
Installed Capacity in
Geothermal Energy

2017 Overview

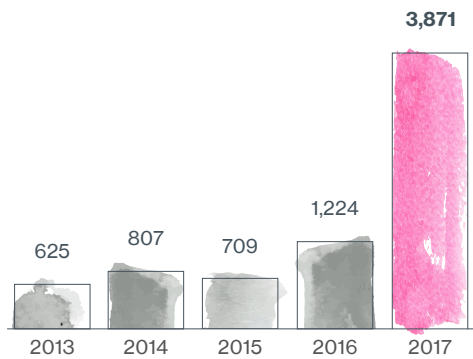


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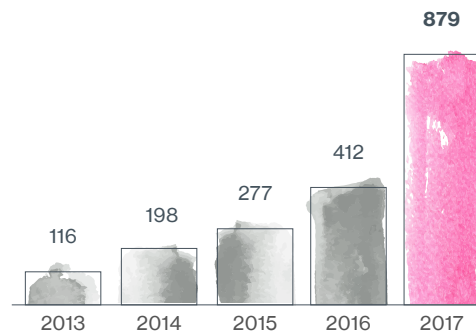
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Key Operational and Financial Indicators

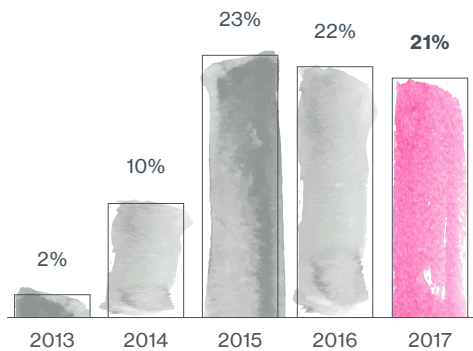
NET SALES
(TL Million)



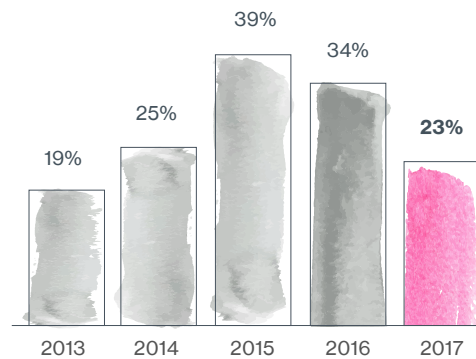
EBITDA
(TL Million)



GROSS PROFIT MARGIN
(%)



EBITDA MARGIN
(%)



Consolidated revenues grew by 216% to TL 3,871 million in 2017 mainly driven by the new acquisitions.

EBITDA reached TL 879 million with a 113% yoy growth.



CLOSING A SUCCESSFUL YEAR, ZORLU ENERJİ REPORTED A POSITIVE BOTTOMLINE ON AN ANNUAL BASIS FOR THE FIRST TIME IN FOUR YEARS WITH A NET PROFIT OF TL 52 MILLION.

SUMMARY BALANCE SHEET

(TL '000)

	2017	2016	2015	2014	2013
Current Assets	2,346,567	1,297,203	805,748	593,652	534,013
Non-Current Assets	8,929,062	5,544,041	4,872,348	4,369,129	5,767,605
Total Assets	11,275,629	6,841,244	5,678,096	4,962,781	6,301,618
Current Liabilities	4,021,878	2,346,632	2,044,489	1,936,404	1,662,868
Non-Current Liabilities	5,571,646	4,029,875	2,881,629	2,501,427	3,867,825
Shareholders' Equity	1,682,105	464,737	751,978	524,950	770,925
Total Liabilities & Equity	11,275,629	6,841,244	5,678,096	4,962,781	6,301,618
Gross Financial Debt	7,383,764	5,355,925	4,149,059	3,217,706	3,868,136
Net Financial Debt	7,048,679	5,257,665	3,990,513	3,103,134	3,654,303

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SUMMARY INCOME STATEMENT

(TL '000)

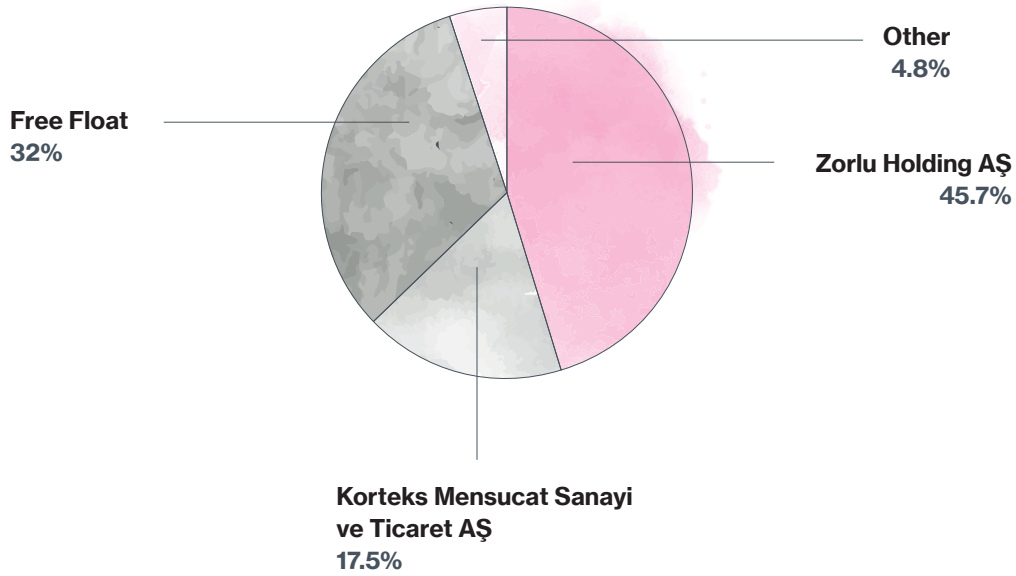
	2017	2016*	2015	2014	2013
Revenues	3,871,190	1,223,594	709,417	806,947	625,008
Gross Profit	794,187	268,620	162,541	82,132	14,501
Operating Profit / (Loss)	540,811	233,766	127,445	51,562	(5,491)
Share of Profit/ (Loss) of Associates	20,096	(884)	16,824	12,333	3,128
Operating Income / (Loss) Before Financial Income/(Expense)	490,411	240,186	145,187	63,911	(1,129)
EBITDA**	879,281	412,360	277,081	198,197	116,012
Net Financial Expenses	(378,987)	(339,086)	(425,286)	(308,349)	(387,737)
Net Profit / (Loss) for the Period***	51,925	(4,034)	(263,407)	(224,240)	(309,171)
Gross Profit Margin	20.5%	22.0%	22.9%	10.2%	2.3%
EBITDA Margin	22.7%	33.7%	39.1%	24.6%	18.6%

*Income statement for the year 2016 was restated due to changes in the classification of (i) system usage fee and (ii) foreign exchange gains/losses and interest income/expense arising from trading activities.

**EBITDA calculation includes the portion of the amortization and depreciation expenses which is reported under operating expenses, interest income related to distribution activities and share of profit/(loss) of associates.

***Net income/(loss) represents the income/(loss) attributable to the owners of the parent company.

SHAREHOLDING STRUCTURE



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ZORLU ENERJİ SHARES

20% of Zorlu Enerji Elektrik Üretim AŞ's ("Zorlu Enerji" or "The Company") shares were offered to public in 2000. The Company's shares are quoted on Borsa Istanbul (BIST) under the ZOREN ticker. 32% of Zorlu Enerji's shares are tradable on BIST.

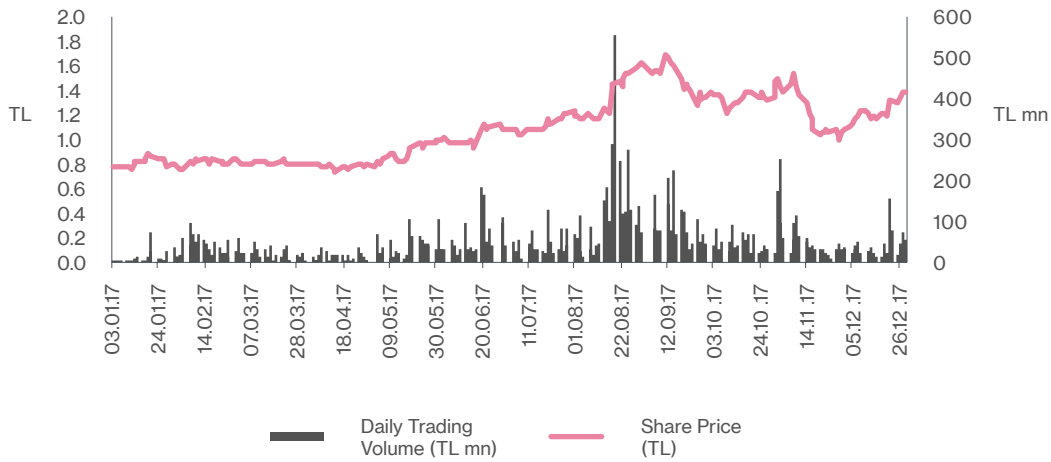
The first energy company in Turkey to go public, Zorlu Enerji is the only listed company of Zorlu Energy Group. Trading on the STAR MARKET, Zorlu Enerji is included in the BIST STARS, BIST 100, BIST 50, BIST 100 30, BIST ALL, BIST Bursa, BIST ELECTRICITY, BIST SERVICES and BIST SUSTAINABILITY indices as of the end of 2017.

SUMMARY SHARE PRICE INFORMATION FOR 2017* (TL)

Total Number of Shares	200,000,000,000
Number of Shares in Free Float	63,962,332,047
Yearly High	1.79
Yearly Low	1.12
Year-End Closing Price	1.58
Market Cap* (Million)	3,160

* As of December 29, 2017

ZORLU ENERJİ - SHARE PRICE PERFORMANCE

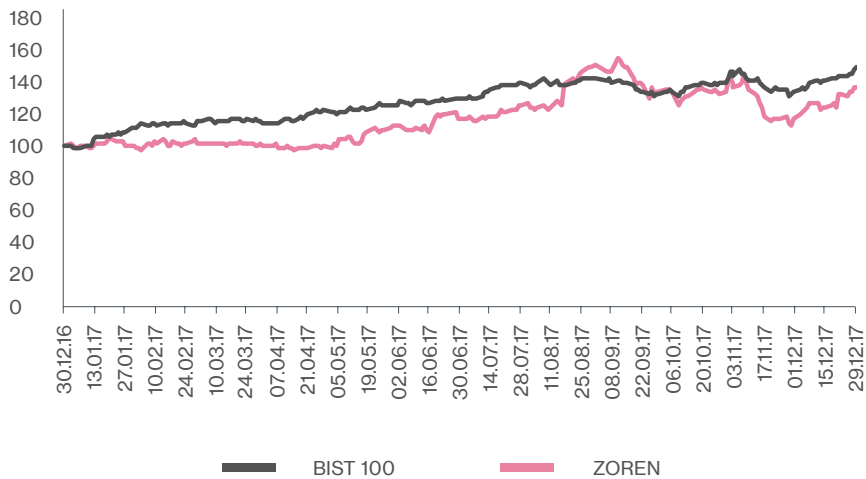


As of the end of 2017, Zorlu Enerji has a market capitalization of TL 3,160 million.

In 2017, Zorlu Enerji's share price rose by 36%, closing the year at TL 1.58. The BIST 100 Index increased by 48% in the same period.

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ZORLU ENERJİ - RELATIVE PERFORMANCE



Highlights of 2017

Closing a successful year, Zorlu Enerji realized new investments and signed new contracts in Turkey and abroad while receiving numerous awards for its activities in 2017.

CHANNELLING ITS 25 YEARS OF INDUSTRY EXPERIENCE TO OSMANGAZI ELECTRICITY DISTRIBUTION REGION

Zorlu Enerji, which has close to 25 years of experience and expertise in the energy industry, acquired the shares of Osmangazi Elektrik Dağıtım AŞ ("OEDAŞ") and Osmangazi Elektrik Perakende Satış AŞ ("OEPSAŞ") as of February 2, 2017. Adding electricity distribution and retail sales activities to its portfolio through this acquisition, Zorlu Enerji is now active in all phases of the electricity value chain.

With this acquisition, Zorlu Enerji started to provide electricity distribution services to over 1.7 million subscribers in the Osmangazi electricity distribution region, which comprises the cities of Eskişehir, Bilecik, Uşak, Afyonkarahisar and Kütahya and accounts for nearly 4% of the total electricity consumption in Turkey.

PHASE I OF KIZILDERE III GEOTHERMAL POWER PLANT ENTERED INTO OPERATION

Under its sustainability vision, Zorlu Enerji utilizes Turkey's indigenous and renewable energy resources for the benefit of Turkish economy. Within this respect, the Company commissioned the first phase (with 99.5 MW of installed capacity) of the Kızıldere III Geothermal Power Plant ("GPP"), its fourth geothermal power plant project in Turkey, in August 2017. Located in the Kızıldere - Gökgedik area on the provincial border between Denizli and Aydın, the plant, for which the construction began in 2016, was realized with an investment of USD 320 million.

With the commissioning of the first unit of Kızıldere III GPP, which is expected to generate approximately 720 million kWh of net electricity per annum, the shares of renewable energy in Zorlu Enerji's total installed capacity and total capacity in Turkey increased to 57% and 76%, respectively.

Still under construction, the second unit (with 65.5 MW of installed capacity) of Kızıldere III GPP is planned to be brought online in 1Q18.

NEW INVESTMENTS IN RENEWABLE ENERGY IN PAKISTAN



Commissioned in 2013, Zorlu Enerji's Jhimpir Wind Power Plant ("WPP") in Pakistan, which faces a serious supply shortage in electricity, was the first wind power plant in this country to be realized with foreign investment. Zorlu Enerji plans to expand its investments in Pakistan with the 100 MW Bahawalpur I Solar Power Plant ("SPP") which is to be developed in the Punjab Province. The first renewable energy project to be approved by the government of Pakistan in three years, this investment will boost Zorlu Enerji's installed capacity abroad to 447 MW when it becomes operational in 2018.

The 56.4 MW Jhimpir Wind Power Plant, which came onstream in 2013, was granted the Gold Standard Award. Pakistan's first wind power plant, the Jhimpir WPP plays a major role in reducing the country's dependence on energy imports. A power plant which sets a benchmark in the world energy market, the Jhimpir WPP will generate 159 million kWh of electricity per annum and supply power to 350 houses over the next 20 years.

In addition to its Bahawalpur I SPP investment in Pakistan, Zorlu Enerji has also obtained pre-licenses for two more solar power plant projects, each with 100 MW of installed capacity, to be developed in the same region under a Letter of Intent signed with the Government of Punjab.

Zorlu Enerji Pakistan Ltd. ("Zorlu Enerji Pakistan"), a wholly-owned subsidiary of Zorlu Enerji, has obtained a pre-license from the Pakistan Alternative Energy Development Board for a 30 MW hybrid solar power plant project to be developed on the existing site of Jhimpir WPP in Sindh, Pakistan. This will be the first hybrid power plant project in Pakistan, which will generate both solar and wind power.

ZORLU ENERJİ TO SUPPLY ELECTRICITY TO PALESTINE

Zorlu Enerji signed a Letter of Intent with the Jerusalem District Electricity Company ("JDECO"), which distributes 25% of Palestine's energy, for establishing and operating solar power plants to supply electricity to Palestine. With this investment, Zorlu Enerji has achieved another milestone towards its goal of leading the development of solar power in the region.

ZORLU SOLAR BECAME THE EXCLUSIVE DISTRIBUTOR OF FIRST SOLAR'S SOLAR PV PANELS IN 26 COUNTRIES



Zorlu Solar Enerji Tedarik ve Ticaret AŞ ("Zorlu Solar"), a wholly-owned subsidiary of Zorlu Enerji, became the largest business partner and the exclusive distributor of the US-based First Solar, Inc. ("First Solar"), which provides new generation solar PV solutions, in 26 countries in Central Europe, Eurasia and the East Mediterranean. First Solar is the leading global manufacturer of photovoltaic (PV) solar systems integrated with its signature thin film technology.

Under the five-year distribution & supply agreement, Zorlu Solar became the exclusive distributor of First Solar's high-performance thin-film photovoltaic solar modules in selected 26 countries, including Turkey, Albania, Bosnia and Herzegovina, Bulgaria, Cyprus, Georgia, Kosovo, Libya, Macedonia, Pakistan, Romania, Serbia, Turkmenistan, Ukraine and the Commonwealth of Independent States. Zorlu Enerji will also use First Solar's solar PV modules in its own projects.

ZORLU SOLAR PARTICIPATING IN SOLAREX ISTANBUL FOR THE FIRST TIME

The only distributor in the region for First Solar, which develops new generation technologies in solar PV solutions, Zorlu Solar attended Solarex Istanbul Solar Energy and Technologies Fair, Turkey's first and only solar power-themed fair, for the first time. Exhibiting First Solar's high-performance thin film photovoltaic solar PV panels at the fair, the Zorlu Solar booth attracted a great deal of interest from participants.

ZORLU ENERJİ IS THE “LOW CARBON HERO” FOR THREE YEARS IN A ROW

The fourth Istanbul Carbon Summit organized by the Sustainable Production and Consumption Association (SPCA) gathered together the companies working on the carbon economy and carbon reduction in Süleyman Demirel Cultural Center at Istanbul Technical University (ITU). In the award ceremony organized for the third time this year, Zorlu Energy Group has been rewarded the “Low Carbon Hero” award for its social responsibility project aimed at primary school students, “Our Energy is for Children”. Having been rewarded for its works related to carbon management, sustainability and transition to clean energy systems, Zorlu Energy Group has been the holder of the “Low Carbon Hero” title for the past three years.

ZORLU ENERJİ RECEIVED THE GEOTHERMAL AWARD AT THE “ICCI ENERGY AWARDS”

Regarded as the Turkish energy Oscars, where the best companies to represent the energy potential of Turkey are awarded for their

accomplishments, the 6th ICCI Energy Awards was held at the Istanbul WOW Convention Center. At the “ICCI Energy Awards” organized by the International Energy and Environment Fair and Conference (“ICCI”), Zorlu Enerji received the “Geothermal Award” for its Kızıldere II Geothermal Power Plant in the Renewable Energy Power Plants category.

TWO COMPANIES OF ZORLU ENERGY GROUP RECEIVED THE CDP TURKEY CLIMATE LEADERSHIP AWARD

Zorlu Energy Group, which has achieved many breakthroughs in its sector in the field of sustainability, was included in the Leaders class with two of its companies within the scope of the CDP Climate Change Program, which aims to change the way the business world operates in order to reduce the effects of climate change and to protect natural resources. Zorlu Enerji Elektrik Üretim AŞ and Zorlu Doğal Elektrik Üretimi AŞ (“Zorlu Doğal”), which received an “A-” rating in the 2017 report prepared by the CDP Turkey team within the scope of the program implemented by CDP Turkey, were awarded the CDP Turkey 2017 Climate Leadership Award in the Leaders category.

“SOLAR ENERGY WITH ZORLU” BOOK PUBLISHED

Having prepared special books for children in order to inform them about clean energy resources and proper use of energy within the framework of the “Our Energy is for Children” project, Zorlu Energy Group has added a new book to its energy book series. “Solar Energy with Zorlu”, which is the 6th edition of energy book series of the “Our Energy is for Children” project, was co-authored by Prof. Dr. Pınar Bayhan, Head of Child Development Department at Hacettepe University, and Asst. Prof. Fehmi Gökem Üçtuğ, Faculty Member at İzmir University of Economics.



“THE PATH TO GROWTH IN SOLAR POWER IS THROUGH AN EFFECTIVE R&D STRATEGY AND A STRONG ECOSYSTEM”

The Solar Energy Technologies Workshop was organized by the Energy Working Group of TÜBA (“Turkish Academy of Sciences”) in August. At the “Solar Power: Turkey’s Policies and Strategy” panel moderated by Prof. Arif Hepbaşlı, Evren Evcit, Director of Zorlu Solar, talked about the development of solar power and Turkey’s solar power potential. Calling all stakeholders to join their efforts, Mr. Evcit said, “Turkey’s solar power potential is higher than most countries. We need to set in motion an effective R&D strategy and create a strong ecosystem to fully utilize this potential. We can uncover our solar power potential through a strategic roadmap developed with the collaborative efforts of the private and public sectors.”

ZORLU ENERJİ WAS GRANTED THE “BEST BUSINESS AWARD”

At the 11th annual “Best Business Awards” organized by Awards Intelligence, one of the leading recognition organizations in the UK, Zorlu Enerji won the Best Social Responsibility Project Award for its “Our Energy is for Children” project.

EIF 2017 WAS MARKED BY ZORLU SOLAR’S SOLAR ROOFTOPS WORKSHOP

Zorlu Solar introduced the latest technologies and industry solutions to visitors at the 10th Annual EIF International Energy Congress and Expo 2017, which was held at Congressium Ankara on November 8-10, 2017. Aiming to contribute to the development of solar power-based systems in Turkey, Zorlu Solar became the main sponsor of the Solar Rooftops Workshop and also undertook the sponsorship

for solar panels and shared its knowledge and experience in the installation and promotion of rooftop solar panels.

NEW NATURAL GAS DEAL FOR ZORLU ENERJİ’S POWER PLANTS IN ISRAEL



Dorad Energy Ltd., Ashdod Energy Ltd. and Ramat Negev Ltd., in which Zorlu Enerji is a shareholder, signed a “Natural Gas Purchase” agreement to procure natural gas from the Karish and Tanin gas fields in the Mediterranean Sea. Under the agreement signed with Energean Israel Ltd., up to 6.75 billion cubic meters of gas would be purchased for the Dorad Natural Gas Power Plant, which is the largest gas fired power plant in Israel, and a total of 2.65 billion cubic meters of gas would be procured for the Ramat Negev and Ashdod Natural Gas Power Plants for a period of at least 14 years. Acquired by Energean in 2016, the Karish and Tanin gas fields, which are located offshore Israel, are scheduled to commence natural gas production in late 2020.

ZORLU ENERJİ WAS INCLUDED IN THE BIST SUSTAINABILITY INDEX ON A VOLUNTARY BASIS FOR THE SECOND TIME

Zorlu Enerji voluntarily applied in late 2015 to be included in the BIST Sustainability Index, which comprises the shares of listed companies on Borsa Istanbul with a high corporate sustainability performance. As a result of the evaluations conducted by Borsa İstanbul AŞ in 2016, Zorlu Enerji was qualified to be included in the index for the November 2016 - October 2017 period. Applying on a voluntary basis for the second time, Zorlu Enerji was deemed eligible for inclusion in the index for the November 2017 - October 2018 period as well, thanks to its continued compliance with the index criteria.

Chairman's Message



Esteemed Stakeholders,

The year 2017 was a politically and financially challenging year for both the global markets and Turkey.

We leave behind a year during which excess liquidity and expansionary monetary policies around the globe supported the world economy and developed countries registered strong growth rates.

The US Federal Reserve continued with its rate hikes and plan to reduce its balance-sheet during 2017. The European Central Bank, on the other hand, signalled that it could scale back quantitative easing from 2018 by gradually reducing the size of its monthly asset purchases.

Developed countries started the year 2018 with relative stability in macroeconomic indicators such as growth, inflation and unemployment rates. With improving confidence on a global basis, the world economy continues to recover at a moderate pace. Following two years of weak economic indicators, the growth trajectory looks promising with the recent pick up in production and its contribution to global trade.

According to the Organization for Economic Cooperation and Development (OECD), the global economy has picked up momentum and there is synchronized growth across most countries. The International Monetary Fund (IMF) has also revised its global growth

projections for 2017 and 2018 in its World Economic Outlook Report by 0.1 points to 3.6% and 3.7%, respectively.

While 2017 posed some challenges for the developing countries, it was a good year overall. The country/region-specific economic or political issues, rise in interest rates and the re-acceleration of growth in developed economies continued to pose risks for the developing economies and their currencies.

TURKISH ECONOMY RECORDED SOLID GROWTH

In spite of the continuing challenges from 2016 and the new problems emerging in 2017, the Turkish economy has sustained a successful momentum thanks to the government's pro-growth policies and stimulus measures. With the increase in public investments and incentive driven boost to consumption, economic growth turned out to be well-above the initial projections. The Credit Guarantee Fund also contributed to this growth with its support for the SMEs.

With a 7.4% growth in 2017, Turkey achieved one of the highest growth rates among the OECD, EU and G20 countries.

Though at a slower rate than the last two years, the Turkish Lira (TL) continued to weaken in 2017. In addition to the depreciation of TL, high domestic demand and increase in energy prices elevated inflation to double digit levels. The impact of this on production costs will be felt more drastically in 2018. For 2018, we see reflections of global developments, regional challenges, inflation and current account deficit as the fundamental risk factors for Turkey.



WE ALREADY REACHED A LARGE CUSTOMER BASE WITH ZORLU ELEKTRİK. WE TOOK A FIRM STEP TOWARDS FURTHER GROWING OUR ACTIVITIES TOWARDS END-CONSUMERS WITH THE ACQUISITION OF OEDAŞ AND OEPSAŞ.

RENEWABLE ENERGY WILL REMAIN IN THE FOREFRONT OF TURKEY'S ENERGY INDUSTRY

Turkish energy industry also had an active year in 2017. The efforts of the Ministry of Energy and Natural Resources, which were initiated as part of the 2023 vision for improving and enhancing the policies and strategies for the energy sector, were furthered with the introduction of the Strategic Plan for the 2015-2019 period. In 2017 the Ministry announced Turkey's "Natural Energy and Mining Policy". Essential for Turkey for realizing its regional and global energy vision in the coming years, the Policy focuses on three main goals: supply security, localization and a predictable market.

As in 2017, the renewable energy is expected to take the lead in the Turkish energy sector in 2018 with the new tenders to be launched for the Renewable Energy Resource Areas (RERA).

The total value of mergers and acquisitions deals in the Turkish energy sector hit USD 3.45 billion in 2017 with a YoY increase of 72%. A total of 33 mergers and acquisitions took place in the areas of electricity generation, distribution, retail sales and natural gas distribution in 2017, constituting 58% of the total M&A volume in the energy industry. Zorlu Enerji's acquisition of OEDAŞ and OEPSAŞ for USD 360 million was the largest transaction in the afore-mentioned segments. Adding electricity distribution and retail sales to our business portfolio, this acquisition is crucial for our strategy and goal to become an integrated player in the energy sector. We already attained a considerable customer base with Zorlu Elektrik. With the acquisition of OEDAŞ and OEPSAŞ, we took a firm step towards further growing our activities towards end-consumers.

We firmly continued our renewable energy investments in 2017. Having an installed capacity of 99.5 MW, the first unit of Kızıldere III Geothermal Power Plant was commissioned with an investment of USD 320

million in August. The first unit will generate approximately 720 million kWh of electricity per annum. We are proud to contribute to our country with another renewable energy project. We plan to commission the second unit (with 65.5 MW of installed capacity) of Kizildere III GPP in 2018.



WITH 76% OF ITS TOTAL
INSTALLED CAPACITY
IN TURKEY BASED ON
INDIGENOUS AND RENEWABLE
ENERGY RESOURCES, ZORLU
ENERJİ WILL MAINTAIN ITS
EFFORTS IN SUSTAINABILITY
UNABATED.

CONTINUED GROWTH IN RENEWABLES WITH SOLAR POWER

In 2017, Zorlu Enerji became the largest business partner and the only authorized distributor of First Solar, one of the leading solar PV module producers in the world with its proprietary thin film technology, in 26 countries across Central Europe, Eurasia and the East Mediterranean. This collaboration will not be limited to product sales as we will be utilizing First Solar's solar power systems in our own projects as well. We firmly believe that this business partnership will contribute to the achievement of our growth targets in solar power.

In 2017, we also initiated new investments abroad. While we commenced the development of a 100 MW solar power plant project in Punjab, Pakistan, we also obtained pre-licenses for two more solar power plant projects, each with 100 MW of installed capacity, to be developed in the same region. Moreover, we have obtained a pre-license for a 30 MW hybrid solar power plant project to be built on the existing site of our wind power plant in

Pakistan. We are planning to commission our first 100 MW solar power plant in Pakistan in 2018. As the location of our first renewable energy investment, Pakistan is of particular importance for us. Our initial investment in this friendly country was in wind power. From now on, we will further our investments in Pakistan with a focus on solar power. With each partnership, Pakistan becomes less dependent on energy imports while Turkey grows further in the region. Our efforts also help strengthen the historically close ties between the two countries.

Furthermore, we took a key step towards our goal of pioneering the development of solar power in our region. We have signed a Letter of Intent with JDECO (Jerusalem District Electricity Company), an electricity distribution company which supplies 25% of Palestine's energy, for constructing and operating solar power plants to supply electricity to Palestine.

SUSTAINABILITY WILL ALWAYS BE A PRIORITY

Sustainability has always been one of our primary agenda items. We consider sustainable energy to be a key driving force for sustainable development. That is why our strategy is based on supporting the low-carbon economy. From day one of our operations, we have been extensively focused on various environmental issues such as countering the effects of climate change, reducing emissions, promoting proper use of natural resources, social governance, energy efficiency and energy supply security. With 76% of its total installed capacity in Turkey comprising indigenous and renewable energy resources as of the end of 2017, Zorlu Enerji is set to maintain its efforts in sustainability unabated.

For the second time, we have voluntarily applied to be included in the BIST Sustainability Index, which consists of the shares of listed companies on Borsa Istanbul with a high corporate sustainability performance. As part of our transparency policy, we have been sharing our carbon emissions and how we manage the risks and opportunities brought about by the climate change with our stakeholders through the CDP (Carbon Disclosure Project). Joining CDP's Water Security Program with two of our companies, we have started assessing all of our operations for their efficiency in water management. We have submitted our reports for Zorlu Enerji and Zorlu Doğal to CDP's Climate Change Program and we are proud to see that, with their successful performance, both of our companies were included among the leading companies in the fight against climate change.

Zorlu Enerji is taking firm steps into the future. It creates value for all of its stakeholders with its sound business strategies in every area of its operations. In addition to growing in the domestic market, Zorlu Enerji also flies Turkey's flag proudly with its projects in foreign markets. I would like to extend my gratitude to all of our employees, business partners, shareholders and all other stakeholders who have made a difference with their hard work and determination and contributed to this positive momentum.

Sincerely,

Zeki ZORLU
Chairman



Board of Directors



ZEKİ ZORLU
CHAIRMAN

(1939 - Denizli) Zeki Zorlu began his career in a family-owned textile company in Babadağ, Denizli. Having opened his first textile store in Trabzon, Zeki Zorlu laid the foundations of Korteks in Bursa in 1976. Mr. Zorlu founded Zorlu Holding together with his brother Ahmet Nazif Zorlu and added Vestel to the Holding's business portfolio in 1994. He also played a critical role in the foundation and acquisition of numerous companies in energy, tourism and real estate sectors. In addition to his chairmanship duty on the board of Zorlu Enerji, Zeki Zorlu also serves as the Vice Chairman of Zorlu Holding and as chairman for Zorlu Group companies operating in textile and real estate industries. Mr. Zorlu also assumes active roles in non-governmental organizations. He is the Vice President of the Textile Industry Assembly of TOBB (The Union of Chambers and Commodity Exchanges of Turkey). Having served on the Board of BUSİAD (Bursa Industrialists and Businessmen Association) for two years, Zeki Zorlu is currently a member of the International Patent Cooperation Union, BUFAD (Bursa Disaster and Emergency Management Association), the Foundation for the Empowerment of Uludağ University, KALDER (Turkish Society for Quality), SUSEB (Association of Artificial Synthetic Fiber Manufacturers), the Bursa Research Foundation and the Association for International Competition and Technology.

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ALİ AKIN TARI
DEPUTY CHAIRMAN

(1943 - Koruköy) After his graduation from the Istanbul Law Faculty, Ali Akın Tari served as Tax Inspector and Chief Tax Inspector at the Ministry of Finance between 1972 and 1986. He was appointed as the Vice President of the Tax Inspectors Board in 1986 and Group Head of the Istanbul Tax Inspectors Board in 1989, and continued to serve in this position until he was appointed as a Board Member to the Banking Regulation and Supervision Agency in 2001. Ali Akın Tari was also elected as a Board Member to the Savings Deposit Insurance Fund in addition to being a Board Member of the Banking Regulation and Supervision Agency in the same year. He left his position at the Banking Regulation and Supervision Agency when his period of duty expired in 2004, and was appointed as a Consultant for the Ministry of Finance. Mr. Tari served in this position until 2007, when he resigned from public service to work in different areas in the private sector. Mr. Tari became a member of the Board of Directors and the Audit Committee of Dilerbank in 2008; in addition to this position, he was also appointed as a member of the Board of Directors of Diler Holding in 2011. Besides being the Vice Chairman of Zorlu Enerji, Ali Akın Tari also serves on the Boards of two other Zorlu Group companies - Vestel Elektronik Sanayi ve Ticaret AŞ and Vestel Beyaz Eşya Sanayi ve Ticaret AŞ. Mr. Akın Tari is a chartered accountant and an independent auditor.



AHMET NAZİF ZORLU
BOARD MEMBER

(1944 - Denizli) Ahmet Nazif Zorlu began his professional career in a family-owned textile business in Babadağ, Denizli. He opened his first textile store in Trabzon. In 1970, Mr. Zorlu moved the company's headquarters to Istanbul and laid the foundations of Zorlu Holding together with his brother, Zeki Zorlu. Ahmet Zorlu set up his first company, Korteks in 1976 and gathered all of his companies under the roof of Zorlu Holding in 1990. Acquiring Vestel in 1994, Ahmet Zorlu opened the door to new lines of business for Zorlu Holding. Mr. Zorlu's entrepreneurialism, which began with the textile industry, went on to manifest itself in more companies operating in a wide range of industries such as household appliances, consumer electronics, energy, property development, metallurgy and defense. Ahmet Zorlu was elected as a Board Member to Zorlu Enerji at the Company's 2016 Ordinary General Assembly Meeting. In addition to his duty as a Board Member at Zorlu Enerji, Ahmet Zorlu also serves as the Chairman or Vice Chairman of the Board in numerous Zorlu Group companies operating in different industries.

With a keen interest in non-governmental organizations, Ahmet Zorlu sits on the Board of DEİK (Foreign Economic Relations Board), TÜSİAD (Turkish Industry and Business Association), DENSİR (Education and Culture Foundation of People of Denizli), BASİAD (Babadağ Industry and Business Association) and TETSİAD (Turkish Home Textile Industrialists' Association).



OLGUN ZORLU
BOARD MEMBER

(1965 - Trabzon) Upon completing his higher education in textiles and business administration in the UK, Olgun Zorlu began his professional career in 1986. He started to serve in managerial positions at various Zorlu Group companies in 1988 and managed their foreign market research and business development operations. Mr. Zorlu started serving as a Board Member at Zorlu Holding in 1998. In addition to his board membership at Zorlu Enerji, Mr. Zorlu has also been serving as a Board Member at Zorlu Holding and various other Zorlu Group companies.



SELEN ZORLU MELİK
BOARD MEMBER

(1975 - Trabzon) Selen Zorlu Melik graduated from the Department of Business Administration of the Faculty of Economics and Administrative Sciences at Uludağ University. She began her professional career at Denizbank in 1998. Following her internship at Bursa Branch of Denizbank, she joined Denizbank's Management Trainee Program in 1999. After working in a number of positions at Denizbank's head office, Mrs. Zorlu Melik attended a Marketing Certificate Program at the University of California, Berkeley, USA in 2001. She began working at the Korteks Yarn Factory in 2002 and became a Board Member of the same company in 2004. Mrs. Zorlu Melik has been serving as a Board member at Zorlu Enerji since 2002.



MEHMET EMRE ZORLU
BOARD MEMBER

(1984 - Istanbul) Mehmet Emre Zorlu graduated from the Department of Electrical and Electronics Engineering at Koç University in 2006. He obtained a Master's degree in Innovation and Technology Management from the University of Essex in the United Kingdom in 2008. In addition to his board membership at Zorlu Enerji, Mehmet Emre Zorlu also serves on the Boards of Zorlu Holding and other Zorlu Group companies. Mr. Zorlu is a member of Young Businessmen Association of Turkey and Endeavour Turkey.



BEKİR CEM KÖKSAL
BOARD MEMBER

(1967 - Ankara) Bekir Cem Köksal graduated from the Department of Mechanical Engineering at Boğaziçi University in 1988 and completed a Master's degree at Bilkent University in 1990. Cem Köksal, who worked in the banking industry between 1990 and 2001, was appointed as the Deputy General Manager at Denizbank in 1997. Mr. Köksal joined Vestel as the Chief Financial Officer in 2002. Mr. Köksal currently serves as an Executive Committee Member at Vestel Group of Companies and as the Chief Financial Officer of Zorlu Holding. Cem Köksal was elected as a Board Member at Zorlu Enerji's 2011 Ordinary General Assembly Meeting held on May 31, 2012 and has been reelected every year since.



HACI AHMET KILIÇOĞLU
BOARD MEMBER

(1956 - Giresun) Ahmet Kılıçoğlu graduated from the University of Essex with a Bachelor's degree in Economics in 1977 and a Master's degree in Economics in 1978. He began his professional career at the Ministry of Industry and Technology in 1979 and continued his career as an Assistant Specialist at Türkiye İş Bankası in 1980. After completing his military service, Mr. Kılıçoğlu worked in the private sector for a couple of years. Mr. Kılıçoğlu then held administrative positions at the United Nations Development Program (UNDP) and the F-16 aircraft project, before going on to take office at Türk Eximbank in 1987, where he worked in various positions. He later served as the CEO of the bank and as a Board Member between 1998 and 2010. Mr. Kılıçoğlu served as a Board Member at the Turkish Banks Association between 1998 and 2010 and was also elected as the President of the World EximBanks Union (The Berne Union) in 2001. He also served as a Consultant to the President at the Islamic Development Bank between 2008 and 2009 and as a Vice Chairman at Denizbank in 2010. In addition to being a Board Member at Zorlu Enerji Elektrik Üretim AŞ, Mr. Kılıçoğlu also holds seats on the Boards of two other Zorlu Group companies - Vestel Elektronik Sanayi ve Ticaret AŞ and Vestel Beyaz Eşya Sanayi ve Ticaret AŞ. He is also a Board Member at Şeker Mortgage Finansman AŞ, Şekerbank Kıbrıs Ltd, Doğan Gazetecilik AŞ and Doğan Holding AŞ.

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BURAK İSMAİL OKAY
BOARD MEMBER

(1967 - Ankara) Burak İsmail Okay obtained his bachelor's degree in Law at Ankara University in 1990. He later attended an International Law Certificate Program in New York. Mr. Okay started his career as a lawyer in the Legal Consultancy Department at Türkiye İş Bankası. He later served as Deputy Legal Advisor at Garanti Bankası, Legal Advisor at MNG Bank, Director of Legal Affairs at Nortel Networks Netaş and Partner at Bener Law Office, respectively. In 2006, Mr. Okay joined Zorlu Group and played a key role in the restructuring of the Legal Department that serves all companies within the Group. Aside from his duties as the Head of Legal Affairs Group at Zorlu Holding, he has been sitting on the Board of Zorlu Enerji since 2007.

Message from the CEO



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Esteemed Stakeholders,

For the energy sector, 2017 was a highly dynamic year. Important developments took place both in global and Turkish energy markets during the year.

The U.S., a leading international player in fossil fuels such as natural gas and coal, announced its withdrawal from the Paris Agreement in June, a decision that met with backlash from many countries.

Significant progress was achieved in Turkey's international energy projects in 2017. The first string of the TurkStream Natural Gas Pipeline Project, which is intended for supplying natural gas to Turkey, entered the Turkish Exclusive Economic Zone on November 4. TurkStream Natural Gas Pipeline Project, for which an intergovernmental agreement was signed on October 10, 2016, will consist of two parallel pipelines with an annual throughput capacity of 15.75 billion cubic meters of gas each and will deliver Russian gas across the Black Sea to Turkey and then onto Europe.

We also experienced major developments that shaped the industry in the domestic market. The most important one was the declaration of the National Energy and Mining Policy which aims to reduce foreign dependency and current account deficit by utilizing indigenous and renewable energy resources to the maximum.

As part of this Policy, which is based on three pillars, namely supply security, localization and transparency; license tenders were held for two Renewable Energy Resource Areas (RERA) in 2017; one for a 1,000 MW solar power plant to be built in Karapınar, Konya and the other for the construction of wind power plants in 5 regions with up to 1,000 MW of total installed capacity. The tenders provided stimulus to the industry, creating synergy between domestic and foreign groups, which bid together in the tenders as consortia while electricity purchase prices were also reduced significantly compared to the feed-in tariffs granted under YEKDEM (Renewable Energy Resources Support Mechanism) thanks to competitive bidding. These projects will pave the way for the realization of large-scale renewable energy investments in Turkey. The investments will also entail the construction of manufacturing plants for the production of solar PV panels and wind turbines as well as R&D centers, which will contribute to the development of local technology and employment in Turkey.

Parallel to the robust 7.4% growth in the Turkish economy in 2017, electricity consumption grew by 6% YoY and reached 294,940 GWh.

Total installed capacity in Turkey rose higher than the electricity demand and reached 85,200 MW by the end of 2017 with an increase of 6,703 MW.

Renewable energy power plants accounted for 62% of the total new capacity that came onstream in 2017. The biggest capacity increase was realized in solar power. Compared to the previous year, installed capacity for solar energy more than tripled, reaching 3,421 MW by the end of 2017. The remaining 38% of the total capacity increase owed to thermal power plant investments, mainly comprising imported coal and natural gas power plants.

Average spot electricity price increased by 16% compared to 2016 due to supply shortage

in natural gas during winter months and drought, which resulted in increased electricity generation from the more costly thermal power plants during 2017, increase in electricity demand and TETAŞ's (Turkish Electricity Trading and Contracting Corporation) electricity purchases from the market in a bid to reduce its costs. However, considering the increase in the USD/TL rate in 2017, the average electricity price remained within the USc 4-5/kWh band, just like in recent years. With USD appreciating against Turkish Lira and continued weakness in spot electricity prices, YEKDEM, which was greatly favored in recent years, maintained its attractiveness for the renewable energy power plant operators. In 2017, 647 power plants with nearly 17,400 MW of total installed capacity benefited from YEKDEM. In 2018, a total of 708 power plants, predominantly hydroelectric power plants and wind power plants, with a total capacity of 19,266 MW, will benefit from this mechanism.

In 2017, rising spot electricity prices as well as YEK (renewable energy resources) charges arising from the YEKDEM mechanism increased energy procurement costs. Meanwhile, no improvement was made in the national electricity tariff, which is taken as a benchmark in the pricing of bilateral agreements and this adversely affected the profitability of electricity supply companies which sell electricity to eligible consumers. Consequently, electricity suppliers saw a reduction in their eligible customer portfolios while trading volumes in over-the-counter and organized markets also decreased.

RENEWABLE ENERGY REMAINS A HOT TOPIC AND A PRIORITY ACROSS THE GLOBE

In view of this general landscape, we see that the most crucial message from the industry both on local and international levels is that renewable energy resources become more important by the day.

According to the World Energy Outlook 2017 Report, there is a significant shift in the way the world meets its increasing energy needs compared to the last 25 years. Natural gas is the top resource for meeting energy demand, followed by renewable energy and energy efficiency. With accelerated efforts, China has assumed global leadership in renewable energy and especially in solar power investments. As the greatest energy consumer of the world, China's focus on cleaner energy in line with its new energy policy will have a major impact around the globe.

Meanwhile, the European Commission announced its long-awaited climate and energy goals for 2030 covering a wide array of issues including shale gas, oil sand, carbon market reform and competition in industries.

Accordingly, by 2030, the EU countries will meet at least 27% of their energy needs from renewable resources. The goal was 20% for 2020. The newly declared goals also include the target for the use of renewable energy in transportation. Accordingly, 14% of all fuels used in road and railway transportation will be derived from the renewable energy resources by 2030.

MORE THAN HALF OF OUR CAPACITY IS BASED ON RENEWABLE ENERGY

We at Zorlu Enerji closely follow global developments and trends and maintain our position among the leaders of the industry with our vision and renewable energy investments.

In 2016, we emphasized our continued contribution to Turkey's sustainable future and to the global transition to a low-carbon economy with our new investments in renewable energy. The developments we achieved in 2017 evidence our progress in this direction:

Zorlu Enerji closed 2017 with 1,091 MW of total installed capacity. With the contribution of the new geothermal power plant investment commissioned during the year, renewables now make up 57% of Zorlu Enerji's total installed capacity and 76% of its total capacity in Turkey.

THE NEW INVESTMENTS WE LAUNCHED ABROAD IN 2017, WILL SUPPORT OUR TARGET OF ACHIEVING REGIONAL LEADERSHIP ESPECIALLY IN SOLAR POWER

We continue to deepen and diversify our efforts in solar power, a clean source of energy, which we believe offers a high growth potential. Hence we launched our first investments in this field.

Zorlu Solar, our wholly-owned subsidiary, has become the exclusive distributor in 26 selected countries for the US-based First Solar, Inc., a company which provides next-generation technologies in solar PV systems. The said countries include Turkey, Albania, Bosnia-Herzegovina, Bulgaria, Cyprus, Georgia, Kosovo, Libya, Macedonia, Pakistan, Romania, Serbia, Turkmenistan, Ukraine and the Commonwealth of Independent States.

With this initiative, we aim to combine the experience and expertise of our Company in renewable energy with the next-generation technology provided by First Solar, thereby leading the development of solar power in our region. Our purpose is to offer value-added solar power solutions with various business models across a vast geography with Turkey at the center.

In Pakistan, we are expanding our renewable energy investments with the Bahawalpur I Solar Power Plant, which will be built in Punjab with an installed capacity of 100 MW. This investment is the first renewable energy project

accepted by the Pakistani government in three years. When it starts operations in 2018, our total installed capacity abroad will reach 447 MW. As part of the Letter of Intent we signed with the provincial government of Punjab, we obtained pre-licenses for two more solar power plant projects in the region with 100 MW of installed capacity each.

In addition, Zorlu Enerji Pakistan Ltd., our wholly-owned subsidiary, obtained a pre-license from the Pakistan Alternative Energy Development Board for a 30 MW hybrid solar power plant project to be developed on the existing site of Jhimpir Wind Power Plant in the Sindh region of Pakistan.

We also signed a Letter of Intent with the Jerusalem District Electricity Company, which distributes 25% of Palestine's energy, to establish and operate solar power plants to supply electricity to Palestine. With the said investment, we have made another great stride towards leading the development of solar power in the region.

WE CONTINUED INVESTING IN RENEWABLE ENERGY IN TURKEY AS WELL

In August 2017, we commissioned the first unit of Kızıldere III Geothermal Power Plant (GPP), our fourth geothermal power plant project in Turkey. The unit has 99.5 MW of installed capacity and will produce nearly 720 kWh of electricity per year. We are proud to have realized yet another renewable energy project that will set a model in Turkey. The second unit of Kızıldere III GPP, which will have 65.5 MW of installed capacity, is currently under construction and we plan to bring it online in the first quarter of 2018.

With the commissioning of our new geothermal power plant investment in 2017, our total installed capacity in Turkey reached 744 MW.

WE WILL MANIFEST OUR QUALITY AND INNOVATIVE PRACTICES IN ELECTRICITY DISTRIBUTION AND SUPPLY AS WELL.

According to a PwC Report on Mergers and Acquisitions in the Energy Industry; in 2017, a total of 33 mergers and acquisitions took place in the electricity generation, distribution, retail sales and natural gas distribution segments in Turkey, with a total value of nearly USD 3.45 billion. Zorlu Enerji's acquisition of Osmangazi EDAŞ (Electricity Distribution Company) and Osmangazi EPSAŞ (Electricity Retail Sales Company) in early February for a total consideration of USD 360 million was one of the largest transactions in the sector in 2017.



FOLLOWING THE TAKEOVER OF OSMANGAZI EDAŞ, WE MADE A TOTAL TL 435 MILLION OF INVESTMENTS TO IMPROVE THE EXISTING PROCESSES AND EFFICIENCY, TO OFFER UNINTERRUPTED AND QUALITY SERVICES TO CONSUMERS, TO ENHANCE R&D, TECHNOLOGY AND CUSTOMER SATISFACTION AND TO UPGRADE THE EXISTING DISTRIBUTION INFRASTRUCTURE.

We are happy to channel our nearly 25-years of industry experience and expertise into Osmangazi Electricity Distribution Region. With the takeover, we started to supply electricity to more than 1.7 million subscribers in Osmangazi region, which includes the cities of Eskişehir, Bilecik, Uşak, Afyonkarahisar and Kütahya, and represents nearly 4% of the total electricity consumption in Turkey. As is the case with all the responsibilities we assume and all the investments we undertake, we strive to offer the best in electricity distribution and retail sales services. Following the takeover of

Osmangazi EDAŞ, we invested a total of TL 435 million throughout the year to improve processes and efficiency, to offer uninterrupted and quality services to consumers, to enhance R&D, technology and customer satisfaction and to upgrade the existing distribution infrastructure.

In 2018, we will continue to invest in Osmangazi region with the same level of dedication in order to improve technological infrastructure and to provide top quality services.

2017 WAS A SUCCESSFUL YEAR FOR ZORLU ENERJİ

2017 was marked by new acquisitions and agreements which helped diversify and strengthen our business portfolio, penetration into new business areas, beginning of operations in every link of the electricity value chain and successful financial results. In 2017, consolidated revenues reached TL 3.87 billion with a 216% YoY growth while EBITDA rose to TL 879 million with a 113% increase. For the first time in four years, Zorlu Enerji reported a positive bottomline and registered TL 52 million of net profit. With the strong growth in EBITDA, the Company's net financial debt/EBITDA ratio declined from 12.8x at 2016-end to 8.0x by the end of 2017.

Behind these successful results were the significant contributions made by OEDAŞ and OEPSAŞ which we have added to our portfolio in February 2017. In addition, the inclusion of Sarıtepe and Demirciler Wind Power Plants, on top of our three power plants, in YEKDEM mechanism in 2017, which offers dollar-based feed-in tariffs far above the market prices, led to an increase in our YEKDEM revenues. The commencement of solar PV panel sales by Zorlu Solar in the second quarter of the year and partial contribution from the Kızıldere III GPP, the first unit of which became operational in August, also made a positive contribution to our financial results.

With new investments, we plan to take this successful performance even higher in 2018.

WE CONSIDER SUSTAINABLE ENERGY A CRITICAL COMPONENT OF SUSTAINABLE DEVELOPMENT

Our view of sustainability is based on a vision to create economic, social and environmental value for the society. Sustainability is at the heart of our business model and is managed by our Sustainability Committee within a holistic and comprehensive perspective. We have been a pioneer in sustainability in the Turkish energy industry both with our business activities and our projects. As the first company to publish a sustainability report and to calculate its carbon footprint, we are extremely glad to volunteer in participating in the BIST Sustainability Index for the second time.

For a sustainable future, we will continue to focus on and invest in smart technologies and IT systems in 2018 as well.

WE INVEST IN THE BUSINESS LINES OF THE FUTURE

Among upcoming trends, we are particularly drawn by electric vehicles. According to the New Energy Outlook 2017 Report prepared by Bloomberg New Energy Finance, by 2040, electric vehicles will make up 12% and 13% of electricity consumption in Europe and in the U.S., respectively. We are also investing in this field and are in the process of establishing a car-sharing platform comprising electric cars. The platform will serve with 51 Tesla cars in Istanbul, and we are planning to increase the number in the coming years.

Meanwhile, as part of our strategy to invest in new technologies, we will also be investing in charging stations for electric vehicles. In 2018, we will begin installing the first charging stations in Turkey's major cities as well as in main highways connecting these cities.

You may find us in various other intersections where technology and energy meet. We will continue to closely follow the fields of activity, trends and developments in this area.

DRAWING ENERGY FROM TURKEY, WE WORK FOR OUR FUTURE

Bearing in mind the responsibility of operating in the strategically important energy industry, we draw energy and strength from Turkey while working for its future.

We will continue to invest in our industry and our country in 2018 as well. In the area of electricity generation, this year we will be commissioning the second unit of Kızıldere III Geothermal Power Plant, the first unit of which commenced operations in August 2017. We also plan to complete the Bahawalpur I Solar Power Plant project, which we started developing in March 2017, in the second half of 2018. We are making fast progress in developing projects in our existing geothermal sites in Turkey. In electricity distribution, as in 2017, we will lose no momentum in providing high quality services to consumers, improving customer satisfaction and upgrading the existing infrastructure.

Zorlu Enerji will maintain its growth and development in the coming years by utilizing indigenous and renewable energy resources for the benefit of our country. As we make headway on our journey as a member of Zorlu Group, the support we draw from Zorlu brand makes us stronger.

We will continue to carry out our activities with a strong drive. I would like to hereby express my gratitude for our employees, customers, business partners and all other stakeholders for their immense support.

Sincerely,

İbrahim Sinan AK
CEO, Zorlu Energy Group



Senior Management



İBRAHİM SİNAN AK
CEO – ZORLU ENERGY GROUP

(1971 - Ankara) İbrahim Sinan Ak obtained his undergraduate degree in Management Engineering at Istanbul Technical University. He started his career as an investment specialist at Evgin Yatırım Menkul Değerler. He later received his MBA degree from Old Dominion University in the USA. Between 2000 and 2002, he worked as a Finance Chief at Vestel Komünikasyon and between 2002 and 2006 as Finance Manager at Vestel Beyaz Eşya. Mr. Ak joined Zorlu Energy Group in 2006. Until 2012, he served as the Deputy General Manager in charge of Financial Affairs at Zorlu Enerji Elektrik Üretim AŞ. In January 2012, he was named General Manager of Zorlu Enerji. Sinan Ak has been serving as the Chairman of Zorlu Energy Group, of which Zorlu Enerji Elektrik Üretim AŞ is a member, since December 1, 2016.



FUAT CELEPCI
GENERAL MANAGER –
ELECTRICITY DISTRIBUTION
OPERATIONS

(1959 - Kayseri) Fuat Celepci graduated from the Civil Engineering Department of Middle East Technical University in 1982 and obtained a graduate degree in Law from Bilkent University in 2011. He started his career as a civil engineer at Turkish Electricity Authority (TEK) in 1982. In 1984, he began working for BOTAŞ where he served as Deputy General Manager and a board member between 1999 and 2005. Having retired as an advisor to BOTAŞ General Manager in 2012, Celepci has since been serving as the General Manager of GAZDAŞ Gaziantep Doğal Gaz Dağıtım AŞ and Trakya Bölgesi Doğal Gaz Dağıtım AŞ. Fuat Celepci was named General Manager responsible for Gas and Electricity Distribution Business at Zorlu Energy Group as of January 1, 2017.



AYDIN AKAT
GENERAL MANAGER –
INDUSTRIAL PROJECTS AND
APPLICATIONS

(1970 - Erzincan) Aydın Akat received an associate degree in construction from Middle East Technical University in 1990. He graduated from the Department of Civil Engineering at Istanbul University in 1996. He began his career at Cevahirler İnşaat in 1990 and worked in various construction projects at Tekfen İnşaat from 1996 to 2005. He joined Zorlu Energy Group in 2005 as Project Manager at Zorlu Endüstriyel ve Enerji Tesisleri İnşaat Ticaret AŞ and later served as Engineering Manager at the same company from 2008 to 2011. Mr. Akat was named Deputy General Manager responsible for Projects at Zorlu Enerji Elektrik Üretim AŞ in October 2012, a position he held until 2017. From January 1, 2017, he has been serving as the General Manager responsible for Industrial Projects and Applications.



ALİ KINDAP
GENERAL MANAGER –
INVESTMENTS, OPERATIONS
AND MAINTENANCE

(1968 - Çankırı) Ali Kindap graduated from the Department of Mechanical Engineering at Middle East Technical University in 1990. He began his professional career at GAMA Group of Companies and later worked at Meteksan AŞ and Gürış İnşaat ve Mühendislik AŞ. Mr. Kindap joined Zorlu Energy Group in 2008 as Deputy General Manager at Zorlu Endüstriyel ve Enerji Tesisleri İnşaat Ticaret AŞ. In 2011, he was named Deputy General Manager responsible for Thermal Power Plant Investments at Zorlu Enerji Elektrik Üretim AŞ. Ali Kindap was appointed as the General Manager responsible for Investments, Operations and Maintenance as of January 1, 2017.



AHMET YAĞMUR ÖZDEMİR
FOREIGN INVESTMENTS
DIRECTOR

(1978 - Ankara) Yağmur Özdemir obtained an economics degree at Eastern Mediterranean University in 2000 and a master's degree in Business Law at Bilgi University. He also completed Executive MBA and master's degree programs in British Law at Karachi University. He began his professional career as an auditor at Arthur Andersen in 2000 and then joined Ernst&Young, where he worked from 2002 to 2004. He joined Vestel Elektronik as Financial Controller, a position which he held between 2004 and 2007. In 2007 he joined Zorlu Enerji as Project Finance Manager and served as an Investment and Project Finance Manager until October 2012. Mr. Özdemir served as the Deputy General Manager responsible for Hydroelectric and Wind Power Investments at Zorlu Enerji from October 2012 to January 2017. Since January 1, 2017, he has been serving as the Foreign Investments Director.

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İNANÇ SALMAN
TRADE DIRECTOR

(1981 - İstanbul) İnanç Salman graduated from the Department of Management Engineering at Istanbul Technical University and obtained a PhD degree in industrial engineering from the same university. Mr. Salman joined Zorlu Group in 2004 and served in the Zorlu Holding Human Resources Department from 2004 to 2007. In 2007, he joined Zorlu Energy Group, where he served as Project Engineer, Organization Development Supervisor and Organization Development Manager. Mr. Salman served as the Deputy General Manager responsible for Energy Trade and Planning at Zorlu Enerji from October 2013 to January 2017. He was named Trade Director as of January 1, 2017.



ÖNİZ SAYIT SABAN
HUMAN RESOURCES
DIRECTOR

(1979 - Izmir) Öniz Sayıt Saban graduated from the Faculty of Communication at Istanbul University in 2001 after which she completed a Human Resources Certificate Program at Boğaziçi University. Mrs. Saban also holds an MBA degree from Yıldız Technical University. After working in the Human Resources Departments of Akkök Group (2000-2005) and Tofaş Türk Otomobil Fabrikası AŞ (2005-2007) she joined Zorlu Energy Group in 2007. Mrs. Saban has been serving as the Human Resources Director at Zorlu Energy Group since October 2013.



SERVET BAHADIR
GOVERNMENT AFFAIRS
DIRECTOR

(1958 - Nevşehir) Servet Bahadır graduated from the Department of Electrical Engineering at Kiel University in 1982. He began his career in 1983 as an Electrical Engineer at Turkish Electricity Authority (TEK) and later assumed various positions at TEAŞ (State Owned Electricity Generation & Transmission Corp.) and TETAŞ (State Owned Trading & Contracting Corp.) when TEK was split up into separate companies. He joined Zorlu Group in 2008 and served as Energy Trade Manager until 2013. Mr. Bahadır has been Zorlu Energy Group's Government Affairs Director since October 2013.



ELİF YENER
FINANCIAL AFFAIRS
DIRECTOR

(1980 - Istanbul) Elif Yener graduated from the Department of Industrial Engineering at Boğaziçi University in 2004. After working in the Project Finance Department at Denizbank from 2004 to 2009, she enrolled in the MBA program at Columbia University and received her MBA degree in 2011. She joined Zorlu Holding the same year. Appointed to the position of Strategy & Business Development Manager in 2012, Mrs. Yener became Zorlu Energy Group's Financial Affairs Group Manager on August 12, 2014 and has been serving as the Group's Financial Affairs Director since September 1, 2015.



EVREN EVCİT
DIRECTOR – ZORLU SOLAR

(1978 - Istanbul) Evren Evcit graduated from the Department of Mechanical Engineering at Istanbul Technical University and obtained an MBA degree from Boğaziçi University. After his graduation, he served as the Chief Operating Officer and CEO at Anel Enerji. Mr. Evcit has been the Managing Director of Turkey at First Solar, where he started in 2014, for three years. He joined Zorlu Energy Group in May 2017 and has been serving as the Director of Zorlu Solar since then.



NİHAT TÜRKSEVER
DEPUTY GENERAL MANAGER
- INVESTMENTS, PLANNING &
BUSINESS DEVELOPMENT

(1975 - Bulgaria) Nihat Türksever graduated from the Department of Industrial Engineering at Uludağ University. He held various positions at Enka İnşaat between 1997 and 2008 where he lastly served as Business Manager/Deputy Project Manager. Mr. Türksever joined Zorlu Energy Group as Technical Office Manager to work in the Group's Israeli projects in 2009. He served as Project Manager for the Kızıldere II Geothermal Power Plant and as Project Contract Administration Manager following the completion of the project. Nihat Türksever, who was the Purchasing and Logistics Manager from February 2016, was named Deputy General Manager responsible for Investments, Planning and Business Development as of January 1, 2017.



ABDURRAHMAN YAŞAR
DEPUTY GENERAL
MANAGER - DRILLING &
GEOTHERMAL RESOURCE
MANAGEMENT

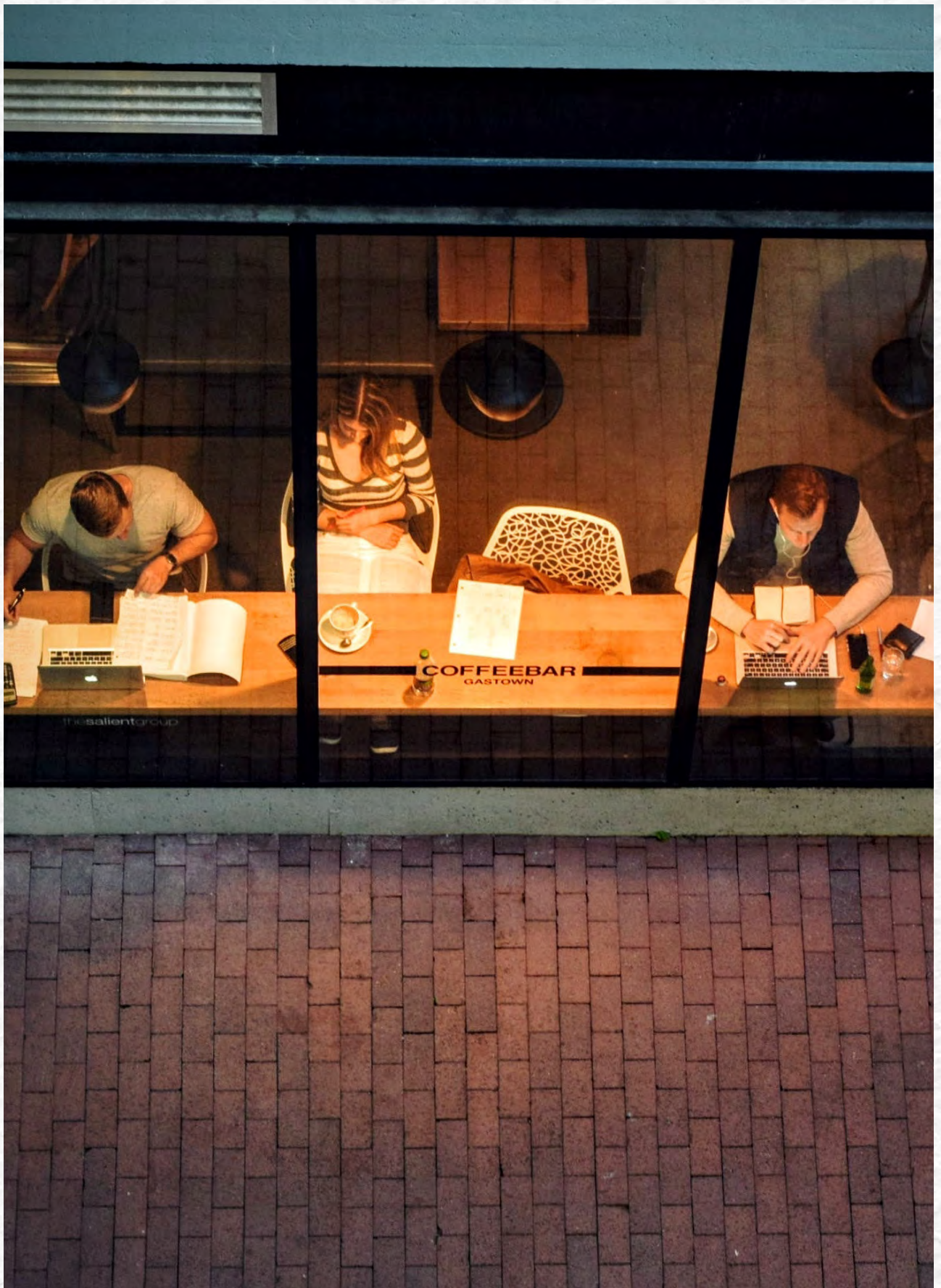
(1949 - Urfa) Abdurrahman Yaşar graduated from the Department of Petroleum at Istanbul Technical University with a graduate degree in engineering. He started his career as a drilling engineer in the Department of Mineral Exploration at Etibank in 1972 and served as the Head of Machinery Procurement and Construction Department at the General Directorate of TPAO (Turkish Petroleum Corp.) between 1975 and 2008. Mr. Yaşar joined Zorlu Energy Group in 2008 as Planning and Coordination Manager. Abdurrahman Yaşar was appointed as the Deputy General Manager responsible for Drilling and Geothermal Resource Management as of January 1, 2017.

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ÖMER HARUN ÖRGE
DEPUTY GENERAL
MANAGER - OPERATIONS
AND MAINTENANCE

(1970 - Eskişehir) Ömer Harun Öрге graduated from the Department of Chemical Engineering at Yıldız Technical University in 1995. He started his career as Kazakhstan Chief Site Manager at Bechtel Enka JV in 1996, then served as Quality Control/Process Engineer at Bechtel Enka JV between 2001-2002, as Operations Engineer and Chief Operations Engineer at Enka Power between 2002-2011, as Department Manager responsible for Turkey and nearby countries at Pöyry Switzerland between 2011-2017, and as General Manager at Öрге Mühendislik in 2017. Ömer Harun Öрге has been serving as the Deputy General Manager responsible for Operations and Maintenance at Zorlu Energy Group since September 5, 2017.



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of Operation

Zorlu Enerji in Brief

Zorlu Enerji, a leading player in the Turkish energy sector, has 1,091 MW of total operational installed capacity as of the end of 2017. While the Company aims to increase the share of renewables in its generation portfolio, 76% of its installed capacity in Turkey is derived from renewable energy resources.

Zorlu Enerji, which commenced operations in 1993 as the first company of Zorlu Energy Group, is today one of the leading players in the Turkish energy sector with its balanced generation portfolio, which offers both resource and geographical diversity, integrated business structure involving electricity generation, distribution, trade and sales activities, vast experience in the sector and strong market position.

As of the end of 2017, the total installed capacity of Zorlu Enerji's operational power plants is 1,091 MW.

Zorlu Enerji's generation portfolio comprises:

- 7 hydroelectric, 3 wind, 4 geothermal and 3 natural gas power plants in Turkey and

- 1 wind power plant in Pakistan and 3 natural gas power plants in Israel.

ZORLU ENERJİ AIMS TO IMPROVE ITS RESOURCE DIVERSITY

Zorlu Enerji acts with the principle of undertaking projects which contribute to sustainability in every aspect. The Company aims to further increase the share of renewables in its generation portfolio, particularly of geothermal and solar energy, as well as improve its resource diversity. 76% of Zorlu Enerji's installed capacity in Turkey and 57% of its total installed capacity are based on renewable energy resources.

As of the end of 2017, the Company has

- 240 MW of installed capacity in geothermal energy,
- 272 MW of installed capacity in wind energy,
- 113 MW of installed capacity in hydroelectric energy.

INCREASING FOREIGN INVESTMENTS

In its foreign investments, Zorlu Enerji focuses on tapping into the potential in Asian and Middle Eastern markets where energy demand is on the rise and liberalization is still underway. Meanwhile, the Company continues to look into investment opportunities in solar power, an area with high growth potential.

Under this strategy, Zorlu Enerji, which previously built a 56.4 MW wind power plant in Jhimpir, Pakistan, the country's first wind farm realized with foreign investment, through its wholly-owned subsidiary, Zorlu Enerji Pakistan, began investing in solar power in this country. Towards this end, in 2017, Zorlu Solar Pakistan (Private) Limited ("Zorlu Solar Pakistan"), which is 99.7% owned by Zorlu Enerji, commenced the development of Bahawalpur I Solar Power Plant project with 100 MW of installed capacity in the Punjab province of Pakistan. A 25-year generation license was obtained for the project from Pakistan National Electric Power Regulatory Authority. The power plant is planned to be commissioned in the second half of 2018.

In 2017, pre-licenses were obtained in Pakistan for two other power plant projects to be developed in Punjab province with 100 MW of installed capacity each, as well as for a hybrid solar power plant project with 30 MW of capacity to be built on the existing site of

Jhimpir Wind Power Plant in the Sindh region of Pakistan.

Additionally, in July 2017, Zorlu Enerji signed a Letter of Intent with the Jerusalem District Electricity Company ("JDECO"), which is responsible for the distribution of electricity in Jerusalem and its environs, to establish and operate solar power plants to supply electricity to Palestine.

Zorlu Holding AŞ ("Zorlu Holding"), which owns 62.19% of the shares of Zorlu Enerji, signed a Distribution & Supply Agreement with the US-based First Solar, Inc. in February 2017. The agreement covers the exclusive distribution of high-performance thin-film photovoltaic (PV) modules produced by First Solar in 26 selected countries. According to the agreement, which will be effective for five years, Zorlu Holding and its subsidiaries will be the sole authorized distributor of First Solar's PV modules in a total of 26 countries including Turkey, Albania, Bosnia-Herzegovina, Bulgaria, Cyprus,

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Georgia, Kosovo, Libya, Macedonia, Pakistan, Romania, Serbia, Turkmenistan, Ukraine and the Commonwealth of Independent States. Additionally, Zorlu Enerji will make use of First Solar's solar PV panels in its own projects. Under the said agreement, Zorlu Solar, a fully-owned subsidiary of Zorlu Enerji, commenced the distribution and sales of solar PV panels produced by First Solar in the second quarter of 2017.

Zorlu Enerji is among the few private sector energy companies operating in Israel. Together with its partners, the Company constructed and brought online 3 natural gas power plants with a total installed capacity of 1,031 MW in Israel.

The Company's stake adjusted total installed capacity in Israel amounts to 290 MW. In 2017, Zorlu Enerji also participated as the sole founder in Zorlu Enerji Israil Ltd., which would be established in Israel to undertake energy projects in this country.

ENTRY INTO THE ELECTRICITY DISTRIBUTION BUSINESS

Zorlu Enerji decided to enter into electricity distribution via the acquisition of Osmangazi Elektrik Dağıtım AŞ ("OEDAŞ") and Osmangazi Elektrik Perakende Satış AŞ ("OEPSAŞ"). Zorlu Osmangazi Enerji Sanayi ve Ticaret AŞ ("Zorlu Osmangazi"), a wholly-owned subsidiary established for this purpose in 2016, acquired 100% of the shares of OEDAŞ and OEPSAŞ in February 2017 for a total consideration of USD 360 million. With this acquisition, Zorlu Enerji added electricity distribution to its existing operations in 2017, which included generation, sales and trade of electricity. OEDAŞ distributes electricity to 1.7 million subscribers within the provincial borders of Eskişehir, Afyonkarahisar, Bilecik, Kütahya and Uşak. OEPSAŞ, on the other hand, is the assigned supplier for the region while also selling electricity to eligible consumers.

ZORLU ENERJİ, A RESPONSIBLE CORPORATE CITIZEN

Zorlu Enerji shapes its investments as a responsible corporate citizen determined to make an increasing contribution to the future of the world.

Making a difference with its focus on supply security and sustainability, Zorlu Enerji

- Builds its portfolio on the basis of secure supply of energy,
- Acts with an awareness of global responsibility in all of its investments and complies with the legislation and international standards,
- Aims to minimize the negative impacts of its activities on the environment and human life.

Zorlu Enerji undertakes all the necessary investments to comply with the emission limits imposed by the national and international standards and generates energy with the highest consideration for the environment and nature.

The first electricity generation company to obtain a quality certificate in Turkey, Zorlu Enerji holds TS/EN ISO 9001-2000, OHSAS 18001 and ISO 14001 Certificates and conducts its operations within the scope of an Integrated Management System.

Zorlu Enerji;

- The first energy company in Turkey to calculate its carbon footprint in 2009.
- With the project implemented at its Gökçedağ Wind Power Plant, became the first energy company to sign a "Carbon Emission Sales Contract" in Turkey.



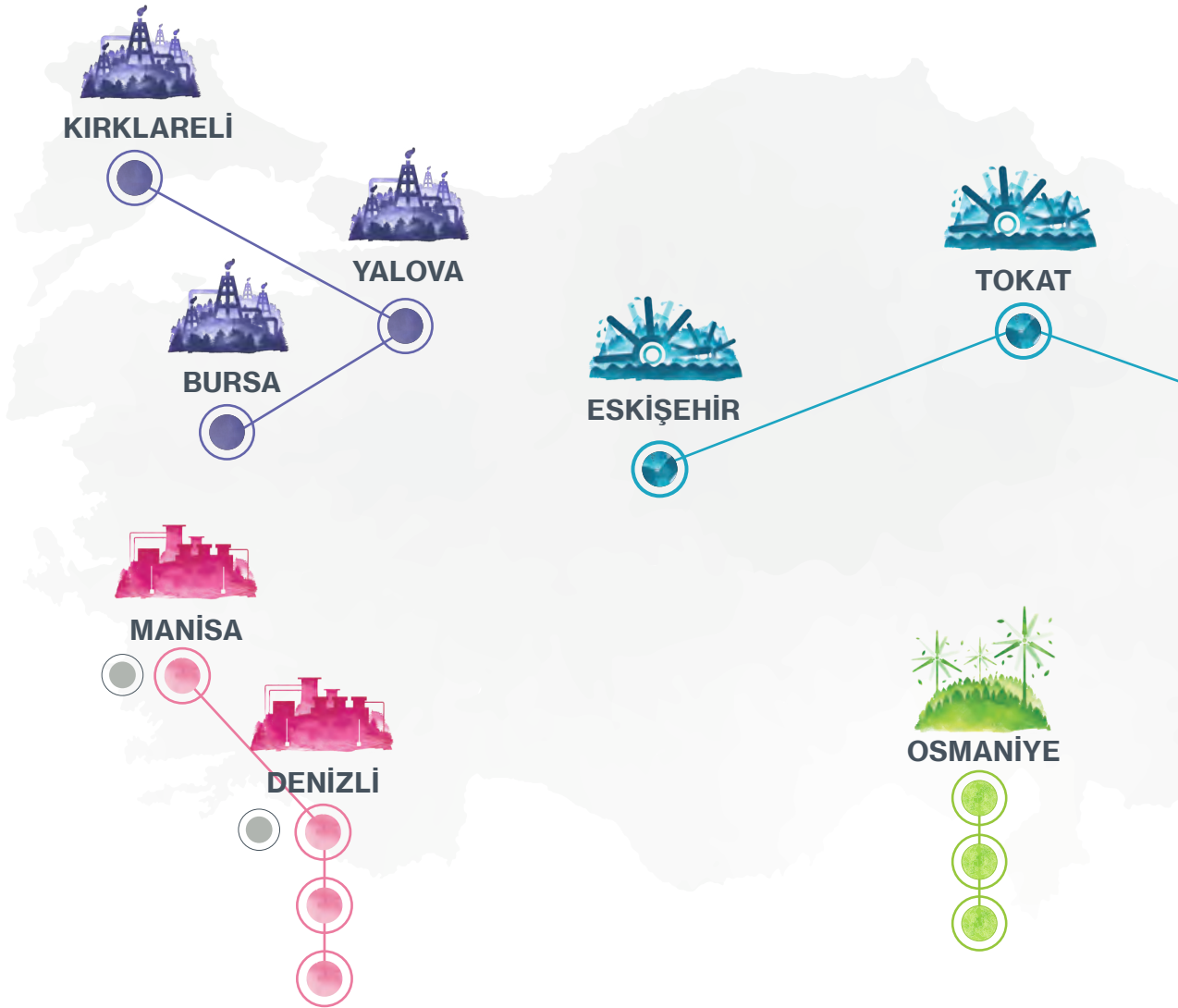
- The sole energy company in Turkey to have ISO 14064-1 Standard for Greenhouse Gas Emissions.
- The only energy company in Turkey to participate in the CDP-Carbon Disclosure Project. The Company was granted the CDP “Turkey Climate Disclosure Leadership” Award in 2011, 2012, 2014, and 2017.
- Published the first Sustainability Report in the Turkish energy industry.
- Zorlu Enerji continues to report on its sustainability progress on a regular basis and communicates its sustainability performance to its stakeholders in a transparent manner. Zorlu Energy Group published its fourth Sustainability Report, covering the 2014-2015 period, in 2016 which was prepared in accordance with the G4 Standard, the latest version of the

Sustainability Reporting Guidelines set by the Global Reporting Initiative-GRI.






Zorlu Enerji's wind power plants in Turkey and Pakistan were awarded with “Gold Standard” Certificates.

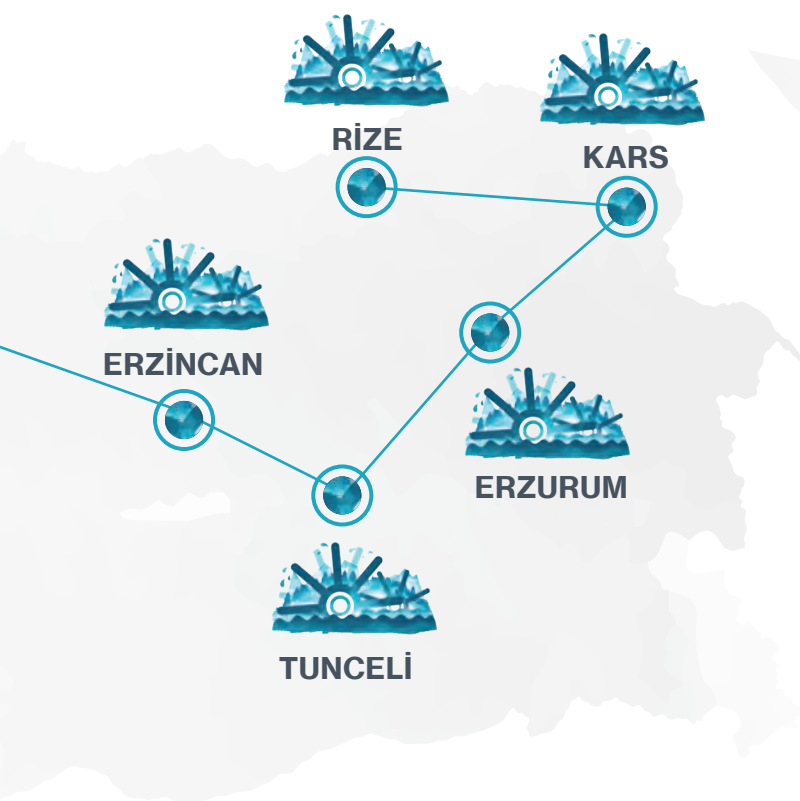
Launching projects that set a benchmark in renewable energy, Zorlu Enerji was entitled for inclusion in the Sustainability Index of Borsa Istanbul (BIST) on a voluntary basis for the period of November 2016 - October 2017 and became one of the 43 companies included in the index. Having maintained compliance with the index criteria, Zorlu Enerji was evaluated for the second time and was entitled for voluntary inclusion in the BIST Sustainability Index for the November 2017 - October 2018 period.

Zorlu Enerji's Installed Capacity and Investments

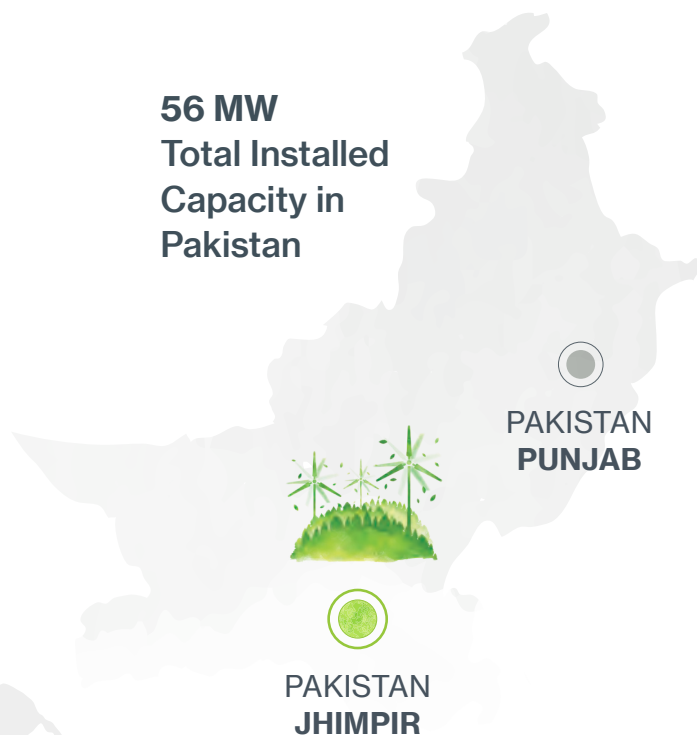


744 MW Total Installed Capacity in Turkey

-  Natural Gas Power Plant
-  Hydroelectric Power Plant
-  Geothermal Power Plant
-  Wind Power Plant
-  Under Construction



56 MW Total Installed Capacity in Pakistan



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290 MW* Total Installed Capacity in Israel

*Stake adjusted

Installed Capacity and Investments of Zorlu Enerji

INSTALLED CAPACITY IN TURKEY

OPERATIONAL POWER PLANTS

Power Plant	Location	Type	Electricity Generation Capacity (MW)	Steam Generation Capacity (Tonnes/Hour)	Direct or Indirect Stake (%)
Natural Gas			176.1	159.5	
Lüleburgaz ¹	Lüleburgaz, Kırklareli	Cogeneration Natural Gas	125.9	129.5	100
Bursa ²	Bursa Organized Industrial Zone	Combined - Cycle Natural Gas	34.3	-	100
Yalova	Altınova, Yalova	Cogeneration Natural Gas	15.9	30	100
Wind			215.3		
Gökçedağ (Rotor)	Osmaniye	Wind	135		100
Sarıtepe	Osmaniye	Wind	57		100
Demirciler	Osmaniye	Wind	23.3		100
Hydroelectric			112.6		
Tercan	Erzincan	Hydroelectric (Reservoir)	15		100
Kuzgun	Erzurum	Hydroelectric (Reservoir)	20.9		100
Ataköy	Tokat	Hydroelectric (Reservoir)	5.5		100
Mercan	Tunceli	Hydroelectric (Run-of-the-River)	20.4		100
Çıldır	Kars	Hydroelectric (Reservoir)	15.4		100
İkizdere ³	Rize	Hydroelectric (Run-of-the-River)	18.6		100
Beyköy	Eskişehir	Hydroelectric (Run-of-the-River)	16.8		100
Geothermal			239.5		
Kızıldere I	Denizli	Geothermal	15		100
Kızıldere II	Denizli	Geothermal	80		100
Kızıldere III-Unit I ⁴	Denizli-Aydın	Geothermal	99.5		100
Alaşehir I	Manisa	Geothermal	45		100
TOTAL			744	159.5	

¹ A steam boiler facility is currently under construction to increase the plant's steam production capacity to 209.5 tonnes/hour. The facility is planned to enter into service in the second quarter of 2018.

² The plant's installed capacity was reduced from 90 MW to 34.3 MW with a license amendment in January 2017 due to the expiration of the plant's economic life and increased generation costs.

³ Electricity generation was temporarily halted during the rehabilitation investment, which is being undertaken to increase the installed capacity of the power plant to 24.94 MW.

⁴ The first unit of Kızıldere III Geothermal Power Plant (99.5 MW of installed capacity) became operational as of August 19, 2017.

ONGOING AND PLANNED PROJECTS IN TURKEY

Project	Location	Type	Electricity Generation Capacity (MW)	Direct or Indirect Stake (%)
Ongoing Investments				
Geothermal				
Kızıldere III-Unit II ¹	Denizli-Aydın	Geothermal	65.5	100
Projects in Financing Phase				
Geothermal				
Alaşehir II ²	Manisa	Geothermal	24.9	100

¹ The second unit of Kızıldere III Geothermal Power Plant project, which will have 65.5 MW of installed capacity, is planned to start operations in the first quarter of 2018.

² A 22-year generation license was obtained from EMRA (Energy Market Regulatory Authority) for the Alaşehir II GPP project in November 2017. As a result of the resource exploration studies, a new application was made to EMRA to amend the project's installed capacity from 24.9 MW to 50 MW, which will be realized in the form of two units each with an installed capacity of 25 MW.

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PRE-LICENSES IN TURKEY

Project	Location	Type	Electricity Generation Capacity (MW)	Direct or Indirect Stake (%)
Geothermal				
Kızıldere IV ¹	Aydın	Geothermal	60	100
Alaşehir III ²	Manisa	Geothermal	50	100
Solar				
Alibeyhöyüğü	Konya	Solar (Photovoltaic)	18	100

¹ An application was made to EMRA to increase the installed capacity specified in the pre-license of the project from 24.9 MW to 60 MW. The revision was approved in July 2017.

² As a result of the resource exploration studies, an application was made to EMRA in March 2018 to lower the installed capacity specified in the license of the project from 50 MW to 30 MW.

EXPLORATION AND OPERATION PERMITS IN TURKEY

Project	Location	Type	Direct or Indirect Stake (%)
Geothermal			
Bitlis	Tatvan, Bitlis	Geothermal	75
Yozgat	Şefaattli, Yozgat	Geothermal	100
Denizli ¹	Sarayköy	Geothermal	100
Kütahya ²	Simav	Geothermal	100

¹ Zorlu Enerji leased the geothermal field in Sarayköy, owned by Denizli Metropolitan Municipality, for 25 years (until June 2, 2041) in order to generate electricity from geothermal sources.

² Zorlu Jeotermal Enerji Elektrik Üretim AŞ, a wholly-owned subsidiary of Zorlu Enerji, won the exploration license for the Yeniköy geothermal field, which was tendered out by the Kütahya Special Provincial Administration.

PRE-LICENSE APPLICATIONS IN TURKEY

Project	Location	Type	Electricity Generation Capacity (MW)	Direct or Indirect Stake (%)
Natural Gas				
Kıyıköy ¹	Kırklareli	Natural Gas	1,200	100

¹ EMRA accepted the pre-license application for the project on the condition that the Environmental Impact Assessment process for the project is completed in two years.

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INSTALLED CAPACITY ABROAD

OPERATIONAL POWER PLANTS

Plant	Location	Type	Electricity Generation Capacity (MW)	Steam Generation Capacity (Tonnes/Hour)	Direct or Indirect Stake (%)
Wind			56.4		
Jhampir	Pakistan	Wind	56.4		100
Natural Gas			290.5	110	
Dorad	Israel	Combined - Cycle Natural Gas	840		25
Ashdod	Israel	Cogeneration Natural Gas	64.54	40	42.15
Ramat Negev	Israel	Cogeneration Natural Gas	126.4	70	42.15
TOTAL¹			347	110	

¹ Total installed capacity is calculated on the basis of Zorlu Enerji's ownership stakes in the power plants in Israel.

ONGOING AND PLANNED INVESTMENTS ABROAD

Plant	Location	Type	Electricity Generation Capacity (MW)	Steam Generation Capacity (Tonnes/Hour)	Direct or Indirect Stake (%)
Ongoing Investments					
Solar					
Bahawalpur I ¹	Pakistan	PV Solar	100		99.7
Planned Investments					
Natural Gas					
Solad ²	Israel	Cogeneration Natural Gas	77	70	42.15

¹ The power plant, whose construction began in March 2017, is expected to start operations in the second half of 2018.

² The completion rate for the planned Solad NGPP is nearly 10%.

PRE-LICENSES ABROAD

Plant	Location	Type	Electricity Generation Capacity (MW)	Direct or Indirect Stake (%)
Solar				
Bahawalpur II	Pakistan	PV Solar	100	99.7
Bahawalpur III	Pakistan	PV Solar	100	99.7
Jhampir Hybrid Power Plant ¹	Pakistan	PV Solar	30	100

¹ The hybrid power plant to be built in the Jhampir area of Sindh, Pakistan, is expected to generate wind and solar power simultaneously.

Zorlu Energy Group's Fields of Operation

Zorlu Energy Group offers a wide spectrum of integrated services in various areas of the energy industry, including the electricity and steam generation and sales, electricity trade, electricity distribution and retail sales activities undertaken by Zorlu Enerji.

POWER PLANT CONSTRUCTION

Zorlu Endüstriyel ve Enerji Tesisleri İnşaat Ticaret AŞ ("Zorlu Endüstriyel"):

Zorlu Endüstriyel offers turnkey "EPC" contracting services and solutions, including project development, feasibility, basic design, engineering, supply, construction, installation and commissioning work for industrial plants and power plants in Turkey and abroad.



INTEGRATED SERVICE STRUCTURE



IN ADDITION TO THE ACTIVITIES CARRIED OUT UNDER ZORLU ENERJİ, ZORLU ENERGY GROUP ALSO OPERATES IN THE AREAS OF POWER PLANT CONSTRUCTION, MAINTENANCE, REPAIR AND OPERATION OF POWER PLANTS AND NATURAL GAS DISTRIBUTION AND TRADE THROUGH OTHER COMPANIES WITHIN THE GROUP.



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MAINTENANCE, REPAIR AND OPERATION SERVICES

Zorlu O&M Enerji Tesisleri İşletme ve Bakım Hizmetleri AŞ (“Zorlu O&M”): Zorlu O&M provides long-term operation, maintenance, and repair services for thermal (natural gas, single cycle, combined cycle, co-generation), hydroelectric, wind and geothermal power plants owned by both Zorlu Group and third parties. Zorlu O&M provides operation and maintenance services to Zorlu Group’s natural gas power plants in Russia and Israel as well as the wind power plant in Pakistan while undertaking the maintenance of a number of power plants in Europe, the Middle East, South Asia and Central Asia under individual contracts. Apart from operation and maintenance services, Zorlu O&M also undertakes the commissioning of newly-built power plants.

NATURAL GAS DISTRIBUTION

Gazdaş Doğal Gaz Dağıtım AŞ (“Gazdaş”):

Gazdaş distributes and sells natural gas in Thrace and Gaziantep regions for which it holds two separate 30-year natural gas distribution license.

NATURAL GAS TRADE

Zorlu Doğal Gaz İthalat, İhracat ve Toptan

Ticaret AŞ (“Zorlu Doğal Gaz”): Zorlu Doğal Gaz carries out the domestic sale and export of liquefied natural gas (LNG) procured from Turkey and abroad.

Zorlu Doğal Gaz Tedarik Ticaret AŞ (“Zorlu

Doğal Gaz Tedarik”): Zorlu Doğal Gaz Tedarik carries out the domestic sale and export of liquefied natural gas (LNG) procured from Turkey and abroad.



3 Natural Gas Power
Plants Abroad

3 Natural Gas
Power Plants
in Turkey

Total 467 MW of
Installed Capacity in
Natural Gas

The Energy Sector and Zorlu Enerji in 2017



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The Global Energy Market

According to the World Energy Outlook 2017 Report, the global demand for energy will increase by 30% by 2040. A significant change will take place in the way of meeting this demand with the rapidly rising renewables taking second place after natural gas.

The World Energy Outlook 2017 Report includes the latest estimates for global energy markets for today and the next 25 years, forecasts for global climate change, policy developments, and analyses strengthened with experiences from the previous year.

The basis of the report consists of the four major structural transformations taking place in the global energy system:

1. The United States is set to become the undisputed global leader in oil and gas. This is expected to have enormous impact on many areas ranging from energy prices to foreign policy in the coming period.
2. Solar energy is set to become the cheapest source of electricity in many countries around the world. Since 2010, the cost of solar panels has declined by 70% while the cost of wind turbines has decreased by 25% and the cost of batteries by 40%.
3. As the world's largest energy consumer, China's decision to focus on clean energy sources in line with its new energy policy will have a profound impact worldwide.
4. Energy demand is growing, but electricity demand is growing even faster. While the world energy demand grows by 30%, electricity demand will grow by more than 60%.

GROWTH IN GLOBAL ENERGY DEMAND

According to the report, although more slowly than the past, global energy demand will increase by 30% between today and 2040.

In order to meet the increasing demand, China must expand its existing electricity infrastructure with a growth equivalent to the total infrastructure of the U.S.; meanwhile, India must construct an additional electricity network with the scale of the present European Union. These predictions are based on a global economy growing at an average rate of 3.4% per year, increase in the world population to 9 billion by 2040 and the current trend of urbanization, which adds a city with a size of Shanghai to the world's urban population every four months.

RENEWABLES STEP UP

Compared to the past 25 years, the way that the world meets its growing energy needs is changing drastically. Natural gas has taken the lead in meeting the energy demand, followed by renewable energy and energy efficiency. Renewables meet 40% of the increase in

energy demand. The explosive growth of renewable energy in the power sector marks the end of the boom years for coal. Since 2000, coal-fired power generation capacity has grown by nearly 900 GW; however, a growth of only 400 GW is projected to take place until 2040.

Renewable energy sources are the cheapest option for many countries and are expected to account for two thirds of the world's power plant investments. Solar power is expected to become the largest low-carbon energy source by 2040. While renewable energy accounts for 80 percent of the new capacity in the EU, wind energy will become the main electricity source in 2030.

The share of coal in India's energy sources is expected to decrease to less than 50% by 2040. Natural gas usage will reach 45% in 2040; its share in electricity generation will gradually decrease while its share in industrial use will increase.

China is making great strides in nuclear power. China is expected to reduce costs and become an exporter of nuclear technology and by 2030 it is projected to become the world's largest producer of nuclear power, surpassing the United States.

BEGINNING OF A STRUCTURAL TRANSFORMATION IN NATURAL GAS

Despite falling oil prices, the U.S. will remain the world's largest producer of shale oil and shale gas. The ability to unlock new resources in a cost-effective way is driving oil and gas production in the U.S. to a higher level than other countries could possibly achieve. The U.S., a net exporter of natural gas, is expected to become a net exporter of oil as well by the end of 2020.

Although most natural gas is transported by pipelines today, the share of LNG will increase

in the coming period. This transition will also drive a change in gas prices and market players. The U.S., Australia and Canada will enter the market as new natural gas exporters. Europe's role as a gas importer will decrease while that of Asia will grow. Over the next five years, there will be a significant increase in the number of players.

ELECTRICITY WILL ACCOUNT FOR 40% OF FINAL CONSUMPTION

Electricity is growing faster than energy. According to the report, global electricity demand will increase by more than 60% in the near future. The electricity sector will attract more investments than oil and natural gas. Electricity will account for 40% of final energy consumption by 2040, which is equal to the growth of oil in the last 25 years.

Industrial electric motor systems account for one-third of the increase in electricity demand. Thanks to an increase in purchasing power, millions of households acquire more electrical appliances, with an increasing share of "smart" connected devices, while air conditioning systems are becoming more and more popular. Thanks to better access to electricity, each year an additional 45 million people are becoming electricity consumers; however, this is still far from the goal to achieve universal access by 2030.

Digitalization is emerging as a new source of electricity consumption. The number of electric cars is expected to increase significantly. Many countries in Northern Europe offer incentives for electric cars. Today, there are 2 million electric cars in the world. This figure is projected to reach 300 million by 2040. During this period, total oil consumption will decrease; however, oil will continue to be used in trucks, airplanes and petrochemical plants. For this reason, even if 300 million electric vehicles are reached, it is estimated that this will result in a less than 1% decrease in global carbon dioxide emissions.

The Turkish Energy Sector in 2017

Turkey's total installed capacity reached 85,200 MW in 2017. The highest increase in installed capacity was observed in solar energy with an increase of 2,588 MW. In 2017, renewable energy accounted for 62% of newly commissioned capacity.

ELECTRICITY GENERATION AND DEMAND

According to the data published by the Turkish Electricity Transmission Company, which includes unlicensed power plants, electricity consumption in Turkey grew by 6% YoY to 294,940 GWh in 2017. In the same period, electricity generation increased by 8.1% to 295,511 GWh.

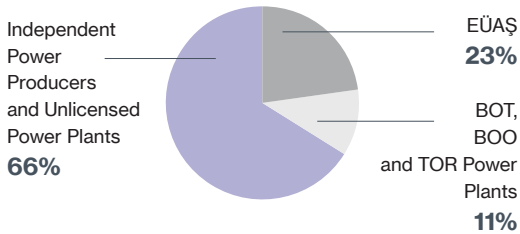
With the contribution of new power plants commissioned in 2017, the share of wind, geothermal and solar power plants in total electricity generation increased from 7.8% in 2016 to 9.0%, and the share of natural gas power plants, which has been on a declining trend in recent years, has increased from 32.1% to 36.6%. Due to a 27% decline in the level of water flows to dams in 2017 as compared to 2016, the share of hydroelectric power plants in total generation decreased from 24.6% to 19.8% while the share of coal and lignite fired power plants was realized as 33%, slightly lower than in 2016 (33.7%).

BREAKDOWN OF INSTALLED CAPACITY IN TURKEY

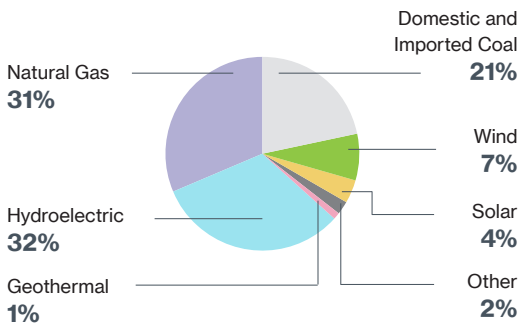
Turkey's total installed capacity increased by 6,703 MW (taking into consideration the power plants closed during the year) in 2017 and reached 85,200 MW as of the end of 2017. The highest increase in installed capacity was observed in solar power with an increase of 2,588 MW while unlicensed power plant investments accounted for 2,583 MW of this increase. In the same period, the installed capacity of wind, hydroelectric and geothermal power plants increased by 765 MW, 592 MW and 243 MW, respectively, and renewable energy sources accounted for 62% (4,188 MW) of the total new capacity commissioned in 2017. The remaining 2,515 MW of capacity increase owed to thermal power plant investments, mainly consisting of imported coal (1,320 MW) and natural gas (987 MW) power plants.

As of the end of 2017, hydroelectric energy accounts for 32% of total installed capacity, natural gas for 31%, domestic and imported coal for 22%, wind for 7.6%, solar for 4%, geothermal for 1.2% and other energy sources for the remaining 2.1%. 23% of the total installed capacity belongs to EÜAŞ (the state-owned Electricity Generation Company), 11% to power plants operated under the build-operate-transfer (BOT), build-operate-own (BOO) and transfer of operating rights (TOR) schemes, and the remaining 66% to independent power producers and unlicensed power plants.

BREAKDOWN OF INSTALLED CAPACITY BY OWNERSHIP



BREAKDOWN OF INSTALLED CAPACITY BY SOURCE



WEATHER CONDITIONS AND ELECTRICITY PRICES

In 2017, the average spot electricity price increased by 16% compared to 2016 and reached TL 163.6/MWh. The increase in the electricity price was mainly due to below average temperatures in winter months, cuts in natural gas supply, TETAŞ's electricity purchases from the Day-Ahead Market to reduce its procurement costs, declining share of hydroelectric power plants in total generation due to drought and lower water levels in dams, greater use of the more costly thermal power plants in meeting electricity demand, and the maintenance work at several power plants during the summer months.

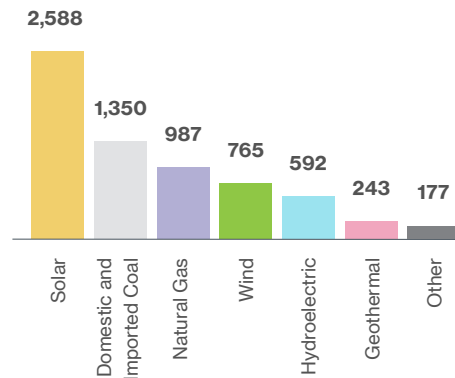
GENERATION PRIVATIZATIONS

Within the scope of the ongoing privatization efforts, the privatization and transfer of 10 hydroelectric power plants belonging to EÜAŞ with a total installed capacity of 324.2 MW

were completed in 2017. Moreover, privatization tenders for 11 hydroelectric power plants with a total installed capacity of 276.6 MW were completed, while the approval/transfer processes for these power plants are still underway.

In 2017, privatization process was initiated for 7 hydroelectric power plants with a total installed capacity of 295.5 MW, and the privatization of these plants is planned to be completed until December 31, 2020. Of these power plants, a tender announcement was made for the privatization of Gönen Hydroelectric Power Plant (10.6 MW) and the immovables used by this plant through the "Transfer of Operating Rights," and the bidding deadline was set for March 19, 2018.

NEW CAPACITY COMING ONSTREAM IN 2017 (MW)



SOLAR POWER RERA TENDER

The "Renewable Energy Resource Areas (RERA)" license tender for Turkey's largest solar power plant, which is to be built in Konya Karapınar as part of the goal to undertake large scale renewable energy investments by making use of local equipment while also developing domestic technology, was held on March 20, 2017. In the auction, in which the participants competed on the basis of the electricity price at which they will sell to the state, the ceiling price was set at USc 8/kWh while the lowest bid was USc 6.99/kWh. Within the scope of the project, a solar power plant with an installed capacity of 1,000 MW and a photovoltaic

module manufacturing plant with a minimum 500 MW of annual production capacity will be built in Konya Karapınar.

WIND POWER RERA AND PRE-LICENSE TENDERS



The second RERA auction was held on August 3, 2017 for 1,000 MW of wind power capacity. In the reverse auction, the initial ceiling price was set at USc 7/kWh while the lowest bid was USc 3.48/kWh. Within the scope of the project, wind power plants with a minimum 1,000 MW of installed capacity will be established in five regions, which will be provided a connection capacity of 1,700 MW. In addition, a wind turbine manufacturing plant, with a capacity of 150 turbines/year or 400 MW/year, will be built which will supply the wind turbines to be used in these plants.

The pre-license tenders for 710 MW of wind power capacity in 11 regions whose pre-license applications were collected by EMRA in April 2015, were completed on June 21-23. For the remaining 2,130 MW of wind power capacity, a total connection capacity of 2,110 MW was allocated to 32 regions through the auctions held on December 25-29. Negative price offers (discounts on future spot market prices) were given for the first time in these tenders.

PRIVATIZATIONS AND INCENTIVES FOR DOMESTIC COAL-FIRED POWER PLANTS

In line with the aim of utilizing domestic coal in electricity generation by transferring existing lignite fields to private sector under the condition of establishing domestic coal-fired power plants, the tender for the privatization of Çayırhan power production and coal reserve area, which was announced on October 3, 2016, was held on February 6, 2017.

At Turkey's first Dutch auction, in which the price was reduced with each bid, the starting bid was set as USD 72/MWh while the winning

bid was USD 60.4/MWh. The Transfer of Operating Rights Agreement and the Electricity Sales Agreement for the tender were signed on July 11, 2017.

With the aim of promoting domestic coal-fired power plants, it was decided that TETAŞ shall procure electric power from private companies operating domestic coal-fired power plants through the Council of Ministers' Decree published in the Official Gazette dated August 2, 2016. Within the scope of the said decree, TETAŞ purchased 6 million kWh and 18 million kWh of electric power from private companies in 2016 and 2017, respectively, at a unit price of TL 185/MWh. Through Council of Ministers' Decree published in the Official Gazette dated December 2, 2017, some amendments were made to the decision dated August 2, 2016. Accordingly, it was decided that the purchase guarantee be extended till the end of 2024 and purchase prices be determined on a quarterly basis and adjusted in three-month intervals in line with the inflation rate. For the first quarter of 2018, the unit purchase price was set at TL 201.35/MWh. TETAŞ is to purchase half of the electrical energy generated by the domestic coal-fired power plants while the purchase amount from those power plants which burn a mixture of domestic coal and imported coal is set as half of their electrical energy production generated by using domestic coal. TETAŞ has the authority to increase the amount of electricity procured from the companies by up to 40% each year.

NATIONAL ENERGY AND MINING POLICY

Vision-related efforts for the energy sector, which were initiated within the framework of 2023 targets in order to further improve the policies and strategies for the energy sector, were continued with the 2015-2019 Strategic Plan of the Ministry of Energy and Natural Resources.

In April 2017, the Ministry of Energy and Natural Resources announced Turkey's "National Energy and Mining Policy." Formulated on the basis of "a strong economy and national security",

the National Energy and Mining Policy carries great significance in that it lays out Turkey's regional and international energy vision for the upcoming period. The policy highlights the factors of supply security, localization, and a predictable market, thus providing guidance for Turkey to further advance in the field of energy. Strategies oriented towards ensuring supply security through projects such as planned and ongoing natural gas pipeline projects, LNG facility investments, and natural gas storage facilities, are underlined in the policy. Moreover, the Ministry has made important strides in increasing the use of domestic resources and has determined localization as the second axis of the said policy. The main objectives listed under the localization heading in the policy include investments in renewable energy, the introduction of nuclear energy into the economy as soon as possible, and the use of local equipment and labor force while doing so. A predictable market, which aims to enable the growth of energy markets and restructuring of the institutions that operate in the sector, was determined as the third axis of the National Energy and Mining Policy.

ELECTRICITY DISTRIBUTION AND RETAIL SALES

New regulations for electricity distribution and retail sales were introduced in the last quarter of 2017 and early 2018. The impacts of these regulations will be seen in 2018.

REGULATIONS FOR THE ELECTRICITY DISTRIBUTION SECTOR

INCREASE IN THE ALLOWED RETURN ON REGULATORY ASSET BASE

The allowed return on regulatory asset base for the 3rd tariff period (2016-2020) was increased from 11.91% to 13.61% for the 2018-2020 period as per the EMRA's resolution dated December 7, 2017 and numbered 7501-12. The additional income resulting from this regulatory change was added to the revenue requirements of electricity distribution companies for the years of 2018-2020 by EMRA, leading to an increase in their revenues for these years.

INCREASE IN NON-TARIFF REVENUES FOR THE ILLEGAL USE OF ELECTRICITY

With the "Communiqué Amending the Communiqué on the Regulation of Distribution System Revenues" published in the Official Gazette dated December 16, 2017 and numbered 30272, the portion of revenues accrued for the illegal use of electricity by subscribers and excluded from tariff calculations was increased from 20% to 40% for the year 2018. This amendment will positively affect the non-tariff revenues of electricity distribution companies in 2018.

IMPLEMENTATION OF QUALITY FACTOR

The principles and procedures for the implementation of the "Quality Factor" were published by EMRA's resolution dated December 21, 2017 and numbered 7531, and will be effective in 2018. The quality factor calculations will take into account various criteria such as the improvements made by the distribution company for ensuring supply continuity, increase in consumer satisfaction in the related distribution region, and the fulfillment of technical quality and investment related obligations.

REGULATIONS FOR RETAIL SALES

INCLUSION OF YEKDEM COST IN ENERGY SUPPLY COSTS

The assigned supplier companies (supplier of last resort) are given a fixed gross margin (which is 2.38% for the 3rd tariff period covering the years of 2016-2020) on their energy supply costs, which they incur for carrying out electricity sales to regulated customers. In recent years, the share of cost arising from the Renewable Energy Resources Support Mechanism (YEKDEM) in total energy supply costs has increased. With the "Communiqué on the Amendment to the Communiqué regarding the Regulation of Retail Energy Sales Prices" published in the Official Gazette dated December 15, 2017 and numbered 30271, the cost arising from YEKDEM will be included in the supply costs of assigned supplier companies, thus granting them the right to obtain a gross profit margin of 2.38% on YEKDEM cost as well. This amendment is expected to improve the assigned supplier companies' earnings from the

sale of electricity to regulated customers in 2018.

INTRODUCTION OF LAST RESORT ELECTRICITY SUPPLY TARIFF FOR CONSUMERS WITH HIGH ELECTRICITY CONSUMPTION

With the “Communiqué on the Regulation of Last Resort Electricity Supply Tariff” published in the Official Gazette dated January 20, 2018 and numbered 30307, eligible consumers who do not procure electricity via bilateral agreements will be required to supply their electricity at the last resort supply tariff. In line with this Communiqué, consumers were divided into two categories: “high-consumption” and “low-consumption”. Accordingly, consumers with an annual electricity consumption of 50 million kWh and above for the year 2018 were defined as high-consumption consumers. Under the Communiqué, consumers with high electricity consumption will be subject to the last resort electricity supply tariff as of April 1, 2018. The last resort electricity supply tariff, which will be determined in a manner that reflects the costs incurred in the market, will be calculated by adding the electricity market price and YEKDEM unit cost, upon which a reasonable profit margin determined by EMRA will be applied. The reasonable profit margin for 2018 was set at 1:128.

Since the last resort electricity supply tariff will be higher than the national tariff, it is expected that as of April 2018, most of the consumers in this group will opt to procure energy under more favorable terms from the private supply companies in order to reduce their costs and avoid market risks. In turn, this will increase competition among suppliers for high-consumption consumers. Should high-consumption consumers procure energy from the assigned supplier companies, the latter would have the opportunity to make a profit from such consumers above their existing gross profit margins. This regulation, which constitutes an important step in the liberalization of the energy market, aims to enable consumers who fall under the high-consumption group to avoid regulatory tariffs and procure electricity at competitive prices. The last resort electricity supply tariff, which will create a ceiling price in a competitive environment,

is particularly relevant for large-scale industrial enterprises for which energy costs are a key factor due to their high consumption.

On the other hand, low-consumption consumers will continue to benefit from the existing industrial tariff applicable to non-eligible consumers.

INCREASE IN RETAIL ELECTRICITY SALES TARIFFS AS OF JANUARY 1, 2018

Retail electricity sales tariffs have been increased by 8.8% for industrial users and 8.7% for residential and commercial users effective as of January 1, 2018.

Because of the increase in supply costs and no change in the national tariff in 2017, which is taken as an upper limit in setting the electricity sales prices for eligible consumers, electricity supply companies suffered from declining profitability and had to cut their electricity sales to high consumption customers. This in turn led to an expansion in the assigned supplier companies’ customer portfolios and electricity sales in 2017. As the sales prices for low consumption customers remaining in the portfolios of supplier companies are mostly linked to the national tariff, the 9% increase in retail sales tariffs as of January 1, 2018 will have a positive impact on these companies’ average sales prices in 2018.

REDUCTION OF ELIGIBLE CONSUMER LIMIT TO 2,000 KWH PER YEAR

The eligible consumer limit is determined by the EMRA on a yearly basis. The eligible consumer limit for 2017 was reduced by 33% compared to 2016 and was determined as 2,400 kWh per year. Accordingly, all electricity subscribers with an average electricity bill of TL 82 and above per month had the right to choose their electricity supplier. For 2018, the eligible consumer limit was further reduced to 2,000 kWh per year. This corresponds to a monthly electricity bill of TL 75. Eligible consumers can procure electricity from the suppliers of their free choice without any city or region restriction through bilateral agreements. Gradual lowering of the eligibility limit enables electricity supply companies to grow their K2 (eligible customer) portfolio.

Activities of Zorlu Enerji in 2017

Driven by the entry into the electricity distribution and retail sales businesses through the acquisition of OEDAŞ and OEPSAŞ, Zorlu Enerji's total electricity sales increased by 104% and reached 10,333 GWh in 2017.

ELECTRICITY GENERATION AND SALES

As of the end of 2017, the installed capacity of Zorlu Enerji in Turkey is 744 MW while its total installed capacity, including international investments is 1,091 MW. Renewable energy power plants constitute 76% of the installed capacity in Turkey and 57% of the total installed capacity. Zorlu Enerji's gross electricity generation decreased by 3.5% YoY to 2,467 GWh in 2017. Although Sarıtepe and Demirciler Wind Power Plants operated for the

full-year in 2017 and the first unit of Kızıldere III Geothermal Power Plant, which became operational in August, partially contributed to total electricity generation, the lower output at HPPs due to the effects of the countrywide drought and suspension of operations at the İkizdere Hydroelectric Power Plant due to ongoing rehabilitation investment as well as the decreased production at natural gas power plants on the back of capacity closures and high generation costs led to a decline in total electricity generation in 2017.

Parallel to the decrease in electricity production, electricity sales from generation also declined by 4% YoY to 2,267 GWh in 2017. With the addition of 1.7 million new customers to the Company's portfolio through the acquisition of Osmangazi Elektrik Dağıtım AŞ and Osmangazi Elektrik Perakende Satış AŞ in February 2017, electricity sales from trading (i.e. procured from the market) increased by 199% and reached 8,065 GWh. Thus, total electricity sales surged by 104% to 10,333 GWh in 2017.

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Generation

	2016	2017
Electricity (kWh)*	2,558,949,405	2,456,679,576
Steam (tonnes)	515,385	543,999

*200,321,302 kWh of total electricity generated in 2017 was used for internal consumption. (2016: 183,548,028 kWh)

Sales

	2016	2017
Electricity (Generation) (kWh)	2,364,198,608	2,267,131,050
Electricity (Trading) (kWh)	2,693,915,263	8,065,412,031
Steam (tonnes)	515,385	543,999
Utility and Cooling Water, CO ₂ (m ³)	107,145	100,873

With the inclusion of Saritepe and Demirciler Wind Power Plants in YEKDEM mechanism in 2017, a total of 5 renewable power plants in the portfolio benefited from YEKDEM in 2017. Sales to YEKDEM constituted about 60% of total electricity sales from generation. The increasing share of the more profitable YEKDEM sales, where sales prices are dollar based and well above the market prices, had a positive effect on Zorlu Enerji's profitability while also providing a natural hedge against the Company's foreign exchange losses stemming from the FX denominated loans.

Zorlu Enerji's gross electricity generation in 2017 remained slightly below the Company's targeted range of 2,600-2,800 GWh, which was announced to the public on May 16, 2017. Yet total electricity sales exceeded the target of 9,900-10,000 GWh and reached 10,333 GWh.

Thanks to the surge in sales volume in 2017, revenues grew by 216% to TL 3,871 million while EBITDA increased by 113% to TL 879 million, surpassing the Company's revenue and EBITDA targets of TL 2,700-2,800 million and TL 500-600 million, respectively.

Driven by the strong growth in EBITDA, net financial debt/EBITDA ratio fell from 12.8x in 2016 to 8.0x in 2017.

The reason for the robust growth in revenues and EBITDA in 2017 can be summarized as follows:

- Acquisition of OEDAŞ and OEPSAŞ in February 2017 (11 months of operations were consolidated into Zorlu Enerji's financial statements),
- Inclusion of Saritepe and Demirciler Wind Power Plants in YEKDEM mechanism in addition to the existing 3 power plants and

21% depreciation of TL against US Dollar during the year, which together boosted Company's YEKDEM revenues in TL terms,

- Full-year operation of Saritepe and Demirciler Wind Power Plants for the first time 2017,
- Zorlu Solar commencing sales activities in the second quarter of the year under the distribution & supply agreement signed with First Solar and
- 5-month contribution to financials from the first unit of Kizildere III Geothermal Power Plant which became operational in August.

With the strong growth in operating profitability, Zorlu Enerji recorded a positive bottomline in 2017 after 4 consecutive years of net losses and closed the year with a net profit of TL 52 million.

CAPITAL EXPENDITURES

Zorlu Enerji's total investment spending amounted to TL 1,463 million in 2017. The investment for the Kizildere III Geothermal Power Plant, the first unit of which was commissioned in August 2017, and investments made to improve and expand OEDAŞ's existing distribution network as well as to improve the quality of services to customers accounted for the majority of the investments made during the year.

The TL 435 million of distribution network related investments undertaken by OEDAŞ were booked under financial assets pursuant to the accounting treatment of investments under service concession arrangements.

Electricity Trade and Electricity Sales to Eligible Consumers

Zorlu Enerji carries out its electricity trade activities through its wholly-owned subsidiary Zorlu Elektrik Enerjisi İthalat İhracat ve Toptan Ticaret AŞ ("Zorlu Elektrik").

Zorlu Elektrik was established in 2000 with the aim of procuring electric power from the domestic market and from free zones for wholesale or direct sale in the domestic market and for exporting abroad. Zorlu Elektrik sells electricity to eligible consumers under the "Supply License" granted by the Energy Market Regulatory Authority.

Zorlu Elektrik's main operations consist of:

- Retail sales of electricity to individuals and corporate customers who qualify to be eligible consumers,
- Electricity trading in Organized Wholesale Electricity Markets operated by the Energy Exchange Istanbul (EXIST),
- Wholesale electricity trading on Over-the-Counter ("OTC") and Derivatives Market ("VIOP"),
- Export and import of electricity and
- Group management¹ responsible for balance.

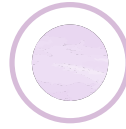
Within the scope of its afore-mentioned operations, Zorlu Elektrik makes demand and price forecasts, undertakes generation planning, pricing, sales, risk and portfolio management and reconciliation and billing activities.

Zorlu Elektrik has a diverse customer base and makes direct electricity sales to eligible consumers which include residential users

and SMEs in addition to large corporate and industrial clients. The company offers hourly, periodic and market price based alternative pricing options to its consumers through bilateral agreements.

Helping its customers save money by creating special offers tailored to their consumption patterns, Zorlu Elektrik also offers a strong infrastructure of service with its expert sales and IT teams.

RESIDENTIAL USERS AND SMEs ARE THE TARGET CUSTOMERS FOR ZORLU ELEKTRİK



RESIDENTIAL USERS CONSTITUTE 37% OF ZORLU ELEKTRİK'S CUSTOMER PORTFOLIO AND THEIR SHARE IS EXPECTED INCREASE IN PARALLEL WITH THE REDUCTION IN ELIGIBLE CONSUMER LIMIT.

Eligible consumers are consumers whose annual electricity consumption exceeds the minimum threshold (the eligible consumer limit) set by the EMRA and thus have the right to choose their electricity supplier.

As a part of the deregulation process in the Turkish electricity market which started in 2002, the eligible consumer limit is gradually lowered on a yearly basis, as a result of which an increasing number of consumers become eligible every year. In Turkey, 4.7² million electricity subscribers out of the total of 42.5³ million are entitled to eligible consumer rights.

¹ The group responsible for balance: Refers to the group formed by the market participants after informing the Market Operator (EXIST) to decrease the cost of imbalance and in which one of the market participants assumes the responsibility for the balancing transactions on behalf of the group.

² This data was taken from the EXIST Transparency Platform.

³ Based on the Electricity Market December 2017 Report published by the EMRA.



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This number is expected to increase in the following years driven by the further reduction in the eligibility limit.

The eligible consumer limit is determined and announced every year in January by the EMRA. The eligible consumer limit for 2017 was lowered by 33% compared to 2016 and was set as 2,400 kWh per year. Accordingly, electricity subscribers who pay a monthly electricity bill of TL 82 or above have the right to choose their supplier.

For 2018, the limit was set as 2,000 kWh per year, which amounts to an electricity bill of TL 75 per month. Subscribers qualified to be eligible may procure electricity from the suppliers of their free choice without any city or region limitation and may buy electricity at more advantageous terms through bargaining with suppliers.

REACHING CUSTOMERS THROUGH VARIOUS SALES CHANNELS

Zorlu Elektrik uses a variety of channels for reaching customers and can access different customer groups through different channels.

Zorlu Elektrik has a retail network which operates in various cities in Turkey. Zorlu Elektrik's dealers who operate in the Marmara, Aegean, Black Sea and Central Anatolian regions mainly target individual and SME customers.

Potential customers can also be reached via the call center. The field team supports the telesales team in contract signing and in informing customers about the process who have been reached through the telesales channel. The field team also finds customers and makes contracts. Customers can also request offers and start their subscription process by filling out the subscription forms on the company's website.

Zorlu Elektrik also collaborates with various institutions for the sale of electricity. The company makes deals with airline companies, banks, manufacturers of consumer durables, fuel distribution companies and trade associations to capitalize on different opportunities and to reach the customers or the members of these organizations via special offers and prices.

ALTERNATIVE PRICING TAILORED FOR DIFFERENT CUSTOMER PROFILES

Favorable tariff packages tailored to consumption volumes and patterns are created and marketed to potential customers through appropriate communication platforms and sales channels.

Zorlu Elektrik meets the expectations of its customers not just by offering alternative pricing options, but also by sharing its industrial experience regarding infrastructure, legislation and market practices.

Besides selling electricity to eligible consumers, Zorlu Elektrik also purchases/sells electricity from/to other energy companies in the sector through bilateral agreements. It also imports and exports electricity to/from bordering countries.

COMMUNICATION CHANNELS

Customers can reach Zorlu Elektrik through various channels and convey their suggestions and requests. Customers can reach Zorlu Elektrik via the call center by dialing 0850 808 80 82 and receive information, communicate suggestions and complaints and request new price offers.

They can also reach Zorlu Elektrik by filling out the contact and request forms found on the website www.zorluelektrik.com. Customers may also contact the dealers they have signed the subscription contract with, the field team or the customer representatives from the sales team to receive information about the process.

OVER THE COUNTER (OTC) ELECTRICITY MARKET

In the electricity sector, over the counter markets are unorganized markets which bring sellers and buyers together for trading purposes and which enable electricity trading companies to hedge their current positions or to make profits through trading. In the OTC, companies can sell/purchase electricity via bilateral agreements or through brokers

in accordance with the commercial terms agreed upon by the parties. As sector players started using the OTC market more actively for hedging and trading purposes, trading volume and hence, the liquidity in the market has increased in recent years.

DERIVATIVES EXCHANGE

The Derivatives Market ("VIOP") at Borsa Istanbul offers investors the opportunity to sell/purchase leveraged base load electricity by eliminating the counterparty risk present in the OTC market via Takasbank (Clearing House) and by removing the need for a letter of guarantee. With the initiation of market making activities in October 2015, the Derivatives Market became a hedging and trading tool used extensively by the market participants and other investors.

Zorlu Elektrik aims to manage the open position of the Company by conducting hedging and trading transactions in OTC and VIOP markets and to profit from these transactions based on pricing trends.

As the first market maker in VOIP, Zorlu Elektrik continues to contribute to the development of markets in terms of both liquidity and trust inspired in the market.



Smart Systems

In line with its goal to become the energy company of the future, Zorlu Enerji established Smart Systems Group to invest in smart systems.

Zorlu Enerji expands its works on Smart Systems, one of the most important areas for becoming the energy company of future. The Smart Systems Group was established within the Company in 2017 in order to develop an array of smart systems ranging from electric car rental, electric vehicle charging stations, smart home systems to smart energy management systems.

The Smart Systems Group first and foremost focuses on spreading the use of electric vehicles in Turkey. To this end, the Group has created an electric car sharing platform for the Company personnel under which employees can rent electric vehicles on an hourly basis.

The aim is to make this platform available to the wider public as soon as possible.

Another project is conducted in parallel to this practice, which aims to eliminate the lack of an appropriate infrastructure in Turkey for electric vehicles. Within this framework, efforts are underway to install electric vehicle charging stations in big cities of Turkey and on main highways connecting these cities.

On the other hand, efforts to digitalize Zorlu Enerji are continuing at full speed. Using the Mobile App developed for Zorlu Elektrik's subscribers, customers can access previous invoices, payment channels, and special offers conveniently through their mobile phones.

Besides these, efforts about renewable energy systems and energy storage solutions that would support these systems continue and meetings are held with the world class manufacturers and business partners for potential collaborations.



Electricity Distribution and Retail Sales

With the acquisition of OEDAŞ and OEPSAŞ, Zorlu Enerji added electricity distribution and retail sales to its existing activities which consisted of electricity generation, sales, and trading; and has taken an important step towards becoming an integrated player.

With the aim of widening the scope of its services to end-consumers by adding an electricity distribution company and an electricity retail sales company to its portfolio, Zorlu Enerji founded Zorlu Osmangazi Enerji Sanayi ve Ticaret AŞ ("Zorlu Osmangazi") with 100% ownership in November 2016.

Zorlu Osmangazi acquired 100% shares of Osmangazi Elektrik Dağıtım AŞ ("OEDAŞ"), which distributes electricity in the cities of Eskişehir, Kütahya, Uşak, Bilecik, and Afyonkarahisar and Osmangazi Elektrik Perakende Satış AŞ ("OEPSAŞ"), a retail sales company, for a total consideration of USD 360 million on February 2, 2017. OEDAŞ is responsible for the distribution of electricity in Osmangazi region and serves close to c. 1.72 million subscribers as of the end of 2017. OEPSAŞ is the assigned supplier for the said region while it also sells electricity to eligible consumers.

OSMANGAZİ ELEKTRİK DAĞITIM AŞ - OEDAŞ

OEDAŞ distributes electricity within the provincial borders of Eskişehir, Afyonkarahisar,

Bilecik, Kütahya, and Uşak. The company is responsible for operating the electricity distribution network in its designated region, making the necessary maintenance and expansion investments, reading and maintaining the electricity meters of the distribution system users in the region, preparing demand forecasts and investment plans, illumination of public areas and purchasing electricity to make up for the shortfall in the region stemming from theft and loss.

DISTRIBUTION SERVICES

Operations carried out as part of the distribution services the Company is responsible for are:

- Electric meter reading and switching on/off of electricity service,
- Meter reading and circuit measurement operations,
- Monitoring and prevention of electricity theft and loss,
- Calculation of extra consumption,
- Accrual and collection of distribution connection fees for new subscriptions,
- Tracking of energy exchange in the region,
- Carrying out transactions for eligible consumers and supplier companies,
- Carrying out EXIST transactions,
- Preparation of annual consumption profiles for use in reconciliation calculations,

- Installment and operation of the Automatic Meter Reading System,
- Tracking and finalization of subscriber complaints,
- Carrying out general lighting operations,
- Tracking of commercial quality,
- Follow up and coordination of distribution connection agreements and interior installment applications,
- Keeping track of legal changes and
- Conducting tariff studies.

As of the end of 2017, the total number of users connected to the distribution system in Turkey increased by 3.6% to 42.5 million. Due to Osmangazi being a region with high potential for rapid growth especially in terms of universities, industry and urbanization, the number of users in the region increase by an average 3% on an annual basis. In 2017, similar to the general growth across Turkey, the number of subscribers in the region increased by 3.5% to over 1.7 million. The biggest increase took place in Eskişehir with a 4.3% growth.

While the amount of electricity distributed in the region increased by 2.4% to 6.1 TWh in 2017, the theft and loss ratio was realized as 6.97%, remaining below the regulatory target of 7.93% set by EMRA for the year. Per capita electricity consumption in the region grew by 2.8% to 2,406 kWh during the year.

Following the acquisition of OEDAŞ, efforts were initiated to review the existing operations and staff structure, which is based on units and functions, with the aim of improving the efficiency of processes and operations. Within this framework, the structure of the organization was revised, the current staff was reviewed and studies to create a more efficient and effective organizational structure were completed. Some units were merged to

increase the efficiency of the company and new units such as the Internal Control and Corporate Communication, Control Systems and SCADA were established.

Accelerating its investments after its acquisition by Zorlu Enerji, OEDAŞ undertook TL 435 million of capex in 2017 for improving the quality of service, customer satisfaction and technology as well as for R&D and for upgrading the existing distribution infrastructure.

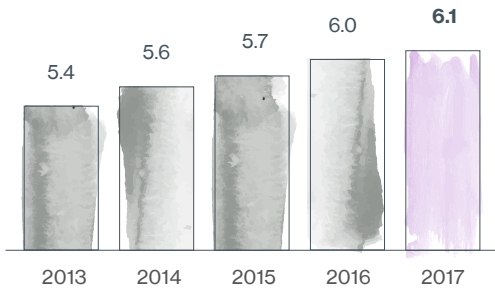


Projects carried out by OEDAŞ as part of its technology investments to improve its technological infrastructure are as follows:

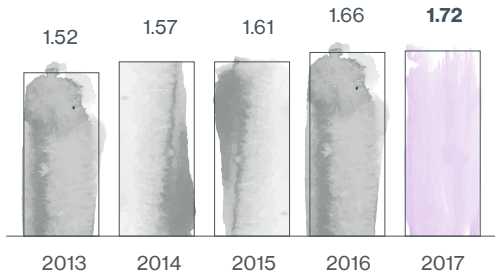
- Subscriber Information Management System
- Automatic Meter Reading System

- Supervisory Control and Data Acquisition System (SCADA)
- System for Remote Monitoring of Supply Continuity
- Corporate Resource Planning and Workforce Management
- Field and Workforce Management
- Information Technologies Infrastructure Network Installation
- Geographical Information Systems Integration Project
- Information Technologies Server Systems.

ELECTRICITY DISTRIBUTED (NET) (TWh)



NUMBER OF SUBSCRIBERS (Million)



OSMANGAZI ELEKTRİK PERAKENDE SATIŞ AŞ - OEPSAŞ

As the assigned supplier (supplier of last resort) for the Osmangazi Electricity Distribution Region, OEPSAŞ sells electricity to regulated customers in the region at retail sales tariffs regulated by EMRA. The company can also sell electricity to eligible consumers all around Turkey without any region limitations.

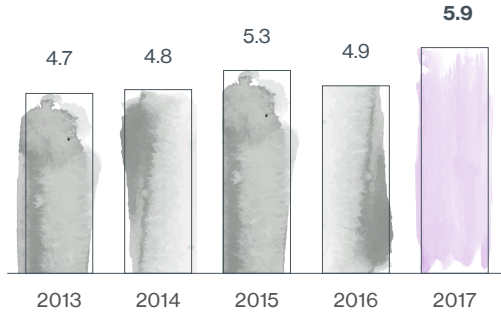
OEPSAŞ offers retail sales services to eligible and non-eligible consumers at its Customer Services Centers located in Eskişehir, Afyonkarahisar, Bilecik, Uşak and Kütahya provinces.

Following its acquisition by Zorlu Osmangazi in February 2017, efforts were initiated at OEPSAŞ to review the existing operations and staff structure, which is based on units and functions, in order to improve the efficiency of processes and operations. Within this framework, the structure of the organization was updated, the current staff was reviewed and studies to create a more efficient and effective organizational structure were completed. Efforts to standardize operations and processes in associated locations and units on the basis of duty and job titles will continue in 2018, accordingly, the standardization of job descriptions which was initiated within this framework will be completed. Also, to increase internal customer satisfaction, action plans are aimed to be prepared and put into effect.

As part of the Integrated Management Systems, necessary inspections for the ISO 9001 (Quality Management System), ISO 14001 (Environmental Management System), ISO 27001 (Information Security Management System), ISO 10002 (Customer Satisfaction Management System) and OHSAS 18001 (Occupational Health and Safety Management System) were completed and the company earned the right to receive the related certification. Within this framework, all

employees received necessary training and field inspections were completed. Studies in these areas will continue in 2018 as well.

ELECTRICITY SALES (TWh)



CUSTOMER SERVICES

Following the acquisition, efforts were initiated to transform all operational processes and activities into a business model which puts customer at its focus, quickly adapts to changing customer demands and improves itself based on technological innovations.

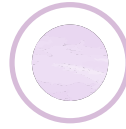
As corporate image efforts took off for the existing Customer Centers, the structure which provided service at 47 points in 5 provinces were improved by using business models that included technology and was turned into a model, which was administered from 18 points. Having the staff participate in basic training necessary for the certification process, staff awareness was increased with respect to ISO 9001, 14001, 27001, 10002 and OHSAS 19001.

Customer Services Directorate will continue its efforts to increase customer satisfaction and improve the quality of service in 2018 in addition to the improvements that have been made so far. Within this framework, participation in commission studies for keeping track of the developments in the sector, comparative studies with other companies and following up of good practices in the industry are targeted. Other goals include increasing employee satisfaction, making

efforts to improve employee competence, and completion of the required trainings.

The facades of the existing Customer Service Centers in all cities are planned to be renewed in 2018. Within this framework, corporate image efforts have been initiated and retail sales services to customers are planned to be offered through one-on-one solution centers. Customer Service Centers whose main function is to manage operations related to subscriptions are restructured as part of these efforts and the plan is to offer services to customers through a variety of channels in addition to the existing ones. Minimizing the duration of service in service centers and creating the necessary online infrastructure for customers who want to carry out their transactions online without leaving their homes are among the main goals of the Customer Service Centers.

FOLLOWING THE
ACQUISITION OF OEPSAŞ
BY ZORLU ENERJİ, PROCESS
AND INFRASTRUCTURE
INVESTMENTS WERE
ACCELERATED IN ORDER TO
PROVIDE HIGHER QUALITY
SERVICE TO CUSTOMERS.



SOURCES OF ENERGY SUPPLY AND PORTFOLIO GROUPS

OEPSAŞ's customer portfolio includes two types of customers: 1) Customers (K1 type), which procure energy at regulated tariffs and 2) Customers (K2 type) which exercise their right of eligibility and procure energy through bilateral agreements. The energy supply sources are different for each portfolio group. The required energy for K1 portfolio is procured from TETAŞ and EXIST. In 2017, purchases from TETAŞ met 78% of the total energy need of K1 portfolio, up from 48% in 2016. For the K2 portfolio, the energy is procured from the electricity supply companies through bilateral

agreements as well as from EXIST. In 2017, OEPSAŞ made bilateral agreements with energy purchase prices lower than the average market price for the K2 portfolio.

OEPSAŞ procured 5,966 GWh of total electrical energy in 2017, up from 4,948 GWh in 2016. The increase was due to the migration of eligible consumers from other electricity suppliers to the company's K1 portfolio.

OEPSAŞ sold 5.95 TWh of electricity to a total of 1.7 million customers in 2017, including both eligible and regulated customers. The company's electricity sales increased by 20% compared to 2016. 64% of the total electricity sales was directed to K1 portfolio, while the remainder 36% to K2 customers. The number of the company's eligible customers increased by 108% YoY in 2017 and surpassed 74 thousand.

To lower OEPSAŞ's energy imbalance costs, a group responsible for balance was formed with Zorlu Elektrik for OEPSAŞ's K2 portfolio on February 1, 2017 and thus, imbalance costs are kept to a minimum.

2018 EXPECTATIONS FOR THE ELECTRICITY MARKET

Pursuant to EMRA's resolution numbered 7474 and dated November 30, 2017, the eligible consumer limit for 2018 was set as 2,000 kWh per year. The decision will expand the number of eligible consumers in the market and push electricity suppliers to tap into this potential through different sales channels. Within this framework, OEPSAŞ has begun customer analysis studies and opt to differentiate with its high quality services and favorable prices as the biggest supplier in its region.

As per EMRA's Communiqué on the Regulation of the Last Resort Electricity Supply Tariff, consumers with an annual electricity consumption of 50 million kWh or higher are defined as high consumption users and such users will be subject to the last resort supply

tariff as of April 2018. With this practice, it is expected that high consumption consumers will prefer to procure electricity under bilateral agreements and the frequency at which they switch to the last resort supply tariff will decrease. Also, in cases where these consumers opt to purchase energy at the last resort supply tariff, the assigned supplier companies will be able to make a profit above their current margin from these customers.

EMRA's Communiqué on the Regulation of Retail Energy Sales Prices was amended in 2017, which will become effective in 2018. With the amendment, the cost arising from YEKDEM has been included in the energy supply costs of assigned supplier companies. This change is expected to affect the gross profit margins of these companies positively from 2018.

CUSTOMER SERVICES FOR ELIGIBLE CONSUMERS

In 2017, the number of company's eligible customers has increased thanks to customer visits made nationwide for informing the customers, who qualify for the eligibility status, about their rights and potential to benefit from discounted prices. Information updates for eligible consumers were also started during the year.

2017 was a challenging year in terms of energy procurement costs due to steep increases and rising volatility in energy prices and unforeseen increase in YEKDEM costs. Since these market conditions which affected all market participants were not considered as temporary and due to uncertainties on the part of energy procurement, necessary actions were taken to protect OEPSAŞ's profitability without disrupting customer satisfaction. These actions affected the profitability of K2 portfolio positively during the second half of the year.

To improve after-sales operations for the K2 portfolio in order to provide better services to customers and to strengthen portfolio management and CRM (Customer Relations

Management), business improvement processes were sped up and a software change was made as of June 2017.

Efforts are being made to update customer information and new offers and products tailored for customers are being developed.

Also, at the same time, customer demands and complaints are handled faster than before thanks to the improvements made on the communication channels (call center, online operations channel) which results in a higher customer satisfaction.

With the reduction in the eligible consumer limit for 2017 to 2,400 kWh, the number of customers in the K2 portfolio has seen a significant 108% growth compared to 2016. Residential users constituted about 90% of this increase.

Considering the reduction in the eligible consumer limit to 2,000 kWh/year in 2018, the last resort supply tariff to be implemented from April 2018 and the amendments made to the Customer Services Regulations, necessary preparations are underway for developing new sales strategies for potential customers and for improving after-sales operations.

Efforts to improve after-sales service operations for K2 customers, strengthen portfolio management and to create a system that will respond faster to the changing market conditions, legislation and customer expectations, and thus to improve customer services and satisfaction still continue. Increasing employee efficiency and effectiveness is also one of the goals for supporting these efforts.

With the expectation that the rise in energy costs and uncertainties will continue, the company aims to optimize its profitability on sales to K2 portfolio and keep risks under control in 2018.

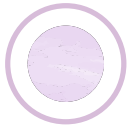
BILLING AND RECEIVABLES MANAGEMENT

The infrastructure and hardware equipment are kept up to date with the latest technology to help OEPSAŞ provide a more effective and efficient service. Within this framework, the customer management system was revised as of June 19, 2017 to make subscription, billing and collection operations more efficient, traceable and auditable. With this change, the required system improvement operations regarding billing and management of receivables were completed in accordance with the relevant legislation and regulations.



Zorlu Enerji's Investments in Turkey

GEOTHERMAL ENERGY



ONE OF THE TOP TWO PLAYERS IN GEOTHERMAL ENERGY, ZORLU ENERJİ SINGLEHANDEDLY REPRESENTS 23% OF TURKEY'S TOTAL INSTALLED GEOTHERMAL ENERGY CAPACITY.

Building its future growth on the exploitation of Turkey's abundant geothermal resources, Zorlu Enerji continues its operations and investments in potentially the richest sites of the Aegean Region which contains 87% of the country's total geothermal resources.

Singlehandedly representing 23% of Turkey's total installed geothermal energy capacity as of the end of 2017, Zorlu Enerji is one of the most knowledgeable, experienced and best-equipped investors in this field. The Company has shaped its investment plans in this area with the vision of reaching at least half of the country's targeted total installed capacity in geothermal energy.

The high capacity factor in geothermal energy and the 10-year price guarantee of US\$ 10.5/kWh granted to geothermal power plants that come into service after May 18, 2005 under the Renewable Energy Resources Support Mechanism ("YEKDEM") are the key incentives for investing in this area. Zorlu Enerji aims to realize its geothermal energy projects and reach an installed capacity of at least 400 MW by 2020.

TURKEY'S BIGGEST INVESTMENT IN GEOTHERMAL ENERGY

KIZILDERE I-II-III GEOTHERMAL POWER PLANTS

Kızildere I GPP (15 MW), the operating rights of which were acquired by Zorlu Enerji for 30 years through the ADÜAŞ privatization tender in 2008, is the first geothermal power plant in Turkey.

In addition to the existing Kızildere I GPP in the Kızildere geothermal field, which is Turkey's first discovered geothermal field found to be suitable for electricity generation and which possesses the highest potential in geothermal energy, the 80 MW Kızildere II GPP was brought online in 2013 with an investment of USD 250 million. As a result of subsequent reservoir survey and exploration activities, investment was initiated for the Kızildere III GPP project which will have a total installed capacity of 165 MW. The first unit of the project with 99.5 MW of installed capacity became operational in August 2017 with an investment of USD 320 million. Thus, Zorlu Enerji's total installed capacity in the Kızildere geothermal field reached 194.5 MW.

The first unit of Kızildere III GPP is Turkey's largest geothermal power plant in a single facility and is also one of the largest in the world with its installed capacity of 99.5 MW.

Both being eco-friendly and sustainable power plants, Kızildere II and Kızildere III GPPs invest not only in the latest technology, but also in the region and social structure.



Kızıldere II Geothermal Power Plant is the first example in Turkey for the integrated use of geothermal energy. Besides generating electricity, Kızıldere II GPP provides heating for 2,500 homes in Sarayköy district, where there is currently no natural gas distribution network. The plant also provides heating to greenhouses, geothermal water to thermal hotels and carbon dioxide gas to industrial gas plants which serve the carbonated beverage industry. Accordingly, 500 decarees of greenhouses are heated by the Kızıldere II Geothermal Power Plant.

ALAŞEHİR I GEOTHERMAL POWER PLANT

Zorlu Jeotermal Enerji Elektrik Üretim AŞ ("Zorlu Jeotermal"), a wholly-owned subsidiary of Zorlu Enerji, has successfully completed and commissioned the 45 MW Alaşehir I Geothermal Power Plant in the Alaşehir geothermal field in Manisa under its generation license valid until 2040.

The construction of Alaşehir I GPP, which was realized with an investment of USD 178 million, began in June 2014 and the power plant was completed in record-breaking time. The first phase of the power plant, with 33.73 MW of installed capacity, became operational

on September 12, 2015 while the second phase comprising a 11.27 MW binary unit, was commissioned on January 15, 2016.

A USD 148 million project finance loan was obtained from Yapı Kredi Bank for the Alaşehir I GPP and about USD 28 million of this loan was funded by the Japan Bank for International Cooperation (JBIC).

The geothermal power plants located in the Kızıldere and Alaşehir fields (Alaşehir I GPP, Kızıldere I GPP and Kızıldere III GPP) sell their entire output at guaranteed feed-in tariffs under YEKDEM mechanism.

While Kızıldere II GPP has been selling in YEKDEM since 2014 and Alaşehir I GPP since 2016, the newly commissioned Kızıldere III GPP was included in YEKDEM as of January 1, 2018. All of the three power plants benefit from an additional price support of USc 0.7/kWh for local content in addition to the USc 10.5/kWh feed-in tariff provided to geothermal power plants and accordingly, sell their output at a total feed-in tariff of of USc 11.2/kWh. Zorlu Enerji used domestically manufactured ejectors in Kızıldere III, Kızıldere II and Alaşehir I Geothermal Power Plants and was the first

company to apply to the Renewable Energy General Directorate to benefit from the additional price support for local content and the first to be entitled to receive this support in geothermal energy.

PLANNED GEOTHERMAL ENERGY INVESTMENTS

SECOND UNIT OF KIZILDERE III GEOTHERMAL POWER PLANT

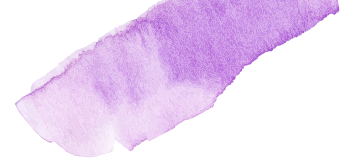
The Kizildere III GPP project, which is currently under construction in the Kizildere - Gökgedik area located on the Denizli and Aydın provincial border, will have a total installed capacity of 165 MW (the project consists of 2 units with 99.5 MW and 65.5 MW of installed capacities respectively). The exploration and well drilling activities for Unit I commenced in 2014 and a generation license was obtained in 2016, effective until the end of 2037.

The equipment selection, the environmental impact assessment process and project finance (USD 255 million) for the first unit were completed in 2015. The unit, which has an installed capacity of 99.5 MW and for which construction began in 2016, became operational in August 2017.

After evaluations, a decision was made to combine the Kizildere VI GPP project with the Kizildere III GPP project, which is currently under construction on the same field.

Therefore, the pre-license application of 60 MW to the Energy Market Regulatory Authority for the Kizildere VI GPP project was withdrawn. Since a decision was made to merge these two projects under the Kizildere III GPP investment, installed capacity specified in the generation license of the Kizildere III GPP project was amended from 95.2 MW to 165 MW with the addition of a second unit with





an installed capacity of 69.8 MW. Pursuant to the technical consultations made with the technology providers for the Kızildere III GPP project, the planned installed capacities for Unit I (95.2 MW) and Unit II (69.8 MW) were amended to 99.5 MW and 65.5 MW, respectively without changing the total installed capacity of the project.

USD 190 million of project finance was obtained for the second unit in April 2017. The construction of the second unit began in 2017 and it is expected to become operational in the first quarter of 2018.

ALAŞEHİR II GEOTHERMAL POWER PLANT PROJECT

The Alaşehir II Geothermal Power Plant project is planned to be developed with an installed capacity of 24.9 MW to exploit the additional geothermal potential in the Alaşehir geothermal field in Manisa. The pre-license for the project was obtained in September 2014 and the letter waiving the requirement for an environmental impact assessment process was secured on January 19, 2015. Exploration and well drilling activities for the project commenced in 2015. The financing negotiations for the project still continue and the project is expected to be completed in 2019. An application was made to EMRA in March 2018 to amend the installed capacity of 24.9 MW specified in the generation license of the project to 50 MW with two units of 25 MW each, thanks to the promising results of well tests and consultations with the equipment suppliers.

ALAŞEHİR III GEOTHERMAL POWER PLANT PROJECT

In addition to the Alaşehir II GPP project, a pre-license application was made to EMRA in 2014 for the Alaşehir III Geothermal Power Plant project, which is planned to be developed as the third phase in the Alaşehir geothermal field in Manisa with an installed capacity of 30 MW. As a result of resource surveying and assessments made, a new application was

submitted to EMRA on November 4, 2015 to increase the planned installed capacity of the project from 30 MW to 50 MW. The application was accepted by the Energy Market Regulatory Authority on April 4, 2016 and a 30-month pre-license was given to the project for an installed capacity of 50 MW.

KIZILDERE IV GEOTHERMAL POWER PLANT PROJECT

The application to the Energy Market Regulatory Authority to amend the installed capacity specified in the pre-license of the Kızildere IV GPP project, which is planned to be developed as the fourth phase in the Kızildere geothermal field, from 24.9 MW to 60 MW after resource surveying, was accepted in July 2017 and the project was granted a pre-license for a period of 36 months.

EXPLORATION AND OPERATION PERMITS FOR GEOTHERMAL ENERGY RESOURCES

In addition to its ongoing investments and existing pre-licenses in geothermal energy, Zorlu Enerji also won the tenders for two more geothermal fields in Denizli and Kütahya, respectively, in 2016 with the aim of growing further in geothermal energy.

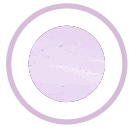
The Company participated in Denizli Metropolitan Municipality's tender on September 21, 2016 for leasing geothermal energy fields and won the tender by offering to pay 19% of its annual turnover as loyalty fee in addition to a fixed TL 3,000,000 rental payment per year plus VAT. As part of the tender, the Sarayköy geothermal field of 3,470 hectares located in the Tekke neighborhood of Sarayköy district in Denizli province was leased by Zorlu Enerji until June 2, 2041 to generate electricity from geothermal sources.

Zorlu Jeotermal, a wholly-owned subsidiary of Zorlu Enerji, participated in the tender held by the Kütahya Provincial Special Administration on October 27, 2016 for licensing the geothermal field by granting the right to survey

for resources and won the tender by offering to pay TL 450,000 plus VAT. As part of the tender, Zorlu Jeothermal obtained the right to explore geothermal resources in the Yeniköy geothermal field of 4,950 hectares located in the Yeniköy area of the Simav district in Kütahya province.

Well locations were determined in both fields after geophysical and geological studies and operations to receive the necessary permissions to drill these fields continue.

WIND POWER



AT ITS 3 WIND FARMS IN TURKEY NAMELY, GÖKÇEDAĞ, DEMİRCİLER AND SARITEPE, ZORLU ENERJİ HAS A TOTAL INSTALLED CAPACITY OF 215.3 MW. ALL THE WIND POWER PLANTS WERE AWARDED THE GOLD STANDARD CERTIFICATE.

GÖKÇEDAĞ WIND POWER PLANT (ROTOR): ONE OF THE FIVE BIGGEST WIND POWER PLANTS IN TURKEY

Gökçedağ WPP, Zorlu Enerji's first wind power plant in Turkey, ranks among the five largest wind power plants in Turkey with an installed capacity of 135 MW.

Earning the Gold Standard Certificate as a result of its contributions to reduction of greenhouse gases and sustainable development, Gökçedağ WPP received the Sustainability Award in the "Environmental and Social Impact Performance" category by the European Bank for Reconstruction and Development in 2013 for its environmental and social performance.

In order to assess the performance of Gökçedağ WPP, which became fully operational in 2010, the generation data for the first four years of operations were examined and locations with higher wind speed were determined for turbines with low capacity factor. With the assessment confirmed by two different consultancy firms, 12 new turbine

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locations were identified using the correlation between the actual amount of electricity generated and the wind speed data received from the wind measurement poles. It was concluded that the electricity generation at the plant could be increased by relocating 12 turbines out of the total 54. Within this framework 12 turbines were relocated during 2014 and 2015 and a notable increase was recorded in the generation values of the power plant following the relocation.

Gökçedağ WPP sold all of its generation to the state at USc 7.3/kWh in 2017, which is the guaranteed feed-in tariff for wind power plants under YEKDEM. The power plant will continue selling its output at a feed-in tariff of USc 7.3/kWh under YEKDEM mechanism in 2018 as well.

SARITEPE AND DEMİRCİLER WIND POWER PLANTS

Saritepe (57 MW) and Demirciler (23.3 MW) Wind Power Plants, which were built in Osmaniye with 80.3 MW of total installed capacity by Zorlu Rüzgar Enerjisi Elektrik

Üretimi AŞ ("Zorlu Rüzgar"), a wholly-owned subsidiary of Zorlu Enerji, commenced operations at full capacity on August 27, 2016. The construction for the wind power plants began in 2015, which were realized with a total investment of EUR 108 million. The power plants entered into operation gradually starting from June 2016.

Saritepe and Demirciler WPPs sold all of their output at a feed-in tariff of USc 8.58/kWh in 2017, benefiting from an additional price support of USc 1.28/kWh for local content in addition to the feed-in tariff of USc 7.3/kWh provided to wind power plants.

The Company's application to EMRA for the inclusion of Saritepe and Demirciler WPPs in YEKDEM mechanism in 2018 and for increasing the price support provided for local content from USc 1.28/kWh to USc 1.40/kWh was accepted by EMRA. In this context, the power plants will sell all of their generation at a total feed-in tariff of USc 8.7/kWh in 2018.



After Gökçedağ WPP, Zorlu Enerji has been awarded the Gold Standard Certificate for the Sarıtepe WPP and Demirciler WPP as well. Projected to reduce CO₂ emissions by nearly 180,000 tons per year, Sarıtepe and Demirciler WPPs will provide assurance in creating high quality carbon credits by guaranteeing transparency and credibility in the voluntary carbon market.

HYDROELECTRIC POWER

With its seven hydroelectric power plants in Turkey, Zorlu Enerji has around 113 MW of total installed capacity in hydro energy. The Company's total hydroelectric capacity is set to rise to 119 MW upon the completion of the ongoing rehabilitation work at İkizdere Hydroelectric Power Plant.

İKİZDERE REGULATOR AND HEPP

A rehabilitation investment was initiated at the İkizdere Regulator and Hydroelectric Power Plant, which is located in the İkizdere town of Rize, in July 2016 for increasing the plant's installed capacity from 18.6 MW to 24.96 MW. Electricity generation at the power plant was temporarily suspended during the rehabilitation work.



SAMI SOYDAM-SANDALCIK DAM AND HPP PROJECT

Upon its decision to discontinue the Sami Soydam-Sandalcık Dam and Hydroelectric Power Plant project, which was originally planned to be constructed on the Dalaman Stream in Denizli, as a result of its evaluations in 2017, Zorlu Hidroelektrik Enerji Üretim AŞ, a wholly-owned subsidiary of Zorlu Enerji, applied to the EMRA to terminate the generation license for the project (130,801 MWm/125,866 MWe).

Accordingly, the generation license for the project was terminated under the Provisional Article 21.1 of the Energy Market Law by virtue of an EMRA resolution dated August 10, 2017 and numbered 7229-2.

NATURAL GAS POWER PLANTS

Zorlu Enerji has 3 natural gas power plants in Turkey with total a installed capacity of 176 MW of electricity and 160 tonnes/hour of steam. Zorlu Enerji's steam generation capacity in Turkey is expected to increase to 240 tonnes/hour following the completion of the ongoing steam boiler investment at the Lüleburgaz Natural Gas Power Plant.

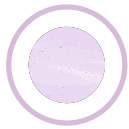
FLUIDIZED BED STEAM BOILER INVESTMENT AT LÜLEBURGAZ NATURAL GAS POWER PLANT

The Lüleburgaz Natural Gas Cogeneration Power Plant, which is located in Lüleburgaz, Kırklareli, has an electricity generation capacity of 125.99 MW and steam production capacity of 129.5 tonnes/hour. Work is currently underway to increase the plant's steam generation capacity through the construction of a fluidized bed steam boiler with a capacity of 2x40 tonnes/hour.

The boilers with lignite dust firing capability and auxiliary equipment are being built over an area of 2,500 m² including the coal stockyard. The construction and engineering works for the investment started in April 2016 and it is planned to be commissioned in the first half of 2018.

Zorlu Enerji's Investments Abroad

PAKISTAN WIND FARM



ZORLU ENERJİ HAS 56.4 MW OF INSTALLED CAPACITY IN PAKISTAN, CONSIDERED AS ONE OF THE BEST WIND CORRIDORS IN THE WORLD.

The 56.4 MW wind power plant, constructed by Zorlu Enerji Pakistan Ltd., a wholly-owned subsidiary of Zorlu Enerji, in the Jhimpir field in Sindh region of Pakistan, became operational in July 2013.

Pakistan is considered as one of the best wind corridors in the world. With steady winds year round, the Gharo-Kheti Bandar-Hyderabad corridor, where the Jhimpir Wind Farm is located, is arguably one of the best in the region. The studies show there is 50,000 MW of wind energy potential in the region.

Zorlu Enerji has a 20-year power purchase guarantee for the Jhimpir Power Plant, which is also secured by the Pakistani government against any risk that may have an impact on power generation such as legislative amendments and changes in wind speed.

The power plant won the “Best Renewable Energy Financing of the Middle East” Award which was given by the Project Finance Magazine in 2011.

The Pakistan Wind Farm received the “Gold Standard” Certificate in 2016 and Zorlu Enerji was the first company to receive this certificate in Pakistan.

ONGOING AND PLANNED PROJECTS IN PAKISTAN

Zorlu Enerji's first venture in solar energy in Pakistan will be realized as part of the Quaid-e-Azam Solar Park (“QASP”) project, which is planned to be developed by the Pakistani government in the Punjab province of Pakistan with 1,000 MW of total installed capacity. Zorlu Enerji participated in Zorlu Solar Pakistan (Private) Limited as a founding partner with a 99.7% share, which was established in November 2016 in Pakistan to undertake the Bahawalpur I Solar Power Plant (“SPP”) project with 100 MW of installed capacity in Punjab region.

Zorlu Solar Pakistan received a pre-license from the Punjab Power Development Board for



the 100 MW Bahawalpur I Solar Power Plant project to be developed in Pakistan's Punjab Province in December 2016. This was the first pre-license application for renewable energy accepted by the Pakistani government after 3 years. In August 2017, Zorlu Solar Pakistan obtained a 25-year generation license for the project from the Pakistan National Electric Power Regulatory Authority. Construction work for the Bahawalpur I Solar Power Plant commenced in 2017 and commissioning is planned for the second half of 2018.

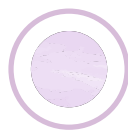
Zorlu Enerji signed a Letter of Intent with the Pakistani Government in February 2017 for two more solar power plant projects, each with an installed capacity of 100 MW, to be developed in the QASP region. These two projects will be developed by Zorlu Solar Pakistan (Private) Limited and Zorlu Sun Power (Private) Limited, respectively, in both of which Zorlu Enerji participated in 2017 as a founding shareholder with a share of 99.7%. In July 2017, a pre-license was obtained for both projects. The project development process for both projects is currently underway.

FIRST HYBRID POWER PLANT IN PAKISTAN

Zorlu Enerji plans to develop a hybrid solar power plant with an installed capacity of up to 30 MW on the existing project site of 56.4 MW Jhimpir Wind Power Plant, which is the first wind farm in Pakistan. The hybrid power plant will generate solar and wind power simultaneously and supply up to 56.4 MW of electricity to the grid uninterruptedly by supporting the shortfall in generation with solar energy when the wind speed is lower. In this way the transmission line capacity, a major constraint of the energy industry in Pakistan, will be used more efficiently, contributing to the mitigation of the energy supply problem in the country.

In November 2017, a pre-license was obtained for the project, which will be one of the first hybrid power plants in Pakistan and the process for project development was initiated.

NATURAL GAS POWER PLANTS AND PROJECTS IN ISRAEL



ZORLU ENERJİ, A KEY PLAYER IN THE ELECTRICITY INDUSTRY IN ISRAEL, HAS THREE NATURAL GAS POWER PLANTS IN THIS COUNTRY.

Zorlu Enerji, one of the first private sector energy companies to enter the Israeli market, has developed three natural gas power plants in Israel together with its local partners, becoming one of the leading players in the Israeli electricity sector.

Currently, Zorlu Enerji has three operational gas-fired power plants in Israel. The total installed capacity of these power plants is 1,031 MW with Zorlu Enerji's share amounting to 290 MW based on the Company's ownership stakes in the plants.

The Dorad Natural Gas Combined Cycle Power Plant, which was commissioned in Ashkelon in 2014 with a USD 1.2 billion investment by Zorlu Enerji and its local partners, is the largest of these power plants with 840 MW of installed capacity.

The Dorad Natural Gas Power Plant, in which Zorlu Enerji has a 25% stake, is the largest privately-owned power plant in Israel, meeting nearly 6% of the total electricity needs in the country. The power plant is also supported by the Ministry of National Infrastructure, Energy and Water Resources of Israel by virtue of its low generation costs and eco-friendly structure.

The electricity generated by Dorad NGPP is sold to public and private entities in Israel. The Israel Ministry of Defense, Mekorot, Israel Aerospace Industries, Fattal Hotels, Keter Plastic, Isrotel, Strauss, Osem, Tamares Hotels, the Cargal Group, Seven Stars Mall, Bank Leumi and Thruva are among the key customers of the plant.



The Ashdod and Ramat Negev Natural Gas Cogeneration Power Plants, commissioned in December 2015 by Ezotech Electric Limited, in which Zorlu Enerji has a 42.15% stake, have a total installed capacity of 191 MW.

The Ashdod Natural Gas Cogeneration Power Plant located in the north of Ashdod City and realized with a USD 110 million of investment, has an electricity and steam generation capacity of 64.54 MW and 40 tonnes/hour, respectively. The construction works for the power plant started in September 2012 and the plant became operational on December 21, 2015.

The Ramat Negev Natural Gas Cogeneration Power Plant, the third project of Zorlu Enerji in Israel, was built in Neot Hovav region with a USD 230 million investment. The electricity and steam generation capacities of the power plant, which was commissioned on December 31, 2015, are 126.4 MW and 70 tonnes/hour, respectively.

Both power plants are located in industrial zones and sell both electricity and steam to surrounding industrial plants.

There are natural gas supply agreements in place for the Dorad, Ashdod and Ramat Negev power plants. Additionally, a "Natural Gas Purchase" agreement was signed in 2017 with Energean Israel Ltd. ("Energean") to procure natural gas from the Karish and Tanin fields, to be developed by Energean in Israel territorial waters.

The agreements with Energean will help diversify gas supply as well as reduce the average gas procurement cost for the power plants. Energean is expected to commence gas production in Karish and Tanin gas fields in late 2020.

The feasibility studies for the Solad Natural Gas Cogeneration Power Plant, the fourth project to be developed in Israel, still continue.

PLANNED PROJECTS IN PALESTINE

Zorlu Enerji signed a Letter of Intent with the Jerusalem District Electricity Company ("JDECO"), which is responsible for the distribution of electricity in Jerusalem and its environs and supplies 25% of Palestine's energy, in 2017 for the construction and operation of solar power plants to supply electricity to Palestine. Thus, Zorlu Enerji made another stride in 2017 towards deepening and diversifying its investments in solar energy which is a clean energy source.

The process for developing solar energy projects in Jerico region, which gets sunlight for 10 hours a day, with JDECO is currently underway. While the pre-license application process is yet to be finalized for the three power plants to be developed in the first phase, the initial engineering efforts are being carried out on a total of nine fields. The plan is to sign an electricity sales agreement to provide electricity to the region for 25 years once these projects are completed.

Zorlu Solar

Entering into a unique collaboration with First Solar, Inc. in 2017, Zorlu Solar became the exclusive distributor of First Solar's solar PV modules in 26 countries for 5 years.

Zorlu Enerji continues to proceed with its research and investment plans in solar energy, in which Turkey has a high potential. Towards this purpose, the Company founded Zorlu Solar Enerji Tedarik ve Ticaret AŞ ("Zorlu Solar") in the first quarter of 2016 to generate electricity from solar power in Turkey and abroad; to lease, sell, purchase, export and install photovoltaic (PV) panels on rooftops and to provide any and all kinds of installation and consultancy services for solar photovoltaic (PV) panels, and to engage in the wholesale buying and selling of electrical energy and/or capacity in Turkey.

In 2017 Zorlu Solar became the exclusive distributor of First Solar, Inc. ("First Solar"), headquartered in the USA, for First Solar's advanced thin film photovoltaic (PV) solar panels in 26 selected countries in the Eastern Europe, Eurasia and the Eastern Mediterranean regions for five years, entering into a unique collaboration with First Solar, which develops new generation technologies in solar PV systems, in an effort to offer innovative solutions in solar energy.

Zorlu Solar intends to provide project design, supply and installation services to corporate and retail customers, who wish to install solar panels on their rooftops to meet their electricity needs. Project design, turnkey delivery and control works will be undertaken by Zorlu Solar. With ongoing research and development efforts in this field, Zorlu Solar has entered into collaboration with a business partner specialized in rooftop panel solutions and also obtained an innovative solution for the installation of solar panels on industrial rooftops and continues its activities to promote this solution.



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Human Resources

Human resources is a key asset for Zorlu Enerji in achieving its goals.

Zorlu Enerji prioritizes a modern work environment that fosters participation, respects human rights and is suitable for employees. The Company both supports personal development and career goals of its human resources and brings out the social and cultural diversity among its employees by building a participatory work environment.

The Company is committed to offering a safe, healthy and sustainable work place that rewards success while supporting continuous development of its employees and encouraging them to take the initiatives.

Zorlu Enerji sees its human resources, who are open to development, have broad vision and set an example with their occupational expertise as the most important asset for its success.

The total number of employees at Zorlu Enerji is 1,762 as of the end of 2017.

HUMAN RESOURCES POLICY

When formulating its human resources policy, Zorlu Enerji has attached priority to acting responsibly towards its affiliated companies, considerably towards its employees and respectfully towards all the stakeholders with whom it engages.

Human Resources Policy of Zorlu Enerji is set forth in writing and includes recruitment, assignment, promotion, horizontal advancement, training, dismissal and performance assessment system.

Employees are informed about their duties and distribution of tasks as well as performance criteria and reward scheme via this Policy.



Human Resources Policy of Zorlu Enerji is summarized below:

- The “Recruitment Procedure” includes all the details about the recruitment process. Each candidate will go through the same process to be recruited.
- Career-path and promotion system includes “Succession Plans” to ensure that eligible candidates within the Company will be selected and assigned whenever a management-level employee leaves the Company.
- The Company has in place training activities with a view to support employees’ professional and personal development. A Company Training Portal providing a comprehensive view of the training activities in parallel with career path planning is accessible to all the employees.
- The pay policy for employees is determined on the basis of an updated scale which takes into account the average salaries paid by the peer domestic and international companies.
- The job descriptions of employees are maintained in a personnel database which is kept up to date and is accessible to all employees.
- Employees are informed about company decisions or any developments concerning them through the corporate portal, internal correspondence (emails) and meetings.
- Employees are treated equally, without any discrimination regarding training, career planning and promotion.

PERFORMANCE MANAGEMENT SYSTEM

Performance Management System of Zorlu Enerji, which is based on competencies, consists of the following processes:

- Determining and grading of competencies,
- Conducting one-on-one meetings with the employees,
- Devising individual development plans for employees.

Performance Management System, which focuses on employee competencies, is carried out annually for each employee who has completed six months of employment at the Company.

OCCUPATIONAL HEALTH AND SAFETY

In accordance with Zorlu Energy Group’s policies and practices, Zorlu Enerji carries out its operations in compliance with the regulations and legal obligations with respect to occupational health and safety. Zorlu Enerji acts with a proactive approach and a sense of shared responsibility in all of its activities and fosters improvement and development in its occupational health and safety processes.

Zorlu Enerji urges its employees to observe the applicable rules/directives and take the necessary precautions in an effort to ensure occupational health and safety.

In line with Zorlu Enerji’s approach to occupational health and safety, employees cannot keep any hazardous or illegal items or substances in the workplace.

In addition, employees are not permitted to keep, use or work under the influence of any substance or drug which causes addiction or which may impair or inhibit their mental and physical faculties in the workplace or within the scope of work, except for those which are used under a prescription given by a doctor.

TARGET: TO MAINTAIN A “ZERO ACCIDENT” RATE IN THE WORKPLACE

Zorlu Enerji aims to maintain a “zero accident” in the workplace by prioritizing occupational safety.

The Company conducts its operations in consideration of the ISO 18001 Occupational Safety and Employee Health System and collaborates with experts, professional consultants and service providers to ensure a healthy and safe work environment.

At Zorlu Enerji, employees are informed about occupational health and safety as part of an induction program. The Company ensures that necessary safety measures are taken before work is performed and personal protective equipment is used if necessary.



The key human resources indicators for Zorlu Enerji as of the end of 2017 are as follows:

NUMBER OF PERSONNEL AT ZORLU ENERJİ

HUMAN RESOURCES: A VISIONARY AND A ROLE MODEL WITH ITS PROFESSIONAL EXPERTISE

	Number	Breakdown
Total	1,762	
Female	278	16%
Male	1,484	84%
Breakdown of Senior Management Based on Gender	Female	Male
CEO		1
General Managers		2
Deputy General Managers (including Directors)	1	7
Mid-Level Management (Managers)	8	37
Breakdown of Personnel Based on Education Level	Female	Male
PhD		1
Master's degree	18	35
Bachelor's degree	138	324
Vocational high school graduate	44	300
High school graduate	61	727
Others (Secondary School - Elementary School)	17	97

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ZORLU ENERJİ HR TRAINING INDICATORS FOR 2017

Number of employees attending training sessions by category		Total training time (hours) by employee category		Average training time (hours) per employee	
Senior Management	Other Employees (Other than Administrative Staff)	Total training time in hours (Senior Management)	Total training time in hours (Other Employees)	Average training time per senior manager (hours)	Average training time per other employees (hours)
32	1,532	290	24,671	9.06	16.10



1 Wind Power
Plant Abroad

3 Wind Power Plants
in Turkey

272 MW of Total
Installed Capacity
in Wind Energy

Sustainability



Zorlu Enerji and Sustainability

While continuing its activities with the aim of meeting the increasing energy demand in Turkey, which has one of the world's most dynamic and fastest growing energy markets, Zorlu Enerji fulfills its economic and social responsibilities and monitors the environmental impacts of its operations with a holistic view.

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Combining Turkey's rich, unexplored and diversified renewable energy resources with its technological edge, Zorlu Enerji relies on effective stakeholder engagement in shaping its investments.

Zorlu Enerji considers sustainable energy as key to sustainable development and adopts a policy of generating energy from efficient and reliable resources. Climate change, emissions reduction, sustainable use of natural resources, social governance, energy efficiency and security of supply are the priority areas of sustainability for Zorlu Enerji.

Supporting a low-carbon economy constitutes one of the main pillars of Zorlu Enerji's sustainability strategy. In line with this, the Company plans to continue its investments in indigenous and renewable energy resources

while respecting its environmental and social responsibilities.

SUSTAINABILITY BOARD

The Sustainability Committee, which was set up under Zorlu Energy Group in 2015, has devised the Company's strategy and action plan on sustainability and focuses on activities in sustainability. Under the guidance of the Sustainability Board, Zorlu Enerji defines its approach towards sustainability, which it integrated into its operational processes, as "a guide to effectively managing the economic, environmental and social factors and related risks with a view to creating long-term value".

Embracing business alliance with its stakeholders with the aim of contributing to the sustainable economic development of Turkey, Zorlu Enerji acts in synergy with its business partners, suppliers and other stakeholders, aims to manage environmental and social risks and contribute to society while respecting the regulations.

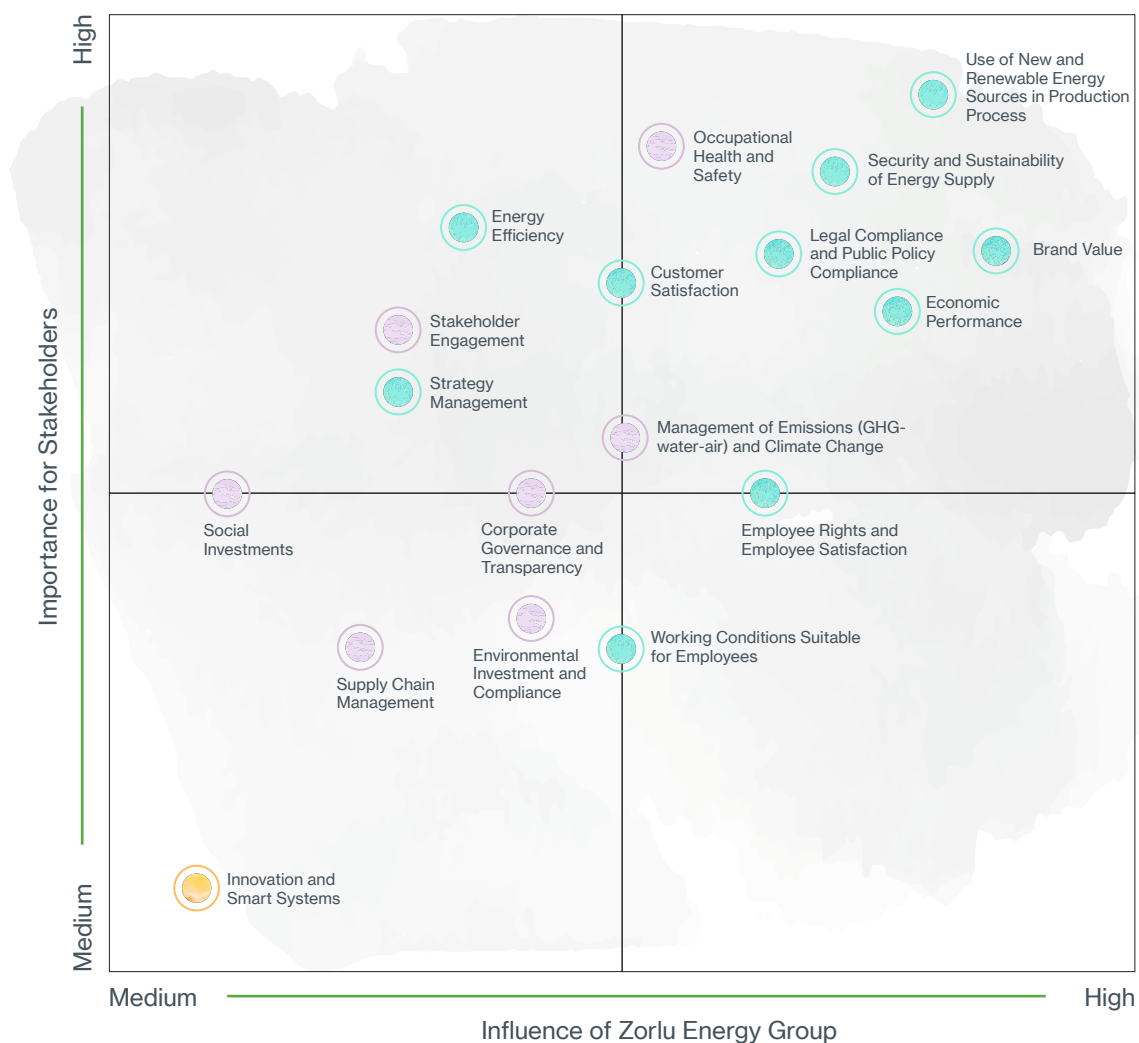
Zorlu Enerji defines sustainable energy as "generation and use of energy without causing irreversible environmental impact and disruption of ecological balance and in a manner that is compatible with the notion of inter-generational fairness". While the Company generates energy in line with its sustainable energy policy, it also places due care on the protection of the environment in its investments by acting in a way which focuses on people and the nature.

Zorlu Enerji Group allocates 40% of its social investments to supporting athletic and cultural activities, 20% to corporate responsibility projects, 20% to improving the life standards of local communities and 20% to education, scholarship and research grants.

SUSTAINABILITY PRIORITIES

The following matrix represents the sustainability priorities of Zorlu Enerji, which is drafted in collaboration with its stakeholders. The Company believes that these priorities will set a good example for the sector in embracing a unique approach to sustainability.

PRIORITIZATION MATRIX



SUSTAINABILITY POLICY OF ZORLU ENERGY GROUP

- We invest in domestic, renewable and clean energy to help reduce Turkey's dependency on energy imports. We ensure sustainability and security in energy supply through our balanced portfolio.
- On the back of our innovation and R&D activities which shape the sector, we invest in the development and operation of smart systems.
- We are committed to our codes of conduct and applicable laws and regulations in all of our operations and we embrace a holistic view of corporate governance and continuous improvement.
- We value stakeholder engagement. Our inclusive strategy takes into consideration the expectations of our stakeholders and thus helps us to establish long term and lasting relationships while reducing our risks. We keep the local community, civil society and related stakeholders informed about our investments and ensure their participation in our activities. In addition to prioritizing local employment, we also contribute to local development by supporting regional needs.
- We provide a healthy, safe and decent work environment and equal opportunities to our employees, who are our main stakeholder group, and invest in their professional development.
- We measure and evaluate the environmental and social impacts of our investments on natural and cultural heritage and take measures to mitigate these. We invest in high technology to tackle climate change, improve our processes to achieve energy efficiency, develop projects in this respect and transparently report our performance.
- In an effort to meet the sustainability criteria within our supply chain, we strive to extend sustainability consciousness across our entire value chain.
- We make electricity, natural gas and support services available to our customers, prioritizing customer satisfaction. We offer solutions to our customers for sustainable use of energy.
- We effectively inform and update our stakeholders of our Sustainability Policy.

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CLIMATE CHANGE, ENVIRONMENT AND SUSTAINABILITY



AS A CORPORATE WORLD
CITIZEN, THE FOCUS OF
ZORLU ENERJİ IS TO DO
ITS PART AND FULFILL ITS
RESPONSIBILITIES FOR
SUSTAINABILITY.

Climate change is one of the greatest risks facing the world and one of the greatest health threats facing humanity in the 21st century. Global warming and climate change resulting from the use of fossil fuels, deforestation and industrialization, urbanization and increasing population and human activities, which have an effect on all living creatures, stay high on the global agenda.

An increasing number of conferences and seminars are being organized and international alliances are established, with the Paris Agreement being the most notable example, which all aim for addressing climate change and reducing greenhouse gas emissions.

As a corporate world citizen, Zorlu Enerji is committed to doing its part and take responsibility in this regard. The Company focuses on indigenous and renewable energy resources in its investments for electricity generation and on sustainable and secure supply of energy.

Underpinning the Company's priority areas of sustainability are the use of indigenous and renewable energy resources in electricity generation, stakeholder engagement, economic performance, secure and sustainable supply of energy, water management, occupational health and safety, risk management and environmental protection as well as managing emissions, which represents a major strategic issue for the Company.

Playing an active role in the Working Groups on Energy and Environment & Climate Change of the Turkish Industry and Business Association (TÜSİAD), Zorlu Enerji has participated in the research study "Addressing Climate Change from an Economic Policy Perspective", developed by the Working Group on Environment & Climate Change, acting as a sponsor and contributing to the reporting process. Led by Prof. Dr. Erinc Yeldan and bringing together the academicians, civil society and business world, the research work aimed to analyze the impact of potential regulations on climate change on the private sector following the Paris Agreement.

As a responsive, leading and responsible company, Zorlu Enerji will continue to invest in indigenous and renewable energy sources and take initiatives and undertake extensive projects to mitigate its direct and indirect impacts on the environment.

WE ARE BUILDING OUR FUTURE, OUR GOAL IS 2023

Zorlu Enerji fosters and embraces the vision of improving the life standards of future generations by investing in sustainable development as part of the motto "We are building our future, our goal is 2023" of its parent company Zorlu Holding.

The Company's sustainability approach is based on the following fundamental principles:

- Respect the principles of corporate governance and business ethics,
- Provide a happy, safe and healthy work environment for employees,
- Protect the environment and natural resources,
- Contribute to social and cultural life through an open and regular communication with its stakeholders.

As of the end of 2017, renewable energy investments made up 76% of Zorlu Enerji's generation portfolio in Turkey.

The Company intends to continue investments in geothermal, solar and wind energy.

ZORLU ENERJİ UPHOLDS THE UN GLOBAL COMPACT

Zorlu Enerji observes the UN Global Compact, to which Zorlu Holding is a signatory and which applies equally to all the companies within Zorlu Group, in the conduct of its activities. Zorlu Enerji shared its performance with its stakeholders in a transparent manner in 2017 through Zorlu Holding.

ENVIRONMENT AND ZORLU ENERJİ



CALCULATING ITS CARBON FOOTPRINT RESULTING FROM ITS OPERATIONS SINCE 2010, ZORLU ENERJİ HAS ADOPTED A TREE-PLANTING PROGRAM TO OFFSET ITS CARBON FOOTPRINT. 35,000 YOUNG TREES WERE PLANTED IN 2017 FOR THIS PURPOSE.

Zorlu Enerji regards environment as an inheritance which must be passed onto future generations. Thus, the Company strives to improve its environmental performance and focuses on activities to leave a better world to future generations. The Company works towards the improvement of environmental awareness and protection of natural resources within the framework of its Environmental Management System.

In accordance with this approach, Zorlu Enerji carries out the following activities:

- Selects the materials and technologies which will minimize the adverse environmental impact of its operations.
- Ensures the most efficient use of energy and natural resources.
- Develops systems which will prevent pollution at its source before it begins.
- Keeps wastes (solid, liquid, gas) under control and disposes wastes in an eco-friendly way.
- Observes national and international laws and regulations on environment.
- Conducts impact analysis for new investments by taking environmental factors into account.
- Monitors and controls greenhouse gas emissions to minimize the impact of global climate change.

Zorlu Enerji has been calculating its carbon footprint resulting from its operations since 2010 as part of its environmental protection activities. The Company has adopted a tree-planting program to offset its carbon footprint. In partnership with the Ministry of Forestry and Water Affairs 35,000 young trees were planted in İzmir, Tire in 2017 as part of the "Zero Carbon Footprint Forests" project.

EVALUATING AND MANAGING ENVIRONMENTAL AND SOCIAL IMPACTS

Zorlu Enerji carries out initiatives for measuring, monitoring and mitigating the impacts of its operations.

The Company had all the required legal inspections carried out at its existing plants and projects in 2017 and no material violation was detected regarding the environment. At Zorlu Enerji, all activities are carried out with a consideration of the national regulations on the environment, international obligations and environmental awareness.

While prioritizing its economic, social and environmental impacts, Zorlu Enerji takes into consideration the local and global threats.

Before an investment decision is made, the potential economic, social and environmental impacts of the planned investment will be analyzed thoroughly and evaluated in line with the international standards. Based on the results of this assessment, sustainability risks will be analyzed and investment decision will be taken in accordance with the impact minimization and management plans created with a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis.

While focusing on sustainability initiatives, Zorlu Enerji conducts environmental impact analysis and assessments to ensure its environmental sustainability. The Company takes into account the results of these studies in:

- Selection of the investment site,
- Determination of the investment technology,
- Regular monitoring and evaluation of investment-related impacts during investment and operation phases,

- Keeping the impacts of the investment below the maximum limits imposed by the domestic and international regulations,
- Devising an environmental management plan and developing and implementing supplementary projects, whenever necessary, to mitigate the impacts.

In this context, the following activities are conducted in an effort to monitor, evaluate and reduce environmental impacts: biodiversity research, monitoring & conservation programs, mammalogy and ornithology research studies, ecosystem valuation, habitat restoration, landscape restoration plans and implementation, afforestation and planting, tree transplanting, if necessary, and environmental impact analysis and monitoring.

Zorlu Enerji, the first energy company in Turkey to calculate its carbon footprint and obtain the ISO 14064-1 Greenhouse Emission Standard Certificate, participates in the CDP - Carbon Disclosure Project and shares its annual carbon footprint reports with the public on a yearly basis.

The Company was granted the CDP Turkey Climate Disclosure Leader Award in 2011, 2013, 2014 and 2017.

Participating in the CDP's Climate Change Program together with its subsidiary, Zorlu Enerji has also started measuring its water footprint and formally sharing it with its stakeholders through the CDP platform in 2017 by responding to the CDP's Water Security Program with two of its companies. In autumn 2017, the Company also launched several initiatives within the context of the ISO 14046 Water Footprint Standard, aiming to extend these initiatives in line with its transparency policy.

TREE TRANSPLANTING AT KIZILDERE III GPP

Kızıldere III GPP Fig Tree Transplantation Project covers agricultural soils in Büyük Menderes Graben between Aydın and Denizli, which is the license field for Kızıldere III GPP and the first and most important field in Turkey to generate electricity from geothermal sources. Resources were created for a geothermal power plant (Kızıldere III) with 95.2 MW of installed capacity in the Kızıldere license field with drilling works. Initial assessments revealed that the license field included an agricultural area of 40 decares. As this area included olive groves as well as healthy fig orchards and vineyards, a decision was made to re-consider the location of the investment as required by the Sustainability Policy of the Group. Alternative fields were quickly explored and the project was postponed for a year to identify a new field for the power plant.

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As a result of these studies, fig orchards with aged and sick trees in the region were identified in an effort to minimize the environmental impact. When it emerged that the trees should be removed due to the inclined structure of the field, a decision was made to remove and transplant the healthy trees based on a technical evaluation report on transplantation in February 2015. The process of transplantation, which started in November 2015 with 933 healthy trees, was completed in January 2017 with further 248 trees transplanted, reaching a total of 2,000 trees.

ONE OF THE 44 COMPANIES LISTED IN THE BIST SUSTAINABILITY INDEX

Zorlu Enerji was voluntarily included in the BIST Sustainability Index, which consists of the shares of listed companies on Borsa Istanbul with a high corporate sustainability performance, for the second time. A pioneer in the industry on many sustainability-related grounds, Zorlu Enerji qualified for the second time on a voluntary basis to be one of the 44 companies listed in the BIST Sustainability Index for the period of November 2017 - October 2018.

INTERNATIONALLY CERTIFIED MANAGEMENT SYSTEMS

Zorlu Enerji, which is the first Turkish energy company to obtain a Quality Certificate, holds the following certifications:

- ISO 14001 Environmental Management System Certification for environmental protection,
- ISO 14064-1 Standard, System Certification for quantification and reporting of greenhouse gas emissions and removals at the organization level,
- ISO 27001 Information Security Management System Certification,
- ISO 9001: 2000 Quality Management System Certification, and
- OHSAS 18001 Occupational Health and Safety Management System Certification.

Zorlu Enerji has also initiated efforts for the ISO 714046 Water Footprint System Certification by measuring its water footprint through the CDP Water Footprint Platform and sharing it with its stakeholders, yet another pioneering initiative in the sector.

Corporate Social Responsibility

As a corporate world citizen respecting its environmental and social responsibilities, Zorlu Enerji undertakes a variety of social responsibility projects which add value to the society, environment and children in particular.

HELIOTROPHIUM THERMOPHILUM CONSERVATION AND RESEARCH PROJECT

This project has been developed to do research on and develop proposals for the conservation of Heliotrophium Thermophilum, which is endemic to Turkey and grows in the Kızıldere I GPP field, by signing a cooperation protocol with Ege University.

THE VOLUNTEERS OF ZORLU ENERGY GROUP

Employee volunteering is defined as “a system designed to contribute to different work processes of the company, raise awareness of both internal and external stakeholders and eventually enable the company to get closer to the society through social partnership, which can be mutually improved by employees and management”.

Zorlu Enerji has a holistic approach to addressing social issues, considering social benefit and volunteering concept together within the social dimension of its sustainability approach. With this approach, the volunteers of Zorlu Energy Group have been undertaking corporate social responsibility activities

by developing projects in various areas from sports to health and education to art since 2013 based on the principle of social volunteering. In 2017, volunteers carried out several projects in various areas.

Zorlu Energy Group has been supporting the “Steptember” Social Responsibility Project for three years now. The Steptember Project, implemented by the Turkish Spastic Children Foundation (TSÇV) at Zorlu Energy Group’s offices in Turkey and abroad, has an increasing number of participants as all employees can get involved. The volunteers are invited to make 10,000 steps per day in order to raise awareness on health and environment while contributing to the treatment and education of children with Cerebral Palsy. In 2017, Zorlu Enerji joined the Steptember Project with 81 employees in 23 teams. A charity sale was organized at the Company for fundraising in support of forty sessions of special education and rehabilitation for the children with CP.

As part of the “Our Energy is for Village Schools” project ongoing for years, 500 students in Erzurum, Kuzgun village and in Tunceli, Ovacık district have been supported with winter clothing. The volunteers of Zorlu Energy Group met with the students in the schools to give out gifts and shared happy moments together.

The volunteers, who previously jogged in the Istanbul Marathon and raised donations for The Hope Foundation for Children with Cancer (KAÇUV), the Tüvana Foundation for Children Willing to Read (TOÇEV) and the Tohum Autism Foundation, also participated in the Adım Adım (Step by Step) Initiative for KAÇUV in 2017.



With the support of donations, the second Family Home was built. The volunteers who contributed to the initiative will be cherished with their names put on the walls of the Family Home.

With a new, pioneering NGO partnership in 2017, Zorlu Enerji joined the Vocational High School Coaching program of the Private Sector Volunteers Association (PSVA) with five volunteer coaches, leading the way for other Zorlu Group companies. Two teams to coach twenty-six Grade 10 students from İSOV Dinçkök Vocational and Technical High School for two years had their first meeting in December. The coaches will get together with the students at least twelve times in two years to contribute to their socialization process and development through various personal development activities and be a role model for them. As for the coaches, it will serve as an ideal volunteering experience for them where they can utilize their skills and professional experience.

In addition to coaching, the program also aims to create a lasting partnership between the private sector and vocational high schools. Initially, the relationships will be built on coaching but will develop with the opportunities offered to students including scholarships/job training/employment and with further potential

investments to be made in vocational high schools.

THE “OUR ENERGY IS FOR CHILDREN” PROJECT HAS REACHED 7,500 CHILDREN DURING THE 2016-2017 ACADEMIC YEAR

The “Our Energy is for Children” Project, which Zorlu Enerji launched in 2010 to raise awareness among children about the use of energy sources, has reached 7,500 students in 130 schools in five regions with a wider sphere of influence during the 2016-2017 academic year.

The aim of the “Our Energy is for Children” project is to equip children with information about strategic resources such as energy by supporting the energy related content in the curriculums of the 3rd and 4th grade primary school students, which is the first didactic energy project conducted on a national scale by an energy company in Turkey in partnership with the Provincial Directorates of National Education.

As part of the project, Children's Theater under Mehmet Zorlu Foundation has presented the play “Frozen” for twenty-four times, reaching an audience of 10,000 students.

The project which was restructured in 2016 has contributed to the education of 200,000 children across Turkey in seven years.

THEATER CLUB

Prepared by Zorlu Energy Group's Theater Club, the stage play "Saadet Hanım" was performed in Denizli, Gaziantep and Lüleburgaz in May and at Zorlu Performing Arts Center (Zorlu PSM) in September.

"Saadet Hanım" made its premiere at the Vali Münir Raif Güney Stage in Denizli. The premiere was followed by performances at the Gaziantep Metropolitan Municipality City Theater, Lüleburgaz Aşkiye-Neşet Çal Stage and Zorlu PSM, all of which were very well-received with a crowd full of laughs. The play attracted a great deal of attention, attracting audiences from Zorlu Energy Group employees, their families, the press and the local public.

The Theater Club, established as one of Zorlu Energy Group's Hobby Clubs to enrich the working environment and bring employees

together outside the workplace staged its first play "Zorlu Düğün" in 2011 and "The Good Doctor," composed of Chekhov's stories, in 2015 at Kenter Theater. In professional life, club members work in different departments from Finance to Human Resources within Zorlu Energy Group and Zorlu Holding.

WING TURKEY'S SECOND ORDINARY MEETING WAS HOSTED BY ZORLU ENERJİ

Supporting the professional development and training of women working in the geothermal energy industry, WinG Turkey (Women in Geothermal) organized its second ordinary meeting at Kızıldere GPP on November 18-19, 2017, which was hosted by Zorlu Enerji.



“GIVE LIFE A HAND”

Zorlu Enerji supports the economic development in its investment regions as well as continuously implementing projects that contribute to social development. Zorlu Enerji, which contributes socially to the regions where it operates with a responsible investor vision, has implemented the “Give Life a Hand” project in collaboration with the First Aid Center of Osmaniye Provincial Health Directorate. As part of the project, 94 citizens from 11 villages have become “first-aid volunteers” and received their certificates after completing practical and theoretical courses.

“Give Life a Hand” project was initiated in accordance with the First Aid Regulation to enhance people's basic health education, instill individuals with first-aid skills, and reduce injuries and deaths due to improper interventions. It aimed to provide first-aid training to residents who live at least 20 minutes away from Osmaniye. The training programs started with Zorlu Enerji's support in May 2016 and the first-aid trainers provided people with training after communicating with the headmen of the chosen villages. A large number of citizens, especially village headmen, village teachers, and volunteer villagers, received practical and first-aid training under many categories from bleeding intervention to practices on transportation of the sick/injured.

The training, which was given in accordance with international standards, led to the qualification of 26 citizens in 3 villages as first-aid volunteers in the first stage. Residents had a break from training in June, July and August due to the harvest and plateau period. Since its resumption in September, 94 citizens from 11 villages have become “first-aid volunteers” and received their certificates after completing practical and theoretical courses.

BUHARKENT YOUTH'S DUNK FOR LIFE!

Building on its approach to add value to social life in addition to the economic value it adds in all regions of its operations, Zorlu Enerji partnered with many public institutions including the Buharkent Governorship and Buharkent Municipality to launch the “Dunk for Life” project. The social responsibility project, which aims to promote sports among children and young people, continued to grow with more students in 2017.

Launched to encourage disadvantaged children and young people to take up a sport and to facilitate their social integration, the “Dunk for Life with Buharkent Youth” initiative gained 50 female students in its second year. The project was kicked off with 50 students in the district with the initial aim of being carried out for three years.

OUR ENERGY IS FOR EDUCATING CHILDREN WITH AUTISM!

As part of the project that was launched in 2013, Zorlu Enerji supplies free electricity for the education building and head office of Tohum Autism Foundation.

STAKEHOLDER ENGAGEMENT

Zorlu Enerji attaches great importance to localizing its projects and ensuring that the local community accepts and embraces its investments. To achieve this, Zorlu Enerji uses its best efforts to enhance communication with its stakeholders. Therefore, prior to launching its projects, the Company makes informative visits and holds briefings with the local community.

To that end, Zorlu Enerji held Stakeholder Engagement Meetings to inform its stakeholders about its following projects: Gökçedağ Wind Power Plant, Saritepe and Demirciler Wind Power Plants, Alaşehir II Geothermal Power Plant, Kızıldere III Geothermal Power Plant and İkizdere Hydroelectric Power Plant. The Company also incorporated the stakeholder feedback into its investment and operational plans.

SOCIAL IMPACT ASSESSMENTS

As part of its social impact assessments, Zorlu Enerji conducts detailed analyses for the social and economic impacts of its planned projects. The Company develops and implements management plans and programs to mitigate or improve the possible negative impact of its projects.

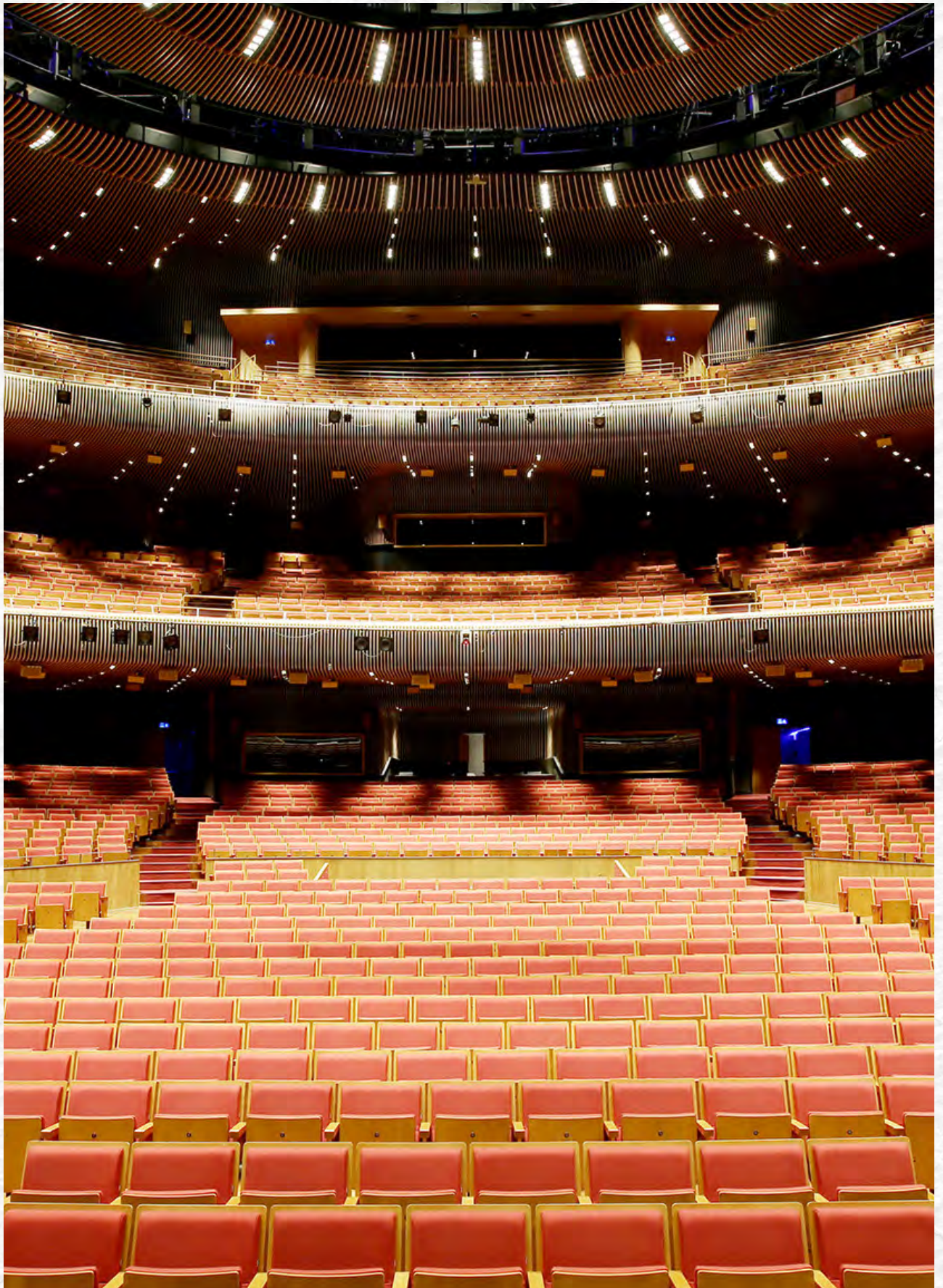
The operations and activities within these plans and programs include:

- projects to enhance the quality of life for the local community,
- stakeholder engagement plans,
- stakeholder briefings and public engagement meetings,
- internal and external stakeholder complaint mechanisms,
- procedures for incidental discovery of historical, cultural and natural heritage,
- rural development support programs,
- scholarships to 334 university students every year under scholarship programs,
- provision of materials and machinery support to local authorities for improving local infrastructure,
- supporting amateur sports in investment regions,
- supporting traditional festivals which have an important part in the agricultural, economic and cultural life,
- developing, implementing and supporting projects in collaboration with local authorities for addressing problems with priority in investment regions, and
- access to clean water in villages.

Moreover, Zorlu Enerji provides support for successful students and enhances the educational environment in investment regions through various social responsibility projects such as “Dunk for Life”, “Give Life a Hand”, “Our Energy is for Children”, “Our Energy is for Village Schools”.

Zorlu Enerji also pays utmost attention to protecting the health of the local public and the environment during the construction and operation phases of its investments and closely monitors the possible impacts they may arise. The Company collaborates with various local and international organizations and prepares regular reports on the issues of protection of land, noise, dust and vibration, water quality, solid waste management, visual impact, occupational safety, wildlife interaction and natural habitat.





Ongoing 100 MW
Solar Power Plant
Investment in Pakistan



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Risks and Assessment of the Board of Directors

RISK MANAGEMENT

Founded in 2012, Zorlu Holding's Enterprise Risk Management Department is responsible for the early detection of risks which could jeopardize the existence, development and continuity of Zorlu Energy Group Companies ("Group Companies"), implementation of necessary measures against detected risks and management of risks in a centralized structure.

In this regard, the Zorlu Holding Risk Policy and Procedure and Enterprise Risk Management Framework were established to govern all Zorlu Group companies.

Zorlu Holding Enterprise Risk Management Policy is summarized below:

Goal Setting	<ul style="list-style-type: none"> Embedding risk management principles into strategic planning and goal setting processes Aligning the strategy and goals set with the Company's risk appetite
Risk Definition	<ul style="list-style-type: none"> Identifying the risks and opportunities which may affect the Company's goals with the participation of the entire organization in a coordinated manner and within the framework of a shared perception
Risk Assessment and Inherent Risk	<ul style="list-style-type: none"> Assessing the probability of risks and their impact on the Company in case of their occurrence Determining the value of risk before the actions taken and control activities, i.e. inherent risk
Determining Actions	<ul style="list-style-type: none"> Addressing the risks in the most appropriate way (Accepting the Risk, Transferring the Risk, Mitigating the Risk, Avoiding the Risk) by taking into consideration the risk appetite and cost/benefit factors Determining actions in line with the responses identified and managing the risks proactively
Residual Risk and Action Plan, Follow-up	<ul style="list-style-type: none"> Determining the value of risk after the actions taken, i.e. residual risk Monitoring the completion process of the activities specified in action plans
Reporting and Communication of Risks	<ul style="list-style-type: none"> Prioritizing the revealed risks and tracking them using the Key Risk Indicators Measuring and reporting the key risk indicators which give warnings and all other risks taking into consideration the control points Sharing all activities transparently and ensuring that risk management process is integrated into the decision-making mechanisms with the establishment of a culture of risk awareness across the entire organization

Continuous Monitoring

Early Detection of Risk Committee was established pursuant to the Turkish Commercial Code, the Company's Articles of Association and the Corporate Governance Communiqué of the Capital Markets Board for the purpose of early detection of risks which could jeopardize the existence, development and continuity of the Company, implementation of necessary measures against detected risks and management of risk. The Committee conducts studies for the early detection of threats which may have a negative impact on the continuity and development of the Company, devises action plans to tackle such threats and works to effectively manage these risks. In order to establish a sufficient level of monitoring for corporate risk management processes, the following six risk reports were submitted to the Board of Directors through the Early Detection of Risk Committee in 2017: "Risks in the Energy Sector 2017", "Probable Risks and Damage Scenarios for Solar Power Plants", "Financial and Economic Indicators with a Negative Trajectory", "Probable Risks for Wind Power Plants", "Probable Risks for Geothermal Power Plants" and "Probable Risks for Hydroelectric Power Plants".

An "Energy Risks Survey" was prepared as an output of the "Risks in the Energy Sector 2017" report submitted to the Board of Directors on April 25, 2017. The survey included an assessment of the impact and probability of risks and was shared with top management in order to manage and assess risks with a common perception. It was then followed by an online survey for an overall assessment across the Company. According to survey results, the top three risks were identified as follows: "Currency Risk, Interest Rate Risk and Geopolitical Risks".

The Company's vision is defined as creating sustainable value for all parties by ensuring operational efficiency, growth and legal compliance. The six main existing and probable risk categories, which may arise during operations and jeopardize the realization of Company's goals towards its vision and the actions taken in relation there to are summarized below.

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STRATEGIC RISKS

Strategic risks refer to the inadequacy of the Company's strategies and inability to remain competitive and achieve targets due to failure to accurately identify external factors, employment of an outdated business model, incorrect composition of the business portfolio, inefficient organizational structure, inconsistency of performance measures with business strategies and insufficient resource allocation.

As a company which constantly undertakes investments in domestic and international markets, investment risk is considered to be the most important risk item for Zorlu Enerji within the scope of strategic risk factors. Each factor which hinders the Company from achieving the required return on its investments in line with its long-term strategies is also taken into account as a separate risk item.

The following actions are taken against these risks:

- Conducting of coordinated feasibility studies, benefit and cost analysis and budgeting studies by the relevant departments in relation to new investment decisions,
- Diversification of the generation portfolio by investing in different energy sources,
- Evaluation of the legal, political, etc., risks before and after the investment by obtaining consultancy services as and when necessary,

- Adoption of investment specific management styles,
- Monitoring return on investments,
- Formulating innovative strategies with respect to sales and marketing.

SECTOR RELATED RISKS

The sector related risks mainly result from the delays in adapting to the changes in short- and long term supply and demand balances that occur as a result of changing production and consumption patterns. It is inevitable for these changes to have an impact on price predictability. Moreover, sector related risks also include adaptation to the climate change-related shifts in the industry.

- Zorlu Enerji uses its best efforts to mitigate the negative impact of such risks by diversifying its areas of operation.

FINANCIAL RISKS

The financial risks category includes, among others, risks in relation to interest rates, currency, capital, financial derivative instruments, energy and commodity prices, stock prices, liquidity, funding, cash flow management and receivable collection.

The following actions are taken against these risks:

- Employing alternative financing methods,
- Asset and liability management,
- Making use of various derivative instruments for hedging purposes, when necessary,
- Following up budget targets with actual results on a monthly basis and making revisions as necessary,
- Establishing lending and collateralization structure in line with credit risk policies.

OPERATIONAL RISKS

Operational risks refer to the inability of the Company's business model to secure and sustain operational efficiency over the course of its operations towards achieving customer satisfaction and the Company's performance targets in relation to quality, cost and time. The operational risks category includes, among others, risks in relation to decision making with respect to operational processes such as supply, capacity, business interruption, customer satisfaction, human resources, environmental health and safety, information capital, authorization, information processing and technology, contractual obligations and pricing and risks related to financial reporting processes and budgeting and fraud risks.

The following actions are taken against these risks:

- Supervision of all operational activities by the Internal Audit, Financial Audit and Tax Audit Departments set up under the Holding organization,
- Oversight by Zorlu Holding Enterprise Risk Management Department of the operational risks deemed significant via key risk indicators through the IT system and informing the related business units on risk levels, when necessary,
- Measuring, reporting and following-up of customer satisfaction,
- Regularly providing compulsory training programs on occupational health and safety to all Zorlu Holding employees in accordance with the related regulations,
- Centralized follow-up of recommendations proposed by the insurance companies to Group companies subsequent to risk inspections,
- Following-up the policies and procedures for compliance with the legally defined standards in relation to environmental health, stakeholder safety and stakeholder health,
- Monitoring and keeping records of repair and maintenance of plant and machinery,
- Carrying out annual scheduled maintenance and repair at electricity distribution facilities, cutting down of trees under power lines installed in forests in coordination with the Regional Directorates of Forestry to prevent risk of fire, redesigning the networks that have completed their economic life to avoid such risks,
- Making commitments in relation to compliance with various principles such as human rights, environment, society, ethics, anti-corruption, etc. through the United Nations Global Compact.

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REPUTATION RISK

The Company's performance in other risk areas naturally poses a reputation risk for the Company. The reputation risk mainly refers to the negative impacts that may be caused by the Company's operations on the environment, society and internal and external stakeholders.

The following actions are taken against these risks:

- Establishing a multi-faceted, consistent and continuous communication with all stakeholders,
- Protecting the brand value and credibility; ensuring integrated management of all communication processes in accordance with strategic business targets and in this context representing Zorlu Holding Corporate Communications Department at the General Directorate level.

EXTERNAL RISKS

External risks refer to the presence of external factors which may affect the continuity of the Company's business model and the core values which drive the overall targets and strategies.

The external risks category includes, among others, risks in relation to access to capital, shareholder relations, natural disasters, competition, customer demands, sector risks, legal risks and risks in relation to regulatory compliance, political status and technological innovation.

The following actions are taken against these risks:

- Developing necessary plans for recovering and resuming critical systems, technical infrastructure and facilities in alternative sites in case of a natural disaster or contingency, regularly monitoring business continuity and emergency action plans and conducting drills,
- Determining a broad insurance coverage across the Company, taking into consideration natural disasters and terrorist acts to transfer potential risks to insurance companies and minimizing the potential tangible effects of such incidents,
- Managing regulatory changes, legal actions, tax conflicts, intellectual property infringements, unfair competition and risks in relation thereto through coordinated communication among all the relevant Company units,
- Carrying out specific short-lived rehabilitations and works to integrate with new technologies,
- Taking proper measures against adverse geographical and climatic conditions,

Other than the actions listed under the risk headings above, insurance policies are purchased as a risk transfer mechanism. The primary insurance policies purchased are listed below.

LIST OF PRIMARY INSURANCES PURCHASED

1. Fire, Machinery Breakdown and Loss of Profit
2. Construction Policy
3. Employer's Liability
4. Directors and Officers (D&O) Liability
5. Professional Indemnity
6. Third Party Liability
7. Marine/Cargo
8. Fidelity Guarantee
9. Personal Accident

Internal Audit Department and Activities

Since 2000, as is the case for all Zorlu Group Companies, internal audit of Zorlu Enerji is carried out by the centralized Internal Audit Department operating within Zorlu Holding. The Internal Audit Department carries out the board approved audit programs in line with the International Internal Audit Standards and legal requirements and shares the results of its audits through both the audit reports prepared after each audit and the annual reports detailing all the audit and control activities conducted throughout the year with the Board of Directors, the Audit Committees where applicable, and the Group CEOs. In addition to the Internal Audit Department, Financial Audit and Tax Audit Departments were established in 2011 in order to perform financial audits across all Group companies, which commenced their activities in 2012. In the last quarter of 2013, the Internal Audit and Financial and Tax Audit Departments were gathered under the umbrella of Zorlu Holding General Directorate of Audit and Internal Control. In accordance with the changing needs of Zorlu Group, the Tax Audit Department was restructured as Tax Audit Directorate as of 1 December 2015 while Internal Audit Department was restructured into two distinct Directorates, namely, the Internal Audit Process Oversight and Internal Audit Inspection Oversight as of 1 January 2016.

The purpose, authorizations and responsibilities as well as the operating principles and structure concerning the internal audit activities have been defined by a series of board-approved documents circulated across companies, such as the “Audit Regulation” and the “Internal Audit Working Principles”.

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INTERNAL AUDIT ACTIVITIES

Process audit activities are carried out in line with a board-approved, risk-based annual audit program to evaluate resource usage efficiency, adherence to written rules (laws, regulations, internal policies and directives), and information accuracy, security and reliability.

Prior to each audit, internal auditors meet with senior management for risk assessment where the risks which could jeopardize the Company's targets are positioned on a risk matrix based on their potential impact and probability of occurrence. During audit field work, tests are carried out to evaluate the effectiveness of internal controls which monitor risks with high impact and high probability of occurrence. The results of the observations are communicated to the management of companies in the form of a draft report to receive their feedback and draw up the final report for the top management. As a result, the department provides consultancy services with reasonable assurance while offering best practices drawing from synergy within the Group. One month after the issue of the final report, actions taken in line with the 4T approach (Treat, Terminate, Transfer, Tolerate) are reported to the Board of Directors.

Internal Audit Department organizes periodic meetings with the Audit Committee throughout the year. In these meetings, participants evaluate planned and actual audits, consultancy and special audits, etc. for the year, share findings, review action plans, follow-up results based on these findings, and review plans for the following period.

Zorlu Group supports and promotes Zorlu Group Internal Audit Team, which consists of 13 people, in receiving additional training to improve and enhance their existing knowledge, skills and other qualities, becoming a member of the related associations (e.g. The Institute of Internal Auditors, Turkey – TIA) and obtaining international certificates. The Internal Audit team includes 2 CIAs (Certified Internal Auditors), 1 CFE (Certified Fraud Examiner), 1 CPA (Certified Public Accountant), 1 CISA (Certified Information Systems Auditor) and 3 CRMAs (Certification in Risk Management Assurance), 1 CMAAAL (CMB Level 3 License), 1 CGRL (CMB Corporate Governance Rating License), 1 DIL (CMB Derivatives License) and 1 CMB Real Estate Appraisal License.

FINANCIAL AUDIT AND TAX AUDIT ACTIVITIES

The Financial Audit and Tax Audit units have been carrying out their activities within the Zorlu Group companies since 2012. Currently, these units have 9 and 8 employees, respectively.

These departments ensure that the Group companies' balance sheets and income statements used for financial and tax reporting purposes are in conformity with the uniform chart of accounts, tax legislation and audit standards and provide reasonable assurance to the Board of Directors in such areas.

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Audit findings are reported to the Company executives and senior management.

When deemed necessary, the Tax Audit Department also provides advisory services with reasonable assurance to Group companies against the potential tax risks they might face.

In addition, the Financial Audit Team reviews the CMB-compliant financial reports of the listed Group companies and shares its comments with the related departments.

The Financial Audit Team includes 1 Certified Public Oversight Authority Licensed Auditor and 5 CPAs (Certified Public Accountant) and 1 CMAALL (CMB Level 2 License), while the Tax Audit Team includes 1 Certified Public Oversight Authority Licensed Auditor, 1 CMA (Financial Management Certificate) and 7 CPAs.

Corporate Governance Principles Compliance Report

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PART I - STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

Corporate governance practices were initiated at Zorlu Enerji Elektrik Üretim AŞ ("Zorlu Enerji" or "Company") in 2005 in accordance with the Corporate Governance Principles. Within the scope of these efforts, in the first stage, a series of amendments were made to the Company's Articles of Association in order to provide an equitable, accountable, responsible and transparent structure to shareholders. The corporate governance practices were continued with the establishment of corporate governance mechanisms within the Company. While the Board of Directors was vested with greater objectivity with the inclusion of independent members, committees were set up under the Board with the aim of further enhancing the effectiveness of corporate governance.

Zorlu Enerji carries out its activities in compliance with the applicable regulations and the Capital Markets Board's ("CMB") "Corporate Governance Principles". The Company is in full compliance with all the compulsory principles included in the Corporate Governance Principles appended to the CMB's Communiqué on Corporate Governance No. II-17.1 and has adopted most of the non-compulsory principles. As briefly summarized below, the Company took the following actions in order to further improve its compliance with the Corporate Governance Principles in 2017.

- Zorlu Enerji voluntarily entered the BIST Sustainability Index, which comprises the shares of listed companies on Borsa Istanbul with a high corporate sustainability performance, for the first time in November 2016. The Company was also deemed eligible for inclusion the index for the November 2017 - October 2018 period thanks to its continued compliance with the index criteria.
- In line with the amendment to the Article 24 of the CMB's Communiqué on Material Events Disclosure No. II-15.1, "Zorlu Enerji Elektrik Üretim AŞ Public Disclosure Procedure", which sets out the necessary procedures for disclosures to be made on the Public Disclosure Platform (PDP, in Turkish: KAP), was prepared and put into effect by the Board of Directors' decision dated October 11, 2017.

Reasons for the Corporate Governance Principles Not Implemented

In the implementation of the Corporate Governance Principles, certain principles which do not conform to the Company's structure and which may create potential obstacles to operations are excluded. These principles and the reasons for opting not to implement these are summarized below:

- **Transfer of shares:** Since the Company operates in a regulated market, in order to achieve compliance with the obligations enforced by the relevant laws and regulations of the Energy Market Regulatory Authority ("EMRA"), the Article 6 of the Company's Articles of Association stipulates that "Within the term of the preliminary license and until obtaining the generation license, no direct or indirect change in the Company's ownership structure, transfer of shares and share certificates or transactions which result in a share transfer can be carried out except for inheritance or bankruptcy reasons and exceptional circumstances defined in the Article 57 of the Energy Market License Regulation. The mentioned provision is not applicable for the share transfer transactions which are conducted on the stock market. After obtaining the generation license, approval of the Energy Market Regulatory Authority must be obtained each time - prior to the realization of the transaction - for the transfer of shares or share certificates where the control in the Company's ownership

structure changes regardless of the ownership changes mentioned above, upon acquisition of the shares representing five percent or more of the Company's share capital, directly or indirectly by a real or a legal person. The mentioned provision shall not apply for the share transfer transactions which are conducted on the stock market. The transfer of the Company's shares is allowed on the condition that the provisions of the Turkish Commercial Code, Capital Market Legislation, Energy Market Legislation and this Articles of Association are reserved". The Article 15 of the Company's Articles of Association also stipulates that "Following the receipt of the generation license, the approval of the Energy Market Regulatory Authority must be obtained for amending the provisions of the Articles of Association related with the type of the Company's share certificates and share transfers, mergers and spin-offs and reduction of the Company's share capital".

- **Granting shareholders the right to demand special audit and inclusion of an additional provision in the Company's Articles of Association for minority rights:** Since the existing provisions in the Turkish Commercial Code on the appointment of a special auditor and minority rights are deemed to be adequate, these rights are not separately stipulated in the Company's Articles of Association.
- Due to the number of the members of the Board of Directors and the committee formation requirements, some Board members serve on more than one committee.
- Pursuant to the Article 4.6.5 of Corporate Governance Principles, remuneration and benefits provided to Board members and executive managers are publicly disclosed in the Company's annual report. However, such disclosure is not made on an individual basis.
- Currently, there is only one female member on the Company's Board of Directors and increasing the ratio of the female Directors to the level set forth in the Article no. 4.3.9 of the Corporate Governance Principles lies among the Company's medium-term targets.
- A Directors & Officers Liability Policy has been purchased to cover the losses which the Company may suffer due to the wrongful acts of the members of the Board of Directors in the execution of their duties; however, the total annual liability limit does not exceed 25% of the Company's share capital.

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Those principles which remain outside the scope of the currently implemented principles and which are not yet implemented have not led to any conflicts of interest among the stakeholders to this date.

Acknowledging the contributions of the Corporate Governance Principles to the Company, Zorlu Enerji targets to attain a higher degree of compliance with those principles with the involvement of its employees and senior management and to reach the highest standards in the field of corporate governance. Zorlu Enerji fully complies with all the mandatory principles in the CMB's Corporate Governance Communiqué while also continuing its studies to ensure compliance with the non-mandatory principles.

PART II - SHAREHOLDERS

2.1. INVESTOR RELATIONS DEPARTMENT

The Investor Relations Department is responsible for managing and maintaining the relations with the existing and potential shareholders, protecting and facilitating the use of shareholder rights, including first and foremost the rights to access and examine information, responding to information requests from the analysts and investors, raising the investor awareness and market credibility of the Company, and carrying out the necessary works for ensuring compliance with the capital market legislation. The Department reports to Mr. Bekir Cem Köksal, who is a member of Board of Directors.

The Investor Relations Department presents a report on its activities to the Board of Directors at least once a year. The Department submitted its report on its 2017 activities to the Board on January 5, 2018.

The individuals in charge of the investor relations are as follows:

Name	Duty	License
Başak Dalga	Investor Relations Manager and Member of Corporate Governance Committee	Capital Market Activities Advanced Level License (No: 202808) Corporate Governance Rating Specialist License (No: 700524)
Hande Ongun	Investor Relations Department Member	-

Information relating to individuals working in the Investor Relations Department was announced on the Public Disclosure Platform on June 31, 2014, December 29, 2014 and February 1, 2016.

The Investor Relations Department Performed The Following Activities During 2017:

- Ensured that the records of correspondences between the Company and the investors, and of other information and documents are kept in a proper, secure and up-to-date manner; coordinated the transactions related with Merkezi Kayıt Kuruluşu AŞ ("Central Registry Agency") jointly with the Legal Affairs Department,
- Responded to the information requests about the Company, except for confidential information and trade secrets which are not disclosed to public, in a clear and timely manner and in line with the Company's Public Disclosure Policy, either via face-to-face meetings or other various communication means,
- Responded to information requests from the equity analysts covering the Company; ensured that the analyst reports on the Company were prepared in an accurate and complete manner and would introduce the Company in the best way to investors,
- In cooperation with the related departments, ensured that the Ordinary General Assembly Meeting during the reporting period was carried out in accordance with the legislation, the Articles of Association and other internal regulations,

- Prepared the necessary documents for the General Assembly Meeting, which would be presented to the information and review of shareholders. All kinds of information and announcements which could affect the exercise of the shareholder rights were posted in a timely manner on the Company website for the information of shareholders,
- Updated the corporate website regularly to provide shareholders with constant access to accurate, complete, and up-to-date information,
- Following each quarterly reporting period, prepared an analytical study which compares the financial results and share price performance of the Company with those of its domestic peers traded on BIST and presented it to the upper management,
- Monitored the fulfillment of obligations arising from the capital market legislation, including corporate governance and all aspects of public disclosure, followed up the relevant processes by making the necessary internal disclosures, monitored and ensured timely delivery of public announcements pursuant to the Company's Public Disclosure Policy and the legislation,
- Held informative meetings with analysts and domestic and international investors about the Company's operations, financial performance and other developments during the reporting period,
- Organized an analyst meeting for brokerage houses and portfolio management companies, attended an investor roadshow in Turkey and held 41 meetings in total with investors and analysts either via telephone or face to face throughout the year.
- Made a total of 247 material event disclosures during the year within the scope of public disclosure under CMB regulations. All the material event disclosures were published simultaneously on the Company's website.

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2.2. EXERCISE OF SHAREHOLDERS' RIGHT TO OBTAIN INFORMATION

- The Company's Articles of Association does not contain any provision, which eliminates or restricts the shareholders' right to access and examine information, which is recognized by the legislation.
- During the year, the information requests received from the analysts and shareholders were responded to in a coherent, clear and detailed manner, in accordance with the Company's Disclosure Policy and if necessary, after consulting with the most relevant person in the related subject matter, and all the inquiries except those related to trade secrets were replied to as soon as possible and in an effective manner. These queries were responded to via phone, e-mail or postal mail, in writing or verbally, further to the demands of the shareholders.
- During 2017, developments which might have an impact on the exercise of shareholders' rights were disclosed to the public through the material event disclosures made on the Public Disclosure Platform and via the Company website. Material event disclosures and any information of interest to shareholders were also provided in English on the Company website to inform the international investors.

- To facilitate the exercise of the shareholders' right to access and examine information, which lie among the most essential rights of the shareholders, the Company renewed the design and expanded the content of its corporate website to ensure that both domestic and international investors have an easy access to the highest amount of information within the shortest period of time in an accurate, quick, simultaneous, complete and comprehensive manner. The Company includes all the information required by the CMB's Corporate Governance Principles on its corporate website. Updating and monitoring of the website are the responsibilities of the Investor Relations Department.
- The Company's Articles of Association does not contain any clauses which prohibit special audit. Since this right is granted by the applicable laws to the minority shareholders, it was not deemed necessary to further stipulate it in the Articles of Association. The Company received no requests for the appointment of a special auditor during the reporting period. The Company's activities are periodically audited by an independent audit company which is appointed by the General Assembly upon the proposal of the Board of Directors.

2.3. GENERAL ASSEMBLY MEETINGS

- The Company's General Assembly Meetings are held in compliance with the principles listed under the "General Assembly" heading of the Corporate Governance Principles.
- Zorlu Enerji held its Ordinary General Assembly Meeting for the year 2017 on May 16, 2017 at 14:30 pm at the address of Raffles İstanbul Levazım Mahallesi, Koru Sokak No: 2, Zorlu Center, 34340 Beşiktaş, İstanbul in accordance with the Company's Articles of Association.
- Invitation for the meeting was made in due time as set out in the Law and the Company's Articles of Association, by being published in the Turkish Trade Registry Gazette No. 9309 and dated April 19, 2017, and also by being posted on the Public Disclosure Platform, E-General Assembly System of the Central Registry Agency and the Company's website at "www.zorluenerji.com.tr", by announcing the date and the agenda of the meeting. In order to facilitate attendance to the General Assembly Meeting, all the information and documents concerning the Ordinary General Assembly Meeting, including the meeting invitation and the General Assembly Information Document, were posted on the Company's website. With the General Assembly Information Document prepared in accordance with the Corporate Governance Principle no. 1.3.1, access was given to all the necessary information about the General Assembly Meeting required by the regulations, and the relevant documents were also made available in hard copy for the review of shareholders at the Company's headquarters. A sample power of attorney form was also made available for the use of the shareholders on the Company website.
- Out of the total 200,000,000,000 shares corresponding to the Company's total share capital of TL 2,000,000,000, 1,438,082 shares corresponding to TL 14,380.8205 in capital were represented in person, and 165,021,088.228 shares corresponding to TL 1,650,210,882.285 in capital were represented by proxy at the meeting, thus fulfilling the quorum requirement stipulated by the law and the Company's Articles of Association.
- The agenda of the meeting was prepared in such a way that, each proposal was given under a separate heading and the headings were expressed clearly and in a way which will not lead to different interpretations. The care was shown for the agenda to not to include phrases such as "other" and "various" and the information to be provided prior to the General Assembly Meeting was given with a reference to the related agenda items.

- Prior to the Ordinary General Assembly Meeting, the shareholders, Capital Markets Board and/ or other relevant public agencies and institutions did not request to add any items to the agenda.
- In accordance with the “Communiqué on the Electronic General Assembly System to be Implemented in the General Assembly Meetings of Joint Stock Companies”, published in the Official Gazette dated 29.08.2012 and numbered 28396, shareholders were granted the right to attend and cast vote at the Ordinary General Assembly through electronic media.
- The Company’s Articles of Association contains no provisions for the participation of stakeholders or the media at the General Assembly Meeting. However, participation is possible provided that the Company is informed beforehand. Only shareholders attended the 2016 Ordinary General Assembly Meeting while there was no attendance either from the other stakeholders or the media.
- It was ensured that the Board members who were related to the significant agenda items of the General Assembly, other relevant persons and officers who had responsibility in the preparation of the financial statements as well as the independent auditor were present at the General Assembly Meeting so that they could provide the necessary information and answer the questions about the important subjects on the agenda.
- At the Annual General Assembly Meeting, agenda items were conveyed in a clear and coherent manner and shareholders were given the opportunity to express their opinions and pose questions under equal conditions. The shareholders did not pose any questions irrelevant to the agenda or so detailed that they could not be answered immediately during the meeting. Board members and senior managers provide the necessary answers to the questions coming from the shareholders at the General Assembly Meeting. The questions raised during the meeting and the answers provided were disclosed to the public via the Company’s website.
- Shareholders were informed about the donations made by the Company in 2016, which amounted to TL 1,418,933.11, as a separate agenda item at the General Assembly Meeting.
- Pursuant to the Article 19 of the Capital Market Law No. 6362, the Company’s donation limit for the year 2017 was determined by the Board and this has been submitted to the approval of the Ordinary General Assembly.
- In 2017, there has not been any transaction which required the approval of the majority of the independent Board members for the Board of Directors to take a decision and where the decision was left to be resolved by the General Assembly.
- Within the knowledge of our Company, the controlling shareholders, Board members, executives with administrative responsibilities and their spouses and relatives by blood or marriage up to second degree did not conduct any material transaction which may lead to a conflict of interest with the Company or its subsidiaries and/or did not carry out a commercial business transaction which is in the same field of activity with the Company or its subsidiaries on behalf of themselves or for a third party or did not become an unlimited shareholder in another company which operates in the same field of activity with the Company or its subsidiaries during the year. There were also no transactions conducted by individuals, who have access to the Company information in a privileged way, on their behalf within the scope of the Company’s field of activity.

- The minutes of the General Assembly Meeting and the list of attendees were disclosed to the public via the Public Disclosure Platform on the same day with the General Assembly Meeting. The minutes of the General Assembly Meetings and the list of attendees are made available for the examination of shareholders at the Company's headquarters and at the address of Levent 199 Büyükdere Cad. No: 199 34394 Şişli/İstanbul. All the announcements, documents and other materials related to the General Assembly Meetings are accessible to shareholders and all other stakeholders on the Company website.

2.4. VOTING RIGHTS AND MINORITY RIGHTS

- At Zorlu Enerji, the practices which impede the exercise of shareholders' right to vote are avoided and each shareholder, including the international shareholders, is given the opportunity to exercise his/her voting right in the easiest and most convenient way. In this context, according to the Article 10 of the Company's Articles of Association titled the General Assembly Meetings, shareholders who are entitled to attend the Company's General Assembly Meetings are given the right to participate in these meetings via the electronic media as per the Article 1527 of the Turkish Commercial Code.
- According to the Company's Articles of Association, no group or shareholder is granted privileges with respect to voting. Each share has 1 (one) voting right in the Ordinary and Extraordinary General Assembly Meetings. However, Group A shareholders have the privilege to nominate candidates for election to the Board of Directors.
- There is no provision in the Company's Articles of Association which prevents a non-shareholder from voting as a representative by proxy.
- There are no cross-shareholding relationships in the Company's share capital and therefore, this issue was not put to vote at the General Assembly Meeting.
- The Company's Articles of Association does not contain any specific arrangements for shareholders representing less than one twentieth of the Company's share capital, apart from the rights given by the law. However, two independent members serve on the Board of Directors to represent the interests of all shareholders and stakeholders, particularly of the minority shareholders.

2.5. RIGHT TO DIVIDENDS

- There is no privilege granted to shareholders regarding the distribution of dividends. Each share is entitled to an equal dividend.
- The Company's Dividend Distribution Policy, which has been put in place by the Board of Directors' resolution no. 2007/9 and dated 7 May 2007, has been amended in line with the CMB's Communiqué on Dividends (II-19.1). The Policy was submitted to the approval of shareholders at the 2013 Ordinary General Assembly Meeting and was also made available for the information of shareholders on the Public Disclosure Platform and the Company website.

- The Company's Dividend Distribution Policy, which has been accepted by the Board of Directors and disclosed on the Public Disclosure Platform and the Company website, stipulates the ratio of dividend payouts which can be distributed in cash and/or in the form of bonus shares as minimum 25% of the net distributable profit, which will be reviewed by the Board each year depending on the domestic and global economic conditions, and the Company's growth and investment plans and financial position.
- As described in the Company's Articles of Association, the date and the method of profit distribution are decided by the General Assembly upon the proposal of the Board of Directors prepared in compliance with the Capital Market Law and provisions of other relevant legislation.
- Information required by the applicable legislation regarding the Dividend Distribution Policy and dividend distribution is provided in the annual report each year. Dividend Distribution Policy was also announced to the public through the Company website.
- As per the Board of Directors' resolution dated April 17, 2017, shareholders were informed with a separate agenda item at the 2016 Ordinary General Assembly Meeting that no profit distribution would be made as the Company recorded TL 4,503,000 of net loss in its consolidated financial statements prepared in line with the Turkish Accounting Standards/Turkish Financial Reporting Standards ("TMS/TFRS") and the CMB's Communiqué on "the Principles of Financial Reporting in Capital Markets" No. II-14.1, and TL 57,667,000 of net loss in its financial statements prepared as per the Tax Procedure Law.

2.6. TRANSFER OF SHARES

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- **Transfer of shares:** Since the Company operates in a regulated market, in order to achieve compliance with the obligations enforced by the relevant laws and regulations of the Energy Market Regulatory Authority ("EMRA"), the Article 6 of the Company's Articles of Association stipulates that "Within the term of the preliminary license and until obtaining the generation license, no direct or indirect change in the Company's ownership structure, transfer of shares and share certificates or transactions which result in a share transfer can be carried out except for inheritance or bankruptcy reasons and exceptional circumstances defined in the Article 57 of the Energy Market License Regulation. The mentioned provision is not applicable for the share transfer transactions which are conducted on the stock market. After obtaining the generation license, approval of the Energy Market Regulatory Authority must be obtained each time - prior to the realization of the transaction - for the transfer of shares or share certificates where the control in the Company's ownership structure changes regardless of the ownership changes mentioned above, upon acquisition of the shares representing five percent or more of the Company's share capital, directly or indirectly by a real or a legal person. The mentioned provision shall not apply for the share transfer transactions which are conducted on the stock market. The transfer of the Company's shares is allowed on the condition that the provisions of the Turkish Commercial Code, Capital Market Legislation, Energy Market Legislation and this Articles of Association are reserved". The Article 15 of the Company's Articles of Association also stipulates that "Following the receipt of the generation license, the approval of the Energy Market Regulatory Authority must be obtained for amending the provisions of the Articles of Association related with the type of the Company's share certificates and share transfers, mergers and spin-offs and reduction of the Company's share capital".

PART III - PUBLIC DISCLOSURE AND TRANSPARENCY

The Company's Public Disclosure Policy, which was prepared in accordance with the CMB's Communiqué on Material Events Disclosure No. II-15.1 and Corporate Governance Principles, regulates which information will be disclosed to public beyond statutory requirements, the methods, frequency and channels of such disclosure, as well as the procedures to be followed by the Company in responding to incoming inquiries. The Disclosure Policy is published on the Company's website under the "Corporate Governance" section.

Monitoring and supervising every aspect of public disclosure is among the responsibilities of the Investor Relations Department and the managers responsible for financial reporting and management.

In 2017, 247 material event disclosures were made in total pursuant to the CMB regulations. All material disclosures were made on time and were also published simultaneously on the Company website.

In 2017, as per the amendment to the Article 24 of the CMB's Communiqué on Material Events Disclosure No. II-15.1, "Zorlu Enerji Elektrik Üretim AŞ Public Disclosure Procedure", which sets out the necessary procedures for the Company's public disclosures, was prepared and put into effect by the Board of Directors' decision dated October 11, 2017.

3.1. CORPORATE WEBSITE

- The Company has an easily accessible and active website for public disclosure. The website was set up to ensure that shareholders, stakeholders as well as the general public are kept informed in an open, clear and simultaneous fashion. Information presented on the website is regularly updated.
- Company's web address is "www.zorluenerji.com.tr". Furthermore, pursuant to the "Regulation on Websites to be Launched by Joint Stock Companies" and the 1st paragraph of the Article 1524 of the Turkish Commercial Code, in accordance with the principles and procedures regarding the launching of a website, allocation of a section of this website to publishing the announcements which are required to be made by the Company under the Law and to information society services, the Company procures Central Database Service Provider support services from the Central Registry Agency and the announcements which are required to be made by the Company by Law can be accessed through the e-Company Information Portal of the CRA.
- The Company's website contains the required information stipulated in the CMB's Corporate Governance Principles and the Turkish Commercial Code.
- The information provided on the Company's website is the same and consistent with the disclosures made pursuant to the provisions of the applicable legislation, and does not contain any contradicting or missing information.
- Majority of the information on the website is also available in English in order to provide information to international investors.

3.2. ANNUAL REPORT

- The Company's annual and interim reports are prepared in accordance with the Turkish Commercial Code and related legislation, the Capital Market legislation, and hence, Corporate Governance Principles, and in sufficient detail to give the public access to complete and accurate information about the Company's operations and activities.
- Moreover, the Board of Directors' Annual Report is prepared in accordance with the provisions of the "Regulation on the Determination of the Minimum Contents of the Companies' Annual Reports", published in the Official Gazette dated 28.08.2012 and numbered 28395.
- The annual report is prepared in both Turkish and English and published on the corporate website.

PART IV - STAKEHOLDERS

4.1. INFORMING STAKEHOLDERS

- Stakeholders are individuals, institutions or interest groups, such as employees, creditors, clients, suppliers and various non-governmental organizations, which/who are related with the achievement of goals or activities of the Company. The Company safeguards the rights of stakeholders, which are set by the legislation and mutual agreements, in its transactions and operations. In cases where these rights are not protected by law and mutual agreements, utmost care is shown to protect stakeholders' rights in good faith and within the Company means.
- Stakeholders are regularly informed about the matters related to them in accordance with the Company's Public Disclosure Policy.
- The Company has an intranet system to keep its employees informed, where Company-related information can be accessed subject to limits of authorization. All types of information related to employees are available in detail on the intranet.
- The shareholders and investors are informed via specified means and in line with the Capital Market Law and CMB regulations.
- The Company conducts its activities and operations in a customer- and quality-oriented manner and pays utmost attention to customer satisfaction.
- Customers are informed through monthly energy consumption bills. Also, as part of the legal provisions, customers are notified of the operations undertaken via certified mail.
- The Company also employs its technological infrastructure solutions to inform customers through the respective websites of its related companies, as well as via the SMS, social media and e-mail. Additionally, service points also serve as customer information points.
- Local authorities are notified of the Company's activities without delay and joint studies are carried out in cooperation with the said authorities.
- Zorlu Enerji aims to ensure that its power plants are integrated into the region and embraced by the local communities, with whom the Company strives to establish a mutual dialogue. To this end, the Company organizes visits and meetings for informing the local communities in related regions before commencing a new project.

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- In the event of any conflict of interest between stakeholders, or where a stakeholder is involved in more than one interest group, the Company pursues a balanced policy to the extent possible with the aim of protecting each individual right independently from each other.
- The stakeholders can report the Company's transactions violating legislation or not compliant with the ethical rules to the Corporate Governance Committee, Audit Committee or the Investor Relations Department by accessing them via phone and/or e-mail.

4.2. STAKEHOLDERS' PARTICIPATION IN MANAGEMENT

- Models supporting the participation of stakeholders, primarily of employees, in company management are developed in a manner not to hinder the activities of the Company. Besides, the independent members serving on the Board of Directors guarantee that not only the Company and the shareholders, but also all the stakeholders are represented in management.
- The employees of the Company can convey their complaints and suggestions to the Human Resources Department through the "I have an idea" section on the Company's intranet system.
- Employees working in the area of electricity distribution endeavor to improve their business models through working groups under the approval of the management. Province-level directors share the results of these studies with their personnel, and inform the working groups of any suggestions they receive from their staff.
- In making important decisions with regard to stakeholders, senior executives representing stakeholders are invited to Board meetings to express their opinions. Moreover, attention is paid to ensure that employees participate in the Board and senior executive meetings at certain intervals so that they can provide their opinions first-hand.
- The Company has platforms through which it can exchange ideas and information with its key stakeholders at least once a year. The Company regularly carries out employee and customer satisfaction surveys, holds consultation meetings with the public and regulatory agencies and organizes stakeholder engagement meetings for the residents living in the vicinity of its operational plants or project sites, to enable local people to assess the environmental and social impacts of the Company's activities and to share their opinions and suggestions. The feedback received during these meetings and visits is integrated into Zorlu Enerji's investment and business plans.
- Customer perception and expectations are measured through customer surveys and based on the results of these surveys necessary actions are taken. In addition to these surveys, customers can convey their complaints and suggestions through the Call Center which operates on a 24/7 basis, via e-mails to sales-operations teams, and through the corporate website. Calls made to the Call Center are screened for quality to ensure continuous monitoring of employee and customer channels. Practices that might result in customer dissatisfaction are identified proactively and preventative measures are taken accordingly.
- Complaints received are recorded and followed up under a unique tracking number. The assessment and finalization of complaints as well as notifications made to customers during and after the process are regulated by the relevant legislation. Improvements and preventative projects that focus on the root cause of the complaints are then initiated to prevent further dissatisfaction.

The system is continuously improved through employee trainings, system evaluations, complaint management, and customer satisfaction analyses.

4.3. HUMAN RESOURCES POLICY

- The Company's Human Resources Policy is set forth in writing and covers all the issues pertaining to recruitment, appointment, promotion and horizontal progression, dismissal, training and performance evaluation systems. Through the Human Resources Policy, employees were informed about their job descriptions.
- No representative has been appointed to manage the Company-employee relations. The representation of employees in management is achieved by the presence of two independent Directors on the Board.
- Training activities are carried out to support the professional and personal development of employees and employees are given the opportunity to choose their training programs via the Training Cards in line with their needs. A Company Training Portal providing a comprehensive view of the training activities in parallel with career-path planning is accessible to all employees.
- All employees are treated equally and without any discrimination whatsoever in all matters involving training, career development and promotion. There were no complaints from the employees related to discrimination.

4.4. CODE OF ETHICS AND SOCIAL RESPONSIBILITY

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- In all of its activities, Zorlu Enerji takes into consideration the principles stated in the United Nations Global Compact, which has been signed by Zorlu Holding and binds all the Zorlu Group companies.
- The Company's Code of Ethics has been put into writing and communicated to employees via the corporate website. Utmost care is taken to ensure compliance with the Code of Ethics which is formulated for the Company, the Board and its employees.
- Zorlu Enerji carries out its operations not only by taking into account its economic interests, but also by fulfilling its environmental, social and economic responsibilities in line with its sustainability strategy. In this context, keeping environmental sustainability in its focus; the Company combines Turkey's rich and unexploited renewable energy resources with high technology, continuously expands its investments in renewable energy and directs its investments with active and effective stakeholder engagement. Making its investment decisions based on this understanding, renewables account for 76% of Zorlu Enerji's generation portfolio in Turkey. Aware of its environmental and social responsibilities, Zorlu Enerji will continue to invest in domestic and renewable energy resources in order to contribute to Turkey's renewable energy transformation and capitalize on the arising opportunities in the transition to a low carbon and self-sufficient economy.
- The Sustainability Board, which was established within Zorlu Enerji Group in 2015, prepared the Company's strategy and action plan for sustainability. Within the scope of this strategy and action plan, Zorlu Enerji carries out studies for the measurement, monitoring and improvement of the impacts of its operations. During 2016, the Company had all the necessary legal inspections

carried out at its power plants and projects concerning their environmental impacts. According to these inspections, no material violations of environmental protection have been detected and the Company's activities are carried out in compliance with the requirements of the domestic environmental policies and international agreements, and within the framework of environmental awareness.

- The Company takes into consideration the domestic and global threats when prioritizing its economic, social and environmental impacts. Prior to taking investment decisions, the economic, social and environmental impacts of the planned investment on all stakeholders are taken into account from different perspectives. For this purpose, economic, social and environmental impact assessment studies are carried out at international standards. Depending on the results of these assessments, sustainability risks related to the investment are analyzed, impact mitigation and management plans are prepared by conducting a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis and investment decisions are made taking into account the results of these studies.

Conducting all of its operations with an approach focused on sustainability, Zorlu Enerji carries out environmental impact analyses and assessments to ensure environmental sustainability. The Company takes into account the results of these studies in:

- Selection of the investment site,
- Selection of the technology to be employed,
- Continuous monitoring and assessment of the impacts of the investment during the investment and operation phases,
- Keeping the impacts of the investment below the maximum levels stipulated in national and international regulations,
- Devising an environmental management plan in order to mitigate the impacts of the investment and developing and implementing additional projects, if necessary.

In this context, in order to monitor, assess and reduce environmental impacts, environmental impact analysis and monitoring studies are carried out via biodiversity surveys and biodiversity monitoring and conservation programs, mammalogy and ornithological surveys, ecosystem assessments, habitat restorations, landscape repair and restoration plans and implementations, re-forestation and planting activities and tree transplantation, if necessary. The Company carries out environmental and social investments based on the data obtained through these studies.

- In social impact assessments, the social and economic impacts of the Company's investments are analyzed and management plans and programs are developed and implemented in order to reduce the adverse effects of these investments.

Within the scope of these plans and programs a wide range of activities are carried out such as;

- Projects to increase the quality of life of local people,
- Stakeholder engagement plans,
- Stakeholder and public engagement meetings,
- Internal and external stakeholder complaint mechanisms,
- Procedures for incidental discovery of historical, cultural and natural heritage,
- Rural development grants,
- Provision of scholarships for 334 students under scholarship programs,
- Provision of materials and machinery support to local governments for improving the local infrastructure,

- Supporting amateur sports in investment regions,
 - Supporting traditional festivals, which have an important part in agricultural, economic and cultural life,
 - Development and implementation of projects aimed at addressing the problems with priority in investment regions in cooperation with local authorities,
 - Give a Shot to Life (Hayata Smaç) Project,
 - Give Life a Hand (Hayata El Uzat) Project,
 - Supporting local cultural activities,
 - Support for access to clean water in villages and
 - Improving the educational circumstances in villages where Zorlu Enerji invests and supporting successful students in these regions through social responsibility projects such as Our Energy is for Children and Our Energy is for Village Schools.
- Zorlu Enerji gives utmost importance to raising children's energy awareness. The "Our Energy is for Children" project, which was launched in 2010 and reached 200,000 children all around Turkey in seven years, was restructured in 2015. Zorlu Enerji expanded the scope of the project, which is the first nationwide energy education project carried out by an energy company in Turkey, in the 2015-2016 academic year and reached 7,343 students and 351 teachers in 130 schools in 5 regions where it operates in collaboration with the National Education Directorates. The Company strives to equip children with the accurate information about strategic resources such as energy by supporting the energy related content contained in the curriculum of the third and fourth grades with the "Our Energy is for Children" project.
- The Company gives importance to ensuring that its projects are embedded into the relevant region and are embraced by the local public and to improving communication with stakeholders. To this end, prior to the commencement of a project, Company representatives hold informative meetings with local public in order to provide information about the project. Within this framework, stakeholder engagement meetings were held for the Alibeyhöyüğü Solar Power Plant and Alaşehir III Geothermal Power Plant Projects and stakeholder visits were carried out for the İkizdere Hydroelectric Power Plant, Alaşehir I Geothermal Power Plant, Kızıldere I and II Geothermal Power Plants, Gökçedağ Wind Farm, and Sarıtepe and Demirciler Wind Farms in 2017. Feedback, which was received from the stakeholders during these meetings and visits, was incorporated into Zorlu Enerji's investment and operation plans.
- Moreover, surveys are conducted to determine the socio-economic status of local people and the impacts of the project on the environment and community life during the investment phase. In this context, environmental and social impact analysis studies were continued for the Kumpınar Thermal Power Plant and the Kızıldere IV Geothermal Power Plant Projects, which are in project development phase, and for the Kızıldere III Geothermal Power Plant Project, which is in investment phase, during 2017.
- In line with the Company's environmental policies, the mammalogy and ornithological monitoring studies for the Gökçedağ Wind Farm and Sarıtepe and Demirciler Wind Farms were continued in 2017. In addition, Turkey's biggest fruit tree transplantation, which was initiated as part of the Kızıldere III Geothermal Power Plant investment in 2016, was completed and reported.
- Zorlu Enerji was the first energy company in Turkey which measured its carbon footprint in 2009. Zorlu Enerji was also the first company in the energy sector to obtain the ISO 14064-1 Greenhouse Gas Emission Standard Certificate and to report and transparently share its carbon

footprint with the public on a yearly basis by joining the Carbon Disclosure Project (CDP). As part of these efforts, which continued in 2017, ISO 14064-1 Greenhouse Gas Emission Standard was implemented across the Company's entire geothermal power plant portfolio. Zorlu Enerji was awarded the CDP Turkey "Carbon Disclosure Leadership Award" in 2011, 2013, 2014 and 2017.

- In 2017, the Company joined the CDP Water Program together with one of its subsidiaries and initiated ISO 14046 Water Footprint Quality Standard studies. As part of the program led by CDP Turkey, Zorlu Enerji and Zorlu Doğal were awarded the CDP Turkey 2017 Climate Leadership Award after receiving a grade of "A-" in the 2017 report and being included in the leaders' class.
- Regarding environmental protection, the Company also holds the ISO 14001 Environmental Management System Certification, ISO 9001:2000 Quality Management System Certification and OHSAS 18001 Occupational Health and Safety System Certification. It is also about to complete the ISO 27001 Information Security Certification process launched in 2015.
- Zorlu Enerji was the first company in the energy sector to publish a sustainability report in 2011 and its second Sustainability Report issued in 2012 earned Level A rating from GRI, which was a first in the sector. The report was also one of the 24 reports issued by the energy companies in the world at GRI Level A. Taking place among the first three companies preparing reports at this level in Turkey and the first to do so in the energy industry, Zorlu Enerji published its fourth sustainability report pertaining to the 2014-2015 period in 2016. The report was drawn up in GRI Level A based on G4 criteria and received approval. The Sustainability Report is available in both Turkish and English on the Company's website at www.zorluenerji.com.tr. The Company is in the process of preparing for the fifth sustainability reporting period which covers the years of 2016 and 2017.
- Zorlu Enerji's endeavors in the fight against climate change include increasing the share of renewable energy resources in its generation portfolio in Turkey to 76% level, its membership to the Climate Platform, the Zero Carbon Footprint Forests Project, CDP reports, ISO 1464-1 and ISO 14046 Quality Systems implementation, Gold Standard certification for Gökçedağ WPP, Sarıtepe and Demirciler WPPs as well as participation in voluntary carbon markets.
- The Company's Gökçedağ Wind Farm and the Sarıtepe and Demirciler Wind Farms, both of which were commissioned in 2016, were awarded with the Gold Standard Certificate for their contribution to reducing greenhouse gas emissions and to sustainable development and their acceptance by the local stakeholders.
- Launched in 2012 within the scope of corporate social responsibility activities, the "Zorlu Enerji Group Volunteers" initiative is the Company's corporate volunteering organization, which supports employees in developing social volunteering projects. The Company's Volunteering Employees donated winter clothing items to more than 500 students in the regions where the Company's Erzurum Kuzgun and Tunceli Mercan Hydroelectric Power Plants are located, under the scope of the "Our Energy is for Village Schools" project in 2017. In addition, donations were raised through the participation of 150 employee volunteers in the September Project for Children with Cerebral Palsy and in the Intercontinental Istanbul Marathon in cooperation with the Hope Foundation for Children with Cancer (KAÇUV). Furthermore, the Company supported the treatment of children with autism by covering the annual electricity cost of the head office and treatment centers of the Tohum Autism Foundation in Istanbul, and it also participated in the Vocational High School Coaching Program organized by the Association of Private Sector Volunteers with five volunteer employees to contribute to the personal and professional development of vocational high school students.

PART V - BOARD OF DIRECTORS

5.1. STRUCTURE AND COMPOSITION OF THE BOARD OF DIRECTORS

- At the Company's 2016 Ordinary General Assembly Meeting held on May 16, 2017, it was decided that the number of the members of the Board of Directors would be nine and Mr. Zeki Zorlu, Mr. Ahmet Nazif Zorlu, Mr. Olgun Zorlu, Mrs. Selen Zorlu Melik, Mr. Mehmet Emre Zorlu, Mr. Bekir Cem Köksal and Mr. Burak İsmail Okay would be elected as Board members and Mr. Ali Akın Tarı and Mr. Hacı Ahmet Kılıçoğlu as the independent Board members to serve until the 2017 Ordinary General Assembly Meeting.

The composition of the Company's Board of Directors is as follows:

Member	Duty	Term of Office	Other Positions Held Within Zorlu Group	Positions Held Outside Zorlu Group	Status
Zeki Zorlu	Chairman	Until 2017 Ordinary General Assembly Meeting	Vice Chairman - Zorlu Holding, Chairman - Zorlu Group companies operating in textile and energy sectors	-	Non-executive
Ali Akın Tarı	Vice Chairman	Until 2017 Ordinary General Assembly Meeting	Vice Chairman - Vestel Elektronik San. ve Tic. AŞ, Board Member - Vestel Beyaz Eşya San. ve Tic. AŞ	Board Member and Audit Committee Member - Dilerbank, Board Member - Diler Holding	Independent
Ahmet Nazif Zorlu	Board Member	Until 2017 Ordinary General Assembly Meeting	Chairman - Zorlu Holding, Chairman or Vice Chairman - Zorlu Group companies	-	Non-executive
Olgun Zorlu	Board Member	Until 2017 Ordinary General Assembly Meeting	Board Member - Zorlu Holding and Zorlu Group companies	-	Non-executive
Selen Zorlu Melik	Board Member	Until 2017 Ordinary General Assembly Meeting	Board Member - Zorlu Group companies	-	Executive
Mehmet Emre Zorlu	Board Member	Until 2017 Ordinary General Assembly Meeting	Board Member - Zorlu Group companies	-	Non-executive
Bekir Cem Köksal	Board Member	Until 2017 Ordinary General Assembly Meeting	Head of the Financial Affairs Group - Zorlu Holding, Member of the Executive Committee - Vestel Group of Companies	-	Executive
Hacı Ahmet Kılıçoğlu	Board Member	Until 2017 Ordinary General Assembly Meeting	Vice Chairman - Vestel Beyaz Eşya San. ve Tic. AŞ, Board Member - Vestel Elektronik San. ve Tic. AŞ	Board Member - Şeker Mortgage Finansman AŞ, Şekerbank Kıbrıs Ltd., Doğan Gazetecilik AŞ and Doğan Holding	Independent
Burak İsmail Okay	Board Member	Until 2017 Ordinary General Assembly Meeting	Head of Legal Affairs Group - Zorlu Holding	-	Non-executive

ZEKİ ZORLU

Chairman

(1939 - Denizli) Zeki Zorlu began his professional career in a family owned textile company in Babadağ, Denizli. Having opened his first textile store in Trabzon, Mr. Zorlu laid the foundations of Korteks in Bursa in 1976. One of the co-founders of Zorlu Holding along with his brother Ahmet Nazif Zorlu, Mr. Zorlu added Vestel to the Holding's portfolio in 1994 while also playing a leading role in the formation and acquisition of a large number of other companies operating in energy, tourism, and real estate sectors. In addition to being the Chairman of Zorlu Enerji, Mr. Zorlu is also the Deputy Chairman of Zorlu Holding and the Chairman of other Zorlu Group companies active in textile and real estate sectors. Zeki Zorlu also plays an active role in non-governmental organizations. He is the Vice President of the Union of Chambers and Commodity Exchanges of Turkey's Textile Industry Assembly. Mr. Zorlu served as a Board member at Bursa Industrialists' and Businessmen's Association for two years; and is currently a member of the International Patent Union, Bursa Disaster Prevention Recovery Association, Uludağ University Support Foundation, Quality Association, Artificial & Synthetic Yarn Manufacturers' Association, Bursa Research Foundation and International Competition and Technology Association.

ALİ AKIN TARI

Vice Chairman

(1943 - Koruköy) After his graduation from the Istanbul Law Faculty, Ali Akin Tari served as a Tax Inspector and a Chief Tax Inspector at the Ministry of Finance between 1972 and 1986. He was appointed as the Vice-President of the Tax Inspectors Board in 1986 and Group Head of the Istanbul Tax Inspectors Board in 1989, and continued to serve in this position until he was appointed as a Board Member to the Banking Regulation and Supervision Agency in 2001. Ali Akin Tari was also elected as a Board Member to the Savings Deposit Insurance Fund in addition to being a Board Member of the Banking Regulation and Supervision Agency in the same year. He left his position at the Banking Regulation and Supervision Agency when his period of duty expired in 2004, and was appointed as a Consultant for the Ministry of Finance. Mr. Tari served in this position until 2007, when he voluntarily left his position in the public sector to work in different areas in the private sector. Mr. Tari became a member of the Board of Directors and the Audit Committee of Dilerbank in 2008; in addition to this position, he was appointed as a member of the Board of Directors of Diler Holding in 2011. Besides being the Vice Chairman of Zorlu Enerji, Mr. Tari also serves on the Boards of two other Zorlu Group companies namely, Vestel Elektronik and Vestel Beyaz Eşya. Mr. Akin Tari is a chartered accountant and an independent auditor.

AHMET NAZİF ZORLU

Board Member

(1944 - Denizli) Ahmet Nazif Zorlu began his professional career in a family owned textiles business in Denizli, Babadağ. He opened his first textile store in Trabzon, later in 1970 Mr. Zorlu moved the Company's headquarters to Istanbul and laid the foundations of Zorlu Holding with his brother, Zeki Zorlu. Ahmet Zorlu set up his first company, Korteks in 1976 and gathered all of his companies under the roof of Zorlu Holding in 1990. Acquiring Vestel in 1994, Ahmet Zorlu opened the door to new lines of business for Zorlu Holding. Zorlu's entrepreneurialism which began with the textile industry went on to manifest itself in more companies operating in a wide range of industries, such as household appliances, electronics, energy, property development, metallurgy and defense.

With a keen interest in civil society organizations, Ahmet Zorlu is a member of the Board of Directors of the Foreign Economic Relations Board, the Turkish Industry and Business Association, the Education and Culture Foundation of the Society of Denizli, the Babadağ Industry and Business Association, and the Turkish Home Textile Industrialists and Businessmen Association.

OLGUN ZORLU

Board Member

(1965 - Trabzon) After graduating from university in the United Kingdom with degrees in Textile and Business Administration, Mr. Olgun Zorlu began his professional career in 1986. He has started to serve in managerial positions at various Zorlu Group companies in 1988 and managed their foreign market research and business development operations. Mr. Zorlu began serving as a Board Member at Zorlu Holding in 1998. In addition to his Board membership at Zorlu Enerji, Mr. Zorlu also serves as a Board member at Zorlu Holding and various other Zorlu Group companies.

SELEN ZORLU MELİK

Board Member

(1975 - Trabzon) Selen Zorlu Melik graduated from the Faculty of Economics and Administrative Sciences, Department of Business Administration at Uludağ University. She began her professional career at Denizbank in 1998. Following her internship at Denizbank Bursa Branch, she joined the Management Trainee Program in the same bank in 1999. After working in a number of positions at the Denizbank head office, Mrs. Zorlu Melik attended a Marketing Certificate Program at the University of California, Berkeley, USA in 2001. She subsequently started to work at Korteks Yarn Plant in 2002 and became a board member of the same company in 2004. Mrs. Selen Zorlu Melik has been serving as a Board Member at Zorlu Enerji Elektrik Üretim AŞ since 2005.

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MEHMET EMRE ZORLU

Board Member

1984 - Istanbul) Mehmet Emre Zorlu graduated from the Department of Electrical and Electronics Engineering at Koç University in 2006. He went on to complete a master's degree in Innovation and Technology Management from the University of Essex in the United Kingdom in 2007 and 2008. Mr. Zorlu began working at the Vestel Group of Companies in 2009. In addition to his position as a Board Member at Zorlu Enerji, Mr. Zorlu also serves as a Board Member at Zorlu Holding and its affiliated companies. Mehmet Emre Zorlu is a member of the Young Businessmen Association of Turkey (TÜGİAD) and Endeavor Turkey.

BEKİR CEM KÖKSAL

Board Member

(1967 - Ankara) Bekir Cem Köksal graduated from the Department of Mechanical Engineering at Boğaziçi University in 1988 and obtained a master's degree from Bilkent University in 1990. He subsequently worked in the banking industry, between 1990 and 2001. In 1997, he was appointed as an Assistant General Manager at Denizbank, and in 2002 he joined Vestel as the Chief Financial Officer. Mr. Köksal currently serves as the Executive Committee Member in charge of Finance at Vestel Group of Companies and as the Head of the Financial Affairs Group at Zorlu Holding AŞ. Cem Köksal was elected as the Board Member of Zorlu Enerji Elektrik Üretim AŞ at the 2011 Annual General Assembly held on 31 May 2012, and has been serving in this position since then, by being reelected every year.

HACI AHMET KILIÇOĞLU

Board Member

(1956 - Giresun) Ahmet Kılıçoğlu graduated from the University of Essex with a Bachelor's degree in Economics in 1977 and a Master's degree in Economics in 1978. He began his professional career at the Ministry of Industry and Technology in 1979 and continued his career as an Assistant Specialist at Türkiye İş Bankası in 1980. After working in the private sector for a couple of years, Mr. Kılıçoğlu held administrative positions at the United Nations Development Program (UNDP) and the F-16 project. He then took office at Türk Eximbank in 1987, where he worked in various positions. He later served as the CEO of the Bank and as a Board Member between 1998 and 2010. He also served as a Board Member at the Banks Association of Turkey between 1998 and 2010 and was elected as the President of the World EximBanks Union (The Berne Union) in 2001. Mr. Kılıçoğlu also served as a Consultant to the President at the Islamic Development Bank between 2008 and 2009 and as a Vice Chairman at Denizbank in 2010. In addition to his position as a Board Member at Zorlu Enerji, Mr. Kılıçoğlu also serves as a Board Member at Vestel Elektronik and Vestel Beyaz Eşya, which are Zorlu Group Companies. He is also a Board Member at Şeker Mortgage Finansman AŞ, Şekerbank Kıbrıs Ltd., Doğan Gazetecilik AŞ and Doğan Holding AŞ.

BURAK İSMAİL OKAY

Board Member

(1967 - Ankara) Burak İsmail Okay graduated from the Faculty of Law at Ankara University in 1990. After completing an International Law Certificate Program in New York, he started his professional career as an attorney in the Department of Legal Advisory at Türkiye İş Bankası. He later worked at Garanti Bankası, MNG Bank and Nortel Networks Netaş, respectively, before joining Bener Law Office as an executive. Mr. Okay joined Zorlu Group in 2006 and played an active role in the structuring of the Legal Department which serves all the Group companies. He is currently the Head of the Legal Affairs Group at Zorlu Holding and has been a Board Member at Zorlu Enerji since 2007.

İBRAHİM SİNAN AK

General Manager/CEO of Zorlu Energy Group

(1971 - Ankara) İbrahim Sinan Ak graduated from the Department of Management Engineering at Istanbul Technical University. He started his career as an investment specialist at Evgin Yatırım Menkul Değerler. He then received his MBA from Old Dominion University in the USA. Having worked as a Finance Chief at Vestel Komünikasyon between 2000 and 2002 and as a Finance Manager at Vestel Beyaz Eşya between 2002 and 2006, Mr. Ak joined Zorlu Energy Group in 2006. He served as the Assistant General Manager in charge of Finance until 2012 and became the General Manager of Zorlu Enerji in January 2012. Sinan Ak has been serving as the CEO of Zorlu Energy Group, of which Zorlu Enerji Elektrik Üretim AŞ is a member, since 1 December 2016.

- The Company's Board of Directors is structured to provide the highest level of efficiency and effectiveness. The Company pays utmost attention to compliance with the Capital Market Law and CMB regulations in this area.
- The Board of Directors has the powers and duties set forth in the relevant articles of the Turkish Commercial Code and the Article 8 of the Company's Articles of Association.

- The Company's Board of Directors consists of nine members. Five of the nine Board members are non-executive members, two are independent members and two are executive members. In accordance with the CMB's Communiqué on Corporate Governance, there are two independent Directors on the Board who can perform their duties without being influenced.
- As set forth in the Company's Articles of Association, the Chairman of the Board and General Manager are different individuals. The Chairman of the Board is Mr. Zeki Zorlu and the General Manager is Mr. İbrahim Sinan Ak. No one in the Company has unrestricted decision-making authority.
- There are no restrictions with respect to the Board members taking up other duty or duties outside the Company, but the regulations set forth in the Corporate Governance Principles are complied with in this regard.
- Prior to the General Assembly Meeting for the year 2016, two independent Board member candidates were presented to the Corporate Governance Committee, which also fulfills the duties of the Nomination Committee. The candidates for independent board membership submitted their written statements of independence within the framework of the legislation, Articles of Association and the independence criteria set forth in the Corporate Governance Communiqué to the Corporate Governance Committee at the time of their nomination. The Committee submitted its assessment reports on whether these candidates fulfill the independence criteria to the Board of Directors on April 17, 2017. With the Board's resolution dated April 17, 2017 and numbered 2017/19, it was decided that Mr. Ali Akin Tarı and Mr. Hacı Ahmet Kılıçoğlu, who presented their statement of independence, would be submitted to the approval of shareholders at the General Assembly to become independent Board members. The Board's proposal was approved by the shareholders at the 2016 General Assembly Meeting held on May 16, 2017. Information on the independent Board member candidates was disclosed to the public with the General Assembly Information Document announced together with the General Assembly invitation.
- Statement of independence of the independent board member candidates is provided herein below:

"I hereby declare that, I am a candidate for assuming the role of an "Independent Member" on the Board of Directors of Zorlu Enerji Elektrik Üretim AŞ within the scope of the criteria stipulated in the legislation, the Company's Articles of Association and the Capital Markets Board's Communiqué on Corporate Governance no. II-17.1, and in that regard;

In addition to not having served as a Board Member at Zorlu Enerji Elektrik Üretim AŞ (and at the subsidiaries and associates of Zorlu Enerji Elektrik Üretim AŞ) for more than six years within the last ten years and to not having served as a member of the Executive Board in the afore-mentioned companies within the last five years,

a) Within the last five years, no employment relationship has been established between me, my spouse and my relatives by blood or marriage up to second degree and the Company, the affiliated companies which the Company controls the management of or has material influence over, shareholders who control the management of or have material influence over the Company and legal entities which these shareholders control the management of, in an executive position with significant duties and responsibilities, nor have I/we individually or jointly held more than 5% of the share capital or voting rights or privileged shares in or established a material business relationship with the same,

b) Within the last five years, I have not been a shareholder (5% and more) or held an executive position with significant duties and responsibilities or served as a Board member in any company from or to which the Company purchases or sells a significant quantity of products or services based on the agreements made during the periods these products or services were sold or purchased including particularly those companies which provide auditing (including tax audit, legal audit and internal audit), rating and consultancy services to the Company,

c) I have the professional education, knowledge and experience necessary to duly carry out the duties which I shall assume due to my position as an independent Board member,

d) I will not be working as a full time employee at any public institution or organization after being elected as a Board member with the exception of working as a faculty member at a university provided that this is in compliance with the relevant legislation,

e) I am deemed to be a resident in Turkey according to the Income Tax Law dated 31 December 1960 and numbered 193,

f) I have strong ethical standards, professional reputation and experience which will allow me to make positive contributions to the operations of the Company, to protect my neutrality in case of conflicts of interest between the Company and the shareholders and to decide independently by taking into consideration the rights of the stakeholders,

g) I will be able to dedicate a sufficient amount of time to the affairs of the Company in a manner to follow up the conduct of the Company activities and to duly perform the duties I shall assume,

h) I have not served as a Board member on the Company's Board of Directors for more than 6 years within the last ten years,

i) I am not serving as an independent board member at more than three companies whose management is controlled by the shareholders controlling the Company and Company management and at more than five companies which are traded on the stock exchange,

j) I am not registered and declared on behalf of the legal entity which is elected as a board member."

- Board members, Hacı Ahmet Kılıçoğlu and Ali Akin Tarı fulfill the independence criteria of the CMB Corporate Governance Principles. No circumstances occurred during 2017 to end the independence status of the independent Board members.
- Currently, one female member serves on the Company's Board of Directors and it is among the Company's medium-term targets to reach the minimum 25% ratio set in the Corporate Governance Principles for the female Board members. However, a policy has not yet been developed towards reaching this goal.

5.2. OPERATING PRINCIPLES OF THE BOARD OF DIRECTORS

- The Board of Directors conducts its operations in a transparent, accountable, and responsible manner.
- The gathering procedures for Board meetings are set forth in the Company's Articles of Association.
- Agendas for the Board meetings are determined by the Chairman following his discussions with the other Board members and the General Manager. Requests coming from the Company management are also taken into account when setting the meeting agendas.
- The Board of Directors convenes with absolute majority and resolves with the majority of those present at the meetings.
- During 2017, the Board of Directors passed 117 decisions in 44 meetings held. 109 decisions were taken unanimously and 8 decisions were taken unanimously by those who were present in the meeting.
- The Board of Directors convenes in accordance with the provisions of the Turkish Commercial Code and as required by the Company's activities and takes decisions regarding the items on the agenda. However, the Board is required to hold a meeting at least once a month. Each Board member has one voting right at the meetings.
- In line with the Corporate Governance Principles, the Company has set up a secretariat under the Board of Directors. The secretariat is responsible for keeping and archiving the minutes of the Board meetings. The secretariat also keeps Board members informed in a timely and simultaneous manner and delivers the agenda, related information and reports to the Board members in advance of the meetings.
- Reasonable and detailed justifications for dissenting votes are required to be entered into records on matters for which there were differing opinions at the Board meetings. In addition, justifications for dissenting votes cast by the independent members due to differences in opinion are disclosed to the public. However, to date, there has not been any instance of differences in opinion voiced either by the independent members or other members.
- No Board member, including the Chairman, has a preferential voting right or the right to veto the Board's decisions. Each member, including the Chairman, possesses an equal vote.
- The Board decisions relating to all kinds of related party transactions of the Company are taken with the approval of the majority of the independent board members in accordance with the Corporate Governance Principles.
- A Directors & Officers Liability Policy has been purchased to cover the potential losses which the Company may suffer due to the wrongful acts of the Board members in the execution of their duties. However, the total annual liability limit does not exceed 25% of the Company's share capital.

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5.3. NUMBER, STRUCTURE AND INDEPENDENCE OF THE BOARD COMMITTEES

- In order to help the Board of Directors to perform its duties and responsibilities more effectively and in accordance with the CMB's Corporate Governance Principles, a Corporate Governance Committee, an Early Detection of Risk Committee and an Audit Committee have been set up, all of which report directly to the Board. Owing to the structure of the Board, the Company has not set up a separate "Remuneration Committee" or a "Nomination Committee", the duties of which are performed by the Corporate Governance Committee.
- In accordance with the Article 4.5.3 of the Corporate Governance Principles, all the members of the Audit Committee and Chairman of the other committees are elected from among the independent members of the Board and also the Company's General Manager does not take part in the committees.
- Committee members Mr. Ali Akın Tarı and Mr. Hacı Ahmet Kılıçoğlu serve on more than one committee due to the number of the Board Members and the committee formation requirements in accordance with the CMB's Corporate Governance Principles.
- Committees convene at intervals stipulated by their working principles or upon a request from a member. The information about the committees' activities and meeting minutes are presented to the Board of Directors.
- All kinds of resources and support are provided by the Board of Directors to the committees to enable them to perform their duties. Committees can invite individuals who are deemed to be necessary to their meetings in order to obtain their views.
- Duties, working principles and the members of the committees are determined by the Board of Directors in accordance with the Corporate Governance Principles and are publicly disclosed on the Public Disclosure Platform and the Company website.

Audit Committee

- Audit Committee was set up for the effective oversight of the Company's financial and operational activities pursuant to the Article 3 of the CMB's Communiqué Serial X, No: 19. The Committee is responsible for the supervision of the Company's accounting system, public disclosure of financial information, independent auditing and the operation and efficiency of the Company's internal control and internal audit system.
- The Audit Committee can obtain independent expert opinions on matters which it deems necessary with regard to its activities. The cost of such consultancy services required by the Audit Committee is borne by the Company.
- Pursuant to the CMB's Communiqué on Corporate Governance No. II-17.1, the "Working Principles of the Audit Committee" were revised and approved at the Board of Directors' meeting dated April 7, 2014. The revised version of the working principles was disclosed to shareholders via the Public Disclosure Platform and the Company website.

- The Audit Committee is structured in accordance with the CMB's Corporate Governance Principles and comprises at least two members.
- The Chairman of the committee was elected from among the independent members of the Board and certain criteria were taken into account in the election process. The Chairman of the Audit Committee is ensured to have served in a similar position previously, have the knowledge and experience needed to analyze financial statements and be versed in accounting standards.
- Both Audit Committee members were elected from among the independent Board members. The Chairman of the committee is Mr. Ali Akin Tari, and the other member is Mr. Hacı Ahmet Kılıçoğlu.

The structure of the committee is as follows as per the decision taken at the Company's Board meeting on May 16, 2017:

Committee Members	Duty	Status
Ali Akin Tari	Chairman of the Committee	Independent Board Member
Hacı Ahmet Kılıçoğlu	Member of the Committee	Independent Board Member

- In principle, the Audit Committee convenes at least four times a year, being once in each quarter. The Committee convened 6 times in 2017.
- The management secretariat is responsible for keeping the records of the decisions made by the Committee as well as the minutes of the meetings.
- The Committee carries out its activities in line with the working principles put into writing in detail.

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In 2017, the Audit Committee performed the following functions:

- Monitoring of the Company's financial and operational activities,
- Supervision and approval of the accuracy and conformity of the annual and interim financial statements, which will be disclosed to the public, with the accounting principles employed by the Company,
- Election of the independent audit firm, preparation of the independent audit contract and initiation of the independent audit process,
- Following up the effectiveness and performance of the independent audit activity,
- Supervision of the functioning and efficiency of the internal control and internal audit system,
- Conducting studies on the efficiency and adequacy of the internal control system and reporting its evaluations to the Board of Directors,
- Review and approval of the internal control and internal audit reports.

Corporate Governance Committee

- Corporate Governance Committee was established to monitor the Company's compliance with the CMB's Corporate Governance Principles, carry out studies for improvement and make proposals to the Board of Directors in order to improve the implementation of corporate governance practices.

- Pursuant to the CMB's Communiqué on Corporate Governance No. II-17.1, the "Working Principles of the Corporate Governance Committee" were revised and approved at the Board of Directors' meeting dated April 7, 2014. The revised version of the working principles was disclosed to shareholders via the Public Disclosure Platform and the Company website.
- The Corporate Governance Committee is composed of at least three members, including two non-executive Board Members and the Investor Relations Manager. The Chairman of the Committee is Mr. Ali Akın Tarı, who is an independent Board member.
- Corporate Governance Committee also fulfills the duties of the Nomination Committee and the Remuneration Committee.

The structure of the Committee is as follows as per the decision taken at the Company's Board meeting on May 16, 2017:

Committee Members	Duty	Status
Ali Akın Tarı	Chairman of the Committee	Independent Board Member
Mehmet Emre Zorlu	Member of the Committee	Non-executive Board Member
Başak Dalga	Member of the Committee	Investor Relations Manager

- In principle, the Committee convenes at least twice a year in order to ensure the effective performance of its duties. Corporate Governance Committee convened 4 times in 2017.
- The activities carried out by the Corporate Governance Committee in 2017, in accordance with its working principles put into writing in detail, are presented below:
 - Proposing improvements in corporate governance practices to the Board of Directors in order to enhance compliance with the CMB's Communiqué on Corporate Governance No. II-17.1; conducting and supervising the necessary works for alignment with the legislation,
 - Overseeing the activities of the Investor Relations Department,
 - Preparing the evaluation reports on the independency status of the independent Board member candidates for submission to the Board of Directors.
 - In order to achieve compliance with the amended Article 24 of the CMB's Material Events Disclosure Communiqué No. II-15.1, prepared the "Zorlu Enerji Elektrik Üretim AŞ Public Disclosure Procedure" that sets out the procedures for disclosures to be made on the PDP and submitted the same for the approval of the Board of Directors,
 - Within the scope of its duties as the Remuneration Committee, presented its proposal for the remuneration of the Company's Board members and executives with administrative responsibility for 2017 to the Board, which takes into account the extent of the fulfilment of the criteria applied to remuneration.

Early Detection of Risk Committee

- Early Detection of Risk Committee was established to identify the risks which could threaten the existence, development and continuity of the Company, take the necessary measures against these risks and undertake risk management activities pursuant to the Turkish Commercial Code,

the Company's Articles of Association and the CMB's Communiqué on Corporate Governance. The Committee continues its activities with regard to the early detection of threats which may negatively impact the development and continuity of the Company and manage the risks effectively by developing action plans against such threats.

- Pursuant to the CMB's Communiqué on Corporate Governance No. II-17.1, the "Working Principles of the Early Detection of Risk Committee" were revised and approved at the Board of Directors' meeting dated April 7, 2014. The revised version of the working principles was disclosed to shareholders via the Public Disclosure Platform and the Company website.
- The Early Detection of Risk Committee is composed of at least two Board members. In case the Committee has only two members, both of them, and in case, it has more than two members, the majority of them, must be non-executive Board members. The Chairman of the Committee is the independent Board member, Mr. Hacı Ahmet Kılıçoğlu. The other member of the Committee is Mr. Olgun Zorlu.
- Early Detection of Risk Committee submits a report to the Board of Directors once in every two months.

The structure of the Committee is as follows as per the decision taken at the Company's Board meeting on May 16, 2017:

Committee Members	Duty	Status
Hacı Ahmet Kılıçoğlu	Chairman of the Committee	Independent Board Member
Olgun Zorlu	Member of the Committee	Non-executive Board Member

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- The Early Detection of Risk Committee convenes as frequently as necessitated for the efficiency of its activities and in principle at least three times a year. The Committee held 3 meetings and presented 6 risk reports to the Board in 2017.
- The activities carried out by the Committee in 2017, in line with the working principles put into writing in detail, are presented below:
 - High risk evaluation was carried out and a risk inventory was prepared including the strategic, financial and operational risks which are critically important for the Company. Risks were evaluated in two different ways, namely, with (residual risk) and without (inherent risk) taking into account the efficiency performance of the existing control and precaution measures.
 - Inherent and residual risks contained in the risk reports were evaluated based on a 4-tier scale (Acceptable, Acceptable with Control, Undesired, Unacceptable).
 - Sector and company based risks contained in the risk reports were grouped under 9 main risk headings (External Environment, Operational, Authorization, Information Technology and Technology, Honesty/Integrity, Financial, Process/Operational, Reporting and Strategic Risks) according to COSO (The Committee of Sponsoring Organizations of the Treadway Commission) risk taxonomy.
 - As a result of these assessments, it was identified that risks were generally gathered under the main headings of External Environment, Operational, Financial and Strategic Risks.
 - As a result of the risk inventory and analyses carried out by the Enterprise Risk Management Department, risk reports were prepared and submitted to the Committee in order to ensure

early detection of risks which may jeopardize the Company's existence, development and continuity and adoption of the necessary measures against these risks and management of risk.

- These reports were as follows:
 - o Risks in the Energy Sector 2017,
 - o Potential Risks for Solar Power Plants and Damage Scenarios,
 - o Negative Financial and Economic Indicators,
 - o Potential Risks for Wind Power Plants,
 - o Potential Risks for Geothermal Power Plants,
 - o Potential Risks for Hydroelectric Power Plants.
- Created as an output of the report titled the "Risks in the Energy Sector 2017" presented to the Board of Directors on April 25, 2017 and evaluating the impact and probabilities of risks covered in the report, the "Energy Risks Survey" was presented to senior management to drive a common approach to risk management and assessment, and it was subsequently shared across the Company through an online survey for organization-wide overview. According to the results of the survey, the three most important risks were identified as follows: "Exchange Rate Risk, Interest Rate Risk, and Geopolitical Risks".

5.4. RISK MANAGEMENT AND INTERNAL CONTROL MECHANISM

- Zorlu Holding Enterprise Risk Management Department was founded in 2012 with the purpose of early detecting the risks which may jeopardize the existence, development and continuity of Zorlu Enerji, taking the necessary measures against these risks, and managing the risks in a centralized manner. The Zorlu Holding Risk Policy and Procedure and Enterprise Risk Management Framework, which are applicable to all the Zorlu Group companies, form the basis for the Group's risk management activities.
- The Company makes intensive use of information technologies and uses the SAP system for internal control. Through the SAP system, all the integrated business processes are carried out/recorded on the information systems, thus granting increased speed and productivity to the business. Efficient use of these systems allows employees and managers to easily access all sorts of information and reports that concern them within their authority limits. Zorlu Enerji employs the SAP GRC (Governance Risk Compliance) System to monitor the risks which the Company is exposed to.
- The Company's internal control systems are evaluated with a risk-focused approach by taking into account the risks which are identified through the risk management analysis and/or during the internal control activities and by taking into account the related actions for risk mitigation. During the course of its activities carried out in line with Zorlu Energy Group's vision and mission, the Company may become exposed to risks related with the strategic goals, financial position, operational activities, legislation, occupational health and safety, and protection of assets and reputation. In order to accurately define and manage these risks, Zorlu Holding Enterprise Risk Management philosophy is summarized below:

- Incorporating risks into the decision-making mechanisms by establishing risk awareness and risk culture throughout Zorlu Energy Group,
 - Collaborating to reveal the risks and opportunities which may have an impact on Zorlu Energy Group's targets based on a shared perception,
 - Defining and evaluating risks according to their impact and probability,
 - Proactively managing these risks through the best actions taken in accordance with the risk appetite.
- Founded on February 19, 2013, the Early Detection of Risk Committee is involved in the early detection of risks which could jeopardize the existence, development and continuity of the Group companies, implementation of the necessary measures against these risks, and management of risks for the purposes of achieving compliance with the Article 378 of the Turkish Commercial Code no. 6102 and for coordinated risk management.
 - The Internal Audit Department reviews the efficiency and effectiveness of these systems at certain intervals in accordance with the approved annual plans and reports the results to the Board of Directors for necessary action. As in other Zorlu Group Companies, the effectiveness and efficiency of these systems are reviewed by the Internal Audit Department within the Zorlu Holding General Directorate of Audit and Internal Control through the audit activities carried out in line with the risk-based annual audit program. The annual audit program is approved by the Board of Directors and the findings are reported to the Board.
 - Periodical meetings are held between the Internal Audit Department and the Audit Committee, where planned and actual audits during the year are evaluated and the findings are shared. At these meetings, necessary action plans and follow-up results for these actions as well as plans for the following period are also reviewed.

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5.5. STRATEGIC TARGETS OF THE COMPANY

- In addition to managing and representing the Company with a rational and prudent risk approach which optimizes the balance between growth, risk and return and which observes the Company's long-term interests, the Board of Directors is also responsible for the achievement of the Company's financial and operational targets.
- The Board of Directors or the management may develop opinions on the Company's strategic targets. The Board of Directors always seeks the opinions of managers on the targets they set. The targets set by the managers are first discussed at the relevant management level, then presented to the Board of Directors and finally approved by the Board. Actions to achieve the approved targets are initiated as soon as possible; the results are regularly monitored throughout the year by the upper management and reported to the Board of Directors.
- The Board of Directors holds an evaluation meeting at least once a year in order to review the Company's operational performance and degree of target achievement.

5.6. FINANCIAL BENEFITS

- The Company's Remuneration Policy for the Board Members and Executive Managers, which was approved by the Board of Directors' decision dated May 9, 2012 and made available for the information of shareholders on the Company website pursuant to the Corporate Governance Principles, was amended in line with the new Corporate Governance Principles appended to the CMB's Communiqué on Corporate Governance (II-17.1), and was announced on March 28, 2014 via the Public Disclosure Platform and was also made available for the information of shareholders via the Company website.
- The attendance fees to be paid to the members of the Board of Directors are determined each year at the General Assembly Meeting. The fee is determined according to the Board member's status (whether independent or executive), responsibilities assumed in the decision making process, know-how, skills and experience and the amount of time he/she spares for the Company. Also comparisons are made with the attendance fees paid by the peer companies in the industry.
- Zorlu Enerji's Board members were paid a total gross sum of TL 121,000.00 as an attendance fee in 2017, commensurate with the practices of the peer companies in the sector. The amounts for 2018 will be decided at the 2017 Ordinary General Assembly Meeting. No other benefits are provided to Board members.
- There is no rewarding scheme for the Board members based on performance measurement.
- The Company does not use payment plans such as dividends, stock options or payment options based on the Company's performance in the remuneration of the independent Board members.
- The remunerations of Zorlu Enerji's Executive Managers are determined by the Board of Directors. In addition, Executive Managers may be entitled to bonus payments at the end of the year, in line with the Company's financial performance and their respective contribution to this performance. The amounts of such bonus payments are determined by the Board of Directors. The "Senior Executive Remuneration Policy" is determined in accordance with the size of the Company's production and sales activities, the extensiveness of its operations, existence of international operations, the number of employees, subsidiaries and their weight in total operations, the level of knowledge required to sustain the operations, the characteristics of the sector, the competitive environment, and the level of salaries paid by the peer companies.
- Remunerations provided to the Company's Board Members and upper management are disclosed in the footnotes of the financial statements and in the annual report on a cumulative basis. In this regard, the total amount of remunerations paid to the above during the 12 month period ending on 31 December 2017 was TL 5,554 thousand (01.01-31.12.2016: TL 3,531 thousand).
- During 2017, the Company did not lend money or make credit available to any Board Member or Executive Manager, did not extend the maturity of the existing loans nor improved conditions, did not lend any credit via a third party under the name of a personal loan or grant any guarantee such as surety in their favor.

Evaluation of the Board of Directors Regarding the Working Principles and Effectiveness of the Board Committees

The Board Committees were established to support the Board of Directors in fulfilling its duties and responsibilities more effectively. In line with the Corporate Governance Principles of the Capital Markets Board, at its meeting on 16 May 2017, the Board of Directors resolved to:

- Elect Mr. Ali Akın Tarı, Independent Member of the Board, as the Chairman of the Corporate Governance Committee and Mr. Mehmet Emre Zorlu, Board Member, and Ms. Başak Dalga, Investor Relations Manager, as Committee members,
- Elect Mr. Ali Akın Tarı, Independent Member of the Board, as the Chairman of the Audit Committee and Mr. Hacı Ahmet Kılıçoğlu, Independent Member of the Board, as Committee Member,
- Elect Mr. Hacı Ahmet Kılıçoğlu, Independent Member of the Board, as the Chairman of the Early Detection of Risk Committee and Mr. Olgun Zorlu, Board Member, as Committee Member.

Due to the structure of the Board, the Company did not establish a separate “Remuneration Committee” and a “Nomination Committee”. The duties of these committees are fulfilled by the Corporate Governance Committee.

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The Working Principles of the Board Committees were revised in accordance with the CMB's Communiqué on Corporate Governance No. II-17.1 and approved at the Board meeting held on 7 April 2014. The revised Working Principles were announced to the public via the Public Disclosure Platform and the Company website (www.zorluenerji.com.tr).

In 2017, the Board Committees performed their duties and responsibilities effectively as required in the Corporate Governance Principles and their own Working Principles.

In compliance with the way required for the effectiveness of their functions, their Working Principles and annual meeting schedules, in 2017:

- Corporate Governance Committee met twice on 26 June 2017 and 4 October 2017,
- Corporate Governance Committee convened on 17 April 2017 to fulfill the duties of the Nomination Committee,
- Corporate Governance Committee convened on 15 February 2017 to fulfill the duties of the Remuneration Committee,
- Audit Committee met 6 times on 7 March 2017, 17 April 2017, 16 May 2017, 9 June 2017, 11 August 2017 and 8 November 2017,
- Early Detection of Risk Committee met 3 times on 25 April 2017, 6 July 2017 and 7 December 2017.

The Committees submitted reports on the results of their meetings to the Board. According to these meetings:

- The Corporate Governance Committee, established in line with the Capital Markets Board's Communiqué on Corporate Governance to monitor the Company's compliance with the Corporate Governance Principles, carry out studies for improvement and make proposals to the Board in order to improve the implementation of corporate governance practices, identified whether the Corporate Governance Principles were implemented at the Company, assessed the rationale for incompliance, if any and the conflict of interests caused by such incompliance and made recommendations to the Board to improve corporate governance practices, oversaw the activities of the Investor Relations Department, carried out studies to fulfill the criteria for the BIST Sustainability Index within the scope of the Company's application for inclusion in the said index on a voluntary basis for the November 2017 - October 2018 period and in line with the amendment to the Article 24 of the CMB's Communiqué on Material Events Disclosure No. II-15.1, prepared "Zorlu Enerji Elektrik Üretim AŞ Public Disclosure Procedure", which sets out the necessary procedures for disclosures to be made on the Public Disclosure Platform to ensure effective implementation of public disclosure procedures.
- The Corporate Governance Committee also fulfills the duties of the Nomination Committee. Within the scope of its duties as the Nomination Committee, the Corporate Governance Committee evaluated the applications for independent board membership by assessing the independence status of board member candidates according to independence criteria. The Committee prepared a report on its evaluations and submitted it to the Board for approval.
- The Corporate Governance Committee also fulfills the duties of the Remuneration Committee. Within the scope of its duties as the Remuneration Committee, the Corporate Governance Committee submitted its proposal for the remuneration of Board members and executives with administrative responsibility for 2017, by taking into account the extent of the fulfilment of the remuneration criteria, to the Board of Directors.
- The Audit Committee, which was established for the supervision of the Company's accounting system, the independent audit, public disclosure of financial information, and functioning and efficiency of the Company's internal control and internal audit system, presented its views and recommendations in the areas of its responsibility to the Board of Directors.
- The Early Detection of Risk Committee, which was established for the early detection of risks which could threaten the Company's existence, development and continuity, implementation of necessary measures against these risks and management of risks, made a high-level risk assessment during the year, identified the critical risks in strategic, financial and operational areas and prepared and submitted the risk inventory and six Risk Reports to the Board within the scope of its duties set forth in its Working Principles.

Amendments to the Articles of Association in 2017

The Article 6 of the Company's Articles of Association titled "The Capital of the Company" was amended as follows in 2017.

FORMER TEXT	NEW TEXT
Article 6	Article 6
<p>The Company has adopted the registered capital system in accordance with the provisions of the Capital Market Law and has launched this system with the consent dated 02.05.2002 and numbered 21/579 as issued by the Capital Market Board.</p> <p>The upper limit for the registered capital is TL 3,000,000,000 (three billion) and it has been divided into 300,000,000,000 (three hundred billion) shares with a nominal value of 1 (one) Kuruş (Kr) each.</p> <p>The consent granted by the Capital Market Board for the upper limit of the registered capital is valid through the years 2016-2020 (5 years). Even if it cannot be reached to the upper limit of the registered capital consented at the end of 2020, it is statutory for the Board of Directors to obtain another consent from the Capital Market Board in respect to the upper limit consented before or for a new upper limit and to take the authorization of the General Assembly for a new period which must be not more than 5 years in order to render a resolution on the capital increase after 2020. If such authorization could not be obtained, no capital increase may be made by a board resolution.</p>	<p>The Company has adopted the registered capital system in accordance with the provisions of the Capital Market Law and has launched this system with the consent dated 02.05.2002 and numbered 21/579 as issued by the Capital Market Board.</p> <p>The upper limit for the registered capital is TL 3,000,000,000 (three billion) and it has been divided into 300,000,000,000 (three hundred billion) shares with a nominal value of 1 (one) Kuruş (Kr) each.</p> <p>The consent granted by the Capital Market Board for the upper limit of the registered capital is valid through the years 2016-2020 (5 years). Even if it cannot be reached to the upper limit of the registered capital consented at the end of 2020, it is statutory for the Board of Directors to obtain another consent from the Capital Market Board in respect to the upper limit consented before or for a new upper limit and to take the authorization of the General Assembly for a new period which must be not more than 5 years in order to render a resolution on the capital increase after 2020. If such authorization could not be obtained, no capital increase may be made by a board resolution.</p>

<p>The company's issue capital is equivalent to TL 750,000,000 (seven hundred fifty million) and the issued capital has been paid in full free of any simulations. This capital was divided into 75,000,000,000 (seventy five billion) shares with a nominal value of 1 (one) Kuruş (Kr) each and 7,500,000,000 (seven billion five hundred million) shares are (A) Group registered shares and 67,500,000,000 (sixty seven billion five hundred million) shares are (B) Group registered shares. All of the company's shares are registered shares and the Company may not issue any bearer shares.</p> <p>The Board of Directors shall be entitled to issue new registered shares up to the upper limit of the registered capital and increase the capital when it deems as necessary in accordance with the provisions of the Capital Market Law and to take resolutions for the restriction of the rights held by the holders of the privileged shares and for imposing restrictions on buying new shares by the shareholders and issuing premium shares or shares whose value is less than the nominal value. The authority to restrict the right to buy new shares may not be exercised to the extent it results inequality among the shareholders. The shares representing the company's capital shall be monitored on record according to the recording principles.</p> <p>No new shares may be issued unless all shares issued are sold and paid or unless the shares that could not be sold are cancelled.</p> <p>Within the scope of the project financing provided irrevocably, if the banks and/or financial institutions become entitled to control the Company and/or an affiliate relationship arises pursuant to the provisions of the loan contracts in the event of default by the company under such contracts or due to other reasons and if the market share limits prescribed under the applicable legislation is exceeded, such breaches shall be remedied within the time period granted to these banks and/or financial institutions by EMRA (the Energy Market Regulatory Agency).</p>	<p>The company's issue capital is equivalent to TL 2,000,000,000 (two billion) and the issued capital has been paid in full free of any simulations. This capital was divided into 200,000,000,000 (two hundred billion) shares with a nominal value of 1 (one) Kuruş (Kr) each and 20,000,000,000 (twenty billion) shares are (A) Group registered shares and 180,000,000,000 (one hundred eighty billion) shares are (B) Group registered shares. All of the company's shares are registered shares and the Company may not issue any bearer shares.</p> <p>The Board of Directors shall be entitled to issue new registered shares up to the upper limit of the registered capital and increase the capital when it deems as necessary in accordance with the provisions of the Capital Market Law and to take resolutions for the restriction of the rights held by the holders of the privileged shares and for imposing restrictions on buying new shares by the shareholders and issuing premium shares or shares whose value is less than the nominal value. The authority to restrict the right to buy new shares may not be exercised to the extent it results inequality among the shareholders. The shares representing the company's capital shall be monitored on record according to the recording principles.</p> <p>No new shares may be issued unless all shares issued are sold and paid or unless the shares that could not be sold are cancelled.</p> <p>Within the scope of the project financing provided irrevocably, if the banks and/or financial institutions become entitled to control the Company and/or an affiliate relationship arises pursuant to the provisions of the loan contracts in the event of default by the company under such contracts or due to other reasons and if the market share limits prescribed under the applicable legislation is exceeded, such breaches shall be remedied within the time period granted to these banks and/or financial institutions by EMRA (the Energy Market Regulatory Agency).</p>
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<p>The Company may not directly or indirectly change its shareholding structure or enter into business or transactions resulting in the transfer of share or share certificates during the period of the preliminary license and until the acquisition of the production license except for the exceptional cases such as inheritance and bankruptcy as specified in article 57 of the Electric Market Licensing Regulation. However this provision shall not be applied for the share transfer transactions performed in the stock exchange.</p> <p>After obtaining the production license, it is statutory to obtain the consent of the EMRA (the Energy Market Regulatory Agency) in each case before the transaction involving direct or indirect acquisition of the shares representing five percent or more of the company's capital by the real persons and legal entities and transfer of shares or share certificates resulting in the change of control on the shareholding structure of the company independently from the shareholding changes mentioned above. However this provision shall not be applied for the share transfer transactions performed in the stock exchange.</p> <p>Even if there is no case of share transfer, establishment or cancellation of privileges on the existing shares shall be subject to the consent of the EMRA (the Energy Market Regulatory Agency) without applying the condition on the ratio limits applicable for the share transfer.</p> <p>Merger and division transactions shall be performed in accordance with the Turkish Commercial Code, Capital Market legislation and other applicable legislation.</p>	<p>The Company may not directly or indirectly change its shareholding structure or enter into business or transactions resulting in the transfer of share or share certificates during the period of the preliminary license and until the acquisition of the production license except for the exceptional cases such as inheritance and bankruptcy as specified in article 57 of the Electric Market Licensing Regulation. However this provision shall not be applied for the share transfer transactions performed in the stock exchange.</p> <p>After obtaining the production license, it is statutory to obtain the consent of the EMRA (the Energy Market Regulatory Agency) in each case before the transaction involving direct or indirect acquisition of the shares representing five percent or more of the company's capital by the real persons and legal entities and transfer of shares or share certificates resulting in the change of control on the shareholding structure of the company independently from the shareholding changes mentioned above. However this provision shall not be applied for the share transfer transactions performed in the stock exchange.</p> <p>Even if there is no case of share transfer, establishment or cancellation of privileges on the existing shares shall be subject to the consent of the EMRA (the Energy Market Regulatory Agency) without applying the condition on the ratio limits applicable for the share transfer.</p> <p>Merger and division transactions shall be performed in accordance with the Turkish Commercial Code, Capital Market legislation and other applicable legislation.</p>
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<p>After the obtaining the production license, if the Company wishes to merge with</p> <ul style="list-style-type: none"> a) Another license holder, or b) A legal entity holding no license within its own organization or within the organization of another legal entity holding a license together with all of its assets and liabilities, or c) If the company wishes partial or total division, it is statutory to obtain the consent of the EMRA before the execution of the merger or division transaction. <p>If the merger or division cannot be completed within six months after the date on which such consent was granted, the consent shall be invalid. In such a case, merger or division cannot be continued unless a new consent is granted by the Board. The provisions of the capital market legislation governing the mergers and divisions shall be reserved.</p> <p>The capital of the Company may be increased or decreased pursuant to the provisions of the Turkish Commercial Code and the Capital Market Legislations.</p> <p>In the capital increases, Group (A) Shares are issued for Group (A) shares and Group (B) shares are issued for Group (B) shares. However, if the Group (A) shareholders do not utilize their rights to purchase new shares, the issued shares shall be Group (B) shares only.</p> <p>Transfer of the shares of the Company is allowed without any prejudice to the provisions of the capital market legislations, energy market legislations and these Articles.</p>	<p>After the obtaining the production license, if the Company wishes to merge with</p> <ul style="list-style-type: none"> a) Another license holder, or b) A legal entity holding no license within its own organization or within the organization of another legal entity holding a license together with all of its assets and liabilities, or c) If the company wishes partial or total division, it is statutory to obtain the consent of the EMRA before the execution of the merger or division transaction. <p>If the merger or division cannot be completed within six months after the date on which such consent was granted, the consent shall be invalid. In such a case, merger or division cannot be continued unless a new consent is granted by the Board. The provisions of the capital market legislation governing the mergers and divisions shall be reserved.</p> <p>The capital of the Company may be increased or decreased pursuant to the provisions of the Turkish Commercial Code and the Capital Market Legislations.</p> <p>In the capital increases, Group (A) Shares are issued for Group (A) shares and Group (B) shares are issued for Group (B) shares. However, if the Group (A) shareholders do not utilize their rights to purchase new shares, the issued shares shall be Group (B) shares only.</p> <p>Transfer of the shares of the Company is allowed without any prejudice to the provisions of the capital market legislations, energy market legislations and these Articles.</p>
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Conclusion Section of the Affiliation Report Prepared Pursuant to the Article 199 of the Turkish Commercial Code

In accordance with the provisions of the Turkish Commercial Code (TCC), Zorlu Enerji was an affiliated company of Zorlu Holding AŞ Group of Companies during the fiscal year 2017. Pursuant to the Article 199 of TCC, the Company's Board of Directors issued the following declaration in the Affiliation Report which it has prepared regarding its relations with the controlling company or an affiliated company of the controlling company.

"Within the scope of the conditions and circumstances known to us about all the transactions conducted in 2017, we have evaluated our Company's legal transactions on behalf of the controlling company or its affiliates and all the measures taken or avoided to benefit the controlling company or its affiliates under Zorlu Holding AŞ's direction during the fiscal year 2017.

As a result of this evaluation, we hereby declare that our Company did not suffer any loss due to such transactions in the fiscal year 2017 and that there were no measures required to be taken in this regard."

Agenda of the 2017 Ordinary General Assembly Meeting

1. Opening, the moment of silence and election of the Presidential Board,
2. Authorization of the Presidential Board for signing the minutes of the General Assembly Meeting,
3. Review and discussion of the Annual Report of the Board of Directors for the year 2017,
4. Review of the Summary Statement of the Independent Audit Report for the fiscal year 2017,
5. Review, discussion and approval of the Consolidated Financial Statements for the fiscal year 2017,
6. Informing the General Assembly that no profit distribution could be made for the year 2017 due to accumulated losses from previous years,
7. Acquittal of the members of the Board of Directors severally for their activities and transactions in relation to the Company for the year 2017,
8. Determination of the number and tenure of office for the members of the Board of Directors and election of the Board members including the Independent Directors,
9. Determination of the remuneration for the members of the Board of Directors for the year 2018,
10. Granting authorization to the members of the Board of Directors for performing the transactions stated in the Articles 395 and 396 of the Turkish Commercial Code,
11. Discussion and approval of the Board of Directors' proposal regarding the selection of the independent audit company for auditing the Company's accounts and transactions for the fiscal year 2018 in accordance with the Capital Market Law and the Turkish Commercial Code,
12. Giving information to the General Assembly about the collaterals, pledges, mortgages and sureties granted by the Company and its subsidiaries in favor of third parties and the income and benefits generated therefrom in 2017 in accordance with the CMB regulations,
13. Giving information to the General Assembly about the donations and aids made in 2017; discussion and approval of the upper limit for the donations to be made in the year 2018,
14. Closing.

Dividend Distribution Policy

The Company distributes profit in accordance with the provisions of the Turkish Commercial Code, Capital Market Regulations, Tax Regulations and other pertinent legislation as well as the profit distribution provision of its Articles of Association. The amount of profit to be distributed and date of distribution are approved by the General Assembly, upon the proposal of the Board of Directors.

The Company has adopted the profit distribution policy of distributing at least 25% of its distributable profit in cash and/or as bonus shares. Board of Directors shall review this policy every year by taking into account the domestic and global economic conditions and the Company's growth and investment plans and financial position. Revisions made in the policy shall be submitted to the approval of the shareholders at the first General Assembly Meeting following such revisions and the revised policy will be published on the Company's website.

Distribution of profit shall commence on the date determined by the General Assembly, provided that it is no later than the end of the year in which the General Assembly Meeting is held. Subject to the provisions of the legislation in force, the Company may consider distributing advance dividends or paying dividends in equal or in varying installments.

Board of Directors' Proposal for the Distribution of 2017 Profit

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At its meeting on 12 April 2018, the Company's Board of Directors resolved that;

Zorlu Enerji Elektrik Üretim AŞ recorded TL 51,575,000 of net profit in its consolidated financial statements prepared in compliance with the Turkish Accounting Standards/Turkish Financial Reporting Standards as per the Capital Market Law and related Communiqués and TL 92,899,000 of net loss in its statutory financial statements as per the Turkish Commercial Code and Tax Procedure Law. In view of the Company's CMB and statutory financial statements, it is identified that no profit distribution could be made for the year 2017 due to accumulated losses from previous years and this matter will be presented to the information of shareholders at the Company's 2017 Ordinary General Assembly Meeting.

Statement of Independence by the Independent Board Member Candidates

12.04.2018

I hereby declare that, I am a candidate for assuming the role of an "Independent Member" on the Board of Directors of Zorlu Enerji Elektrik Üretim AŞ within the scope of the criteria stipulated in the legislation, the Company's Articles of Association and the Capital Markets Board's Communiqué on Corporate Governance no. II-17.1, and in that regard;

In addition to not having served as a Board Member at Zorlu Enerji Elektrik Üretim AŞ (and at the subsidiaries and associates of Zorlu Enerji Elektrik Üretim AŞ) for more than six years within the last ten years and to not having served as a member of the Executive Board in the afore-mentioned companies within the last five years,

a) Within the last five years, no employment relationship has been established between me, my spouse and my relatives by blood or marriage up to second degree and the Company, the affiliated companies which the Company controls the management of or has material influence over, shareholders who control the management of or have material influence over the Company and legal entities which these shareholders control the management of, in an executive position with important duties and responsibilities, nor have I/we individually or jointly held more than 5% of the capital or voting rights or privileged shares in or established a material business relationship with the same,

b) Within the last five years, I have not been a shareholder (5% and more), or held an executive position with significant duties and responsibilities, or served as a Board member in any company from or to which the Company purchases or sells a significant quantity of products or services based on the agreements made during the periods these products or services were sold or purchased including particularly those companies which provide auditing (including tax audit, legal audit and internal audit), rating and consultancy services to the Company,

c) I have the professional education, knowledge and experience necessary to duly carry out the duties which I shall assume due to my position as an independent Board member,

d) I will not be working as a full time employee at any public institution or organization after being elected as a Board member with the exception of working as a faculty member at a university provided that this is in compliance with the relevant legislation,

e) I am deemed to be a resident in Turkey according to the Income Tax Law dated 31 December 1960 and numbered 193,

f) I have strong ethical standards, professional reputation and experience which will allow me to make positive contributions to the operations of the Company, to protect my neutrality in case of conflicts of interest between the Company and the shareholders and to decide independently by taking into consideration the rights of the stakeholders,

g) I will be able to dedicate a sufficient amount of time to the affairs of the Company in a manner to follow up the conduct of the Company activities and to duly perform the duties I shall assume,

h) I have not served as a Board member at the Company's Board of Directors for more than 6 years within the last ten years,

i) I am not serving as an independent board member at more than three companies whose management is controlled by the shareholders controlling the Company and Company management and at more than five companies which are traded on the stock exchange,

j) I am not registered and declared on behalf of the legal entity which is elected as a board member.

Elmas Melih Araz



Statement of Independence by the Independent Board Member Candidates

12.04.2018

I hereby declare that, I am a candidate for assuming the role of an "Independent Member" on the Board of Directors of Zorlu Enerji Elektrik Üretim AŞ within the scope of the criteria stipulated in the legislation, the Company's Articles of Association and the Capital Markets Board's Communiqué on Corporate Governance no. II-17.1, and in that regard;

In addition to not having served as a Board Member at Zorlu Enerji Elektrik Üretim AŞ (and at the subsidiaries and associates of Zorlu Enerji Elektrik Üretim AŞ) for more than six years within the last ten years and to not having served as a member of the Executive Board in the afore-mentioned companies within the last five years,

a) Within the last five years, no employment relationship has been established between me, my spouse and my relatives by blood or marriage up to second degree and the Company, the affiliated companies which the Company controls the management of or has material influence over, shareholders who control the management of or have material influence over the Company and legal entities which these shareholders control the management of, in an executive position with important duties and responsibilities, nor have I/we individually or jointly held more than 5% of the capital or voting rights or privileged shares in or established a material business relationship with the same,

b) Within the last five years, I have not been a shareholder (5% and more), or held an executive position with significant duties and responsibilities, or served as a Board member in any company from or to which the Company purchases or sells a significant quantity of products or services based on the agreements made during the periods these products or services were sold or purchased including particularly those companies which provide auditing (including tax audit, legal audit and internal audit), rating and consultancy services to the Company,

c) I have the professional education, knowledge and experience necessary to duly carry out the duties which I shall assume due to my position as an independent Board member,

d) I will not be working as a full time employee at any public institution or organization after being elected as a Board member with the exception of working as a faculty member at a university provided that this is in compliance with the relevant legislation,

e) I am deemed to be a resident in Turkey according to the Income Tax Law dated 31 December 1960 and numbered 193,

f) I have strong ethical standards, professional reputation and experience which will allow me to make positive contributions to the operations of the Company, to protect my neutrality in case of conflicts of interest between the Company and the shareholders and to decide independently by taking into consideration the rights of the stakeholders,

g) I will be able to dedicate a sufficient amount of time to the affairs of the Company in a manner to follow up the conduct of the Company activities and to duly perform the duties I shall assume,

h) I have not served as a Board member at the Company's Board of Directors for more than 6 years within the last ten years,

i) I am not serving as an independent board member at more than three companies whose management is controlled by the shareholders controlling the Company and Company management and at more than five companies which are traded on the stock exchange,

j) I am not registered and declared on behalf of the legal entity which is elected as a board member.

Ayşegül İldeniz



Statement of Independence by the Independent Board Member Candidates

12.04.2018

I hereby declare that, I am a candidate for assuming the role of an "Independent Member" on the Board of Directors of Zorlu Enerji Elektrik Üretim AŞ within the scope of the criteria stipulated in the legislation, the Company's Articles of Association and the Capital Markets Board's Communiqué on Corporate Governance no. II-17.1, and in that regard;

In addition to not having served as a Board Member at Zorlu Enerji Elektrik Üretim AŞ (and at the subsidiaries and associates of Zorlu Enerji Elektrik Üretim AŞ) for more than six years within the last ten years and to not having served as a member of the Executive Board in the afore-mentioned companies within the last five years,

a) Within the last five years, no employment relationship has been established between me, my spouse and my relatives by blood or marriage up to second degree and the Company, the affiliated companies which the Company controls the management of or has material influence over, shareholders who control the management of or have material influence over the Company and legal entities which these shareholders control the management of, in an executive position with important duties and responsibilities, nor have I/we individually or jointly held more than 5% of the capital or voting rights or privileged shares in or established a material business relationship with the same,

b) Within the last five years, I have not been a shareholder (5% and more), or held an executive position with significant duties and responsibilities, or served as a Board member in any company from or to which the Company purchases or sells a significant quantity of products or services based on the agreements made during the periods these products or services were sold or purchased including particularly those companies which provide auditing (including tax audit, legal audit and internal audit), rating and consultancy services to the Company,

c) I have the professional education, knowledge and experience necessary to duly carry out the duties which I shall assume due to my position as an independent Board member,

d) I will not be working as a full time employee at any public institution or organization after being elected as a Board member with the exception of working as a faculty member at a university provided that this is in compliance with the relevant legislation,

e) I am deemed to be a resident in Turkey according to the Income Tax Law dated 31 December 1960 and numbered 193,

f) I have strong ethical standards, professional reputation and experience which will allow me to make positive contributions to the operations of the Company, to protect my neutrality in case of conflicts of interest between the Company and the shareholders and to decide independently by taking into consideration the rights of the stakeholders,

g) I will be able to dedicate a sufficient amount of time to the affairs of the Company in a manner to follow up the conduct of the Company activities and to duly perform the duties I shall assume,

h) I have not served as a Board member at the Company's Board of Directors for more than 6 years within the last ten years,

i) I am not serving as an independent board member at more than three companies whose management is controlled by the shareholders controlling the Company and Company management and at more than five companies which are traded on the stock exchange,

j) I am not registered and declared on behalf of the legal entity which is elected as a board member.

Bekir Ağırđır



Statement of Responsibility

BOARD OF DIRECTORS' RESOLUTION FOR THE APPROVAL OF THE FINANCIAL STATEMENTS AND ANNUAL REPORT

RESOLUTION DATE: 12 March 2018

RESOLUTION NUMBER: 2018/20

STATEMENT OF RESPONSIBILITY PURSUANT TO THE ARTICLE 9 OF THE CAPITAL MARKETS BOARD'S COMMUNIQUÉ ON THE PRINCIPLES OF FINANCIAL REPORTING IN CAPITAL MARKETS NO: II-14.1

We hereby declare that:

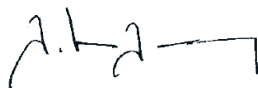
a) We have reviewed our Company's consolidated financial statements and annual report for the fiscal year ended 31 December 2017, which have been prepared in accordance with the Turkish Accounting Standards/Turkish Financial Reporting Standards published by the Public Oversight Accounting and Auditing Standards Authority pursuant to the provisions of the Capital Markets Board's Communiqué on the "Principles of Financial Reporting in Capital Markets" no. II-14.1 and approved by the Board of Directors' decision dated 12 March 2018 and numbered 2018/20,

b) Based on the information we possess within the scope of our duties and responsibilities in the Company, the consolidated financial statements and the annual report do not contain any incorrect statement or any omission of material facts which may result in a misleading conclusion as of the date of the issuance,

c) Based on the information we possess within the scope of our duties and responsibilities in the Company, the consolidated financial statements prepared in accordance with the financial reporting standards in effect provide an accurate view of the assets, liabilities, financial position and profit (loss) of the Company, and the annual report provides an accurate view of the development and performance of the business and the consolidated financial position of the Company along with the principal risks and uncertainties the Company is exposed to.

Sincerely,

Ali Akın Tari
Chairman of the Audit Committee



Hacı Ahmet Kılıçoğlu
Member of the Audit Committee



Elif Yener
Financial Affairs Director



ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

CONVENIENCE TRANSLATION INTO ENGLISH OF
CONSOLIDATED FINANCIAL STATEMENTS FOR
THE PERIOD 1 JANUARY - 31 DECEMBER 2017
TOGETHER WITH INDEPENDENT
AUDITOR'S REPORT

(ORIGINALLY ISSUED IN TURKISH)

Independent Auditor's Report



To the General Assembly of Zorlu Enerji Elektrik Üretim A.Ş.

A) AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

1) Opinion

We have audited the accompanying consolidated financial statements of Zorlu Enerji Elektrik Üretim A.Ş. (the "Company") and its affiliates and associates (collectively referred to as the "Group"), which comprise the consolidated balance sheet as at 31 December 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 the notes to the consolidated financial statements and a summary of significant accounting policies and consolidated financial statement notes.

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In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Turkish Accounting Standards ("TAS").

2) Basis for Opinion

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

3) Key Audit Matters

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

Key audit matters	How our audit addressed the key audit matters
<p><i>Business Combinations</i> (Please refer to Note 2.4, Note 3 and Note 17)</p>	
<p>With the final protocol related to the share purchase contract signed on 2 February 2017, Zorlu Osmangazi Enerji Sanayi ve Ticaret A.Ş. ("Zorlu Osmangazi"), a 100% owned affiliate of the Company, has taken over all of the shares of Osmangazi Elektrik Dağıtım A.Ş. ("OEDAŞ") and Osmangazi Elektrik Perakende Satış A.Ş. ("OEPSAŞ") through cash payments. All the related share transfer procedures to Zorlu Osmangazi were completed with the final protocol signed between parties on 2 February 2017. The Group applied acquisition accounting for this transaction in accordance with TFRS 3 "Business Combinations" in the accompanying consolidated financial statements. Purchase price allocation study is performed by an independent expert company in accordance with TFRS 3.</p> <p>We focused on this matter in our audit due to the following reasons:</p> <ul style="list-style-type: none"> - Purchase price allocation study requires expertise, - Use of future management estimations in valuation studies, - As part of the purchase price allocation study, goodwill and intangible assets amounting to TL402,237 thousand and TL1,208,118 thousand, respectively, recognized in the consolidated financial statements as at and for the year ending 31 December 2017. 	<p>We carried out the below audit procedures for business combinations:</p> <ul style="list-style-type: none"> - Expertise of the company, who performed the purchase price allocation, is assessed in accordance with the SIA 500 "Audit Evidence". - The calculations in the purchase price allocation study are tested for mathematical accuracy. - The identifiable assets and liabilities arising from the acquisition are reconciled to the related companies' financial statements and/or fair value studies at 2 February 2017. - Valuation methods and technical data used in the purchase price allocation study are evaluated with the support of our specialists by conducting interviews with the representatives of the expert company and the Group management who carried out the related work. - The reasonableness of the critical estimates used in modelling are evaluated with the support of our specialists. - The viability of the future cash flows and investment projections used in this study are evaluated in the meetings held with senior management. - Future income requirement estimations, until 2021, are compared with the tariffs prepared by EMRA. <p>Based on the above procedures performed we had no material finding on business combinations.</p>

Key audit matters	How our audit addressed the key audit matters
<p><i>Goodwill impairment testing</i> (Please refer to Note 2.7)</p> <p>TL402,237 thousand of goodwill is recognized in the consolidated financial statements as at 31 December 2017 resulting from the acquisition of OEDAŞ's and OEPSAŞ's shares on 2 February 2017.</p> <p>In accordance with TAS 36 "Impairment of Assets" the Group has to perform an impairment test annually for the goodwill that arose as part of the business combinations. OEDAŞ and OEPSAŞ activities are regarded as separate cash generating units and the related goodwill was associated with distribution and retail activities by the Group management. Based on the impairment test performed by the Group management, through the use of "discounted cash flows" methodology, no impairment is recognized in the consolidated financial statements as at 31 December 2017, since the fair value of each cash generating units concluded to be higher than their carrying amounts.</p> <p>We focused on this matter in our audit due to the following reasons:</p> <ul style="list-style-type: none"> - Recognized goodwill is material to the Group's consolidated financial statements as at 31 December 2017, - Use of critical management estimates in the future cash flows and investment projections in the goodwill impairment study, - The estimates used in goodwill impairment study are likely to be affected by future sectoral and macroeconomic changes. 	<p>We carried out the below audit procedures for the goodwill impairment testing:</p> <ul style="list-style-type: none"> - The calculations in the goodwill impairment study are tested for mathematical accuracy. - The reasonableness of the critical estimates used in the goodwill impairment test are evaluated with the support of our specialists. - The viability of the future cash flows and investment projections used in the goodwill impairment test are evaluated in the meetings held with the senior management and such projections are compared with the actual results and the declared tariffs, until 2021, by EMRA - The reasonableness of the future cash flows and investment projections used in the goodwill impairment test are checked to long-term plans prepared by the Group management for accuracy. - Besides, the compliance of related disclosures on the "goodwill impairment testing" to TAS are evaluated. <p>Based on the above procedures performed we had no material finding on goodwill impairment testing.</p>

Key audit matters	How our audit addressed the key audit matters
<p><i>Cash flow hedge transactions</i> (Please refer to Note 2.4 and Note 19)</p>	
<p>As explained in Note 19, the Group uses its investment loans amounting to USD1,020,056 thousand and EUR60,556 thousand as hedging instruments against USD/TL spot exchange rate exposure resulting from highly probable future sales made within the scope of Renewable Energy Resources Support Mechanism ("YEKDEM") and applies cash flow hedge accounting as a result of the effectiveness tests.</p> <p>The Group has accounted for TL151,392 thousand of foreign exchange losses resulted from related investment loans under the "cash flow hedge funds" account in its consolidated equity as at 31 December 2017.</p> <p>We focused on this matter in our audit due to the following reasons:</p> <ul style="list-style-type: none"> - Fluctuations in the foreign exchange rates due to the macroeconomic conditions may have a material impact on the Group's consolidated financial statements. - The calculations in the effectiveness testing of cash flow hedge transactions include key management judgements and estimates, such as future exchange rates, electricity prices and sales amounts. - Since realization of such key management judgements and estimates in the future include inherent uncertainties and the review of related effectiveness tests require specialist involvement, we determined 'cash flow hedge transactions' as a key audit matter. 	<p>We carried out the below audit procedures for cash flow hedge transactions:</p> <ul style="list-style-type: none"> - We evaluated the appropriateness of cash flow hedge accounting documentation and the reasonableness of the key management assumptions used in the effectiveness tests with the support of our specialists. - We confirmed the related USD and EUR investment loans, that are in hedge relation and used in effectiveness tests, with the financial institutions and recalculated the current year foreign exchange valuations in line with the loan agreements and tested them for mathematical accuracy. - We compared the highly probable future sales denominated in USD used in the effectiveness tests with prior period performance and the Group's future business plans. - Besides, the compliance of related disclosures on the "cash flow hedge transactions" to TAS are evaluated. <p>Based on the above procedures performed we had no material finding on the cash flow hedge transactions.</p>

4) Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

The Group management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with TAS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Responsibilities of independent auditors in an independent audit are as follows:

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

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

- Identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Assess the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

B) OTHER RESPONSIBILITIES ARISING FROM REGULATORY REQUIREMENTS

1) No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No. 6102 and that causes us to believe that the Company's bookkeeping activities concerning the period from 1 January to 31 December 2017 period are not in compliance with the TCC and provisions of the Company's articles of association related to financial reporting.

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

3) In accordance with subparagraph 4 of Article 398 of the TCC, the auditor's report on the early risk identification system and committee was submitted to the Company's Board of Directors on 12 March 2018.

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

Ediz Günsel, SMMM
Partner

Istanbul, 12 March 2018

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ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2017

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

	Notes	Audited 31 December 2017	Audited 31 December 2016
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	5	335,085	98,160
Financial Assets		-	100
- Other Financial Assests	14	-	100
Trade Receivables		327,060	148,578
- Trade Receivables From Related Parties	29	55,249	20,769
- Trade Receivables From Third Parties	8	271,811	127,809
Other Receivables		1,167,897	903,308
- Other Receivables From Related Parties	29	1,141,843	896,525
- Other Receivables From Third Parties	9	26,054	6,783
Receivables From Service Concession Arrangement	6	130,999	-
Derivative Financial Instruments	19	1,706	-
Inventories	10	16,490	-
Prepaid Expenses		55,095	26,338
- Prepaid Expenses To Third Parties	12	55,095	26,338
Current Period Income Tax Assets	23	10,812	7,416
Other Current Assets		301,423	46,164
- Other Current Assets From Third Parties	11	301,423	46,164
Subtotal		2,346,567	1,230,064
Assets held for sale	13	-	67,139
Total Current Assets		2,346,567	1,297,203
NON-CURRENT ASSETS			
Financial Assets		246	246
- Other Financial Assets	14	246	246
Other Receivables		787,315	730,396
- Other Receivables From Related Parties	29	787,161	730,396
- Other Receivables From Third Parties	9	154	-
Receivables From Service Concession Arrangements	6	508,335	-
Derivative Financial Instruments	19	31,603	-
Associates	15	258,379	194,222
Property, Plant and Equipments		5,421,465	4,385,368
- Land	16	57,459	50,054
- Land Improvements	16	131,268	133,162
- Buildings	16	32,691	33,528
- Plant, Machinery and Equipment	16	4,455,405	3,591,411
- Motor Vehicles	16	826	761
- Furniture and Fixtures	16	15,209	14,505
- Leasehold Improvements	16	7,452	671
- Construction Work In Progress	16	721,155	561,276
Intangible Assets		1,672,552	24,577
- Goodwill	3	402,237	-
- Other Rights	17	1,266,701	22,199
- Licenses	17	3,614	2,378
Prepaid Expenses		5,833	69,625
- Prepaid Expenses To Third Parties	12	5,833	69,625
Deferred Tax Assets	23	170,907	110,794
Other Non-Current Assets		72,427	28,813
- Other Non-Current Assets From Third Parties	11	72,427	28,813
Total Non-Current Assets		8,929,062	5,544,041
TOTAL ASSETS		11,275,629	6,841,244

The consolidated financial statements for the period 1 January - 31 December 2017 have been approved on 12 March 2018 by the Board of Directors and will be definitive as a result of the approval in the General Assembly,

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

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2017

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

	Notes	Audited 31 December 2017	Audited 31 December 2016
LIABILITIES			
CURRENT LIABILITIES			
Short-term Financial Liabilities		811,328	672,102
Short-Term Financial Liabilities From Third Parties		811,328	672,102
- Bank Borrowings	7	808,293	672,102
- Finance Lease Liabilities	7	3,035	-
Short-term Portion of Long-term Financial Liabilities		1,618,288	1,274,623
Short-term Portion of Long-term Financial Liabilities From Third Parties		1,618,288	1,274,623
- Bank Borrowings	7	1,177,825	1,036,801
- Issued Financial Debt Instruments	7	308,102	237,822
- Short-term Portion of Other Long-term Financial Liabilities	7	132,361	-
Trade Payables		893,894	301,427
- Trade Payables To Related Parties	29	98,366	107,671
- Trade Payables To Third Parties	8	795,528	193,756
Payables Related To Employee Benefits		7,718	486
Other Payables		433,993	77,603
- Other Payables To Related Parties	29	145,194	77,512
- Other Payables To Third Parties	9	288,799	91
Derivative Financial Instruments	19	5,639	10,235
Deferred Revenue		148,533	4,708
- Deferred Revenue From Third Parties	21	148,533	4,708
Short-term Provisions		46,864	451
- Short-term Provisions For Employee Benefits	20	4,327	-
- Other Short-term Provisions	18	42,537	451
Other Current Liabilities		55,621	4,997
- Other Current Liabilities To Third Parties	11	55,621	4,997
Total Current Liabilities		4,021,878	2,346,632
NON-CURRENT LIABILITIES			
Long-term Financial Liabilities		4,954,148	3,409,200
Long-term Financial Liabilities From Third Parties		4,954,148	3,409,200
- Bank Borrowings	7	4,509,972	3,201,866
- Finance Lease Liabilities	7	25,448	-
- Issued Financial Debt Instruments	7	242,688	107,334
- Other Long-term Financial Liabilities	7	176,040	100,000
Trade Payables		-	6,229
- Trade Payables To Third Parties	8	-	6,229
Other Payables		319,420	568,120
- Other Payables To Related Parties	29	291,967	567,875
- Other Payables To Third Parties	9	27,453	245
Derivative Financial Instruments	19	34,342	11,949
Long-term Provisions		12,949	985
- Long-term Provisions For Employment Benefits	20	12,949	985
Deferred Tax Liability	23	250,787	33,392
Total Non-Current Liabilities		5,571,646	4,029,875
TOTAL LIABILITIES		9,593,524	6,376,507

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

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2017

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

	Notes	Audited 31 December 2017	Audited 31 December 2016
EQUITY			
Equity Attributable To Equity Holders Of The Parent		1,683,535	465,817
Paid-In Share Capital	22	2,000,000	750,000
Adjustments To Share Capital	22	102,575	102,575
Share Premium	22	916	273
Other Comprehensive Income/(Expenses) Not To Be Reclassified To Profit Or Loss		961,285	1,020,199
- Gain/(Loss) On Revaluation And Re-Measurement		961,285	1,020,199
Gain/(Loss) On Revaluation Fund		965,671	1,022,131
Gain/(Loss) On Re-Measurement Of Post-Employment Benefits Obligations		(4,386)	(1,932)
Other Comprehensive Income/(Expenses) To Be Reclassified To Profit Or Loss		(402,826)	(320,430)
- Currency Translation Differences		192,213	146,395
- Hedge Funds		(595,039)	(466,825)
158 Cash Flow Hedge Funds		(595,039)	(466,825)
Restricted Reserves		7,897	7,897
- Legal Reserves	22	7,897	7,897
Accumulated Profit/(Losses)		(1,038,237)	(1,090,663)
Net Profit/(Loss) For The Period		51,925	(4,034)
Non-Controlling Interest		(1,430)	(1,080)
TOTAL EQUITY		1,682,105	464,737
TOTAL LIABILITIES		11,275,629	6,841,244

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

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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

	Notes	Audited 1 January- 31 December 2017	Audited 1 January- 31 December 2016
PROFIT OR LOSS			
Revenue	24	3,871,190	1,223,594
Cost of sales (-)	25	(3,077,003)	(954,974)
Gross profit from trading activities		794,187	268,620
GROSS PROFIT		794,187	268,620
General administrative expenses (-)	25	(105,988)	(45,386)
Marketing expenses (-)	25	(127,005)	(9,154)
Other operating income	26	147,774	33,947
Other operating expenses (-)	26	(168,157)	(14,261)
OPERATING PROFIT		540,811	233,766
Income from investing activities	27	-	7,461
Expenses from investing activities	27	(70,496)	(157)
Share of profit/(loss) of associates	15	20,096	(884)
OPERATING PROFIT BEFORE FINANCIAL INCOME/(EXPENSE)		490,411	240,186
Financial income	28	314,491	362,146
Financial expenses (-)	28	(693,478)	(701,232)
INCOME/(LOSS) BEFORE TAX FROM CONTINUED OPERATIONS		111,424	(98,900)
Tax (expense)/income from continued operations		(59,849)	94,397
- Current income tax expense	23	(16,959)	(75)
- Deferred tax (expense)/income	23	(42,890)	94,472
PROFIT/(LOSS) FROM CONTINUED OPERATIONS		51,575	(4,503)
NET PROFIT/(LOSS) FOR THE PERIOD		51,575	(4,503)
Profit/(loss) for the period attributable to			
Non-controlling interest		(350)	(469)
Equity holders of the parent		51,925	(4,034)
Profit/(loss) per share (TL)			
- Profit/(loss) per share from continued operations	30	0.00029	(0.00005)

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

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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

	Notes	Audited 1 January- 31 December 2017	Audited 1 January- 31 December 2016
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
Items Not To Be Reclassified To Profit Or Loss		(2,454)	36,236
- Revaluation Fund		-	46,752
- Re-Measurement Of Post-Employment Benefits Obligations		(3,068)	(1,456)
Items Not To Be Reclassified To Profit Or Loss, Tax Effect		614	(9,060)
- Revaluation Fund, Tax Effect		-	(9,351)
- Re-Measurement Of Post-Employment Benefits Obligations, Tax Effect		614	291
Items To Be Reclassified To Profit Or Loss		(82,396)	(317,974)
- Changes In Currency Translation Differences		45,818	41,385
Gain Or (Loss) Changes In Currency Translation Differences		45,818	41,385
- Other Comprehensive Income/ (Expense) Related To Cash Flow Hedge		(160,268)	(449,199)
Cash Flow Hedge Funds		(160,268)	(449,199)
Items To Be Reclassified To Profit Or Loss, Tax Effect		32,054	89,840
Other Comprehensive Income Related To Cash Flow Hedge, Tax Effect		32,054	89,840
OTHER COMPREHENSIVE (LOSS)/ INCOME		(84,850)	(281,738)
TOTAL COMPREHENSIVE LOSS		(33,275)	(286,241)
Total Comprehensive Loss Attributable To			
Non-Controlling Interests		(350)	(469)
Equity Holders Of The Parent		(32,925)	(285,772)

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

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD
1 JANUARY - 31 DECEMBER 2017

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

Prior period 1 January - 31 December 2016	Other comprehensive income/(loss) not to be reclassified to profit or loss				Share Premium	Adjustments to Share Capital	Other comprehensive income/(loss) to be reclassified to profit or loss				Equity Attributable To Equity Holders	Non-controlling Interests	Total equity
	Share Capital	Paid In	Revaluation fund	Re-measurement of Post-employment Benefits Obligations			Currency Translation Differences	Cashflow Hedge Funds	Restricted Reserves	Accumulated Losses			
Balance at 1 January 2016	750,000	102,575	273	1,044,857	(767)	105,010	(107,466)	7,897	(886,383)	(263,407)	752,589	(611)	751,978
Transfers	-	-	-	(60,127)	-	-	-	-	(203,280)	263,407	-	-	-
Total comprehensive income (loss)	-	-	-	37,401	(1,165)	41,385	(359,359)	-	-	(4,034)	(285,772)	(469)	(286,241)
- Net income/(loss) for the period	-	-	-	-	-	-	-	-	-	(4,034)	(4,034)	(469)	(4,503)
- Other comprehensive income/(loss)	-	-	-	37,401	(1,165)	41,385	(359,359)	-	-	-	(281,738)	-	(281,738)
Impact of business combinations under common control	-	-	-	-	-	-	-	-	(1,000)	-	(1,000)	-	(1,000)
Balance at 31 December 2016	750,000	102,575	273	1,022,131	(1,932)	146,395	(466,825)	7,897	(1,090,663)	(4,034)	465,817	(1,080)	464,737
Current period 1 January - 31 December 2017	750,000	102,575	273	1,022,131	(1,932)	146,395	(466,825)	7,897	(1,090,663)	(4,034)	465,817	(1,080)	464,737
Balance at 1 January 2017	750,000	102,575	273	1,022,131	(1,932)	146,395	(466,825)	7,897	(1,090,663)	(4,034)	465,817	(1,080)	464,737
Transfers	-	-	-	(56,460)	-	-	-	-	52,426	4,034	-	-	-
Total comprehensive income/(loss)	-	-	-	-	(2,454)	45,818	(128,214)	-	-	51,925	(32,925)	(350)	(33,275)
- Net income/(loss) for the period	-	-	-	-	-	-	-	-	-	51,925	51,925	(350)	51,575
- Other comprehensive income/(loss)	-	-	-	-	(2,454)	45,818	(128,214)	-	-	-	(84,850)	-	(84,850)
Capital increase	1250,000	-	643	-	-	-	-	-	-	-	1,250,643	-	1,250,643
Balance at 31 December 2017	2,000,000	102,575	916	965,671	(4,386)	192,213	(595,039)	7,897	(1,038,237)	51,925	1,683,535	(1,430)	1,682,105

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

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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

	Notes	Audited 1 January- 31 December 2017	Audited 1 January- 31 December 2016
CASH FLOWS FROM OPERATING ACTIVITIES		505,392	(203,383)
Net Profit/(Loss) For The Period		51,575	(4,503)
- Profit/(Loss) From Continuing Operations		51,575	(4,503)
Adjustments To Reconcile Profit/(Loss) For The Period		781,631	171,311
Adjustments For Depreciation And Amortisation Expense	25,26	280,291	199,164
Adjustments Related To Impairment		45,894	-
- Adjustments Related To (Reversal Of) Other Impairment	26	45,894	-
Adjustments Related To Provisions		(28,145)	161
- Adjustments For (Reversal Of) Provisions Related With Employee Benefits	20	3,445	159
- Adjustments For (Reversal Of) Other Provisions		(31,590)	2
Adjustments For Interest (Income) And Expenses		285,992	383,894
- Adjustments For Interest Income	26, 28	(143,275)	(74,784)
- Adjustments For Interest Expense	26, 28	421,017	458,420
- Deferred Finance Expense	28	8,250	395
- Unearned Finance Income	28	-	(137)
Adjustments For Unrealised Foreign Exchange Differences		360,646	(264,642)
Adjustments For Fair Value Gains/(Losses)		13,460	(16,430)
- Adjustments For Fair Value Gains/(Losses) On Derivative Financial Instruments	28	13,460	(16,430)
Adjustments For Undistributed Profits Of Investments Accounted For Using Equity Method		(20,096)	884
- Adjustments For Undistributed Profits Of Associates		(20,096)	884
Adjustments For Tax Income/(Expenses)	23	59,849	(94,397)
Other Adjustments Related To Non-Cash Items		(30,000)	-
Adjustments For Losses (Gains) On Disposal Of Non-Current Assets		20,641	(7,304)
- Adjustments For Losses (Gains) Arised From Sale Of Tangible Assets	27	20,641	(7,304)
Adjustments Related To Profit / (Loss) From Disposals Of Assets Held For Sale	27	49,855	-
Other Adjustments Related To Profit / (Loss) Reconciliation		(256,756)	(30,019)
Changes In Net Working Capital		(297,207)	(361,218)
Decrease (Increase) In Financial Assets		100	(100)
Adjustments For Decrease (Increase) In Trade Receivable		50,535	(29,178)
- Decrease (Increase) In Trade Receivables From Related Parties		(34,480)	(16,057)
- Decrease (Increase) In Trade Receivables From Third Parties		85,015	(13,121)
Adjustments For Decrease (Increase) In Other Receivables Related With Operations		(76,379)	(279,204)
- Decrease (Increase) In Other Related Parties Receivables Related With Operations		(63,804)	(278,458)
- Decrease (Increase) In Other Third Parties Receivables Related With Operations		(12,575)	(746)
Decrease (Increase) In Receivables From Service Concession Arrangement		(489,131)	-
Decrease (Increase) In Inventories		(16,490)	-
Adjustments For Increase (Decrease) In Trade Payable		411,563	9,997
- Increase (Decrease) In Trade Payable From Related Parties		(9,305)	(58,258)
- Increase (Decrease) In Trade Payable From Third Parties		420,868	68,255
Adjustments For Increase (Decrease) In Other Payables Related With Operations		66,438	258
- Increase (Decrease) In Other Payables To Third Parties		66,438	258
Adjustments Related To Other Decrease In Working Capital		(243,843)	(62,991)
- Decrease (Increase) In Other Assets Related To Operations		(63,943)	(57,830)
- Increase (Decrease) In Other Liabilities Related To Operations		(179,900)	(5,161)

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

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ
CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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

	Notes	Audited 1 January- 31 December 2017	Audited 1 January- 31 December 2016
Cash flows from activities		535,999	(194,410)
Payments related with provisions for employee benefits	20	(2,836)	(1,482)
Tax refunds (payments)		(27,771)	(7,491)
CASH FLOWS FROM INVESTING ACTIVITIES		(2,269,935)	(460,693)
Cash outflows related to obtaining control of affiliates	3	(1,217,599)	(1,000)
Proceeds from sale of property, plant, equipment and intangible assets		35,704	53,717
- Proceeds from sale of property, plant and equipment		35,704	53,717
Cash outflows related to purchase of property, plant, equipment and intangible assets		(1,097,505)	(513,410)
- Purchase of property, plant and equipment		(1,080,292)	(506,965)
- Purchase of intangible assets		(17,213)	(6,445)
Cash inflows from sale of assets held for sale		9,465	-
CASH FLOWS FROM FINANCING ACTIVITIES		2,001,810	590,421
Cash inflows from issuing shares or other equity instruments		1,250,643	-
- Cash inflows from issuing of shares		1,250,643	-
Cash inflows from financial liabilities	7	3,076,252	1,589,311
- Cash inflows from bank borrowings		2,407,369	1,429,311
- Cash inflows from issued debt instruments		440,400	160,000
- Cash inflows from other financial liabilities		228,483	-
Cash outflows due to the financial liabilities	7	(1,514,564)	(912,840)
- Cash outflows due to the repayment of bank borrowings		(1,296,214)	(806,495)
- Cash outflows from debt repayments of issued debt instruments		(218,350)	(106,345)
Increase in other payables to related parties		-	295,197
Decrease in other payables to related parties		(377,411)	-
Interest paid		(425,837)	(340,769)
Interest received		25,731	20,201
Other cash inflows/(outflows)		(33,004)	(60,679)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE THE EFFECT OF CURRENCY TRANSLATION DIFFERENCES		237,267	(73,655)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		237,267	(73,655)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	5	80,303	153,958
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	5	317,570	80,303

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

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Zorlu Enerji Elektrik Üretim AŞ ("Zorlu Enerji" or "the Company"), its affiliates and associates (collectively referred to as the "Group") is engaged in establishing, renting and operating facilities of electrical energy production plant, producing electricity and steam and trading electricity. The Company was established by Zorlu Holding AŞ ("Zorlu Holding") and Korteks Mensucat Sanayi ve Ticaret AŞ ("Korteks") in 1993. Ultimate controlling party of the Company is Zorlu Holding.

The Company is registered in Turkey and its registered address is as follows:

Bursa Organized Industrial Zone, Pembe Street, No: 13 Bursa/Turkey.

The Company is registered to the Capital Markets Board ("CMB"), and its shares are publicly traded in Borsa Istanbul AŞ ("BIST") since 2000. As of 31 December 2017, 32% of its shares are open for trading (31 December 2016: 32%).

The consolidated financial statements for the period 1 January - 31 December 2017 have been approved on 12 March 2018 by the Board of Directors.

Affiliates and associates of the Company are as follows:

Affiliates	Nature of Business	Country
Rotor Elektrik Üretim AŞ	Electricity production	Turkey
Zorlu Hidroelektrik Enerji Üretim AŞ	Electricity production	Turkey
Zorlu Jeotermal Enerji Elektrik Üretimi AŞ	Electricity production	Turkey
Zorlu Enerji Pakistan Ltd.	Electricity production	Pakistan
Zorlu Wind Pakistan (Private) Ltd.	Electricity production	Pakistan
Zorlu Solar Pakistan (Private) Ltd.	Electricity production	Pakistan
Zorlu Rüzgar Enerjisi Elektrik Üretimi AŞ	Electricity production	Turkey
Zorlu Doğal Elektrik Üretimi AŞ	Electricity production	Turkey
Nemrut Jeotermal Elektrik Üretimi AŞ	Electricity production	Turkey
Zorlu Solar Enerji Tedarik ve Ticaret AŞ	Electricity production and panel trade	Turkey
Zorlu Elektrik Enerjisi İthalat İhracat ve Toptan Ticaret AŞ	Electricity trade	Turkey
Zorlu Osmangazi Enerji Sanayi ve Ticaret AŞ (*)	Electricity distribution and retail sale	Turkey
Zorlu Enerji İsrail Ltd.	Electricity production	Israel
Zorlu Renewable Pakistan (Private) Ltd.	Electricity production	Pakistan
Zorlu Sun Power (Private) Ltd.	Electricity production	Pakistan
Associates	Nature of Business	Country
Solad Energy Ltd.	Electricity production	Israel
Dorad Energy Ltd.	Electricity production	Israel
Ezotech Electric Ltd. (**)	Electricity production	Israel

(*) Zorlu Osmangazi Enerji San. ve Tic. AŞ ("Zorlu Osmangazi") purchased 100% of shares of Osmangazi Elektrik Dağıtım AŞ ("OEDAŞ") and Osmangazi Elektrik Parakende AŞ ("OEPSAŞ") (Note 3).

(**) Ezotech Electric Ltd. owns 100% of shares of Ashdod Energy Ltd. ("Ashdod") and Ramat Negev Energy Ltd. ("Ramat Negev").

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (CONTINUED)

As of 31 December 2017, the number of personnel employed was 1,762 (31 December 2016: 129).

Zorlu Enerji Elektrik Üretim AŞ ("Zorlu Enerji"):

Zorlu Enerji, its affiliates and associates are engaged in establishing, renting and operating facilities of electrical energy production plant, producing, distribution, trading electricity and producing steam. The Company was established by Zorlu Holding AŞ ("Zorlu Holding") and KorteKS Mensucat Sanayi ve Ticaret AŞ ("KorteKS") in 1993.

As of 31 December 2017 the total electricity and steam capacity of the Company's three natural gas plant, which are operating and located in Bursa, Kırklareli (Lüleburgaz) and Yalova, are 176.2 MW and 159.5 ton/hour in total. The production license granted for Ankara Natural Gas Fueled Electric Production Plant of 50.3 MW installed capacity was terminated on 30 September 2014. The production license of combined cycle Natural Gas power plant, having a capacity of 163.2 MW in Kayseri, Melikgazi has been terminated on 1 October 2015. Pursuant to the material event disclosure dated 25 January 2017, the production license of the combined cycle natural gas power plant of Zorlu Enerji in Bursa Organised Industrial Zone was amended and the installed capacity included in the license was decreased from 90 MW to 34.3 MW. In order to increase the steam production capacity of the Lüleburgaz plant which is 129.5 tons / hour, a fluidized bed steam boiler plant with a steam production capacity of 2x40 tons/hour is being installed in the plant. Construction and engineering work on the project started in April 2016 and the facility is targeted to be commissioned in the first quarter of 2018.

On February 2015, Yozgat Provincial Special Administration gave three Geothermal Sources and Natural Mineral Waters Exploration License to the Company until 10 February 2018 in order to make exploration in three different region in Yozgat province, Şefaati district.

Zorlu Enerji prelicense application to Energy Market Regulatory Authority ("EMRA") for combined cycle natural gas power plant having a capacity of 1,200 MW to be incorporated in Kırklareli, Vize, Kiyıköy has been approved in February 2016. As a preliminary licensing condition, Environmental Impacts Assessment ("EIA") process should be completed.

Zorlu Enerji participated in the tender dated on 30 January 2015 regarding Turkish Electricity Transmission Company's Application for the Establishment of Pre-licensed Solar Power Electricity Production Plant Competition Package 3 for the Konya Zone 1 with 46 MW capacity and won the tender by taking 18 MW full capacity. In respect of the won tender, as per the material disclosure dated April 2016, EMRA granted pre-license which will be valid for 30 months for the planned construction of Alibeyhöyüğü Solar Power Plant Project in Çumra, Konya.

Zorlu Enerji participated in Denizli Metropolitan Municipality's tender to rent geothermal fields on 21 September 2016, and won the tender by agreeing and undertaking to pay annual field rent made up of 19% of the annual field operation turnover defined in article 26/G of the tender specifications as well as TL3,000,000 fixed rent, excluding VAT. Within the scope of the tender, the 3470 hectare Sarayköy geothermal field on Lot 32 in the Tekke Neighborhood of the Sarayköy District of Denizli Province, with operation license no: (J-559/c), will be rented out until 2 June 2041 for the purpose of generating electrical energy via geothermal resources. Field operation turnover is made up of the net fee of the electrical power sold, excluding VAT, and the net income acquired by the sale or rent of the geothermal fluid to third parties, excluding VAT.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (CONTINUED)

Zorlu Enerji signed a letter of intent with the Punjab State Government in February 2017 for a 200 MW solar power plant project at Pakistan which consists of two solar power plants with 100 MW installed, which will be developed in the Punjab Province. Pre-license was obtained for projects within the scope of the agreement in July 2017. Pre-license were given to Zorlu Sun Power (Private) Limited and Zorlu Renewable Pakistan (Private) Limited in which Zorlu Enerji owns 99.7% shares and the projects will be carried out by these companies.

Rotor Elektrik Üretim AŞ ("Rotor"):

Rotor was established for the purpose of building wind power plants in 2003 and was acquired by "Zorlu Enerji" in 2007. On 19 December 2003, Rotor obtained the production license for 30 years from EMRA to establish a wind power plant with a capacity of 135MW in the province of Osmaniye. Gökçedağ Wind Power Plant (Rotor WPP) whose construction started in July 2008, started production with full capacity on 15 October 2010 and continues its operations.

Gökçedağ Wind Power Plant joined the Renewable Energy Resources Support Mechanism ("YEKDEM") in 2016 and the application to EMRA for Gökçedağ Wind Power Plant to make use of YEKDEM in the 2017 calendar year was accepted in November 2016. Accordingly, also in 2017, the power plant sells all the electricity it generates in return for 7.3USD cent/kWh, which is the support fee provided on the basis of resources to the production facilities running on wind power within the scope of YEKDEM. Application of Power Plant to make use of YEKDEM in the 2018 calendar year has been approved in 2017. The power plant will sell all the electricity it generates in return for 7.3USD cent/kWh within the scope of YEKDEM in 2018.

Zorlu Doğal Elektrik Üretimi AŞ ("Zorlu Doğal"):

Zorlu Doğal was established for purpose to sell the electricity, to develop a project to correspond the requirement of energy, heat and steam, to establish hydroelectric, geothermal power plants being in the first place and also to perform feasibility studies to assembly associations which is based on all forms of renewable energy in 2008.

On 5 March 2008, Zorlu Doğal has won the tender for the operating license of 7 hydroelectric power plants, 1 geothermal power plant and 1 fuel oil power plant from Ankara Doğal Elektrik Üretim ve Ticaret AŞ ("ADÜAŞ") and started to operate to be valid effective from 1 September 2008. The application to EMRA in order to be ended of the production license of Van fuel oil power plant with 15 MW, was approved as of March 2014. As a result sales negotiations conducted with bargaining method on 10 November 2015, Van plant and its field was sold.

Zorlu Doğal has hydroelectric power plants in Tokat, Eskişehir, Kars, Rize, Erzurum, Erzincan, Tunceli and the first geothermal power plant of Turkey in Denizli and also operating rights of the highest geothermal energy potential field in Turkey for 30 years.

In addition to the existing 15 MW Kızildere I Geothermal Power Plant ("JES"), Performance and security tests of the first phase of fully constructed Kızildere II project of Zorlu Doğal with the installed capacity of 60 MW has been successfully completed and after the official acceptance of the Ministry, the power plant has been started to sell commercial electricity as of 31 August 2013, official acceptance of the second and last phase with the capacity of 20 MW has been made on 31 October 2013 and the power plant started being operated with full capacity.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (CONTINUED)

Kızıldere II Plant of 80 MW has the right to benefit from YEKDEM. The power plant was integrated to YEKDEM and sold all electricity generated in 2014, 2015 and 2016 within the scope of YEKDEM. The application to EMRA, in order to sell electricity in scope of YEKDEM in 2017, has been approved as of November 2016. In this respect, Kızıldere II plant sells the electricity to be generated in 2017 against a price of USD 11.2/kWh resulting from addition of additional contribution share of USD 0.7/kWh granted due to use of domestic equipment to the price of USD 10.5/kWh as the support price given on source basis to the generation plants based on geothermal energy. The application to EMRA, in order to sell electricity in scope of YEKDEM in the calendar year of 2018, has been approved. In this respect, Kızıldere II plant will sell the whole electricity to be generated in 2018 with a price of USD 11.2/kWh.

The hydroelectric power plants in Zorlu Doğal and Kızıldere I JES sell most of their production through bilateral agreements.

For the Kızıldere III Geothermal Power Plant project developed in the Karataş neighbourhood within the provincial borders of Denizli and Aydın, Zorlu Doğal obtained the production license from EMRA which will be valid through 2037. The Kızıldere III Geothermal Power Plant project are composed of two units with a total installed capacity of 165 MW. The first unit of the Kızıldere III Geothermal Power Plant's 99.5 MW installed power started commercial electricity sales as of 19 August 2017. The second unit of 65.5 MW is planned to be put into use in the first half of 2018. Zorlu Doğal's total installed capacity in 7 hydroelectric and 2 geothermal power plants has reached to 307 MW with the start of operation of first unit of Kızıldere III Geothermal Power Plant.

In addition, Zorlu Doğal obtained a pre-license from EMRA for the Kızıldere IV Geothermal Power Plant project planned to be established in the Karataş neighbourhood, Buharkent district, Aydın province with an installed capacity of 24.9 MW on 22 June 2015. An application was filed to EMRA for an amendment on the installed capacity in the pre-license of the project from 24.9 MW to 60 MW had been approved on July 2017 and EMRA decided to give a pre-license for the project which will be valid for 36 months.

The application to EMRA for the amendment of the 15 MW installed capacity in the current production license of Tercan Dam and Hydroelectric Power Plant ("HPP"), owned by Zorlu Doğal, as 17.04 MWm/16.9 MWe with the additional 4th unit was approved on April 2015. Construction work for increasing the installed capacity has not started yet; however, the engineering work is continuing.

Rehabilitation of Zorlu Doğal's İkizdere Regulator and Hydroelectric Power Plant in İkizdere District, Rize, 18.6 MW installed power to 24.94 MW through rehabilitation started in July 2016 was completed at 2 March 2018 and power plant begun commercial production as of 3 March 2018.

Zorlu Hidroelektrik Enerji Üretim AŞ ("Zorlu Hidroelektrik"):

Zorlu Hidroelektrik was established in 2007 for the purpose of building hydroelectric power plants and other power plants based on renewable energy sources.

In accordance with the decision of EMRA dated 7 June 2012 and numbered 3870/3, EMRA has cancelled the license of Zorlu Enerji for Sami Soydam Sandalcık Barajı hydroelectric power plant in Denizli which would have 127.8 MWm/124 Mwe capacity; in accordance with the Electricity Market Law numbered 4628 and related regulations, aforesaid the license has been transferred to Zorlu Hidroelektrik as of 7 June 2012. As a result of latest evaluation, Zorlu Hidroelektrik decided not to carry on with the Sami Soydam-Sandalcık Dam and Hydroelectric Power Plant project and the production license of the project has been terminated in August 2017.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (CONTINUED)

Zorlu Jeotermal Elektrik Üretimi AŞ ("Zorlu Jeotermal"):

Zorlu Jeotermal was established in 30 June 2008 to develop projects for energy power plants based on all forms of renewable energy sources to produce energy, steam and heat.

Zorlu Jeotermal has taken over the Alaşehir Geothermal license of Zorlu Petrogas Petrol, Gaz ve Petrokimya Ürünleri İnşaat Sanayi ve Ticaret AŞ on 30 July 2009.

The production plant is located in Manisa, Alaşehir with a capacity of 45 MW operates with full capacity. The application to EMRA, in order to sell electricity in 2017 in scope of YEKDEM, has been approved as of November 2016. In this respect, Alaşehir I plant sells the electricity to be generated in 2017 against a price of USD 11.2/kWh resulting from additional contribution share of USD 0.7/kWh granted due to use of domestic equipments to the price of USD 10.5/kWh as the support price given on source basis to the generation plants based on geothermal energy within the scope of YEKDEM. The application to EMRA, in order to sell electricity in scope of YEKDEM in the calendar year of 2018, has been approved. In this respect, Alaşehir I plant will sell the whole electricity to be generated in 2018 with a price of USD 11.2/kWh.

For the Alaşehir II Geothermal Power Plant ("Alaşehir II JES") project, which is planned to be developed on the same site, a production license was obtained for 22 years from EPDK for 24.9 MW capacity in November 2017. The Company has received the certificate which shows Environmental Impact Assessment, Permit and Inspection ("EIA") is not required as of 19 June 2015 and began searching and well drilling. As a result of the exploration work on the installed power of 24.9 MW in the production license of the project, an application was made to the EMRA in January 2018 in order to be amended to 45 MW as a total of two units of 22.5 MW each.

Zorlu Jeotermal has received pre-lisence of 10 December 2014 for the Alaşehir III geothermal power plant with planned 30 MW capacity. As per the material disclosure dated 4 December 2015, upon exploration works, Zorlu Jeotermal applied to EMRA in order to amend the capacity from 30 MW to 50 MW. As per the material disclosure dated 4 April 2016, Zorlu Jeotermal has received acceptance to its application to the EMRA and the Authority has decided to grant Zorlu Jeotermal the pre-license to be valid for 30 months entered into force on the decision date.

Zorlu Jeotermal joined the tender held by Kütahya Special Provincial Administration on 27 October 2016 for licensing and granting the right to explore the geothermal resource search field and won the tender by accepting and undertaking to pay a fee of TL450,000 plus VAT. Within the scope of the tender, Zorlu Jeotermal gained the right to conduct a search for geothermal resources in Yeniköy geothermal field, a field of 4,950 hectares in the Yeniköy neighbourhood, Simav district, Kütahya province.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (CONTINUED)

Zorlu Rüzgar Enerjisi Elektrik Üretimi AŞ ("Zorlu Rüzgar"):

Zorlu Rüzgar was established in 2009 to develop projects for energy power plants, based especially on wind power and other forms of renewable energy sources to produce electricity.

In accordance with the Board of Directors decision dated 16 November 2009 and numbered 2009/9 Rotor has transferred its license to Zorlu Rüzgar which was obtained for 25 years as of 5 August 2008 for the construction of two wind energy power plants in Sarıtepe and Demirciler regions of Osmaniye with a capacity of respectively 50 MW and 60 MW.

Sarıtepe (57 MW) and Demirciler (23,3 MW) Wind Power Plants, which were built in Osmaniye by Zorlu Rüzgar and have a total installed capacity of 80.3 MW, have been partially commissioned since June 2016 and is fully operational as of 27 August 2016 and production has begun.

Sarıtepe RES and Demirciler RES joined to YEKDEM in 2017 and the power plants has sold all produced electricity within the scope of YEKDEM for 8.58USD/kWh which is the sum of the 1.28USD/kWh contribution fee for using locally produced components and the support fee of 7.3USD/kWh. The application to EMRA for Sarıtepe and Demirciler's benefit from YEKDEM in 2018 has been approved. In this respect, Sarıtepe ve Demirciler RES will sell the whole electricity to be generated in 2018 against a price of USD 7.3/kWh resulting from additional contribution share of USD 1.4/kWh granted due to use of domestic equipments to the price of USD 8.7/kWh as the support price given on source basis to the generation plants based on wind energy within the scope of YEKDEM.

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Nemrut Jeotermal Elektrik Üretimi AŞ ("Nemrut"):

Nemrut which the Group has 75% shareholding and Rarik-Turkison Enerji İnşaat Maden Proje Ltd. Şti. has 25% shareholding, has been incorporated on 2 August 2013 with 878732 number Trade Registering Newspaper.

Bitlis Special Provincial Administration has given to Nemrut, in which the Company has 75% shareholding, the "Geothermal Resources and Natural Mineral Waters Operating License" for a period of 30 year and the "Geothermal and Natural Resources Exploration License" until the date of 3 June 2014 to be valid in the boundaries of Tatvan district of Bitlis. Relevant licenses have entered into force on 23 September 2013. The application for the time extension of exploration license process has not been approved yet.

Zorlu Solar Enerji Tedarik ve Ticaret AŞ ("Zorlu Solar"):

Zorlu Solar was established to generate electricity both domestically and internationally from solar energy; to rent, sell, purchase, export Solar Photovoltaic (PV) panels and provide services for placing the panels onto the roofs and any other services regarding the installation and consultancy of Solar Photovoltaic panels. Zorlu Solar was also established to engage in electricity energy and/or wholesale purchases and sales activities domestically. The registration procedures for the establishment of the company has been completed as of 28 March 2016. In the scope of its Distributorship and Supply Contract with First Solar, Inc. of the USA ("First Solar"), in February 2017, Zorlu Solar took on the authorized distributorship of First Solar's photovoltaic panels in 26 countries and started its operations as of the second quarter of 2017.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (CONTINUED)

Zorlu Elektrik Enerjisi İthalat İhracat ve Toptan Ticaret AŞ ("Zorlu Elektrik"):

Zorlu Elektrik was established in 2000 to purchase electricity from domestic markets and free zones, its wholesale or direct sale in Turkey, or its export to foreign countries. To ensure operation integrity by consolidating wholesale electricity trade operations within Zorlu Enerji and to increase transparency, all of Zorlu Elektrik's shares were acquired by Zorlu Enerji and the relevant registration transactions were completed on 7 March 2016. The company operates under "Procurement License" issued by the Energy Market Regulatory Authority.

Zorlu Elektrik's main operations are as follows:

- retail electricity sales to the persons and organisations within the scope of eligible consumer
- electricity purchase and sales in Organised Wholesale Electricity Markets run by EPİAŞ
- over the counter (OTC) and Derivative Market wholesale electricity trade
- electricity export and import, and
- group management in charge of balance.

Zorlu Elektrik provides a significant portion of the electricity it sells from renewable sources. Zorlu Elektrik has a share of over %1 in the eligible consumer market with a 1.6 billion kWh of electricity sales to eligible consumers.

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Zorlu Elektrik performs demand and price forecasting, production planning, pricing, sales, risk and portfolio management, reconciliation and invoicing within the scope of its core activities. The company provides alternative pricing adapted to market price options to consumers based on hourly and periodically in bilateral agreements. Zorlu Elektrik creates high saving tariff packages suitable for consumers' consumption volume and habits and offers solutions to minimize costs for consumers.

Besides selling electricity to eligible consumers, Zorlu Elektrik has also commercial activities with other leading companies in the sector. Zorlu Elektrik buys and sell energy through bilateral agreements with other leading companies in the sector. It has also import and export activities with neighboring countries.

Zorlu Elektrik supports the work carried out in order to effectuate the transformation of markets into a targeted liberal and competitive structure and as one of the important players in the sector Zorlu Elektrik supports all the activities that adds value to sector and customers. Zorlu Elektrik actively participated in the Electricity Futures Market ("VIOP"), which is a market started operations within the scope of Borsa İstanbul, as a result of the activities on the way of liberalization of the electricity markets.

Zorlu Osmangazi Enerji Sanayi ve Ticaret AŞ ("Zorlu Osmangazi"):

Pursuant to the material event disclosure dated 18 November 2016, a company with the title "Zorlu Osmangazi Enerji Sanayi ve Ticaret AŞ", whose main field of activity is electricity distribution and retail, has a capital of TL50,000, and is 100% owned by Zorlu Enerji, pursuant to the material event disclosure dated 6 March 2017, the capital increase process to increase the current share capital of TL50,000, of Zorlu Osmangazi, to TL1,150,050,000 with an entirely cash increase of TL1,150,000,000 have been completed. Zorlu Osmangazi acquired all shares of Osmangazi Elektrik Dağıtım AŞ ("OEDAŞ") and Osmangazi Elektrik Perakende Satış AŞ ("OEPSAŞ") in return for USD360,000,000 on 2 February 2017 (Note 3).

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (CONTINUED)

OEDAŞ distributes electricity within the provincial borders of Eskişehir, Afyon, Bilecik, Kütahya, and Uşak. OEPSAŞ is the responsible retail company in the relevant distribution region.

Within the scope of the acquisition of all shares of OEDAŞ and OEPSAŞ by Zorlu Osmangazi, OEDAŞ's distribution license valid until 1 September 2036 and OEPSAŞ's retail license valid until 1 September 2036 were amended by EMRA on 31 May 2017 by changing the partnership structure mentioned in the licenses.

Zorlu Enerji Pakistan Ltd. ("Zorlu Enerji Pakistan"):

Zorlu Enerji Pakistan was incorporated on 13 September 2007 to set up a project for electric power generation through wind to generate and sell electric power. The wind power plant with the installed capacity of 56.4 MW being constructed in Jhimpir area of Pakistan by the Group's 100% affiliate Zorlu Enerji Pakistan started commercial electric energy sales to Pakistan National Transmission and Distribution Company ("NTDC") on 26 July 2013.

Zorlu Enerji Pakistan, Zorlu Enerji's wholly owned affiliate, obtained a pre-license from Pakistan Alternative Energy Development Board for a 30 MW hybrid power plant. The hybrid power plant will generate solar and wind power simultaneously, which will contribute towards the more efficient utilization of the national grid. The new project will be the first wind&solar hybrid project in Pakistan.

Zorlu Wind Pakistan (Private) Ltd. ("Zorlu Wind Pakistan"):

With regard to the material event disclosure on 5 January 2015, Zorlu Wind Pakistan is incorporated with a partnership of Zorlu Enerji having a partnership in the ratio of 99.7% which has a capital of PKR10,000 and has a wind energy production activity, and the said company's registration procedures have been completed.

Zorlu Solar Pakistan (Private) Ltd. ("Zorlu Solar Pakistan"):

Pursuant to the material event disclosure dated 25 November 2016, a company with the title "Zorlu Solar Pakistan (Private) Limited", whose main fields of activity are to carry out electricity energy projects through any renewable energy power plant that the company selects, including but not limited to thermal energy plants, wind power plants, hydroelectric plants and solar power plants; to set up and operate the distribution systems; to produce, purchase, supply and install complementary elements concerning these plants; to carry out all activities that the company needs to in the scope of these transactions, and which has capital of PKR10,000, and is 99.7% owned by Zorlu Enerji was founded and registered on 18 November 2016 in Pakistan.

Pursuant to the material event disclosure dated August 2017, the Punjab Power Development Board accepted the pre-license application of Zorlu Solar Pakistan for the 100 MW solar power plant project planned to be developed in Punjab, Pakistan. This is the first renewable energy pre-license application accepted by the Pakistani Government after three years. It is planned that the power plant, the construction of which started in March 2017, will operate in the first half of 2018. Zorlu Solar Pakistan's meetings with various banks to finance the project are ongoing.

The Board of Directors have decided to increase the capital of Zorlu Solar Pakistan Ltd, from PKR100,000 to PKR2,500,000,000 as of 12 December 2017.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (CONTINUED)

Zorlu Renewable Pakistan (Private) Ltd. ("Zorlu Renewable Pakistan"):

Pursuant to the material event disclosure dated 25 May 2017, a company with the title "Zorlu Renewable Pakistan (Private) Limited", whose main fields of activity are to carry out electricity energy projects through any renewable energy power plant that the company selects, including but not limited to thermal energy plants, wind power plants, hydroelectric plants and solar power plants, to set up and operate the distribution systems, to produce, purchase, supply and install complementary elements concerning these plants; to carry out all activities that the company needs to in the scope of these transactions, and which has capital of PKR10,000 and is 99.7% owned by Zorlu Enerji was founded and registered on 1 June 2017.

Within the scope of a letter of intent signed by Zorlu Enerji and the Punjab State Government, the Punjab Government granted a pre-license to Zorlu Renewable to establish a 100 MW solar power plant in July 2017.

Zorlu Sun Power (Private) Ltd. ("Zorlu Sun Power"):

Pursuant to the material event disclosure dated 25 May 2017, a company with the title "Zorlu Sun Power (Private) Limited", whose main fields of activity are to carry out electricity energy projects through any renewable energy power plant that the company selects, including but not limited to thermal energy plants, wind power plants, hydroelectric plants and solar power plants, to set up and operate the distribution systems, to produce, purchase, supply and install complementary elements concerning these plants; to carry out all activities that the company needs to in the scope of these transactions, and which has capital of PKR10,000 and is 99.7% owned by Zorlu Enerji was founded and registered on 1 June 2017.

Within the scope of a letter of intent signed by Zorlu Enerji and the Punjab State Government, the Punjab Government granted a pre-license to Zorlu Sun Power to establish a 100 MW solar power plant in July 2017.

Zorlu Enerji Israil Ltd. ("Zorlu Enerji Israil"):

Pursuant to the material event disclosure dated 14 March 2017, a company with the title "Zorlu Enerji Israil Ltd", whose main field of activity is carrying out energy projects, and which has capital of NIS10,000, and 100% of which is owned by Zorlu Enerji, was founded and registered on 12 March 2017.

Dorad Energy Ltd. ("Dorad"):

Zorlu Enerji became a 25% shareholder in Dorad for the investment of natural gas combined cycle plant with 840 MW capacity in the Ashkelon city of Israel in 2003. Such natural gas combined cycle plant with 840 MW capacity which Dorad Ashkelon constructed in Israel went into operation on 19 May 2014.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (CONTINUED)

Ezotech Electric Ltd. ("Ezotech"):

Ezotech which is owned by the Company in 42.15% is established in order to hold the whole shares of the companies Ashdod Energy Ltd. ("Ashdod") and Ramat Negev Energy Ltd. ("Ramat") in Israel and to pursue electricity trade in accordance with the affiliates' operational plan. The remaining shareholder in Ezotech with 57.85% ownership is Edeltech Ltd. ("Edeltech") which develops and invests in energy power plants in Israel. In the project developed by Ezotech for the construction of two natural gas cogeneration plants, Ashdod plant was commissioned on 20 December 2015 and Ramat Regev plant was commissioned on 31 December 2015. Upon commissioning of the plants, higher values were achieved in the performance tests conducted by the market regulator "Israel Electric Corporation" and so generation licenses were amended in 2016 and installed power of Ashdod plant was increased from 55 MW to 64.54 MW and installed power of Ramat Negev plant was increased from 120 MW to 126.4 MW.

Solad Energy Ltd. ("Solad"):

Solad which is owned by the Company in 42.15% is established in 2006 for a cogeneration power plant investment with 77 MW electricity and 70 tonnes/steam capacity, in order to supply energy to soybean oil production facilities in Ashdod and Ashkelon and the nearby operating industrial facilities.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Financial reporting standards

The accompanying consolidated financial statements are prepared in accordance with Communiqué Serial II, No:14.1, "Principles of Financial Reporting in Capital Markets" ("the Communiqué") published in the Official Gazette numbered 28676 on 13 June 2013. According to Article 5 of the Communiqué, consolidated financial statements are prepared in accordance with the Turkish Accounting Standards issued by Public Oversight Accounting and Auditing Standards Authority ("POAASA"). TAS contains Turkish Accounting Standards, Turkish Financial Reporting Standards ("TFRS") and its addendum and interpretations ("TFRIC").

The Group and its Turkish affiliates maintain their books of accounts and prepare their statutory financial statements in accordance with the Turkish Commercial Code ("TCC"), tax legislation, the Uniform Chart of Accounts issued by the Ministry of Finance and principles. The foreign subsidiaries maintain their books of account in accordance with the laws and regulations in force in the countries in which they are registered. These consolidated financial statements have been prepared under historical cost conventions except for financial assets and financial liabilities which are carried at fair value. The consolidated financial statements are based on the statutory records, which are maintained under historical cost conventions, with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with TAS.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.2 Basis of consolidation

a) Affiliates

Zorlu Enerji controls an affiliate when it is exposed, or has rights, to variable returns from its involvement with the affiliate and has the ability to affect those returns through its power over the subsidiary. Zorlu Enerji has power over an affiliate when Zorlu Osmangazi has existing rights that give it the current ability to direct the relevant activities that significantly affect the affiliate's returns. Power arises from rights and the existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Zorlu Enerji controls another entity.

Affiliates including the structured entities are the companies controlled by the Group. The Group's control is provided by the ability to affect the variable returns through its power over the subsidiaries. Affiliates are consolidated from the date on which the control is transferred to the Group and are no longer consolidated from the date that control ceases.

The balance sheets and statements of profit or loss of the affiliates are consolidated on a line-by-line basis and the carrying value of the investment held by Zorlu Enerji and its affiliates is eliminated against the related equity. Intercompany transactions and balances between Zorlu Enerji and its affiliates are eliminated with the scope of consolidation accounting.

Changes in ownership rates that do not result in control ceases in the affiliates

Changes ownership interests in a affiliate that do not result in losing control of the affiliate are equity transactions. These transactions are the transactions that are made among shareholders. The difference between the net book value of the acquired assets of a subsidiary and the fair value of consideration paid for these assets are accounted for under equity. Gains or losses arising from the sale of non-controlling interests are presented under equity.

Disposals of affiliates

If the Group loses control of an affiliate, it recognizes any investment retained in the former affiliate at its fair value when control is lost and any difference between the fair value and net book value of investment is accounted for as gain or loss. That fair value shall be regarded as the fair value on initial recognition of a financial asset, when appropriate, the cost on initial recognition of an investment in an associate or joint venture. Additionally, assets and liabilities that were previously recognized as other comprehensive income attributable to that subsidiary are accounted for as if those were disposed the Group. This may result in a fact that these amounts previously recognized as other comprehensive income may be classified to profit or loss.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.2 Basis of consolidation (Continued)

Non-controlling interest

The minority shares in the net assets and operating results of affiliates are separately classified in the consolidated balance sheets and consolidated statements of income or loss as "non-controlling interests".

The Group applies a policy of treating transactions with non-controlling interests as transactions with owners of the parent. Regarding the purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the affiliate is deducted from equity. Gains or losses on disposals to non-controlling interests are also accounted for in equity. For disposals to non-controlling interests, differences between any proceeds received and the relevant share of non-controlling interests are also accounted for in equity.

The table below sets out all affiliates and demonstrates the proportion of ownership interest as of 31 December 2017 and 31 December 2016. The proportion of the ownership equals to percentage of shares and affiliates are consolidated with full consolidation method.

Affiliates	Direct and indirect ownership interest by the Company and its Affiliates (%)	
	31 December 2017	31 December 2016
Rotor	100.00	100.00
Zorlu Hidroelektrik	100.00	100.00
Zorlu Jeotermal	100.00	100.00
Zorlu Enerji Pakistan	100.00	100.00
Zorlu Wind Pakistan	99.70	99.70
Zorlu Rüzgar	100.00	100.00
Zorlu Doğal	100.00	100.00
Nemrut	75.00	75.00
Zorlu Solar	100.00	100.00
Zorlu Elektrik	100.00	100.00
Zorlu Solar Pakistan	99.70	99.70
Zorlu Osmangazi	100.00	100.00
Zorlu Enerji İsrail	100.00	-
Zorlu Renewable Pakistan	99.70	-
Zorlu Sun Power	99.70	-

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.2 Basis of consolidation (Continued)

b) Investments in associates

The Group's investments in associates are accounted under the at acquisition cost on initial recognition and in subsequent period investments are accounted under the equity method. Investments in associates are undertakings over which the Group generally has between 20% and 50% of the voting rights and the Group has significant influence and which are not affiliates or joint ventures of the Group. The investments in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. The consolidated statement of income/(loss) reflects the Group's share of the results of operations of the associates.

The equity method is abandoned if the carrying value of the investment in the associate is zero or the significant effect of the Group has ended, as long as the Group does not incur an obligation or commitment in relation to the associate. After the Group's share in the associate has decreased to zero, additional provision and recognition of the liability has been incurred if the Group is exposed to legal or constructive obligation or has made payments on behalf of the associate. If the associates make profit in subsequent periods, the Group will be able to reflect the share from the profit in its financial statements, but only after its share of the associate profit is balanced with its share of the losses that are not reflected in the financial statements.

The table below sets out all associates and demonstrates the proportion of ownership interest as of 31 December 2017 and 31 December 2016:

Associates	31 December 2017 (%)	31 December 2016 (%)
Solad Energy Ltd.	42.15	42.15
Dorad Energy Ltd.	25.00	25.00
Ezotech Electric Ltd.	42.15	42.15

2.3 Amendments in Turkish Financial Reporting Standards

a. The new standards, amendments and interpretations which are effective for the consolidated financial statements as of 31 December 2017:

- Amendments to TAS 7 Statement of cash flows on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.
- Amendments TAS 12 Income Taxes, effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarify certain other aspects of accounting for deferred tax assets.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Amendments in Turkish Financial Reporting Standards (Continued)

- Annual improvements 2014-2016, effective from annual periods beginning on or after 1 January 2017.
- TFRS 12, Disclosure of interests in other entities; regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017. This amendment clarifies that the disclosures requirement of TFRS 12 are applicable to interest in entities classified as held for sale except for summarized financial information.

b. Standards, amendments and interpretations effective after 1 January 2018:

- Amendments to TFRS 2, Share based payments on clarifying how to account for certain types of share-based payment transactions, effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in TFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.
- TFRS 9 Financial instruments, effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in TAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model. Based on the preliminary assessment performed by the Group management, it is foreseen that the relevant standard will not have any material effect on the consolidated financial statements.
- TFRS 15 Revenue from contracts with customers, effective from annual periods beginning on or after 1 January 2018. TFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. Based on the preliminary assessment performed by the Group management, it is foreseen that the relevant standard will not have any material effect on the consolidated financial statements.
- Amendment to TFRS 15, Revenue from contracts with customers, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard. Based on the preliminary assessment performed by the Group management, it is foreseen that the relevant standard will not have any material effect on the consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Amendments in Turkish Financial Reporting Standards (Continued)

• Amendments to TFRS 4, Insurance contracts regarding the implementation of TFRS 9, 'Financial instruments', effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach.

The amended standard will:

- 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 TFRS 9 is applied before the new insurance contracts standard is issued; and

- Give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying TFRS 9 until 2021. The entities that defer the application of TFRS 9 will continue to apply the existing financial instruments standard TAS 39.

• Amendment to TAS 40, Investment property relating to transfers of investment property, effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

• Annual improvements 2014-2016, effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:

- TFRS 1, First-time adoption of TFRS, regarding the deletion of short-term exemptions for first-time adopters regarding TFRS 7, TAS 19, and TFRS 10 effective 1 January 2018.

- TAS 28, 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value.

• TFRIC 22, Foreign currency transactions and advance consideration, effective from annual periods beginning on or after 1 January 2018. This TFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

• TFRS 17; Insurance contracts; effective from annual periods beginning on or after 1 January 2021. This standard replaces TFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. TFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Amendments in Turkish Financial Reporting Standards (Continued)

- Amendment to TFRS 9, Financial instruments; effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognized immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from TAS 39. Based on the preliminary assessment performed by the Group management, it is foreseen that the relevant standard will not have any material effect on the consolidated financial statements.

- Amendment to TAS 28, Investments in associates and joint venture; effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using TFRS 9.

- TFRS 16 Leases, effective from annual periods beginning on or after 1 January 2019, this standard replaces the current guidance in TAS 17 and is a farreaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same.

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However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

- TFRIC 23, Uncertainty over income tax treatments; effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of TAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The TFRS IC had clarified previously that TAS 12, not TAS 37 Provisions, contingent liabilities and contingent assets, applies to accounting for uncertain income tax treatments. TFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. TFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of Significant Accounting Policies

a) Trade Receivables and Impairment

Trade receivables that are created by the Group by way of providing services (i.e. supplying electricity) directly to a debtor are recognized initially at fair value and subsequently measured using the effective interest method less provision for impairment. Short term receivables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant.

A credit risk provision for impairment of trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to other income.

b) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts (Note 5).

c) Related parties

If one of the below listed criteria exists the party is regarded as related with the Group:

- a) Directly, or indirectly through one or more intermediaries, the party:
 - i) controls, is controlled by, or is under common control with, the Group (this includes parents, subsidiaries and fellow subsidiaries);
 - ii) has an interest in the Group that gives it significant influence over the Group; or
 - iii) has joint control over the Group;
- b) The party is an associate of the Group;
- c) The party is a joint venture in which the Group is a venture;
- d) The party is member of the key management personnel of the Group or its parent;
- e) The party is a close member of the family of any individual referred to in (a) or (d);
- f) The party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- g) The party has a post-employment benefit plan for the benefit of employees of the Group, or of an entity that is a related party of the Group.

Related party transactions are transfer of resources or obligations between related parties, regardless of whether a price is charged. A number of transactions are entered into with related parties in the normal course of business (Note 29).

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of Significant Accounting Policies

d) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in TL, which is the functional currency of Group and the presentation currency of the Group.

Foreign consolidated subsidiaries are regarded as foreign entities since they are financially, economically and organizationally autonomous. Their reporting currencies are the respective local currencies. Financial statements of foreign consolidated subsidiaries are translated at year-end exchange rates with respect to the financial position and at exchange rates at the dates of the transactions with respect to the income statement. All resulting translation differences between the closing balances and opening balances due to the difference in inflation and devaluation are included in currency translation adjustment in equity.

e) Property, plant and equipment

Group has chosen revaluation method among application methods mentioned under TAS 16 for lands, land improvements, buildings, machinery and equipments belonging to its powerplants. Revaluation studies for domestic subsidiaries of the Group have been performed on 20 April 2015, 29 January 2016 and 16 January 2017 by Avrupa Gayrimenkul Değerleme ve Danışmanlık AŞ, a CMB accredited professional valuation company. Revaluation study for the Group's powerplant in Pakistan has been carried out by A A Baig&Co. Chartered Accountants on 3 August 2015 which is located in Pakistan. The fair value of lands, land improvements, buildings is determined by using market approach and cost method and income approach - discounted cash flow analysis in the valuation reports. The fair value of machinery and equipments belonging to the powerplants of Zorlu Doğal, Rotor, Zorlu Jeotermal, Zorlu Rüzgar and Zorlu Pakistan is determined by using "income approach - discounted cash flow analysis" in the valuation reports and also the machinery and equipments belonging to the powerplants of Zorlu Enerji is determined by using "market approach and cost method".

Increase in tangible assets due to the revaluation is credited after netting of the deferred tax effect on revaluation fund account under shareholders' equity in the balance sheet. The difference between amortization (reflected in income statement) calculated by the carried amounts of revalued assets and amortization calculated by the acquisition costs of these assets is transferred to accumulated deficit from revaluation fund after netting of the deferred tax effect on a yearly basis. The same method is also applicable for tangible asset disposal.

Land is not depreciated as it is deemed to have an indefinite life. Depreciation is provided on restated costs of property, plant and equipment using the straight-line method based on the estimated useful lives of the assets. The mentioned asset's useful lives are presented below:

	Useful live
Buildings	10-50
Land improvements	5-48
Plant and machinery	1-25
Motor vehicles	1-7
Furniture and fixtures	1-50

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of Significant Accounting Policies (Continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Expenses for the repair of property, plant and equipment are normally charged as expense. They are, however, capitalised if they result in an enlargement or substantial improvement of the respective assets.

Gains or losses on disposals of property, plant and equipment which are calculated as the difference between net carrying value and the collections made are included in the related income and expense accounts, as appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note 2.7).

f) Intangible assets

Intangible assets acquired before 1 January 2005 are carried at restated cost in power of purchase of TL as at 31 December 2004 less accumulated depreciation and impairment losses. Intangible assets acquired after 1 January 2005 are carried at cost less accumulated depreciation and impairment losses. Intangible assets comprise licenses, computer softwares, service concession agreements, customer relationships and goodwill.

Computer Softwares

Computer softwares are recorded at acquisition cost and amortised on a straight-line basis over their estimated useful lives of 3- 15 years. Where an indication of impairment exists, the carrying amount of any intangible assets is assessed and written down immediately to its recoverable amount.

Service Concession Arrangements

Service concession agreements owned as a result of business combinations are recognized at their fair values at the acquisition date. The duration of the service concession arrangement was determined to be 20 years. The service concession arrangement will be amortised during this time (Note 3).

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of Significant Accounting Policies (Continued)

Customer Relationships

Customer relationships acquired as a result of business combinations are recognized at their fair value at the acquisition date. The duration of customer relationships is determined to be 20 years. Customer relationships are amortised by straight line method in accordance with their expected useful lives (20 years).

Business Combinations and Goodwill

A business combination is the bringing together of separate legal entities or businesses into one reporting entity. Business combinations are recognised using the acquisition method in accordance with TFRS 3.

Cost of the acquisition incurred as a result of the acquisition of an enterprise is allocated to identifiable assets, obligations and contingent obligations of the enterprise on the date of acquisition. The difference between the cost of the acquisition and the fair value of identifiable assets, obligations and contingent obligations of the entity on the date of acquisition is recognized in the consolidated financial information as goodwill. In business combinations the assets, intangible assets and contingent obligations that are not covered by the financial statements of the acquired entity but that could be separated from the goodwill are recognized in the consolidated financial information at their fair values. The goodwill previously recognized in the financial statements of the acquiree is not considered to be an identifiable asset.

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If the Group's share of the net fair value of the identifiable assets, obligations and contingent obligations is more than the cost of the business combination the excess is accounted for in the consolidated statement of income in the related period.

A business combination is the bringing together of separate legal entities or businesses into one reporting entity. Business combinations are recognized using the acquisition method in accordance with TFRS 3.

Goodwill should be tested for impairment annually and more frequently if impairment indicators are present. Carrying amount of goodwill and higher of fair value less costs of disposal and value in use compared. Impairment losses are recognized as an expense immediately in profit or loss and not reversible for subsequently periods (Note 2.7).

Goodwill should be tested for impairment annually and more frequently if impairment indicators are present. Carrying amount of goodwill and higher of fair value less costs of disposal and value in use compared. Impairment losses are recognized as an expense immediately in profit or loss and not reversible for subsequently periods.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of Significant Accounting Policies (Continued)

g) Service Concession Arrangements

TFRS Interpretation 12, Service concession arrangements regulate recognition of the service concession arrangements given by public entities to private industry. The service concession agreement concerning electricity distribution is recognized within the framework of TFRS Interpretation 12 by the investment expenditures within the framework of TFRS Interpretation 12 are recognized as revenue in the period in which they are incurred. (Note 6). A business combination is the bringing together of separate legal entities or businesses into one reporting entity. Business combinations are recognized using the acquisition method in accordance with TFRS 3.

In accordance with TFRS Interpretation 12 Service concession arrangements the Group has the operating right of the electricity distribution system, the distribution facilities either existing or to be constructed within the distribution region and other movable and immovable assets crucial for the operation of the distribution facilities, the rehabilitation and strengthening of these facilities and the construction of new distribution lines and facilities that are required.

The Group recognizes a financial asset as it has an unconditional right to charge its subscribers at the direction of the grantor for the construction services made under the distribution business. The right to collect for distribution, transmission, uncontrollable operational expenses of the Company and meter reading fee is conducted via invoices issued to subscribers. Service components in question are determined through tariffs regulated by EMRA. The difference between the realized collections relevant with distribution and retail service and the income ceiling pre-determined by EMRA is corrected by EMRA through by the tariff revision of next implementation periods.

h) Revenue

Revenues are recognized on an accrual basis when the electricity is delivered (risk and rewards are transferred), the amount of the revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group, at the fair value of consideration received or receivable. Net sales represent the invoiced value of electricity delivered less sales taxes and commission.

Retail electricity sales income

Electricity sales revenue are recorded in the case of realization of electricity delivery on an accrual basis, through the invoiced amount. Sales are composed invoiced net sales amount with the addition of taxes and discounts if any.

Distribution systems income

Distribution system income consists of the amount of kwh unit price that received over withdrawn electric energy amount from distribution system and recorded as accrual basis.

The difference between the realized collections relevant with distribution and retail service and the income ceiling pre-determined by EMRA is corrected by EMRA through by the tariff revision of next implementation periods and recorded as accrual.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of Significant Accounting Policies (Continued)

Investment expenditures and incomes

The Group conducts power line, facility and various construction activities in the electricity distribution system to fulfill demand estimates determined by EMRA. Investment expenditures within the framework of TFRS Interpretation 12 are recognized as revenue in the period in which they are incurred.

Interest income

Interest income is recognized in each period using the effective interest rate method. The impairment amount of receivables is the difference between the book value of the receivable and the collectible amount. The collectible amount is the present value of the expected cash flow, including the amounts to be collected from guarantees and collaterals, which is discounted based on the original effective interest rate of the initial receivable. Calculated interest is recognized as other operating income.

Interest income arising from distribution activities in service concession arrangements recognized as per TFRS Interpretation 12 is recognized as other operating income.

i) Deferred Income

Electricity sales revenue in the period is subject to the correction in accordance with income ceiling determined by EMRA and described by tariff chart in Regulatory Accounting Guidelines ("RAG"). The excess/deficit parts occurred in revenue are recorded to the tariff determined by EMRA as correction at the end of second year of occurrence and are offset from tariffs 2 years later. The excess part for the period is classified under short-term and long-term liabilities in the financial statements and deficit parts are classified under other current and non-current assets.

j) Deposit Received

The Group receives deposits from the customers on behalf of the Turkey Electricity Distribution Company ("TEDAŞ"), during subscription and these deposits are determined by the tariffs and methods announced by EMRA and they are recognized over their fair value at the moment when they are received from the customers. In accordance with the decision of EMRA about "The Rules and Regulation related to the Update of Guarantee Payments in Electricity Payment", the Group updates the subscription fees in accordance with the methods identified by EMRA and deposits are refunded to subscribers over their indexed values, where index is periodically updated by EMRA, upon termination of subscription of customers. Besides, in accordance with the "Transfer of Operating Right" ("TOR") agreement signed with TEDAŞ, the Group has to follow currently the deposits received from the subscribers and the refunded deposits and to pay the net balance to TEDAŞ at the end of the license period.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of Significant Accounting Policies (Continued)

k) Impairment of Non-Financial Assets

All assets are reviewed for impairment losses including property, plant and equipment and intangible assets 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 carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. Impairment losses are recognized in the statement of comprehensive income.

Impairment losses on assets can be reversed, to the extent of previously recorded impairment losses, in cases where increases in the recoverable value of the asset can be associated with events that occur subsequent to the period when the impairment loss was recorded.

l) Borrowing Costs and Financial Liabilities

Borrowings are recognized initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the statement of income over the period of the borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. The long-term portion of the borrowing of the Group can be included in the short-term liabilities unless the necessary covenants, which cause the recall of the borrowing given by the related financial institute (event of default exercises), are not met about the borrowing taken on and before the balance sheet date.

The Group capitalizes borrowing costs as part of the cost of the qualifying asset in the period in which the asset is prepared for its intended use or sale. All other borrowing costs are charged to the statement of comprehensive income when they are incurred.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as other income or finance costs.

In the case of a financial liability modification, any costs or fees occurred regarding these liabilities is deducted from the carrying amount of the liability and amortised during the terms of the modified loan agreement.

The Group has issued bond in order to finance its investments. The bonds, which are measured at amortized cost, measured at fair value during the initial recognition. During the initial recognition of the bonds, transaction costs which are directly attributable to issuance of bonds are deducted from their fair value.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of Significant Accounting Policies (Continued)

m) Trade Payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

n) Provisions, Contingent Liabilities, Contingent Assets

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in financial tables and are treated as contingent assets or liabilities (Note 18).

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. Contingent assets are not recognized in the financial statements since this may result in the recognition of income that may never be realized. A contingent asset is disclosed where an inflow of economic benefit is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the change occurs.

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o) Employment termination benefits

Provisions for employee termination benefits:

Under the Turkish Labour Law, the Group is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who is called up for military service, dies or retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men).

Under the Turkish Labour Law, the provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees (Note 20).

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of Significant Accounting Policies (Continued)

p) Profit/(loss) Per Share

Profit/(loss) per share are determined by dividing net gain by the weighted average number of shares that have been outstanding during the related year concerned. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings and allowable reserves. For the purpose of loss per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issues without a corresponding change in resources, by giving them retroactive effect for the year in which they were issued and each earlier year (Note 30).

r) Current and Deferred Income Tax

Taxes include current period income taxes and deferred income taxes. Current year tax liability consists tax liability on period income calculated based on currently enacted tax rates as of balance sheet date and according to tax legislation in force and includes adjustments related to previous years' tax liabilities.

Deferred income tax is provided, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax bases of assets and liabilities comprise of the amounts that will impact taxable income in future periods based on the tax legislation. Currently enacted tax rates, which are expected to be effective during the periods when the deferred income tax assets will be utilized or deferred income tax liabilities will be settled, are used to determine deferred income tax.

Deferred income tax assets and liabilities are recognized to the extent that they will impact taxes to be paid in the periods that temporary differences will disappear. Deferred income tax liabilities are recognized for all taxable temporary differences, where deferred income tax assets resulting from deductible temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilized. Carrying value of deferred income tax assets are decreased to the extent necessary, if future taxable profits are not expected to be available to utilize deferred income tax assets partially or fully.

Deferred income tax assets and deferred income tax liabilities related to income taxes levied by the same taxation authority are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities (Note 23).

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of Significant Accounting Policies (Continued)

s) Reporting of Cash Flows

In the consolidated statement of cash flows, cash flows during the year are classified under operating, investing or financing activities.

The cash flows raised from operating activities indicate cash flows due to the Group's operations.

The cash flows due to investing activities indicate the Group cash flows that are used for and obtained from investments (investments in property, plant and equipment and financial investments).

The cash flows due to financing activities indicate the cash obtained from financial arrangements and used in their repayment.

Cash and cash equivalents comprise cash on hand and bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash with maturities equal or less than 1 year and which are subject to an insignificant risk of changes in value (Note 5).

t) Subsequent Events

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Subsequent events consist of all events between balance sheet date and date of authorization for validity, even if they have been existed after public explanation of an announcement about profit or other financial information. In the case that events requiring an adjustment to the financial statements occur subsequent to the balance sheet date, the Group makes the necessary corrections on the financial statements (Note 32).

u) Capital and Dividends

Ordinary shares are classified as equity. Dividends on ordinary shares are calculated by reducing retained earnings in the period in which they are declared (Note 22).

v) Share Premium

Share premium represents differences resulting from the sale of the Group's Affiliates' and Associates' shares at a price exceeding the face value of those shares or differences between the face value and the fair value of shares issued for acquired companies (Note 22).

w) Derivative and Non-Derivative Financial Instruments

Derivative financial instruments are initially recognized at the acquisition cost reflecting the fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Recognition of subsequent changes in fair value depends on whether the derivative is defined as a hedging instrument and the nature of the hedging. The derivative financial liabilities of the Group comprise of interest rate swaps and cross currency swaps.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of Significant Accounting Policies (Continued)

Fair value of cross currency swaps evaluated by fair value and correlated with income statement is determined by compare of original forward rate calculation with market interest rate which is prevalent for remainder part of contract and prevalent forward rate at period ends. Derivative financial instruments are booked according to their fair value is positive or negative, respectively asset and liability. Classified as asset/liability correlated with income statement and evaluating by fair value of financial derivative instruments' differences are reflected to income statement (Note 19).

The hedging transactions of the Group that qualify for hedge accounting are accounted for as follows:

Cash flow hedge

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

Changes in the fair value of derivatives, designated as cash flow hedges and qualified as effective, are recognized in equity as "hedge reserves". Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously recognized under equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Otherwise, amounts recognized under equity are transferred to the consolidated income statement in the period in which the hedged firm commitment or forecasted transaction affects the consolidated income statement.

Fair value of interest rate swap contracts evaluated by fair value and correlated with equity is determined by compare of original interest rate calculation with market interest rate which is prevalent for remainder part of contract and prevalent forward interest rate at period ends. Derivative financial instruments are booked according to their fair value is positive or negative, respectively asset and liability (Note 19).

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

y) Offsetting

Financial assets and liabilities are offset and the net amount reported in the 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 realise the asset and settle the liability simultaneously.

z) Financial assets

Financial assets within the scope of TAS 39 Financial instruments: Recognition and measurements are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of Significant Accounting Policies (Continued)

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortisation process.

2.5 Going Concern Assumption

The Group has prepared its consolidated financial statements on a going concern basis in a foreseeable future. The Group is at investment stage and majority of its investments are financed through borrowings. The gross profit of the Group is TL794.187 thousand for the year ending 31 December 2017 and where it is increased by 196% compared to last year The Group has TL1.038.237 thousand of accumulated deficit and TL51.925 thousand of net profit as of and for the year ending 31 December 2017. Besides, The Group's short term liabilities exceeds its current assets with TL1.675.311 thousand.

The Group's ongoing projects are expected to have a positive effect on the current ratio and profitability. The Group's applications to EMRA to participate to the YEKDEM system, which were introduced for these power plants that generate electricity from renewable resources and guarantee fixed prices in USD, in relation to Gökçedağ (Rotor I) Wind Power Plant ("WPP"), Kızıldere II Geothermal Power Plant, Alaşehir I Geothermal Power Plant, and Sarıtepe and Demirciler Wind Power Plants were accepted. All the electricity produced by these power plants was sold to YEKDEM in 2017.

In 2017, Gökçedağ WPP sold all the electricity it generates in return for 7.3USD cent/kWh, which is the support fee based on the resources provided to the production facilities running on wind power, Sarıtepe and Demirciler WPPs sold all produced electricity in return for 8.58USD/kWh which is the sum of the 1.28USD/kWh contribution fee for using locally produced components and the support fee of 7.3USD/kWh and Kızıldere II GPP and Alaşehir I GPP sold all produced electricity in return for USD11.2 cent/kWh which is the cum of the 1.28USD/kWh contribution fee for using locally produced components and the support fee of 10.5USD/kWh. Application of Kızıldere III GPP power plant to make use of YEKDEM in the 2018 calendar year has been approved and the power plant will sell all the electricity it will generate in return for 11,2USD cent/kWh within the scope of YEKDEM in 2018. Since sales are carried out mostly within the scope of YEKDEM with price guarantees, the Group's gross profitability increased significantly in 2017. Generally, the Group hedges the foreign exchange losses from foreign currency denominated loans of the said companies with the USD indexed sales.

As per Article 18 of the Capital Markets Law and the Registered Capital System Communiqué No. II.18-1 of the Capital Markets Board, the Company's registered capital cap of TL1,000,000,000 was increased to TL3,000,000,000 to ensure a healthy debt/equity balance and to increase profitability and market value. Within the Company's registered capital cap of TL3,000,000,000, the issued capital of TL750,000,000 was increased by TL1,250,000,000 to TL2,000,000,000 in cash. Upon practising pre-emptive rights, the sale transaction of the shares related to the unused rights has been completed as of 16 February 2017 at the primary market of the Istanbul Stock Exchange. Funds amounting to TL1,250,643 thousand were acquired from this capital increase.

The Group's ultimate parent company, Zorlu Holding AŞ has declared its intend to provide necessary support to the Group to continue on a going concern basis, in the support letter dated 2 January 2018.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.5 Going Concern Assumption (Continued)

With the final protocol related to the share purchase contract signed on 2 February 2017, Zorlu Osmangazi, a 100% owned affiliate of the Company, took over all of the shares of Osmangazi Elektrik Dağıtım AŞ ("OEDAŞ") and Osmangazi Elektrik Perakende Satış AŞ'nin ("OEPSAŞ") with cash and advance payment for a total acquisition fee of USD 360,000,000. With the final protocol signed by the parties, all the transactions related to transfer of the said shares to Zorlu Osmangazi were completed on 2 February 2017. When the eleven-month performances of OEDAŞ and OEPSAŞ between 2 February 2017 and 31 December 2017 are taken in consideration in the consolidated financial statements, a significant increase in gross profitability is observed.

The Group plans to reduce its payables with the cash inflow and profitability provided by its current projects and the completion of its ongoing projects. Therefore, the Group management does not foresee any risks regarding going concern and has prepared this consolidated financial statements under the assumption that the Group will continue its operations on a going concern basis in the foreseeable future.

2.6 Comparatives and Restatement of Prior Year Financial Statements

The consolidated financial statements of the Group for the current year is prepared in comparison with the prior year in order to be able to determine the financial position and performance trends. For the purposes of effective comparison, comparative consolidated financial statements can be reclassified when deemed necessary, where descriptions on significant differences are disclosed.

The Group has performed the following reclassifications:

- Interest income arising from trading activities amounting to TL213 thousand and, foreign exchange gains arising from trading activities amounting to TL10,451 thousand which are shown in the financial income in the consolidated statement of profit or loss and other comprehensive income for the year ending 31 December 2016, are classified to the other operating income. And interest expense arising from trading activities amounting to TL163 thousand and, foreign exchange loss from trading activities amounting to TL4,042 thousand which are shown in the financial expense in the consolidated statement of profit or loss and other comprehensive income for the year ending 31 December 2016, are classified to the other operating expenses.
- The system usage fee amounting to TL28,981 thousand, which is netted of between revenue and marketing expenses in the consolidated statement of profit or loss and other comprehensive income for the year ending 31 December 2016, is classified as the cost of sales and this reclassification has no effect on the net profit or loss of the related year and the accumulated losses.

2.7 Critical Accounting Estimates, Assumptions and Judgments

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the periods in which they become known. The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date and the significant judgments are set out below:

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.7 Critical Accounting Estimates, Assumptions and Judgments (Continued)

a) *Deferred tax asset on cumulative tax losses*

Deferred tax assets are accounted for only where it is likely that related temporary differences and accumulated losses will be recovered through expected future profits. When accounting for deferred tax assets it is necessary to make critical estimations and evaluations with regard to taxable profits in the future periods. According to the future projections, deferred tax assets is recognized for TL1,385,602 thousand carryforward tax losses (31 December 2016: TL1,204,099 thousand). Deferred tax asset is not recognized for the remaining TL460.685 thousand carryforward tax losses (31 December 2016: TL270,312 thousand).

The key estimations made by the Group in the business plans in order to assess the recoverability of such cumulative tax losses are the future exchange rates, electricity prices and total electricity production volumes. Exchange rates increased or decreased of +10% and -10% and if all other variables are held constant, deferred tax asset amount recognized in the consolidated financial statements would have been influenced favorably or unfavorably by TL661 thousand. Electricity sale volumes increased or decreased of +10% and -10% and if all other variables are held constant, deferred tax asset amount recognized in the consolidated financial statements would have been influenced favorably or unfavorably by TL6,634 thousand.

b) *Fair value of interest rate swaps*

The fair value of forward contracts calculated by calculating forward exchange rate, for remainder of agreement related foreign currency's prevailed market interest rate, and comparing it to reporting date forward exchange rate.

c) *Cash flow hedging*

As explained in Note 19 the Group uses investment loan amounting to USD1,020,056 thousand and EUR60,556 thousand as a hedging instrument against the USD spot exchange rate risk the Group is exposed to due to highly probable YEKDEM sales income, and applies cash flow hedge accounting as a result of the effectiveness tests performed. The estimations in budgets for YEKDEM sales income used for effectiveness test include sales quantities, sales prices and foreign exchange rates. Based on the sensitivity analysis performed for the estimations used in effectiveness tests, the Group concluded that 10% increase/decrease in estimations do not have any significant effect on the assessment of effectiveness tests.

d) *Explanations for revaluation method and fair value measurement*

Group has chosen revaluation method among application methods mentioned under TAS 16 with respect to measurement and disclosure of lands, land improvements, buildings, machinery and equipments belonging its powerplants at fair value commencing from 31 December 2013. Revaluation studies for Zorlu Enerji's natural gas power plants, Zorlu Doğal's hydroelectric and geothermal power plants and Rotor's Gökçedağ wind power plant have been reperformed as of 31 March 2015, Zorlu Jeotermal's Alaşehir I geothermal power plant as of 31 December 2015 and Zorlu Rüzgar's Sarıtepe and Demirciler wind power plants as of 31 December 2016 by Avrupa Gayrimenkul Değerleme ve Danışmanlık AŞ, a CMB accredited professional valuation company. Revaluation study dated 3 August 2015 for the Group's powerplant in Pakistan has been carried out by A A Baig & Co Chartered Accountants which is located in Pakistan.

In determining the long-term electricity market price, the most important inputs in the model; the course of the coming year demand, while determining long term electricity price, the most important factors are; demand forecasting, activation of new power plants, deactivation of existed power plants, renewable energy and its progress, price of natural gas and

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.7 Critical Accounting Estimates, Assumptions and Judgments (Continued)

coal, development of export and import and progress of efficiency of thermic power plants. Increase in prospective electricity prices and also increase in capacity utilization rates used in the models, which are between 13% and 80,5%, will increase the fair values of the power plants. The discount rate used in the valuation models prepared on the basis of USD for Zorlu Pakistan, Zorlu Doğal, Rotor, Zorlu Jeotermal and Zorlu Rüzgar is 10%, 9%, 9%, 9,5% and 9%, respectively. The increase of the discount rate, however, will have a negative impact on the fair values of the power plants.

The fair value of lands, land improvements, buildings, machinery and equipments belonging to Ankara, Kayseri and Bursa combined cycle power plants and Lüleburgaz and Yalova cogen power plants recognized under Zorlu Enerji is determined by using "market approach and cost method" (all significant inputs required to estimate the fair value an instrument are observable, the instrument is included in level 2) in the valuation reports prepared by Avrupa Gayrimenkul Değerleme ve Danışmanlık AŞ on 20 April 2015.

Revaluation study for the Group's powerplant in Pakistan has been carried out by A A Baig & Co Chartered Accountants which is located in Pakistan by using "income approach - discounted cash flow analysis".

The major assumptions used in the discounted cash flow analysis are as follows:

- discount rate: 10%
- risk free rate of return: 7%
- risk premium: 3%

The fair value of the lands, land improvements, buildings, machinery and equipments belonging to the powerplants of Zorlu Doğal Elektrik Üretimi AŞ, of which, the operating rights are obtained for 30 years from privatization tender of ADÜAŞ on 5 March 2008 (7 hydroelectric and 1 geothermal) and Kızıldere II geothermal power plant of Zorlu Doğal which in operation since second half of 2013 and also Gökçedağ wind energy powerplant recognized under Rotor Elektrik Üretim AŞ, is determined by using "income approach - discounted cash flow analysis" in the valuation reports prepared by Avrupa Gayrimenkul Değerleme ve Danışmanlık AŞ.

The major assumptions used in the discounted cash flow analysis are as follows:

- discount rate: 9%
- growth rate: 3%

The fair value of land improvements, buildings, machinery and equipments belonging to Alaşehir geothermal power plants recognized under Zorlu Jeotermal is determined by using income approach - discounted cash flow analysis in the valuation reports prepared by Avrupa Gayrimenkul Değerleme ve Danışmanlık AŞ on 29 January 2016.

The major assumptions used in the discounted cash flow analysis are as follows:

- discount rate: 9.5%
- risk free rate of return: 6%
- risk premium: 3%

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.7 Critical Accounting Estimates, Assumptions and Judgments (Continued)

The fair value of land improvements, buildings, machinery and equipments belonging to Saritepe and Demirciler wind plants recognized under Zorlu Rüzgar is determined by using using "income approach - discounted cash flow analysis" in the valuation reports dated 16 January 2017 prepared by Avrupa Gayrimenkul Değerleme ve Danışmanlık AŞ. The major assumptions used in the discounted cash flow analysis are as follows:

- discount rate: 9%
- growth rate: 3%

e) Goodwill impairment

In accordance with the aforementioned accounting policy in Note 2.4, the Group reviews the goodwill for impairment on 31 December each year. Within this scope, OEDAŞ and OEPSAŞ activities were regarded as separate cash generating units and the related goodwill was associated with distribution and retail activities. Recoverable values of cash generating units are determined based on the fair value calculations. Fair value calculations include cash flow projections after discounted tax, and these projections, which are determined in TL, are based on the long-term plans prepared by the Group management. Capital cost rate was determined to be 15% annually in fair value calculations.

If the capital cost rate used to calculate the discounted cash flows is 1% higher/lower (16% or 14% instead of 15%), the fair value is calculated to be TL317,794 thousand lower or TL364,515 thousand higher as of 31 December 2017. The above-mentioned changes in main assumptions used as the basis when calculating the recoverable amount within the scope of analyses made by the Group management do not cause any impairment in the goodwill.

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f) Uninvoiced sales

Electricity supplied to customers but not billed yet is accounted upon estimated amounts. Total unbilled electricity amount is reflected to financial statements by multiplying the difference between the reading date of customer's meter and the last date of relevant period with the tariff prices of the period.

g) Provisions

The Group management is reflecting the best estimation to the financial statements based on the best available data and results might differ when fulfilling the liabilities.

As of 31 December 2017, the Group is subject to certain lawsuits. Depending on the reviews of legal counsels, Group is evaluating the probable results of these lawsuits and reserving required provisions in the financial statements.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** **FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017**

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.7 Critical Accounting Estimates, Assumptions and Judgments (Continued)

h) Explanations for business combination

With the final protocol related to the share purchase contract signed on 2 February 2017, Zorlu Osmangazi, a 100% owned affiliate of the Company, acquired all the shares of OEDAŞ and OEPSAŞ with an acquisition fee of USD360,000,000. With the final protocol signed by the parties, the transactions related to the transfer of the said shares to Zorlu Osmangazi were completed on 2 February 2017. This acquisition is accounted in accordance with IFRS 3 "Business Combinations".

In determining the fair value of the customer relationships and the service concession arrangement, the major assumptions used in the models are as follows:

- discount rate: 15% for OEPSAŞ and 12.6% for OEDAŞ
- churn rate: 5% for OEPSAŞ

NOTE 3 - BUSINESS COMBINATIONS

With the final protocol related to the share purchase contract signed on 2 February 2017, Zorlu Osmangazi, a 100% owned affiliate of the Company, took over all of the shares of Osmangazi Elektrik Dağıtım AŞ ("OEDAŞ") and Osmangazi Elektrik Perakende Satış AŞ ("OEPSAŞ") with cash and advance payment for a total acquisition fee of USD360,000,000. With the final protocol signed by the parties, all the transactions related to transfer of the said shares to Zorlu Osmangazi were completed on 2 February 2017. The Group used acquisition accounting in accordance with TFRS 3 "Business Combinations".

The fair values of the identifiable assets, liabilities and contingent liabilities acquired through the purchase of OEDAŞ and OEPSAŞ shares were determined as a result of the best estimation of management and shown in the consolidated financial information. Discounted cash flow and multi period excess earnings methods have been used for the acquisition accounting.

TL2,196,758 thousand of the revenue and TL175,916 thousand of the net profit of the Group as of 31 December 2017 is related to performance of OEDAŞ and OEPSAŞ.

To create synergy with the energy production and wholesale operations, which the Group's related parties already carry out, Zorlu Osmangazi acquired the shares of OEDAŞ and OEPSAŞ and included distribution and retail operations in its portfolio. This synergy has been recorded as goodwill.

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NOTE 3 - BUSINESS COMBINATIONS (CONTINUED)

Information on the goodwill calculation and the acquired net assets is as follows:

Total purchase consideration	1,358,856
Net assets acquired	(956,619)
Goodwill	402,237

The fair values of the identifiable assets and liabilities arising from the acquisition are as follows:

	2 February 2017
Cash and cash equivalents	141,257
Trade receivables	236,939
Other receivables	6,850
Prepaid expenses	4,279
Receivables from service concession arrangements	150,203
Current period income tax assets	2,516
Other current and non-current assets	185,685
Intangible assets	1,266,938
Deferred tax assets	106,328
Trade payables	(173,187)
Other payables	(249,478)
Payables related to employee benefits	(13,369)
Short-term provisions	(73,372)
Current period income tax liabilities	(6,489)
Deferred tax liabilities	(253,388)
Other short-term provisions	(48,949)
Deferred income	(326,144)
Net assets acquired	956,619
Total purchase consideration	(1,358,856)
Cash and cash equivalents - acquired	141,257
Net cash outflow due to acquisition	(1,217,599)

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ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 4 - SEGMENT REPORTING

Group management has determined the reportable parts of the Group as distribution, retail and wholesale and production and trading according to the activity groups.

Decision making authority of the Group considers Earnings before interest, taxes, depreciation and amortisation ("EBITDA") as the most appropriate method for comparability with other companies within the same industry. The segment information in industrial basis is presented below:

	1 January - 31 December 2017	Distribution	Retail and wholesale	Production and trading	Consolidation adjustments	Consolidation total
	Revenue	984,804	2,126,590	1,821,396	(1,061,600)	3,871,190
	Cost of sales	(682,618)	(2,097,184)	(1,364,056)	1,066,855	(3,077,003)
	Gross profit	302,186	29,406	457,340	5,255	794,187
	Operating income/(expense) (*)	(97,611)	(49,839)	(50,376)	(15,071)	(212,897)
	Amortisation and depreciation expenses (**)	-	1,831	219,640	16,194	237,665
198	Interest income related to distribution activities (***)	60,326	-	-	-	60,326
	EBITDA	264,901	(18,602)	626,604	6,378	879,281
	Financial income	2,055	26,221	388,930	(102,715)	314,491
	Financial expense	(15,396)	(42,169)	(743,018)	107,105	(693,478)
	Tax income/ (expenses)	(57,853)	10,893	(24,653)	11,764	(59,849)
	1 January - 31 December 2016	Distribution	Retail and wholesale	Production and trading	Consolidation adjustments	Consolidation total
	Revenue	-	549,314	752,022	(77,742)	1,223,594
	Cost of sales	-	(529,762)	(505,050)	79,838	(954,974)
	Gross profit	-	19,552	246,972	2,096	268,620
	Operating income/(expense) (*)	-	(16,104)	(39,320)	-	(55,424)
	Amortisation and depreciation expenses (**)	-	91	199,073	-	199,164
	EBITDA	-	3,539	406,725	2,096	412,360
	Financial income	-	16,081	505,651	(159,586)	362,146
	Financial expense	-	(27,379)	(853,060)	179,207	(701,232)
	Tax income/ (expenses)	-	(358)	94,755	-	94,397

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NOTE 4 - SEGMENT REPORTING (CONTINUED)

1 January - 31 December 2017	Distribution	Retail and wholesale	Production and trading	Consolidation adjustments	Consolidation total
Segment assets	915,468	742,563	13,026,403	(3,667,184)	11,017,250
Associates	-	-	258,379	-	258,379
Segment liabilities	700,235	871,601	9,562,987	(1,541,299)	9,593,524
1 January - 31 December 2016	Distribution	Retail and wholesale	Production and trading	Consolidation adjustments	Consolidation total
Segment assets	-	275,287	8,118,037	(1,746,302)	6,647,022
Associates	-	-	194,222	-	194,222
Segment liabilities	-	289,323	7,097,559	(1,010,375)	6,376,507

(*) Includes general administrative expenses, marketing expenses and shares of profit of the associates.

(**) The amortisation and depreciation expenses amounting to TL237,665 thousands is related to the part in operating expenses and do not include the amortisation and depreciation expense classified in other expense.

(***) Interest income related to distribution activities amounts to TL60,326 thousands which is presented in the other income is considered in EBITDA calculation (31 December 2016: None).

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Reconciliation between EBITDA and income/(loss) before taxation is as follows:

	31 December 2017	31 December 2016
EBITDA	879,281	412,360
Amortisation and depreciation expenses	(237,665)	(199,164)
Interest income related to distribution activities	(60,326)	-
Financial income	314,491	362,146
Financial expenses	(693,478)	(701,232)
Other operating (expenses)/ income	(20,383)	19,686
(Expense)/ income from investing activities	(70,496)	7,304
Income (loss) before tax from continued operations	111,424	(98,900)

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NOTE 5 - CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash	158	63
Banks		
- Demand deposits	112,096	38,458
- Time deposits	222,831	59,639
	335,085	98,160

The maturities of time deposits are less than 1 year and the average effective annual interest rates for time deposits are as follows:

	31 December 2017 (%)	31 December 2016 (%)
TL	10.13	7.65
EUR	0.23	0.25
USD	1.17	0.89
PKR	3.88	3.88

The details of cash and cash equivalents include the following for the purpose of the consolidated statements of cash flows as of 31 December 2017 and 31 December 2016:

	31 December 2017	31 December 2016
Cash and cash equivalents	335,085	98,160
Less: Restricted cash	(17,515)	(17,857)
	317,570	80,303

NOTE 6 - RECEIVABLES FROM SERVICE CONCESSION ARRANGEMENT

	31 December 2017	31 December 2016
Short-term	130,999	-
Long-term	508,335	-
	639,334	-

The receivables of service concession arrangements are made up of the investment's value that is not repurchased through the tariff.

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NOTE 6 - RECEIVABLES FROM SERVICE CONCESSION ARRANGEMENT (CONTINUED)

The maturity analysis of the receivables from service concession arrangement is as follows:

	31 December 2017	31 December 2016
Up to 1 year	130,999	-
Up to 1-2 year	130,999	-
Up to 2-3 year	130,999	-
Up to 3-4 year	130,999	-
More than 4 years	115,338	-
	639,334	-

The breakdown of the receivables from service concession arrangement in the current period is as follows:

Opening balance (1 January 2017)	
Additions due to acquisition (2 February 2017)	150,203
Investments	434,752
Redemptions (-)	(53,038)
Index differences	107,417
Closing balance (31 December 2017)	639,334

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NOTE 7 - FINANCIAL LIABILITIES

The detail of financial liabilities of the Group as of 31 December 2017 and 31 December 2016 is as follows:

	31 December 2017	31 December 2016
Short-term bank borrowings	808,293	672,102
Short-term portion of long-term bank borrowings	1,177,825	1,036,801
Issued bonds	308,102	237,822
Other issued securities	132,361	-
Financial leasing liabilities	3,035	-
Total short-term financial liabilities	2,429,616	1,946,725
Long-term bank borrowings	4,509,972	3,201,866
Issued bonds	242,688	107,334
Other issued marketable securities	176,040	100,000
Financial leasing liabilities	25,448	-
Total long-term financial liabilities	4,954,148	3,409,200
Total financial liabilities	7,383,764	5,355,925

The detail of short-term bank borrowings and financial leasing liabilities of the Group as of 31 December 2017 and 31 December 2016 is as follows:

	Original currency		Weighted average effective interest rate per annum (%)		TL equivalent	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
USD	17,324	23,667	6.4	6.4	65,345	83,288
EUR	14,711	6,071	6.7	7.3	66,430	22,523
TL	679,553	566,291	16.9	17.1	679,553	566,291
					811,328	672,102

The detail of short-term portion of long-term bank borrowings of the Group as of 31 December 2017 and 31 December 2016 is as follows:

	Original currency		Weighted average effective interest rate per annum (%)		TL equivalent	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
USD	247,989	234,909	7.4	6.9	935,388	826,692
EUR	48,643	41,150	3.6	4.0	219,650	152,663
TL	458,486	290,340	15.3	14.4	458,486	290,340
Other	140,462	147,244	12.37	12.37	4,764	4,928
					1,618,288	1,274,623

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NOTE 7 - FINANCIAL LIABILITIES (CONTINUED)

The detail of long-term bank borrowings, issued bonds and other long-term borrowings of the Group as of 31 December 2017 and 31 December 2016 is as follows:

	Original currency		Weighted average effective interest rate per annum (%)		TL equivalent	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
USD	1,044,780	775,338	7.4	6.9	3,940,806	2,728,570
EUR	114,047	129,598	3.6	4.0	514,977	480,794
TL	473,954	171,046	15.3	14.4	473,954	171,046
Other	719,674	860,135	12.37	12.37	24,411	28,790
					4,954,148	3,409,200

(*) The loan obtained from financial institutions by Zorlu Enerji and its subsidiaries including loan arrangement commissions amounting to TL33,346 thousand regarding the aforementioned loan were deducted from the total loan amount. Such commissions are amortized during the term of the loans' own maturity

Letters of guarantee given, pledges and mortgages related to financial liabilities are explained in Note 18.

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The redemption schedule of the borrowings as of 31 December 2017 and 31 December 2016 is as follows:

	31 December 2017	31 December 2016
Up to 1 year	2,429,616	1,946,725
Up to 1 to 2 years	1,334,776	812,347
Up to 2 to 3 years	849,075	437,878
Up to 3 to 4 years	572,503	438,811
Up to 4 to 5 years	570,121	345,310
More than 5 years	1,627,673	1,374,854
	7,383,764	5,355,925

The sum of the Group's principal and instalments of the short and long-term issued bonds as of 31 December 2017 is TL550,790 thousand, and the details related to the bonds issued to qualified investors without public offering by the Group are indicated below.

As per the material event disclosures dated 28 May 2015 and 6 February 2017, it was announced that the company's application was approved. The application is related to issuing debt instruments that cannot exceed, respectively, TL356,224 thousand and TL280,000 thousand, once or more than once and without public offering, and which will be sold to allocated and/or qualified investors on various dates within one year after the communication of the issuance certificate and which will have a payment period of one to three years, be in TL, and in the country. In this scope, bond issuances with floating rates with a nominal value of TL50,600 thousand and a maturity term of 1,092 days on 20 August 2015, a nominal value of TL16,550 thousand and a maturity term of 1,024 days on 27 October 2015, a nominal value of TL54,000 thousand and a maturity term of 727 days on 3 February 2016, a nominal value of TL50,000 thousand and a maturity term of 455 days on 4 August 2016, a nominal value of TL56,000 thousand and a maturity term of 371 days on 27 October 2016, a nominal value of TL11,000 thousand and a maturity term of 730 days, a nominal value of TL74,000 thousand and a maturity term of 455 days on 22 February 2017, a nominal value of TL12,520 thousand and a maturity term of 645 days, a nominal value of TL13,250 thousand and a maturity term of 370 days on 18 May 2017 were carried out.

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NOTE 7 - FINANCIAL LIABILITIES (CONTINUED)

Furthermore, On 2 November 2017, the sale of bond with a nominal value amounting of TL91,950 thousand with variable interest rate and 364 days maturity and the sale of bond amounting of TL62,680 thousand with variable interest rate and 728 day maturity was completed to be sold to qualified investors without being offered to the public by the Company.

On 5 December 2017, the sale transactions of the floating interest rate bond with a nominal value amounting of TL140,000 thousand with variable interest rate and having 1,091 days term and also in the amount of TL35,000 thousand and having 542 days term were completed by way of sale to qualified investors without public offering by Zorlu Osmangazi.

Issuance of lease certificate with the nominal value of TL100,000,000 having due date of 17 March 2020 and payment term on every three months has been completed as of 24 March 2015 by the Company.

Zorlu Enerji has announced on 26 September 2017 that the Capital Markets Board had approved the Company's application to issue a sukuk, which is backed by a management contract, with a nominal value of up to TL200 million and a maturity of 2 years for sale in single or multiple tranches to qualified investors in the domestic market. Within this scope, the Company completed the sale of TL100 million fixed rate sukuk with a maturity of 364 days to domestic qualified investors on 3 October 2017 by the Company.

Rotor, one of the affiliate of the Company, has signed a long term loan agreement with the consortium of a group of financial institutions amounting EUR130 million as of 8 May 2009 related to the 135 MW electricity production powerplant located in Osmaniye. The amount remaining after the loan payments is EUR60,6 million and does not contain the commission net off amounts and other adjustments, if any.

As of 26 October 2011, Zorlu Enerji Pakistan Ltd. affiliate of Zorlu Enerji, signed a long term loan agreement with International Finance Corporation ("IFC"), the Asian Development Bank ("ADB"), Eco Trade and Development Bank ("ECO") and Habib Bank Limited ("HBL") amounting USD111 million with a maturity of up to 12 years for financing of its wind energy power plant with a capacity of 56.4 MW in Pakistan/Jhimpir established in Jhimpir, the Sindh region of Pakistan. The amount remaining after the loan payments is USD51 million and PKR860 million and does not contain the commission net off amounts and other adjustments, if any.

A loan agreement amounting to USD815 million (USD 785 million in cash and USD 30 million in non-cash) and having a 14 years term has been signed on 27 October 2015 between Zorlu Doğal, Akbank TAŞ, Türkiye Garanti Bankası AŞ, Türkiye İş Bankası AŞ and Türkiye Sınai Kalkınma Bankası AŞ for refinancing of the existing debts and in order to use the investment in the Kızıldere III geothermal power plant, which is planned to be incorporated in Denizli, for financing.

In addition, Zorlu Doğal signed a loan agreement amounting to USD190 million with the Avrupa İmar ve Kalkınma Bankası (European Bank for Reconstruction and Development "EBRD"), Akbank TAŞ, Türkiye İş Bankası AŞ and Türkiye Sınai Kalkınma Bankası AŞ on 6 April 2017 for the purpose of financing the second unit (65.5 MW) of the Kızıldere III Geothermal Energy Plant. Maturity of the loan that has been obtained is 13 years, with non-repayable period of 2 years. The total amount of loans obtained by Zorlu Doğal is USD967 million and TL76,8 million as of 31 December 2017. The amount remaining after the loan payments is USD905 million and TL76,8 million and does not contain the commission net off amounts and other adjustments, if any.

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NOTE 7 - FINANCIAL LIABILITIES (CONTINUED)

Zorlu Jeotermal Enerji Elektrik Üretimi AŞ, %100 owned affiliate of Zorlu Enerji, has been signed a long term loan agreement (14 years) on 25 November 2013 with Yapı Kredi A.Ş which will provide a fund up to USD113 million in order to finance the geothermal powerplant project with the capacity of 45 MW that will be established in Alaşehir, Manisa. After the capacity increase from 30 MW to 45 MW, pursuant to the material disclosure dated 24 June 2015, the loan amount was increased from USD113 million to USD148 million. In this respect, Zorlu Jeotermal has obtained USD148 million as of 31 December 2017. The amount remaining after the loan payments is USD124 million and does not contain the commission net off amounts and other adjustments, if any.

Pursuant to the material event disclosure dated 24 November 2014, Zorlu Rüzgar, which is 100% affiliate of the Company, signed two loan agreements amounting to EUR 40million with Türkiye Sınai Kalkınma Bankası and EUR41.3 million with Bayerische Landesbank as a part of ECA financing with German Trade Finance Agency (Euler Hermes) contribution, in order to finance Sarıtepe and Demirciler wind power plant projects which are planned to be established in Bahçe/Osmaniye and to have 80.3 MW installed capacity. Maturity of the loan that has been obtained from Türkiye Sınai Kalkınma Bankası is 12 years, with non-repayable period of 2 years and maturity of the loan that has been obtained from Bayerische Landesbank is 15.5 years, with non-repayable period of 1.5 years. Zorlu Rüzgar has obtained EUR80,6 million as of 31 December 2017. The amount remaining after the loan payments is EUR70,6 million and does not contain the commission net off amounts and other adjustments, if any.

In line with Zorlu Enerji's strategy of long-term borrowing and creating new financial resources, a loan agreement with Canada's Export Credit Institution Export Development Canada amounting to USD100 million with a five-year term was signed on 22 December 2017. The loan will be used to meet the corporate and business capital needs of the Company. The whole loan amount has been obtained as of 31 December 2017. The amount does not contain the commission net off amounts and other adjustments, if any.

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The movements of financial liabilities for the period 1 January- 31 December 2017 and 2016 are as follow:

	2017	2016
As of 1 January	5,355,925	4,149,059
Cash inflows from borrowings	2,407,369	1,429,311
Cash inflows from issued debt instruments	440,400	160,000
Cash inflows from other financial liabilities	228,483	-
Cash outflows due to the repayment of bank borrowings	(1,296,214)	(806,495)
Cash outflows from debt repayments of issued debt instruments	(218,350)	(106,345)
Change in exchange differences and interest accruals	499,497	567,829
Other classifications	(33,346)	(37,434)
As of 31 December	7,383,764	5,355,925

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NOTE 8 - TRADE RECEIVABLES AND PAYABLES

a) Trade receivables:

	31 December 2017	31 December 2016
Trade receivables from related parties (Note 29)	55,249	20,769
	55,249	20,769
Trade receivables from third parties	269,114	126,120
Notes receivables and cheques	63,301	5,198
Less: Allowance for doubtful receivables	(60,604)	(3,509)
	271,811	127,809

As of 31 December 2017, the average maturity of trade receivables is 15 days and unearned finance income from credit sales does not exist (2016: None).

Movement for allowance for doubtful receivables is as follows:

	2017	2016
Opening Balance-1 January	3,509	5,280
Additions due to acquisition	94,056	-
Provisions related to the current period	8,562	2,196
Provision no longer required	(14,371)	(3,967)
Waived receivables	(31,152)	-
Closing Balance-31 December	60,604	3,509

Trade receivables amounting to TL60,604 (31 December 2016: TL3,509) have passed the due date and impaired as of 31 December 2017. As of 31 December 2017 and 2016 the aging schedules are as follows:

	31 December 2017	31 December 2016
More than 12 months	60,604	3,509
	60,604	3,509

Past experience of the Group at collecting its receivables is considered in providing doubtful receivable provisions. The Group believes that no other trade receivable collection risk is present.

The Group has receivable that is past due but not impaired in the amount of TL90,704 thousand (31 December 2016: TL31,884 thousand).

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NOTE 8 - TRADE RECEIVABLES AND PAYABLES (CONTINUED)

b) Trade payables:

	31 December 2017	31 December 2016
Short term trade payables to related parties (Note 29)	98,366	107,671
	98,366	107,671
Short term payables to third parties	795,528	193,756
	795,528	193,756

	31 December 2017	31 December 2016
Long term trade payables to related parties	-	6,229
	-	6,229

As of 31 December 2017 and 2016, the average maturity of trade payables is less than 3 months and unearned finance income from credit sales does not exist.

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NOTE 9 - OTHER RECEIVABLES AND PAYABLES

a) Short-term other receivables:

	31 December 2017	31 December 2016
Other receivables from related parties (Note 29)	1,141,843	896,525
Short-term other receivables	26,054	6,783
	1,167,897	903,308

b) Long-term other receivables:

	31 December 2017	31 December 2016
Other receivables from related parties (Note 29)	787,161	730,396
Long-term other receivables	154	-
	787,315	730,396

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NOTE 9 - OTHER RECEIVABLES AND PAYABLES (CONTINUED)

c) Short-term other payables:

	31 December 2017	31 December 2016
Deposit received (*)	207,262	-
Other payables to related parties (Note 29)	145,194	77,512
Other short-term payables	81,537	91
	433,993	77,603

(*) Deposits received are related with the subscription fee payments made by customers. Subscription fees amounting to TL15,433 thousand are related with not refunded subscription fees of un-subscribed customers and the remaining balance amounting to TL191,829 thousand consists of the subscription fees of ongoing customers.

Movement for deposit received is as follows:

	1 January-31 December 2017
Opening balance	-
Additions due to acquisition	166,895
Additions and payments, net	22,261
Indexation of interest on deposits received (Note 26)	18,106
Closing balance	207,262

d) Long-term other payables:

	31 December 2017	31 December 2016
Other payables to related parties (Note 29)	291,967	567,875
Other long-term payables	27,453	245
	319,420	568,120

NOTE 10 - INVENTORIES

	31 December 2017	31 December 2016
Trade goods	15,525	-
Other inventories	965	-
	16,490	-

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NOTE 11 - OTHER ASSETS AND LIABILITIES

a) Other current assets:

	31 December 2017	31 December 2016
VAT receivable	150,452	44,332
Income accruals (*)	133,293	-
Other	17,678	1,832
	301,423	46,164

(*) As a result of the guarantees acquired as per the protocol signed on 2 February 2017 between Dedeli Yatırım İnşaat Taahhüt Elektrik Dağıtım Sanayi Ticaret AŞ ("Dedeli") and the Company, an income accrual accounted under "Other Current Assets" amounting to TL42,346 thousand has been recognized for the open lawsuits against OEDAŞ and OEPSAŞ which can be reclaimed back from Dedeli. Remaining balance composes of the followings: TL22,572 thousand loss and theft income accrual of OEDAŞ, TL5,947 thousand income accrual regarding uninvoiced electricity of OEDAŞ, TL5,824 thousands of uncontrollable expense related with OEPSAŞ, TL45,843 thousand insurance income accrual and TL10,761 thousand other income accruals.

b) Other non-current assets:

	31 December 2017	31 December 2016
Income accruals (*)	31,751	-
VAT receivable	19,673	28,813
Income accruals from noncontrolling expenses (**)	10,311	-
Other (***)	10,692	-
	72,427	28,813

(*) Income accruals amounting to TL9,613 thousand consists of accruals related to income difference adjustments related with OEDAŞ, the remaining amount of TL22,138 thousand is related to the interest income related to the Wacc corection related with OEDAŞ.

(**) Most of the balance is related to the severance payments made within the period which are expected to receive through tariffs.

(***) Balance is related to the electrical maintenance materials belongs to OEDAŞ.

c) Short-term other liabilities:

	31 December 2017	31 December 2016
Taxes and fund payables	38,652	4,995
Expense accruals	10,349	-
VAT payable	2,040	-
Other	4,580	2
	55,621	4,997

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NOTE 12 - PREPAID EXPENSES

a) Short-term prepaid expenses:

	31 December 2017	31 December 2016
Advances given	37,364	4,001
Prepaid expenses for future months	17,731	22,337
	55,095	26,338

b) Long-term prepaid expenses:

	31 December 2017	31 December 2016
Advances given	3,603	62,820
Prepaid expenses for future years	2,230	6,805
	5,833	69,625

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NOTE 13 - ASSETS HELD FOR SALE

Plant and machineries amounting to TL67,139 thousand belong to Kayseri and Ankara power plants that were accounted in accordance with TFRS 5 "Assets Held-for-Sale and Discontinued Operations", are disposed from asset and a loss of TL49,855 thousand is under "loss from investing activities" for the year ending 31 December 2017 (Note 27).

NOTE 14 - FINANCIAL ASSETS

Short-term financial assets

	31 December 2017	31 December 2016
Deposits within 3 months - 1 year	-	100
	-	100

As of 31 December 2017, there aren't any short-term financial assets (As of 31 December 2016, maturity of the financial assets are less than one year and the interest rate is 10,5%).

Long-term financial assets

	31 December 2017	31 December 2016
Long-term securities (*)	246	246
	246	246

(*) Zorlu Enerji participated with 246,291 shares (share amount: TL246) and in a ratio of 0.4% in the ownership of Enerji Piyasaları İşletme Anonim Şirketi (EPIAŞ) which is established with a capital of TL61,572,770.

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NOTE 15 - ASSOCIATES

Movement of associates for the period is as follows:

	2017	2016
1 January	194,222	183,409
Share of gain/(loss) of associates	20,096	(884)
Change on associates (*)	44,061	11,697
31 December	258,379	194,222

(*) As of 31 December 2017 change on associates amounting to TL44,061 relates to the currency translation difference (31 December 2016: TL11,697).

The information of associates' financial statements is summarized as follows:

31 December 2017	Dorad Energy Ltd.	Ezotech Electric Ltd.	Solad Energy Ltd.
Share (%)	25	42.15	42.15
Total Assets	5,504,528	1,541,672	57,044
Total Liabilities	4,502,460	1,560,080	38,390
Net Assets	1,002,068	(18,408)	18,654
31 December 2016	Dorad Energy Ltd.	Ezotech Electric Ltd.	Solad Energy Ltd.
Share (%)	25	42.15	42.15
Total Assets	4,630,774	1,299,086	31,558
Total Liabilities	3,859,992	1,301,266	25,757
Net Assets	770,782	(2,180)	5,801

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NOTE 16 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2017	Additions (*)	Transfers (**)	Disposals	Currency translation difference	31 December 2017
Cost:						
Land	50,054	7,405	-	-	-	57,459
Land improvements	157,745	6,834	-	-	-	164,579
Buildings	43,004	-	-	-	-	43,004
Plant and machinery	4,543,544	21,227	1,068,772	(80,242)	6,072	5,559,373
Motor vehicles	1,374	306	-	(84)	-	1,596
Furniture and fixtures	25,832	8,965	671	(8,178)	3	27,293
Construction work in progress	561,276	1,295,400	(1,069,443)	(66,078)	-	721,155
Leasehold improvements	671	6,821	-	-	-	7,492
	5,383,500	1,346,958	-	(154,582)	6,075	6,581,951
Accumulated depreciation:						
Land improvements	24,583	8,728	-	-	-	33,311
Buildings	9,476	837	-	-	-	10,313
Plant and machinery	952,133	204,064	-	(53,211)	982	1,103,968
Motor vehicles	613	241	-	(84)	-	770
Furniture and fixtures	11,327	3,334	-	(2,577)	-	12,084
Leasehold improvements	-	40	-	-	-	40
	998,132	217,244	-	(55,872)	982	1,160,486
Net book value	4,385,368					5,421,465

(*) The Group's total investment in 2017 was TL1,730,152 thousand, TL1,295,400 thousand was accounted under property, plant and equipment and TL434,752 thousand was accounted under receivables from service concession arrangements.

(**) Details related to Kızıldere III Geothermal Power Plant belonging to Zorlu Doğal are presented in Note 1.

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NOTE 16 - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	1 January 2016	Additions (*)	Transfers (**)	Disposals	Currency translation difference	Net increase on revaluation fund	31 December 2016
Cost:							
Land	42,409	7,583	-	(25)	-	87	50,054
Land improvements	140,766	53	16,849	-	-	77	157,745
Buildings	38,350	4	4,105	-	-	545	43,004
Plant and machinery	4,324,902	11,147	184,067	(106,695)	84,080	46,043	4,543,544
Motor vehicles	1,303	173	-	(102)	-	-	1,374
Furniture and fixtures	18,700	6,994	241	(142)	39	-	25,832
Construction work in progress	397,390	528,793	(363,781)	(1,126)	-	-	561,276
Leasehold improvements	-	-	671	-	-	-	671
	4,963,820	554,747	(157,848)	(108,090)	84,119	46,752	5,383,500
Accumulated depreciation:							
Land improvements	16,685	7,898	-	-	-	-	24,583
Buildings	8,733	743	-	-	-	-	9,476
Plant and machinery	906,092	185,249	(90,166)	(61,430)	12,388	-	952,133
Motor vehicles	509	206	-	(102)	-	-	613
Furniture and fixtures	8,740	2,732	-	(145)	-	-	11,327
	940,759	196,828	(90,166)	(61,677)	12,388	-	998,132
Net book value	4,023,061						4,385,368

(*) The total amount of investments made by the Group in 2016 is TL528,793 thousand.

As disclosed in Note 2.4 and Note 2.7, as of 31 December 2013 land improvements, buildings, plant and machinery are revalued by Avrupa Gayrimenkul Değerleme ve Danışmanlık AŞ and MYK Associates (Pvt.) Ltd. based on the revaluation model accepted in accordance with TAS 16 Property, plant and equipment.

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NOTE 16 - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As of 31 December 2017 and 2016, the movement for revaluation fund of machinery and equipment is as follows:

1 January 2016	1,044,857
Net increase on revaluation fund	37,401
Depreciation transfer	(53,254)
Other (*)	(6,873)
31 December 2016	1,022,131
1 January 2017	1,022,131
Depreciation transfer	(52,426)
Other (*)	(4,034)
31 December 2017	965,671

(*) As of 31 December 2017 and 2016, the decrease in the revaluation fund is related to the sale of fixed assets and the related amounts have been transferred to retained earnings.

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Borrowing costs directly attributable to construction work in progress at 31 December 2017 amounting to TL266,666 thousand have been added to the related asset's cost (31 December 2016: TL 79,359 thousand).

Collateral, pledges and mortgages on property, plant and equipment are presented in Note 18.

Breakdown of depreciation and amortisation expenses under cost of sales and operating expense has been presented on Note 25 and Note 26.

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NOTE 17 - INTANGIBLE ASSETS

	1 January 2017	Additions	Disposals	Transfers	Currency translation difference	Additions due to acquisitions	31 December 2017
Cost:							
Right	31,269	40,410	(6,837)	-	1	1,266,938	1,331,781
- Customer relationships	-	-	-	-	-	348,812	348,812
- Service concession arrangements	-	-	-	-	-	918,126	918,126
- Other rights	31,269	40,410	(6,837)	-	1	-	64,843
Goodwill (Note3)	-	-	-	-	-	402,237	402,237
Licenses	3,092	1,437	-	-	-	-	4,529
	34,361	41,847	(6,837)		1	1,669,175	1,738,547
Accumulated depreciation:							
Right	9,070	62,846	(6,837)	-	1	-	65,080
- Customer relationships	-	16,194	-	-	-	-	16,194
- Service concession arrangements	-	42,626	-	-	-	-	42,626
- Other rights	9,070	4,026	(6,837)	-	1	-	6,260
Licenses	714	201	-	-	-	-	915
	9,784	63,047	(6,837)	-	1	-	65,995
Net book value	24,577						1,672,552
	1 January 2016	Additions	Disposals	Transfers	Currency translation difference	Additions due to acquisitions	31 December 2016
Cost:							
Right	24,877	5,421	-	543	428	-	31,269
Licenses	2,068	1,024	-	-	-	-	3,092
	26,945	6,445		543	428	-	34,361
Accumulated depreciation:							
Right	6,841	2,219	-	-	10	-	9,070
Licenses	597	117	-	-	-	-	714
	7,438	2,336	-	-	10	-	9,784
Net book value	19,507						24,577

The breakdown of the current period depreciation expenses under cost of sales, marketing and selling expenses, general administrative expenses and other operating expenses are stated in Note 25 and Note 26.

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NOTE 18 - PROVISIONS, COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

18.1 Short term provision

	31 December 2017	31 December 2016
Provisions for the claims	42,537	451

The portion of TL15,562 thousand of the litigation provisions consist of the compensation cases (31 December 2016: None), TL23,025 thousand is consist of the public claims (31 December 2016: None) and TL3,286 thousand consists of the employment claims (31 December 2016: None) and TL664 thousand consists of other claims (31 December 2016: TL451 thousand).

18.2 Contingent assets

		31 December 2017		31 December 2016	
	Original currency	Original amount	TL equivalent	Original amount	TL equivalent
Letters of guarantees received	TL	205,540	205,540	40,102	40,102
Letters of guarantees received	USD	11,395	42,981	41,081	144,573
Letters of guarantees received	EUR	3,768	17,014	5,343	19,822
Letters of guarantees received	JPY	2,064	69	47,553	1,428
Letters of guarantees received	GBP	-	-	7	31
Cheques received	TL	18,979	18,979	1,032	1,032
Cheques received	USD	1,905	7,185	5	18
Cheques received	EUR	180	813	53	197
		292,581		207,203	

Guarantee letters received consists of the letters, cheques and notes received from customers in relation to the Group's operations.

18.3 Letters of guarantees/pledges/mortgages given

The commitments and contingent liabilities of the Group that are not expected to result in material loss or liability is summarized as follows:

		31 December 2017		31 December 2016	
	Original currency	Original amount	TL equivalent	Original amount	TL equivalent
Letters of guarantees given	TL	1,368,054	1,368,054	1,338,047	1,338,047
Letters of guarantees given	EUR	182,237	822,891	182,856	678,377
Letters of guarantees given	USD	159,753	602,572	151,207	532,128
Letters of guarantees given	PKR	1,875,000	63,600	1,875,000	62,756
		2,857,117		2,611,308	

Letters of guarantees given generally consist of letters given to government agencies for the electricity transmission and distribution (mainly to "EMRA" and government agencies providing electricity transmission and distribution) and natural gas suppliers for the procurement of natural gas and banks for the bank loans obtained.

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NOTE 18 - PROVISIONS, COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES
(CONTINUED)

The Group's guarantees, pledges and mortgage ("GPM") positions in TL as of 31 December 2017 and 31 December 2016:

		31 December 2017		31 December 2016	
	Original currency	Original amount	TL equivalent	Original amount	TL equivalent
The GPM's given by the Group					
	USD	137,265	517,750	130,797	460,301
A.Total amount of GPM's given for companies' own legal entity	EUR	174,587	788,347	182,506	677,079
	TL	1,339,920	1,339,920	1,317,389	1,317,389
	PKR	1,875,000	63,600	1,875,000	62,756
B. Total amount of GPM given for the subsidiaries and associates in the full scope of consolidation	TL	28,134	28,134	20,658	20,658
	USD	314	1,184	-	-
	EUR	7,300	32,963	-	-
C. Total amount of GPM given for the purpose of maintaining operating activities	USD	22,174	83,638	20,410	71,827
	EUR	350	1,581	350	1,298
D. Total amount of other GPMs given		-	-	-	-
			2,857,117		2,611,308

As of 31 December 2017, the ratio of GPMs given by the Company to equity is 170% (31 December 2016: 562%).

Details concerning the guarantees, pledges and mortgages that the Company and its subsidiaries gave within the scope of project financing loans and on behalf of their legal entities are given below:

Rotor has signed a long term loan agreement with the consortium of a group of financial institutions amounting to EUR130 million as of 8 May 2009 related to the 135 MW electricity production powerplant located in Osmaniye. In addition to the loan agreement, mortgage, commercial enterprise pledge, share pledge, account pledge, assignment of receivables and assignment of insurance receivables agreements are signed. As per mortgage agreement signed between the Company and the Bank, a pledge amounts to EUR130,000,000 has placed on the property of the Company. As per commercial pledge agreement, a commercial pledge amounts to TL119,654,194 has placed on Company's fixed assets. Commercial enterprise pledge upper limit is EUR235,000,000.

As of 26 October 2011, Zorlu Enerji Pakistan Ltd. affiliate of Zorlu Enerji, signed a long term loan agreement with International Finance Corporation ("IFC"), the Asian Development Bank ("ADB"), Eco Trade and Development Bank ("ECO") and local consortium leader Habib Bank Limited ("HBL") amounting USD111million with a maturity of up to 12 years for financing of its wind energy power plant with a capacity of 56.4 MW in Pakistan/Jhimpir established in

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NOTE 18 - PROVISIONS, COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES (CONTINUED)

Jhimpir, the Sindh region of Pakistan. In addition to the loan agreement, account pledge, share pledge, assignment of insurance receivables, pledge on deed, assignment of project rights and mortgage agreements are signed. As per mortgage agreement signed between Zorlu Enerji Pakistan and the Bank, a pledge amounts to USD118,625,000 and PKR1,875,000,000 has placed on the property of the Company.

On 27 October 2015, a loan agreement amounting to USD815 million (USD785 million in cash and USD30 million in non-cash) and having a 14 years term has been signed on 27 October 2015 between Zorlu Doğal, Akbank TAŞ, Türkiye Garanti Bankası AŞ, Türkiye İş Bankası AŞ and Türkiye Sınai Kalkınma Bankası AŞ for the refinancing of its existing debts and for financing the investment in the Kızıldere III geothermal power plant, which is planned to be constructed in Denizli. In addition to the said loan agreement, account pledge, share pledge, assignment of receivables and assignment of shareholder receivables agreement are signed. In addition to the loan contract, they also signed contracts for an account pledge, a share pledge, the transfer of receivables and stakeholder receivables transfers. EPIAŞ's receivable transfer amount cap in the scope of the transfer of receivables agreement is TL9,500,000,000. Since EPIAŞ's receivable transfer amount is the cap, it is not included in the collateral, pledges and mortgages given by the Company note.

The 14 year term loan agreement has been signed on 25 November 2013 between Zorlu Jeotermal and Yapı Kredi AŞ with a credit line up to USD113,000,000 in order to finance the project. Pursuant to the material disclosure dated 24 June 2015, the project capacity was increased to 45MW. Hence, an amended loan agreement was signed between aforementioned parties and the credit line were increased to USD148,000,000. In addition to the said loan agreement, account pledge, share pledge, assignment of receivables and assignment of shareholder receivables agreement are signed. In addition to the aforementioned credit agreement, account pledge, share pledge, consecutive lending and takeover contracts were signed. As per the Commercial Enterprise Pledge Contract, a commercial enterprise lien equal to TL1,060,800,000 was granted. As per the transfer of receivables agreement, the cap for the receivable transfer amount of EPIAŞ was determined to be TL2,155,000,000. Since the EPIAŞ receivable transfer amount is the cap, it is not included in the collateral, pledges and mortgages given by the Company note.

Pursuant to the material disclosure dated 24 November 2014, Zorlu Rüzgar, which is 100% affiliate of the Company, signed two loan agreements amounting to EUR40 million with Türkiye Sınai Kalkınma Bankası and EUR41.3 million with Bayerische Landesbank as a part of ECA financing with German Trade Finance Agency (Euler Hermes) contribution, in order to finance Sarıtepe and Demirciler wind power plant projects which are planned to established in Bahçe/Osmaniye and to have 80.3 MW installed capacity. In addition to the loan agreement, account pledge, share pledge, assignment of receivables, assignment of electricity production license, and commercial enterprise pledge agreements are signed. As per commercial pledge agreement, a commercial pledge amounts to TL193,711 has placed on Company's fixed assets. As per the transfer of receivables agreement, the cap for the EPIAŞ receivable transfer amount is TL870,000,000. Since the EPIAŞ receivable transfer amount is the cap, it is not included in the collateral, pledges and mortgages given by the Company note.

The rest of the guarantee given amounting to TL578.414 thousand consists of letters given to government agencies for the electricity transmission and distribution (mainly to EMRA and government agencies providing electricity transmission and distribution), to natural gas suppliers for the procurement of natural gas and to banks for the bank loans obtained.

Zorlu Holding is also guarantor for Zorlu Doğal's loan obtained amounting to USD967 million and TL76.8 million, for Zorlu Jeotermal's loan obtained from Yapı ve Kredi AŞ amounting USD148 million, for Rotor's loan obtained from the consortium of several financial institutions amounting EUR130 million and for Zorlu Rüzgar's loan obtained from Türkiye Sınai Kalkınma Bankası and Bayerische Landesbank amounting EUR80.6 million and for Zorlu Enerji's loan obtained from Export Development Canada amounting to USD100 million.

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NOTE 18 - PROVISIONS, COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES (CONTINUED)

Since Katılım Varlık Kiralama AŞ is the issuer and Zorlu Enerji is the beneficiary of the funds in the lease certificate transaction, which amounts to TL200 million and was issued on 3 October 2017, Zorlu Enerji became the guarantor of Katılım Varlık Kiralama AŞ.

Zorlu Enerji became the guarantor for the Zorlu Osmangazi's bond issuance amounting to TL175 million, to ensure that payments are made in full, in cash and on time should the principal and/or coupon payments of debt instruments to be issued by Zorlu Osmangazi not be done within the determined periods and/or periods determined in a case of early depreciation.

As per the final protocol between the Company and Dedeli, from which the Company took over the OEDAŞ and OEPSAŞ shares, the Company received an account pledge worth USD7,300,000 and a guarantee note amounting to TL9,000,000. Dedeli has a compensation obligation up to TL100,000,000 to the Group, which includes but is not limited to the related liens and guarantees.

As per the sale of the Lüleburgaz steam generator of Zorlu Enerji, a sell and lease-back financial leasing agreement was signed between Şeker Finansal Kiralama AŞ and Zorlu Enerji on 24 August 2017. Zorlu Holding is guarantor for the financial leasing liabilities of Zorlu Enerji resulted from sell and lease back agreement signed for the sale of steam generator. The receivables of Zorlu Enerji arising from the steam agreement with Zorluteks Tekstil Tic. ve San. AŞ ("Zorluteks") were transferred to Şeker Finansal Kiralama AŞ in the scope of financial leasing transactions.

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NOTE 19 - DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments held for cash flow hedges:

	31 December 2017			31 December 2016		
	Contract amount	Fair values asset	Fair values liability	Contract amount	Fair values asset	Fair values liability
Interest rate swap agreements	414,630	-	(7,531)	2,643,888	-	(2,150)
Cross currency swap agreements held for hedging	322,314	33,309	-	-	-	-
Interest rate swap agreements held for hedging	1,820,357	-	(32,450)	868,803	-	(20,034)
	2,557,301	33,309	(39,981)	3,512,691	-	(22,184)

Derivative financial instruments are initially recognized in the consolidated balance sheet at cost and subsequently are re-measured at their fair value. The derivative instruments of the Group consist of interest rate swap and cross currency swaps.

On the date a derivative contract is entered into, the Group designates certain derivatives as either a hedge of the fair value of a recognized asset or liability ("fair value hedge") or a hedge of a forecasted transaction or a firm commitment ("cash flow hedge").

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NOTE 19 - DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate swap transactions provide effective economic hedges under the Group risk management position and qualify for hedge accounting under the specific rules and are therefore treated as derivatives held for hedging. Changes in the fair value of derivatives that are designated as being and qualify as cash flow hedges and are highly effective, are recognized in equity as "hedge reserves" (Note 2.4).

Cross currency swaps are recorded in the balance sheet as assets or liabilities depending on whether their fair values are positive or negative. Gains and losses arising from changes in fair value of cross currency swaps are recognized as income and expenses in the consolidated statements income or loss. As of 31 December 2017, the Group has accounted TL1,000 thousand financial income and TL2,323 thousand financial expense (31 December 2016: None). As of 31 December 2017, the Group has a forward sales commitment of EUR70,334 thousand against a purchase commitment of USD74,786 thousand, and a forward sales commitment of TL44,855 thousand against a purchase commitment of USD10,000 thousand.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, or when a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of income.

Movement of derivative financial instruments is as follows:

	2017	2016
1 January	(22,184)	(72,744)
Related to income statement		
- Financial income/(expense)	(13,460)	16,430
Related to other comprehensive income		
- Hedge funds	28,972	34,130
31 December	(6,672)	(22,184)

Non- derivative cash flow hedges

The Group uses its investment loans (in the amount of USD1,020,056 thousand and EUR60,556 thousand) to protect itself against the USD spot exchange rate risk (which it is subject to highly probable YEKDEM sales), and applies cash flow hedge accounting as a result of the efficiency tests that were run in this scope. In this scope, the Group has recognized a foreign exchange loss in the amount of TL151,392 thousand related to the investment loans in the "cash flow hedge funds" account in the consolidated financial statements as of 31 December 2017.

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NOTE 19 - DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The movement schedule of hedge funds is as follows:

	2017	2016
1 January	(466,825)	(107,466)
Related to other comprehensive income		
- Hedge funds	(128,214)	(359,359)
31 December	(595,039)	(466,825)

NOTE 20 - PROVISIONS FOR EMPLOYMENT BENEFITS

Short-Term Provisions Related To Employee Benefits

	31 December 2017	31 December 2016
Provision for unused vacation	4,327	-
	4,327	-

Movement of provision for unused vacations is as follows:

	1 January - 31 December 2017
1 January	-
Additional provisions	4,327
31 December	4,327

Long-term Provisions Related To Employee Benefits

	31 December 2017	31 December 2016
Provision for employee termination benefits	12,949	985
	12,949	985

Movement of provision for employee termination benefits is as follows:

	2017	2016
1 January	985	826
Additions due to acquisition	8,287	-
Service cost	2,197	133
Interest cost	1,248	52
Compensation paid	(2,836)	(1,482)
Actuarial gain	3,068	1,456
31 December	12,949	985

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NOTE 20 - PROVISIONS FOR EMPLOYMENT BENEFITS (CONTINUED)

Provisions for employment termination benefits are allocated in accordance with the disclosures given below:

Under the Turkish Labour Law, companies are required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 23 May 2002, there are certain transitional provisions relating to the length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of TL4,732 for each year of service as of 31 December 2017 (31 December 2016: TL4,297).

Termination benefits liability is not dependent on any funding legally and any funding requirement does not exist.

The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees.

TAS 19 requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	2017	2016
Discount rate (%)	3.3	3.3
Probability of retirement (%)	97.6	99.4

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. The amount payable consists of one month's salary limited to a maximum of TL5,002 for each period of service as of 1 January 2018 (1 January 2017: TL4.426).

NOTE 21 - DEFERRED INCOME

a) Short-term deferred income

	31 December 2017	31 December 2016
Deferred income on investment difference (*)	104,815	-
Deferred distribution income (**)	37,630	-
Advances received	4,587	4,708
Other	1,501	-
	148,533	4,708

(*) Distribution system income difference of tariff year, obtained with the difference between the year end ceiling price of tariff year distribution system income which determined by EMRA and tariff year realized tariff year distribution income, and it recorded as accrual basis.

(**) Within the framework of EMRA regulations, some operation expenses of distribution companies are limited by a predetermined cap. Collection through tariff for deferred distribution income has exceeded the EMRA cap. (This extra collected amount will be considered an adjustment to the tariffs determined by EMRA in the second year after the extra is created, and will be offset from the 2018 tariff.)

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NOTE 22 - EQUITY

a) Share Capital

Zorlu Enerji adopted the registered capital system applicable to the companies registered on the CMB and defined a limit to its registered capital for shares whose nominal value is Kr1 ("Kuruş"). As of 31 December 2017 and 31 December 2016, the share capital held is as follows:

	31 December 2017	31 December 2016
Limit on registered share capital	3,000,000	3,000,000
Issued capital	2,000,000	750,000

The Group's shareholders and share holding structure as of 31 December 2017 and 31 December 2016 are as follows:

	Share (%)	31 December 2017	Share (%)	31 December 2016
Zorlu Holding	45,7	914,665	45,7	342,999
Korteks	17,5	350,949	17,5	131,606
Publicly held (*)	32,0	639,623	32,0	239,859
Other	4,8	94,763	4,8	35,536
	100,0	2,000,000	100,0	750,000
Adjustment to share capital		102,575		102,575
Total		2,102,575		852,575

(*) TL329,207 thousand and the portion equivalent to 16.46% of the total capital represent the shares that belong to Zorlu Holding.

The transactions increasing the paid in capital of the Company from TL750,000,000 to TL2,000,000,000 with contributions composed entirely of cash, are completed. The updated version of Article 6 of the Articles of Association titled The Capital of the Company, which shows that the paid in capital along with the new capital total TL2,000,000,000 was registered by the Bursa Trade Registry Directorate on 29 March 2017.

a) Share premium

Share premiums presented in the consolidated financial statements represent the excess of the amount of shares issued during the capital increases to their nominal values.

b) Retained earnings and legal reserves

	31 December 2017	31 December 2016
Legal reserves	7,897	7,897

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NOTE 22 - EQUITY (CONTINUED)

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of a company's paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can be used only to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital. Those amounts are required to be classified in Restricted Reserves under TFRS.

Dividends from the previous year and current period on the statutory financial statements are ready to be distributed provided that the above mentioned legal reserve allocation conditions are met and that legal regulations of the Capital Markets Board on dividend distribution are complied with.

Publicly traded companies make dividend distributions in accordance with the Capital Markets Board Communiqué on Dividends No. II-19.1 enacted on 1 February 2014.

Shareholdings distribute their profits with a decision from a general assembly, within the frame of profit distribution policies determined by their general assemblies and in accordance with the related legislation provisions. As per the related Communiqué, a minimum distribution rate was not set. The companies pay dividends as specified in their articles of association or profit distribution policies. Also, dividends may be paid in equal or varying instalment quantities and dividend advances may be distributed in cash based on the profit in the financial statements.

If legal reserves and dividends determined for shareholders in articles of association or dividend distribution policies are not allocated as per the TCC, no other legal reserve can be allocated or transferred until the following year, and no dividend is distributed to dividend share certificate holders, members of the board of directors, employees of the partnership or those other than shareholders. Also, no dividend is distributed to such parties unless the dividends determined for the shareholders are not paid in cash.

NOTE 23 - TAXES ON INCOME

	31 December 2017	31 December 2016
Corporate and income taxes expense	16,959	75
Less: Prepaid taxes	(27,771)	(7,491)
Current period income tax (asset)/ liability	(10,812)	(7,416)

Turkish tax legislation does not allow for the submission of tax returns over consolidated financial statements prepared by the parent company, which include its subsidiaries and affiliates. Accordingly tax considerations reflected in these consolidated financial statements have calculated separately for each of the companies in the scope of the consolidation.

In Turkey, corporation tax is payable at a rate of 20% as of 31 December 2017 and 31 December 2016.

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NOTE 23 - TAXES ON INCOME (CONTINUED)

Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their corporate income. Advance tax is declared by the 14th and paid by the 17th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. If, despite offsetting, there remains a paid advance tax amount, it may be refunded or offset against other liabilities to the government. Within the scope of the Law regarding Amendments to Certain Tax Laws and Other Laws No. 7061, which went into effect after promulgation in the Official Gazette dated 5 December 2017, the corporate income tax rate was raised from 20% to 22% for 2018, 2019 and 2020.

The taxation on income and expense for the Group for the period ended 31 December 2017 and 2016 is summarised as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Current period tax expense	(16,959)	(75)
Deferred tax (expense)/income	(42,890)	94,472
Total tax (expense)/income	(59,849)	94,397

The reconciliation of taxation on income for the years ended 31 December 2017 and 31 December 2016 as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Profit/(loss) before tax	111,424	(98,900)
Tax expense calculated with effective tax rate	(22,285)	19,780
Accumulated tax losses on which deferred tax is not calculated	(88,740)	(65,937)
Deductions and exemptions	50,289	71,003
Non-deductible expenses	(26,833)	(46,678)
Considering of previous years accumulated tax losses on which deferred tax is not calculated	27,924	115,531
Investment incentives	1,427	834
Tax differences due to acquisition	(9,405)	-
Effect of tax rate change	8,374	-
Other	(600)	(136)
Current income tax	(59,849)	94,397

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NOTE 23 - TAXES ON INCOME (CONTINUED)

Deferred taxes

The Group recognizes deferred income tax based on all temporary differences arising between their financial statements as reported for TFRS and its statutory tax financial statements.

Within the scope of the Law regarding Amendments to Certain Tax Laws and Other Laws No. 7061, which went into effect after promulgation in the Official Gazette dated 5 December 2017, the corporate income tax rate was raised from 20% to 22% for 2018, 2019 and 2020. As per the said law, in the financial statements dated 31 December 2017, the deferred tax assets and liabilities were calculated using a tax rate of 22% for the portion of the temporary differences that will have a tax impact in 2018, 2019 and 2020, and using a tax rate of 20% for the portion of the temporary differences that will have a tax impact in 2021 and thereafter.

	31 December 2017	31 December 2016
Deferred tax assets	170,907	110,794
Deferred tax liabilities	(250,787)	(33,392)
Deferred tax assets/(liabilities), net	(79,880)	77,402

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	Temporary differences		Deferred tax assets/(liabilities)	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Provision for employee termination benefits	(17,276)	(985)	3,455	197
Property, plant and equipment	1,976,687	801,496	(386,030)	(160,299)
Investment incentive	(53,241)	(46,108)	10,648	9,222
Carry forward tax losses	(1,385,602)	(1,204,099)	289,807	240,820
Derivative instruments	(6,672)	(22,184)	1,334	4,437
Credit commission and unearned credit finance expense	201,291	86,077	(40,277)	(17,215)
Adjustments related to investment differences	(104,815)	-	20,963	-
Indexation of deposits received	(90,926)	-	18,185	-
Receivables from service concession arrangements	(76,402)	-	15,280	-
Adjustments related to revenue cap interest income	22,138	-	(4,428)	-
Income accruals	44,619	-	(9,816)	-
Uninvoiced electricity charges	21,522	-	(4,304)	-
Distribution income accruals	(22,069)	-	4,414	-
Other	(4,443)	(1,200)	889	240
Deferred tax assets/(liabilities), net			(79,880)	77,402

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NOTE 23 - TAXES ON INCOME (CONTINUED)

The movements in deferred tax assets and liabilities for the years ended 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
1 January	77,402	(97,850)
Charged to income statement	(42,890)	94,472
Charged to equity	32,668	80,780
Deferred tax assets (liabilities) accounted due to the acquisition, net (Note 3)	(147,060)	-
31 December	(79,880)	77,402

Analyze of deferred tax assets and liabilities is as follows:

	31 December 2017	31 December 2016
Deferred tax assets:		
- will be used over 12 months	170,907	110,794
- will be used less than 12 months	-	-
	170,907	110,794
Deferred tax liabilities:		
- will be used over 12 months	(250,787)	(33,392)
- will be used less than 12 months	-	-
	(250,787)	(33,392)

As of 31 December 2017, the Group recognized deferred tax assets for the carry forward tax losses amounting to TL1,385,602 thousand (31 December 2016: TL1,204,099 thousand) for which the Group believes it will not utilize in the future, For the remaining carry forward tax losses amounting to TL460,685 thousand (31 December 2016: TL270,312 thousand). The Group's tax losses and deferred tax assets as of the balance sheet date are as follows:

Due date	Losses
2018	272,730
2019	171,322
2020	305,900
2021	506,393
2022	129,257
	1,385,602

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NOTE 23 - TAXES ON INCOME (CONTINUED)

The Group's expiration dates of unrecognized carry forward tax losses are as follows:

Due date	Losses
2018	42,198
2019	23,203
2020	191
2021	753
2022	394,340
	460,685

NOTE 24 - REVENUE

	1 January - 31 December 2017	1 January - 31 December 2016
Income from electricity sales and trading activities	1,674,432	679,096
Retail electricity sales income	1,164,560	544,498
Distribution system income	553,043	-
Income from investment activities	434,752	-
General lighting income	31,423	-
Other	12,980	-
	3,871,190	1,223,594

NOTE 25 - EXPENSES BY NATURE

	1 January - 31 December 2017	1 January - 31 December 2016
Direct materials and merchandise expenses	2,196,413	679,940
Expense from investment activities	434,752	-
Depreciation and amortisation (*)	237,665	199,164
System usage expenses	122,969	-
Employee and personnel expenses (**)	106,307	7,876
Repair and maintenance expenses	61,487	53,798
Outsourcing expenses	18,110	17,633
Consultancy expenses	13,448	9,167
Energy expenses	5,391	4,887
Other	113,454	37,049
	3,309,996	1,009,514

(*) The total amount of depreciation and amortisation expense is TL280,291 thousand and TL217,294 thousand of the amount is presented in cost of sales, TL16,222 thousand of the amount is presented in selling and marketing expense, TL4,149 thousand of the amount is presented in general and administrative expense and TL42,626 thousand of the amount is presented in other operating expense.

(**) The total amount of employee and personnel expenses is TL106,307 thousand and TL78,407 thousand of the amount presented in operating expense, TL27,900 thousand of amount presented in general and administrative expense.

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NOTE 26 - OTHER OPERATING INCOME AND EXPENSE

a) Other operating income:

	1 January - 31 December 2017	1 January - 31 December 2016
Interest income from distribution activities (*)	60,326	-
Insurance income (**)	45,843	15,714
Provisions no longer required (Note 8)	14,371	3,967
Foreign exchange difference from trading activities	9,506	10,451
Disclaimed late fees	7,646	-
Interest income from trading activities	328	213
Other	9,754	3,602
Total	147,774	33,947

(*) Interest income arising from distribution activities is related to the revenue cap regulation

(**) Insurance income is related to the damage indemnity income that has been collected or is expected to be collected within one year in connection with the insurance policies covering the Group's business and its components against all risks such as machinery breakdown, profit loss, fire, etc.

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b) Other operating expenses:

	1 January - 31 December 2017	1 January - 31 December 2016
Expenses for project license cancelation (*)	45,894	-
Depreciation of service concession arrangements	42,626	-
Foreign exchange difference from trading activities	35,318	4,042
Accretion of interest on deposits received (Note 9)	18,106	-
Provisions expenses (Note 8)	8,562	6,772
Late payment fee	5,602	-
Interest income from trading activities	1,488	163
Risk sharing expenses	1,007	1,679
Other	9,554	1,605
Total	168,157	14,261

(*) Related to the project license cancellation of Sami Soydam Project of Zorlu Hidroelektrik.

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NOTE 27 - INCOME FROM INVESTING ACTIVITIES

a) Income from investing activities

	1 January - 31 December 2017	1 January - 31 December 2016
Gain on sales of fixed assets	-	7,461
Total	-	7,461

b) Loss from investing activities

	1 January - 31 December 2017	1 January - 31 December 2016
Loss on sales of fixed assets (*)	20,641	157
Loss on disposals of assets held for sale (*)	49,855	-
Total	70,496	157

(*) TL20,641 thousand of amount is related with machinery and equipment sold, TL49,855 thousand of amount is disposal of the plant, machinery and equipment of natural gas power plants in accordance with TFRS 5 "Assets Held-for-Sale and Discontinued Operations".

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NOTE 28 - FINANCIAL INCOME AND EXPENSES

a) Financial income:

	1 January - 31 December 2017	1 January - 31 December 2016
Foreign exchange gains	171,544	271,008
Interest income	142,947	74,571
Profit on derivative instruments	-	16,430
Unearned credit finance income	-	137
Financial income	314,491	362,146

b) Financial expense:

	1 January - 31 December 2017	1 January - 31 December 2016
Interest expense (*)	419,529	458,257
Foreign exchange loss (*)	226,026	224,817
Bank commission and other financial expenses	26,213	17,763
Loss on derivative instruments	13,460	-
Deferred finance expense	8,250	395
Financial expenses	693,478	701,232

(*) As of 31 December 2017, interest expense and foreign exchange loss that were capitalized TL211,736 thousand and TL54,930 thousand, respectively.

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NOTE 29 - RELATED PARTY TRANSACTIONS

i) Related party balances:

a) Short-term trade receivables from related parties

	31 December 2017	31 December 2016
Korteks	35,358	4,329
Zorluteks Tekstil Ticaret ve Sanayi AŞ ("Zorluteks")	14,343	829
Zorlu Tesis Yönetimi AŞ	3,095	9,553
Zorlu O&M Enerji Tesisleri İşletme ve Bakım Hizmetleri AŞ ("Zorlu O&M")	981	8
Meta Nikel Kobalt Madencilik Sanayi ve Ticaret AŞ	-	1,475
Vestel Elektronik Sanayi ve Ticaret AŞ ("Vestel Elektronik")	2	1,886
Other	1,470	2,689
	55,249	20,769

Maturity of trade receivables from related parties is approximately 1 month (31 December 2016 :21 days). Applied interest rate for TL balances is 18%, USD and EUR balance is 6% (31 December 2016: TL balances: 15%, USD and EUR balances: 6%).

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b) Short-term other receivables from the related parties

	31 December 2017	31 December 2016
Zorlu Endüstriyel ve Enerji Tesisleri İnşaat Ticaret AŞ ("Zorlu Endüstriyel") (*)	911,406	735,136
Zorlu O&M (*)	162,753	120,648
Dorad Energy Ltd. ("Dorad") (**)	38,185	18,344
Edeltech Ltd. ("Edeltech") (**)	18,043	8,943
Zorlu O&M Pakistan	8,824	-
Other	2,632	13,454
	1,141,843	896,525

(*) The maturity of short term other receivable from Zorlu Endüstriyel and Zorlu O&M for financing purpose is less than 1 year and applied interest rate is 6%.

(**) Receivables from Dorad, Edeltech and Edelcom consist of financing in respect of power plants which was constructed in Israel.

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NOTE 29 - RELATED PARTY TRANSACTIONS (CONTINUED)

c) Long-term other receivables from related parties

	31 December 2017	31 December 2016
Zorlu Holding (*)	598,467	519,805
Ezotech (**)	105,139	97,452
Edeltech (**)	62,830	68,935
Dorad (**)	12,027	36,088
Solad (**)	8,698	8,116
	787,161	730,396

(*) With regard to the Board of Director decision dated 10 April 2015 and numbered 2015/21, it has been decided that amount of USD130,000,000 receivables from Zorlu Holding will be paid in lump sum with its interest at 31 December 2020 by taking into consideration with the interest determined by Zorlu Group in accordance with market conditions. At 31 December 2017, the total amount of receivables with interest was approximately USD159 million and the applicable interest rate is 6% (31 December 2016: 6%).

(**)The receivables from Dorad, Ezotech and Edeltech consist of the amounts provided in the power plant projects in Israel.

d) Short-term trade payables to related parties

	31 December 2017	31 December 2016
Zorlu Holding (*)	46,250	32,286
Zorlu Endüstriyel (**)	27,166	64,762
Zorlu O&M (**)	20,476	10,082
Other	4,474	541
	98,366	107,671

(*)Short-term trade payables to Zorlu Holding consist of general administrative expenses charged to Zorlu Enerji. The applied interest rate for TLbalances is 18% (31 December 2016: TLbalances: 15%).

(**) Short term trade payables to Zorlu Endüstriyel and Zorlu O&M consist of engineering and operation and maintenance services. Maturity of short term trade payables to these companies is 1 month. The applied interest rate for TLbalances is %18, USD and Euro balances is 6% (31 December 2016: TLbalances: 15%, USD and Euro balances: 6%)

e) Short-term other payables to related parties

	31 December 2017	31 December 2016
Korteks (*)	90,305	9,300
Zorluteks (*)	35,568	21,946
Zorlu O&M Pakistan (*)	10,700	-
Zorlu Faktoring (**)	5,709	45,226
Other	2,912	1,040
	145,194	77,512

(*) Consist of the amounts provided by the Company for financing purposes.

(**) It relates to the factoring transaction made for the purpose of financing from the related parties.

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NOTE 29 - RELATED PARTY TRANSACTIONS (CONTINUED)

f) Long-term trade payables to related parties

	31 December 2017	31 December 2016
Zorlu Holding (*)	291,967	567,875
	291,967	567,875

(*) Long term other payables to Zorlu Holding consists of the payables for financing purposes and major portion of the payables amounting TL291,967 thousand is in foreign currency with the interest rate of 6% (31 December 2016: for USD and EUR 6%, for TL15%).

ii) Transactions carried out with related parties for the period 1 January - 31 December 2017 and 2016 are as follows:

	Sales	Purchases	Operating expenses and other income/ (expenses), net	Financial income/ (expenses), net
1 January - 31 December 2017				
Korteks	64,141	-	-	(17,671)
Zorluteks	34,857	2	(77)	(8,919)
Zorlu Tesis Yönetimi	28,042	-	(456)	-
Vestel Elektronik	1,209	-	(63,076)	-
Meta Nikel	12,795	-	(22)	-
Zorlu Holding	837	1	(6,396)	(11,667)
Zorlu O&M	103	58,795	(1,619)	8,886
Zorlu Endüstriyel	548	441	(2,235)	102,284
Edeltech	-	-	18	8,117
Dorad	-	-	-	12,649
Ezotech	-	-	-	7,064
Zorlu Faktoring	-	-	-	(6,384)
Other	4,270	1,747	(8,237)	866
	146,802	60,986	(82,100)	95,225

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NOTE 29 - RELATED PARTY TRANSACTIONS (CONTINUED)

	Sales	Purchases	Operating expenses and other income/ (expenses), net	Financial income/ (expenses), net
1 January - 31 December 2016				
Korteks	47,137	-	-	(6,414)
Zorluteks	35,130	-	268	(1,959)
Zorlu Tesis Yönetimi	24,755	-	529	-
Vestel Elektronik	12,281	13	3	-
Meta Nikel	5,961	-	12	-
Zorlu Holding	762	-	5,169	33,117
Zorlu O&M	92	51,304	8,344	35,362
Zorlu Endüstriyel	18	249	1,438	119,935
Edeltech	-	-	24	20,176
Dorad	-	-	-	19,152
Ezotech	-	-	-	16,936
Zorlu Faktoring	-	-	-	(4,780)
Other	9,288	7	5,301	3,810
	135,424	51,573	21,088	235,335

The sales to the related parties consist of electricity sales.

Purchases of Zorlu O&M are related to cost of repair and maintenance.

Operating income and expense generally consist of amounts related to common expenses.

Net financial income or loss consisted of interest and foreign exchange differences regarding short term trade payables, long term other receivables and short term and long term other payables.

iii) Key management compensations for the periods between 1 January - 31 December 2017 and 2016 are as follows:

For the purpose of this consolidated financial statements, key management compensation consists of the payments made to Group shareholders and top management (General Manager and Vice General Managers and directors).

	1 January - 31 December 2017	1 January - 31 December 2016
Salaries	5,554	3,531

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NOTE 30 – PROFIT/(LOSS) PER SHARE

Profit/(loss) per share disclosed in the accompanying consolidated statement of income are determined by dividing net income/(expense) by the weighted average number of shares in existence during the year concerned.

	1 January - 31 December 2017	1 January - 31 December 2016
Net period income / (loss) for equity holders of the Group	51,925	(4,034)
Weighted average value of each of the issued share	179,166,667	75,000,000
Profit/(loss) per 100 share (TL)	0.00029	(0.00005)

Nominal value of each of the issued share as of 31 December 2017 and 2016 is 1 Kr.

NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial risk management

Financial risk factors

The main risks arising from the Company's financial instruments are foreign currency risk, interest rate risk, credit risk, liquidity risk and funding risk. The Company management reviews and agrees policies for managing each of these risks.

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The Company's principal financial instruments comprise bank borrowings, financial leases, cash and short-term deposits. The main purpose of these financial instruments is to raise funds for the Company's operations. The Company has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The Group also benefits from derivative financial instruments to hedge against various risks.

(a) Liquidity risk

The Group continuously monitors and manage the risks by conducting periodic analysis studies on the liquidity risks that the group may be exposed to, such as not being able to provide sufficient cash and securities in the sense of business continuity, not finding sufficient funding in order to balance cash flow and weakening the ability to close open positions.

Table below is Group's breakdown of liabilities according to their contractual maturity is based on the maturity dates from the date. The Group management considers that all the financial assets shown above liquidity risk that are not impaired for each of the reporting dates under review are of good credit quality.

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NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

As at 31 December 2017 and 2016, the analysis of Group's financial liabilities according to their maturities is as follows:

Non-derivative financial liabilities⁽¹⁾⁽²⁾:

2017	Book value	Total cash outflows in accordance with contract	Less than 3 months	3-12 months	1-5 years	Over 5 years
Financial liabilities	7,383,764	9,853,605	824,390	1,962,010	4,582,433	2,484,772
Trade payables	893,894	893,894	893,894	-	-	-
Other payables and short term liabilities	957,567	957,567	638,147	-	319,420	-
	9,235,225	11,705,066	2,356,431	1,962,010	4,901,853	2,484,772

2016	Book value	Total cash outflows in accordance with contract	Less than 3 months	3-12 months	1-5 years	Over 5 years
Financial liabilities	5,355,925	7,310,992	146,100	1,749,121	3,233,227	2,182,544
Trade payables	307,656	307,656	301,427	-	6,229	-
Other payables and short term liabilities	655,428	655,428	87,308	-	568,120	-
	6,319,009	8,274,076	534,835	1,749,121	3,807,576	2,182,544

(1) Maturity analysis has been applied on financial instruments and this analyse does not include legal liabilities.

(2) Amounts above are cash flows which has not been discounted belongs to contracts. Since discounted amounts are on immetarial level, balances with maturity less than 3 months are equivalent to their book value.

Hedging instruments:

2017	Book value	Less than 3 months	3-12 months	1-5 years	Over 5 years
Derivative financial liabilities held for hedging	(39,981)	(3,477)	(2,162)	(27,275)	(7,067)
Derivative financial assets held for hedging	33,309	-	1,706	31,603	-
2016	Book value	Less than 3 months	3-12 months	1-5 years	Over 5 years
Derivative financial liabilities held for hedging	(22,184)	-	(10,235)	(11,616)	(333)

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NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk

Interest rate risk

The Company is exposed to interest risk at national and international markets due to its funding of its investments with various financing sources. Considering that corporate investments are financed from non-capital resources, an increase in interest rates seems to be an important risk factor. In order to minimize the foreign exchange risk, the Group has uses interest rate swap derivatives.

The Group's interest rate position is as of 31 December 2017 and 2016 as follows:

	2017	2016
Fixed interest rate financial instruments		
Cash and cash equivalents	222,831	59,639
Financial assets	-	100
Other receivables	1,710,290	1,395,826
Other current assets	22,138	-
Other payables	(753,413)	(645,723)
Financial liabilities	(5,303,317)	(2,100,776)
Variable interest rate financial instruments		
Other receivables	244,922	237,878
Financial liabilities	(2,080,447)	(3,255,149)

Various scenarios have been set up for the bank loans with variable interest rates by taking into consideration the renewal of existing positions, alternative financing and hedging by the Group. As of 31 December 2017, if the variable interest rates of bank borrowing increased or decreased of +1% and -1% and if all other variables are held constant the result before tax would have been influenced favorably or unfavorably by TL20,804 thousand (2016:TL10,672 thousand) for an increase and for a decrease in value of TL.

Foreign exchange risk

The sources used by the Company in financing its investments are predominantly foreign currency denominated. The Company is exposed to foreign exchange risk arising from the translation of the amounts denominated in USD and Euro denominated liabilities to TL. In order to eliminate these risks, protection policies are applied in order to use various derivative products.

Foreign currency denominated assets and liabilities held by the Group as of 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
Assets	2,497,027	1,838,751
Liabilities	(6,411,271)	(5,044,216)
Net position of derivative financial instruments	4,720	-
Foreign currency position, (net)	(3,909,524)	(3,205,465)

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NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

TL equivalent of assets and liabilities denominated in foreign currency held by the Group at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017					
	TL equivalent	USD	EUR	PKR	NIS	JPY
1- Trade receivables	42,671	2,829	79	932,891	-	-
2a- Monetary financial assets	1,488,358	359,106	5,834	2,035,580	35,365	1
2b- Non-monetary financial assets	3,188	-	706	-	-	-
3- Other	-	-	-	-	-	-
4- Current assets (1+2+3)	1,534,217	361,935	6,619	2,968,471	35,365	1
5- Trade receivables	-	-	-	-	-	-
6a- Monetary financial assets	820,107	214,054	-	-	11,695	-
6b- Non-monetary financial assets	142,703	-	31,603	-	-	-
7- Other	-	-	-	-	-	-
8- Non-current assets (5+6+7)	962,810	214,054	31,603	-	11,695	-
9- Total assets (4+8)	2,497,027	575,989	38,222	2,968,471	47,060	1
10- Trade payables	291,984	51,219	20,330	206,099	-	-
11- Financial liabilities	1,291,577	265,313	63,354	140,462	-	-
12a- Other monetary liabilities	23,100	354	-	641,663	-	-
12b- Other non-monetary liabilities	5,552	1,472	-	-	-	-
13- Current liabilities (10+11+12)	1,612,213	318,358	83,684	988,224	-	-
14- Trade payables	-	-	-	-	-	-
15- Financial liabilities	4,480,194	1,044,780	114,047	719,674	-	-
16a- Other monetary liabilities	291,967	73,534	3,234	-	-	-
16b- Other non-monetary liabilities	26,897	7,131	-	-	-	-
17- Non-current liabilities (14+15+16)	4,799,058	1,125,445	117,281	719,674	-	-
18- Total liabilities (13+17)	6,411,271	1,443,803	200,965	1,707,898	-	-
19- Net position of derivative/financial instruments (19a-19b)	4,720	85,451	(70,334)	-	-	-
19a- Total amount of assets hedged	322,313	85,451	-	-	-	-
19b- Total amount of liabilities hedged	317,593	-	70,334	-	-	-
20- Net foreign assets/(liability) position (9-18+19)	(3,909,524)	(782,363)	(233,077)	1,260,573	47,060	1
21- Net foreign currency asset/(liability) position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(4,027,686)	(859,211)	(195,052)	1,260,573	47,060	1
22- Fair value of derivative instruments used in foreign currency hedge	-	-	-	-	-	-
23- Export	29,880	7,922	-	-	-	-
24- Import	592,585	157,105	-	-	-	-

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NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

	31 December 2016					
	TL equivalent	USD	EUR	PKR	NIS	JPY
1- Trade receivables	23,810	-	268	681,676	-	-
2a- Monetary financial assets	1,084,545	286,824	233	1,404,310	29,750	1
2b- Non-monetary financial assets	-	-	-	-	-	-
3- Other	-	-	-	-	-	-
4- Current assets (1+2+3)	1,108,355	286,824	501	2,085,986	29,750	1
5- Trade receivables	-	-	-	-	-	-
6a- Monetary financial assets	730,396	199,833	-	-	29,594	-
6b- Non-monetary financial assets	-	-	-	-	-	-
7- Other	-	-	-	-	-	-
8- Non-current assets (5+6+7)	730,396	199,833	-	-	29,594	-
9- Total assets (4+8)	1,838,751	486,657	501	2,085,986	59,344	1
10- Trade payables	112,288	27,400	2,265	221,820	-	1,154
11- Financial liabilities	1,090,094	258,576	47,221	147,244	-	-
12a- Other monetary liabilities	18,636	5,002	-	30,892	-	-
12b- Other non-monetary liabilities	10,235	2,427	457	-	-	-
13- Current liabilities (10+11+12)	1,231,253	293,405	49,943	399,956	-	1,154
14- Trade payables	-	-	-	-	-	-
15- Financial liabilities	3,238,154	775,338	129,598	860,135	-	-
16a- Other monetary liabilities	562,860	151,295	8,200	-	-	-
16b- Other non-monetary liabilities	11,949	3,395	-	-	-	-
17- Non-current liabilities (14+15+16)	3,812,963	930,028	137,798	860,135	-	-
18- Total liabilities (13+17)	5,044,216	1,223,433	187,741	1,260,091	-	1,154
19- Net position of derivative/ financial instruments (19a-19b)	-	-	-	-	-	-
19a- Total amount of assets hedged	-	-	-	-	-	-
19b- Total amount of liabilities hedged	-	-	-	-	-	-
20- Net foreign assets/(liability) position (9-18+19)	(3,205,465)	(736,776)	(187,240)	825,895	59,344	(1,153)
21- Net foreign currency asset/(liability) position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(3,183,281)	(730,954)	(186,783)	825,895	59,344	(1,153)
22- Fair value of derivative instruments used in foreign currency hedge	-	-	-	-	-	-
23- Export	30,199	8,581	-	-	-	-
24- Import	156,604	44,500	-	-	-	-

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NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group is mainly exposed to foreign exchange risk through the impact of rate changes in the translation of USD, EUR, PKR, NIS and JPY currencies denominated assets and liabilities to local currency. As of 31 December 2017 and 31 December 2016, had the TL appreciated or depreciated by 10% against USD, EUR, PKR, NIS and JPY with all other variables held constant, the effect over current period consolidated net income and equity would be as follows:

	31 December 2017 Gain/(Loss) (*)		31 December 2017 Equity (*)	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
In case of 10% appreciation of USD against TL:				
USD net asset/liability	57,509	(57,509)	(327,331)	327,331
Amount hedged for USD risk (-)	32,231	(32,231)	32,231	(32,231)
USD net effect	89,740	(89,740)	(295,100)	295,100
In case of 10% appreciation of EUR against TL:				
EUR net asset/liability	(46,556)	46,556	(73,487)	73,487
Amount hedged for EUR risk (-)	(31,759)	31,759	(31,759)	31,759
EUR net effect	(78,315)	78,315	(105,246)	105,246
In case of 10% appreciation of PKR against TL:				
PKR net asset/liability	4,276	(4,276)	4,276	(4,276)
Amount hedged for PKR risk (-)	-	-	-	-
PKR net effect	4,276	(4,276)	4,276	(4,276)
In case of 10% appreciation of NIS against TL:				
NIS net asset/liability	5,117	(5,117)	5,117	(5,117)
Amount hedged for NIS risk (-)	-	-	-	-
NIS net effect	5,117	(5,117)	5,117	(5,117)
Total net effect	20,818	(20,818)	(390,953)	390,953

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NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

	31 December 2016 Gain/(Loss) (*)		31 December 2016 Equity (*)	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
In case of 10% appreciation of USD against TL:				
USD net asset/liability	27,545	(27,545)	(259,286)	259,286
USD net effect	27,545	(27,545)	(259,286)	259,286
In case of 10% appreciation of EUR against TL:				
EUR net asset/liability	(69,464)	69,464	(69,464)	69,464
EUR net effect	(69,464)	69,464	(69,464)	69,464
In case of 10% appreciation of PKR against TL:				
PKR net asset/liability	2,764	(2,764)	2,764	(2,764)
PKR net effect	2,764	(2,764)	2,764	(2,764)
In case of 10% appreciation of NIS against TL:				
NIS net asset/liability	5,443	(5,443)	5,443	(5,443)
NIS net effect	5,443	(5,443)	5,443	(5,443)
In case of 10% appreciation of JPY against TL:				
JPY net asset/liability	(3)	3	(3)	3
JPY net effect	(3)	3	(3)	3
Total net effect	(33,715)	33,715	(320,546)	320,546

(*) The portion of the foreign exchange rate difference related to the loans used in the financing of the investments made in 2017 amounting to TL54,930 thousand (31 December 2016: TL44,849 thousand) is included in the net foreign currency asset / liability position and is not related to the profit and loss. For this reason, foreign currency denominated borrowing should be considered when the foreign currency denominated borrowings are subject to a 10% change in the net foreign currency asset / liability position, taking into account the effect on profit or loss or equity.

(c) Funding risk

The Company makes long term investments as a matter of normal course of business. The financing needs of these investments are met with liquid assets and and risks such as not being able to find funds on favorable terms for the project financing loan, the fact that the maturity of current loans can not be made according to the maturity of the assets and the lack of an optimum balance between assets and resources is being followed.

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NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Capital risk management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The Group sets the amounts of capital in proportion to its overall financing structure i.e. equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid the shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

As of 31 December 2017 and 2016, net debt to equity ratio is as follows:

	31 December 2017	31 December 2016
Total financial liabilities (Note 7)	7,383,764	5,355,925
Other liabilities (*)	461,446	77,848
Total liabilities	7,845,210	5,433,773
Less: Cash and cash equivalents (Note 5)	(335,085)	(98,160)
Net debt	7,510,125	5,335,613
Total equity	1,682,105	464,737
Net debt to equity ratio	%446	%1,148

(*) With regard to the Board of Director decision dated 10 April 2015 and numbered 2015/21, in respect of the offsetting of the Company's receivables and payables in the nature of financing from Zorlu Holding, due to the decision of remained receivable balance from Zorlu Holding, long term payable to Zorlu Holding is considered by offsetting from total payable amount TL291,967 thousand as of 31 December 2017 (31 December 2016: TL567,875 thousand).

(e) Credit risk

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognized at the financial position date.

The possession of financial instruments also carries the risk of not meeting the requirements of the other party. The Group management meets these risks by restricting the average risk for each negotiated counterparty and by obtaining collateral if necessary.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

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NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)**(e) Credit risk (Continued)**

As of 31 December 2017, the Group's exposure to credit risk is as summarised below:

2017	Trade receivables		Other receivables		Deposits in bank	
	Related party	Other	Related party	Other	Related party	Other
Maximum credit risk as of reporting date	55,249	271,811	1,929,004	26,208	-	334,927
- Secured portion of maximum credit risk with collateral	-	-	-	-	-	-
Carrying amount of financial assets that are not overdue and not impaired	14,226	222,130	1,929,004	26,208	-	334,927
Carrying amount of assets that are overdue but not impaired	41,023	49,681	-	-	-	-
- Carrying amount secured with collateral	-	-	-	-	-	-
Carrying amount of assets that are impaired	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	60,604	-	-	-	-
- Impairment (-)	-	(60,604)	-	-	-	-
- Secured portion with collateral	-	-	-	-	-	-

As of 31 December 2016, the Group's exposure to credit risk is as summarised below:

2016	Trade receivables		Other receivables		Deposits in bank	
	Related party	Other	Related party	Other	Related party	Other
Maximum credit risk as of reporting date	20,769	127,809	1,626,921	6,783	-	98,097
- Secured portion of maximum credit risk with collateral	-	-	-	-	-	-
Carrying amount of financial assets that are not overdue and not impaired	13,176	103,518	1,626,921	6,783	-	98,097
Carrying amount of assets that are overdue but not impaired	7,593	24,291	-	-	-	-
- Carrying amount secured with collateral	-	-	-	-	-	-
Carrying amount of assets that are impaired	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	3,509	-	-	-	-
- Impairment (-)	-	(3,509)	-	-	-	-
- Secured portion with collateral	-	-	-	-	-	-

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NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

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 fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. Inputs for the asset or liability that are not based on observable market data.

The following methods and assumptions were used to estimate the fair value of the Group's financial instruments:

Monetary assets

Monetary assets for which fair value approximates carrying value:

- Balances denominated in foreign currencies are translated at year-end exchange rates. The fair value of certain financial assets carried at cost, including cash and due from banks, marketable securities plus the respective accrued interest are considered to approximate their respective carrying values.

- The carrying value of the trade receivables net of provisions for uncollectible are considered to approximate their fair values.

Monetary liabilities

Monetary liabilities for which fair value approximates carrying value:

- The fair values of short-term bank loans and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

- The fair values of long-term bank borrowings which are denominated in foreign currencies and translated at year-end exchange rates are considered to approximate their carrying values.

Fair value estimation:

Effective from 1 January 2009, the Group adopted the amendment to TFRS 7 for financial instruments that are measured in the balance sheet at fair value; this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Inputs other than quoted market prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data.

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NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

The fair values of foreign currency denominated balances translated at year-end exchange rates are considered to approximate their carrying values.

Certain financial assets such as cash and cash equivalents are considered to approximate their carrying value due to their short-term nature.

Trade receivables and payables are valued at amortized cost using the effective interest method. Trade receivables and payables are considered to approximate to their fair values (level 2).

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to estimate the fair value an instrument are observable, the instrument is included in level 2.

As of 31 December 2017 and 2016, assets and liabilities measured at fair value are as follows:

	2017	2016
Derivative financial instruments		
Level 1	-	-
Level 2	(6,672)	(22,184)
Level 3	-	-
	(6,672)	(22,184)

245

Fair value of the lands, land improvements, buildings, machinery and equipment of the Group's power plants were measured by a professional independent valuation company through other valuation techniques involving direct and indirect observable inputs (Level 2).

NOTE 32 - EVENTS OCCURRING AFTER REPORTING PERIOD

Pursuant to material event disclosure dated 2 January 2018, the first coupon payment of ISIN Code of TRDKTLME1815 TL100,000,000 nominally valued, sold to qualified investors without being offered to the public Company lease certificate, amounting to TL3,989,000 and the first coupon payment of TRDKTLME1914 coded nominally valued TL100,000,000 nominally valued sold to qualified investors without being offered to the public lease certificate amounting to TL4,142,300 was paid as of 2 January 2018.

Pursuant to material event disclosure dated 9 January 2018, the Company may disclose to the Capital Markets Board any qualified investors of up to 5 years, in Turkish liras, domestically, one or more times within one year following the issuance of the issuance document the Capital Markets Board (CMB) was informed that the issuance of the debt instruments would be in the form of a total export limit of TL300,000,000 and it was accepted by the CMB in a positive manner and the said decision was dated 8 January 2018 and numbered 2018/1 Announced in CMB bulletin.

Pursuant to material event disclosure dated 15 January 2018, at its meeting on 15 January 2018, Zorlu Enerji's Board of Directors resolved to merge Zorlu Enerji Elektrik Üretim AŞ with its fully owned affiliate Zorlu Hidroelektrik Enerji Üretim AŞ ("Zorlu Hidroelektrik"). The merger will be realized in accordance with the related articles of the Capital Market Law, Turkish Commercial Code and Corporate Tax Law and will be through a facilitated procedure as Zorlu Enerji owns all of the voting rights in Zorlu Hidroelektrik. The merger will be based on the companies' interim financial statements dated 30 September 2017.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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

NOTE 32 - EVENTS OCCURING AFTER REPORTING PERIOD (CONTINUED)

Pursuant to material event disclosure dated 16 January 2018, Zorlu Enerji applied to EMRA for the approval of the facilitated merger with its fully owned affiliate, Zorlu Hidroelektrik Enerji Üretim AŞ.

Pursuant to material event disclosure dated 16 January 2018, Zorlu Jeotermal Enerji Elektrik Üretimi AŞ, Zorlu Enerji's fully owned affiliate, applied to EMRA to amend the generation license of its Alaşehir II GPP Project, for increasing the project's installed capacity from 24.9 MW to 45 MW. To be developed in Manisa, Alaşehir, Alaşehir II GEP is planned to be realized as two units each with an installed capacity of 22.5 MW, based on the findings of the recent resource exploration activities.

Corporate bond with the ISIN Code of TRSZORN11811 was redeemed as of 30 January 2018 with the completion of the eighth coupon payment amounting TL2,246,669.97 and principal payment of TL54,000,000.

Pursuant to material event disclosure dated 30 January 2018, the Capital Markets Board had approved the Company's application to issue debt instruments up a nominal value of up to TL300 million and with a maturity of 5 years for sale in single or multiple tranches to qualified investors in the domestic market. Within this scope, the Company completed the sale of a TL139,000,000 floating rate corporate bond with a maturity of 540 days to domestic qualified investors on 30 January 2018. Ak Yatırım Menkul Değerler AŞ has acted as the financial intermediary for the issue.

Pursuant to material event disclosure 8 February 2018, partnership talks, which have been initiated on the basis of the Letter of Intent signed between Zorlu Enerji and Jerusalem District Electricity Company ("JDECO") for the development, construction and operation of solar and/or wind power plants in Palestine, have been finalized. Accordingly, a Joint Venture Agreement is signed between the Company and Sharekat Kahrabaa Mohavazat AL-Quds AL-Urdineyyah ("Sharekat"), which is owned by JDECO's shareholders under the same shareholding structure as JDECO. As per the afore-mentioned agreement, a new joint venture company, in which Zorlu Enerji and Sharekat will have 75% and 25% stakes respectively, will be established. Under the agreement, solar power plants will be built in different regions of Palestine to meet the electricity demand from solar power, which will initially start with an installed capacity of 30 MW, and will reach up to 100 MW.

It was decided that the Company will participate in a company entitled "Zorlu Enerji Asia Limited", to be founded in the Dubai International Financial Centre free trade zone, as the sole founding partner with capital amounting to USD50,000.

Rehabilitation work performed on İkizdere Regulator and Hydroelectric Power Plant, located in the İkizdere district of Rize and owned by the Company's 100% affiliate Zorlu Doğal, to increase installed power from 18.6 MW to 24.94 MW was completed, and the power plant was approved by the ministry today. The power plant started commercial production on 3 March 2018.

Application was made to the Capital Markets Board and EMRA on 7 March 2018 for the issuance of a lease certificate with maximum maturity of 5 years and for up to TL300,000,000, to be sold through private placement and/or to qualified investors without a public offering.

Investor Information

GENERAL INFORMATION

Reporting Period: 1 January - 31 December 2017

Corporate Title: Zorlu Enerji Elektrik Üretim AŞ

Trade Register No: Bursa Ticaret Sicil Müdürlüğü, No: 33550

Headquarters: Organize Sanayi Bölgesi Pembe Cadde No: 13 16159 BURSA

Contact: Levent 199 Büyükdere Cad. No: 199 34394 Şişli - İSTANBUL

Phone: (212) 456 23 00

Fax: (212) 422 00 99

Registered Capital Ceiling: 3.000.000.000 TL

Paid-in/Issued Capital: 2.000.000.000 TL

Independent Auditor

PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ

Süleyman Seba Cad. BJK Plaza No: 48 B Blok

Kat: 9 Akaretler 34357 Beşiktaş - İSTANBUL

Phone: (212) 326 60 60

Fax: (212) 326 60 50

Financial Data and Company Announcements

Financial statements, auditor reports, material disclosures and annual reports of Zorlu Enerji Elektrik Üretim AŞ are available on the Company's website at www.zorluenerji.com.tr.

Additionally, requests for information can be submitted to the Investor Relations Department of Zorlu Enerji Elektrik Üretim AŞ via phone and e-mail.

Investor Relations

Başak Dalga

Investor Relations Manager

Zorlu Enerji Elektrik Üretim AŞ

Levent 199 Büyükdere Cad. No: 199

34394 Şişli - İSTANBUL

Phone: (212) 456 34 56

E-mail: yatirimci@zoren.com.tr

Hande Ogun

Investor Relations Officer

Zorlu Enerji Elektrik Üretim AŞ

Levent 199 Büyükdere Cad. No: 199

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E-mail: yatirimci@zoren.com.tr

Directory

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Osmaniye

(RES İşletme Müdürlüğü)

Gökçedağ Mevkii 8. km
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ZORLU DOĞAL ELEKTRİK ÜRETİMİ AŞ

İstanbul

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34394 Şişli - İstanbul
T: +90 212 456 23 00
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Erzincan (Tercan Santrali)

Atatürk Mah. Erzurum Yolu 2. km
Tercan - Erzincan
T: +90 446 441 30 75
F: +90 446 441 30 41

Rize (İkizdere Santrali)

İkizdere HES İşletme Müdürlüğü
İkizdere - Rize
T: +90 464 416 12 06
F: +90 464 416 10 05

Eskişehir (Beyköy Santrali)

Sarıcakaya İlçesine 16 km mesafede,
26870 Sarıcakaya - Eskişehir
T: +90 222 663 73 81
F: +90 222 663 73 81

Kars (Çıldır Santrali)

Zorlu O&M Enerji Tesisleri İşletme ve
Bakım Hizmetleri AŞ
Carcı köyü mevkii, Çıldır HES
Arpaçay - Kars
T: +90 474 281 24 32
F: +90 474 281 23 52

Tokat (Ataköy Santrali)

Almus ilçesine 7 km mesafede
Almus - Tokat
T: +90 356 411 34 66
F: +90 356 411 30 70

Tunceli (Mercan Santrali)

Ovacık İlçesi'ne 13 km mesafede
Ovacık - Tunceli
T: +90 428 511 24 92

Erzurum (Kuzgun Santrali)

İspir Yolu 56. km
Ilıca - Erzurum
T: +90 442 645 20 76
F: +90 442 645 20 86

Denizli (Sarayköy Santrali)

Denizli İzmir Karayoluna 1 km
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ZORLU JEOTERMAL ENERJİ ELEKTRİK ÜRETİMİ AŞ

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ZORLU RÜZGAR ENERJİSİ ELEKTRİK ÜRETİMİ AŞ

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