Petkim

A SOCAR COMPANY

2017 ANNUAL REPORT

Now:
A Strong Future

The corporate transformation program that we have started with the "Petkim Benim" (*) project enables us to create more value for Petkim and Turkey and prepare us for a stronger future with the transition into a high performance culture.

(*) A homonym usage in Turkish meaning both "I am Petkim" and "Petkim is mine".

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GENERAL INFORMATION

Reporting period:	01 January - 31 December 2017
Company title:	Petkim Petrokimya Holding A.Ş.
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Now: A rising performance

Raising its performance year by year, Petkim broke new records in terms of capacity utilization, production, sales and exports in 2017.

Now: The Right Steps

We vigorously continue our Petkim 4.0 and digitalization work and advance Petkim's global standards forward by reflecting current technologies to our production processes.

Now: Ambitious targets

The refinery and container terminal investment that SOCAR Turkey realized in the Petkim Peninsula reinforces Petkim's aim of becoming a regional manufacturing and logistics power.


APM TERMINALS

Now: Sustainable Value

With its producer identity, Petkim is taking a sustainable approach to the environment and people in the value added chain that Petkim has created, in addition to the contribution it provides to the economy.

GENERAL INFORMATION

18%

Petkim meets 18% of Turkey's petrochemical needs.

5,000

Petkim employs 5,000 workers in its Aliağa Complex.

3.6

million tons

Petkim's annual gross production capacity

21

production facilities

15 main facilities and 6 auxiliary production facilities

002

MISSION, VISION AND VALUES

We support the passionate and devoted work at Petkim with our new vision, mission and values.

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PETKİM IN BRIEF

A giant manufacturing power with a strategic importance for the Turkish economy and industry, Petkim represents 52 years of experience and know-how.

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MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

Hosting Turkey's most comprehensive clustering concept is one of SOCAR's most important goals.

032

MESSAGE FROM THE GENERAL MANAGER

Petkim, which has achieved strong results with a performance that has gone from strength to strength since 2015, posted another set of record operational and financial results in 2017.

052

THE R&D CENTER

In 2017, 34 projects were carried out, including two as the TÜBİTAK-TEYDEB project.

MISSION, VISION AND VALUES

With the breakthroughs we have pursued with the aim of reaching better results and exceeding expectations in our "journey of excellence", which we started with Petkim Benim, we are striving to advance Petkim further. We support our passionate and devoted work at Petkim with our new vision, mission and values.

OUR VISION

To add to strength to the Turkish economy with our superior petrochemical products.

OUR MISSION

To maintain our development that aims for operational excellence with our strong organization and culture and our stakeholders.

OUR VALUES

- Responsibility
- Leadership
- Cooperation
- Passion
- Confidence

PETKİM IN BRIEF

Petkim is Turkey's first and only integrated petrochemical plant and an indispensable supplier of raw material for the industry.

A giant manufacturing power with a strategic importance for the Turkish economy and industry, Petkim represents 52 years of experience and know-how. Petkim, which is Turkey's first and sole integrated petrochemical plant with 15 main and 6 auxiliary production facilities, is an indispensable raw material supplier of the industry with an annual average gross production capacity of 3.6 million tons and around 60 petrochemical products.

Petkim provides inputs to a wide array of sectors such as plastics, chemicals, packaging, piping, paint, construction, agriculture, automotive, electricity, electronics and textiles as well as the pharmaceuticals, detergents and cosmetics sectors with the high added value products in its portfolio such as thermoplastics, fiber and paint raw material. In addition to these, Petkim gives life to numerous sub-industries.

Established on 3 April 1965, Petkim Petrokimya A.Ş. (Petkim) began production in 1970 with 5 facilities in the Yarımca Complex. Following additional investments carried out in the Yarımca Complex, the Aliağa Complex was brought into operation in 1985 to produce with optimum capacity based on the latest technologies of the time.

A giant complex that makes continuous production at high capacity, Petkim is establishing state-of-the-art technology and infrastructure in the Aliağa Complex to ensure economic and environmental sustainability, and to move the Company towards the future through investment programs that it is undertaking.

With its vast experience and strong reputation in the market, Petkim maintains its international competitive edge by effectively meeting the needs and expectations of a broad customer base. Petkim's products are exported to markets in the USA, Europe, the Middle East and North Africa.

The 51% public share in the capital structure of Petkim Petrokimya Holding A.Ş. was transferred to SOCAR & Turcas Petrokimya A.Ş. on 30 May 2008 following a tender process in the privatization through block sale, at a price of USD 2.04 billion.

49% of the shares of Petkim, which is a subsidiary of SOCAR Turkey, were trading on the Istanbul Stock Exchange as of the end of 2017.

Focusing on the development of higher value-added, high-tech products with its well-established R&D structure, Petkim prepares for the future with its vision of strong sustainability. Petkim has been moving forward with leaps and bounds towards becoming one of the few petrochemical complexes and production bases in Europe within the framework of the investment plan that includes the "Refinery-Petrochemical-Energy-Logistics-Distribution-Transmission Integration" which it determined for the Petkim Peninsula in line with the strategic goals of the SOCAR Group, to which it is affiliated.

Its identity of being the sole domestic producer of petrochemical raw materials in the Turkish industry and the driving force of the industry can find meaning in the expression of "the Chemistry of Love for Turkey". Petkim will continue to grow and exist with our country with its production technology that respects both people and the environment, contributing valuably to the country's economy, with a strong social and cultural influence.

SOCAR

SOCAR is one of the world's leading energy companies having important investments in the Caspian region with the oil and natural gas resources that it owns and operates.

SOCAR is one of the world's most established and respected energy companies

Established in 1992 to benefit from Azerbaijan's burgeoning oil and gas reserves, SOCAR (State Oil Company of Azerbaijan Republic) is one of the world's leading energy companies having important investments in the Caspian region with the oil and natural gas resources that it owns and operates.

Representing Azerbaijan's deep-rooted oil production experience dating back to the 19th century, SOCAR is an international energy company with operations in a number of different countries. SOCAR operates the refinery and all oil and natural gas pipelines in the country, meets demand for petroleum, petroleum products and natural gas, is able to export the excess supply of its products, and works to an advanced service concept with high-capacity.

SOCAR has a wide ranging area of operations in the oil and petrochemical industry in all regions of Azerbaijan, including land and sea fields such as those below.

- **The investigation, exploration and processing of oil and gas deposits**
- **The production, processing, transportation of oil, gas and condensed gas**
- **The sale of oil and petrochemical products in domestic and foreign markets**
- **Supplying wholesale and retail natural gas in Azerbaijan**

SOCAR Value Chain

Exploration and Production	Pipelines and Export	Refining and Petrochemical	Logistics and Trade	Petroleum Products Marketing
Absheron	Baku-Novorossiysk Oil Pipeline	The Heydar Aliyev Baku Oil Refinery	Kulevi Terminal	Azerbaijan
Bulla Deniz	Baku-Supsa Oil Pipeline	Azerikimya IB (Production Union)	Dubendi Terminal	Georgia
Ümid	Baku-Tbilisi-Ceyhan Oil Pipeline	Petkim	SOCAR Trading	Ukraine
Azeri- Chirag-Gunashli	Baku-Tbilisi-Erzurum Gas Pipeline	The STAR Refinery	Fujairah Terminal	Turkey
Bahar-Gum Deniz	Caspian Fleet	SOCAR Polymer		Romania
Binegedi		SOCAR Carbamide		Switzerland
Southwest Gobustan 3 blocks				
Kurovdagh				
Kursengi				
Mishovdagh-Kelameddin				
Block that includes the Murakhanli Jafarli and Zardab Oil Fields				
Neftchala				
Pirsahhat				
Ramany				
Surakhany				
Zigh and Hovsan				
Shah Deniz				
Neftchala (Neft Rocks)				

Three production divisions, one oil refinery and one gas processing plant, a deep water platform fabrication yard, two trusts, one scientific research institute, and 23 subdivisions are operating as corporate entities under SOCAR.

The Azerigaz Production Unit, which carries out natural gas transportation, distribution and sales operations throughout Azerbaijan, and the Azerikimya Production Unit, which carries out all petrochemical production activities, continue their activities under the SOCAR roof.

SOCAR, whose operations have become diversified and geographically expanded due to its strengthening presence in international markets, today has more than 51,000 employees in different areas of the petroleum industry through the joint ventures (including those in Turkey and Georgia), subsidiaries and consortia.

SOCAR has representative offices in Georgia, Turkey, Romania, Austria, Switzerland, Kazakhstan, the United Kingdom, Iran, Germany and Ukraine. It has trading companies in many countries including Switzerland, Singapore, Vietnam and Nigeria.

SOCAR strengthens its presence with investments in different geographical regions and has been carrying out effective projects, especially for opening to the European market.

SOCAR TURKEY

SOCAR Turkey represents the strong cooperation between Turkey and Azerbaijan, which has developed within the framework of the one nation, two states ideal of Mr. Heydar Aliyev, the founder of Azerbaijan, in the economic dimension.

SOCAR Turkey is the most important representative of the economic co-operation between Azerbaijan and Turkey, which is constantly strengthening.

The Azerbaijan State Oil Company - SOCAR, one of the world's most established oil companies, launched a far reaching strategic partnership through the acquisition of Petkim in 2008. SOCAR Turkey Enerji A.Ş. (SOCAR Turkey) was established on 30 December 2011 to carry out SOCAR's operations in Turkey.

SOCAR Turkey's investment plan in the Turkish market, which it operates in through strong initiatives, covers some of the largest scale investments in the history of the country.

Operating in Turkey, one of the most important geographical regions in SOCAR's global operations and based on the deep-rooted fraternity and friendship between Turkey and Azerbaijan, SOCAR has embarked on a USD 19.5 billion investment plan with conviction in the potential and the future of the Turkish market in which it participates, through strong initiatives and its steady growth journey.

Within the framework of "Refinery-Petrochemical-Energy-Logistics-Distribution-Transmission Integration" that directs SOCAR Turkey's investments, the final objective once the investments are completed is for the Petkim Peninsula to become one of the largest chemical parks in Europe by commanding the value added chain that starts with crude oil and ends with the final product within the framework of the cluster model.

STAR Refinery: Turkey's first private sector refinery investment

The STAR Refinery, Turkey's first privately owned refinery investment which will pave the way for the future expansion of SOCAR Turkey in the Petkim Peninsula and provide feedstock security, is the basic step in the integration chain. The STAR Refinery is one of the biggest energy operations in the region with an investment cost of USD 6.3 billion.

The refinery investment, which will have a refining capacity of 10 million tons* of crude oil, will become operational in 2018.

Founded on 25 October 2011, the STAR Refinery, which represents the largest real sector investment in Turkey in the last 30 years and the largest foreign investment on a single location, will be Turkey's second largest refinery when completed.

The production of petroleum products such as diesel, jet fuel and LPG, the import of which currently places a significant burden on the current account deficit, will be realized in the STAR Refinery, which is expected to end the external dependency of Turkish petrochemical industry. The refinery is planned to start production in 2018, with 1.6 million tons of naphtha.

STAR Refinery will be a high standard conversion refinery with crude oil processing capacity.

With its high Nelson complexity ratio, which is used in the technical grading of refineries, the STAR Refinery will have the flexibility to process different crude oils coming from different regions, such as Ural, "Azeri Light" and Kirkuk crudes.

The total storage capacity of the refinery, built on 2,860 acres of land, will be approximately 1,640,000 m^3.

The STAR Refinery will use natural gas as its main fuel, which is more environmentally friendly with lower emissions. The refinery is being built on the basis of environmental standards that comply with the most up-to-date EU norms.

The world-renowned main contractor firm consortium, which came together to build the STAR Refinery, consists of the following companies:

- Tecnicas Reunidas (Spain)
- Saipem (Italy)
- GS Engineering (South Korea)
- Itochu (Japan)

The construction of the STAR Refinery, which obtained Turkey's first "strategic investment incentive certificate", continues at a rapid pace. As of December 2017, around 98.2% of the work on the STAR Refinery was completed with 100% of the engineering work, 99.9% of the procurement work and 99.3% of the construction work.

Being established with advanced environmentally friendly technology, the primary objectives of the STAR Refinery are:

- To ensure the continuity of supply of the Petkim Petrochemical Complex by meeting demand for raw materials economically and reliably,
- To produce medium distillate fuels for the domestic market, that is suffering from a significant supply shortage,
- To create additional synergies by integrating refinery and petrochemical operations, whilst providing opportunities for investment of new and higher value added products through refinery-based feedstock and at the same time enabling the joint use of existing infrastructure,
- To increase production capacity, to create employment, to work for reducing the current account deficit with the foreign exchange savings that will be generated with lower demand for imports, and to provide a significant contribution to the economy of the country and region with the increase in competitive power.

(*) In the detailed engineering studies phase carried out in 2015, the proposed annual crude oil processing capacity was increased to 10,277,400 tons (214,000 barrels per day) from 10 million tons, which would see an increase of approximately 2% in productivity. Approximately 2 million tons of these amounts will be used by Petkim.

SOCAR TURKEY

"CHEMICAL PARK"

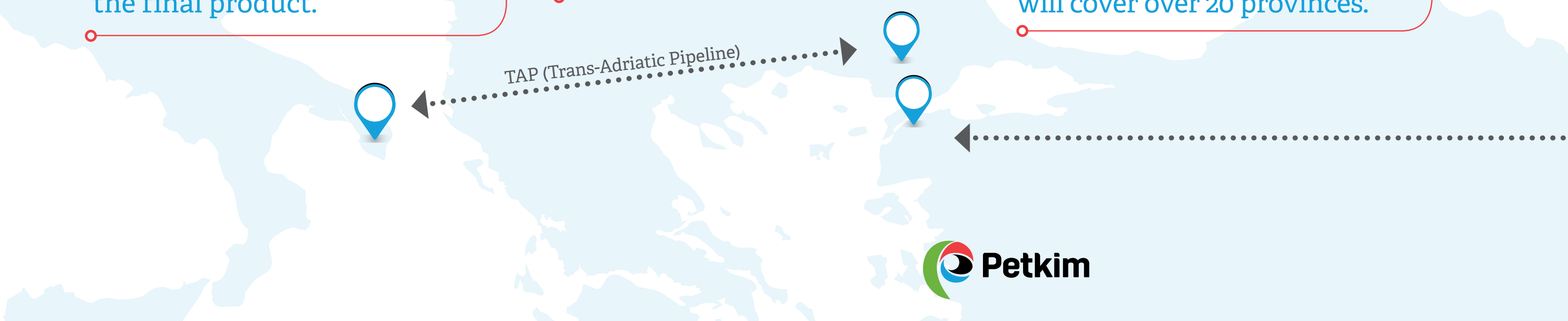
With the integration of Refinery, Petrochemical, Energy, Logistics, Distribution, and Transmission operations, the Petkim Peninsula will be transformed into one of the largest chemical parks in Europe by implementing a value added chain that starts with crude oil and ends with the final product.

TANAP: NEW ENERGY CORRIDOR OF EUROPE

TANAP will turn both Turkey and Azerbaijan into the most important players in the sector. The 1,850 km pipeline will place Turkey and Azerbaijan as Europe's principal alternative natural gas suppliers.

A FIBER OPTIC NETWORK COVERING 20 PROVINCES

The SOCAR Fiber-Optic Network will be a communications infrastructure project that will be rolled out in parallel with the TANAP Natural Gas Pipeline. Encompassing regions between the border with Georgia and the border with Greece, the fiber-optic network will cover over 20 provinces.



Petlim Container Terminal: the largest integrated port of Aegean Region

Petlim Limancılık Ticaret A.Ş. (Petlim) was established on 22 November 2010 for the development of Petkim Port, for it to be operated more economically and to build "The Largest Integrated Port of Aegean Region".

30% of Petlim's shares, which Petkim has established as a wholly owned subsidiary, were acquired by Goldman Sachs which was one of the world's leading investment banks in the last quarter of 2014. The Petlim Container Terminal that is being built by Petlim is being realized to complete the logistics integration step. The port investment had a cost of USD 400 million, including financing costs.

The first phase of the Petlim Container Terminal, with its 800,000 TEU capacity, entered service on 6 December 2016, and the construction of the second phase was completed on 13 September 2017. The terminal is the largest container terminal in the Aegean Region and the third largest in Turkey with a quay length of 700 meters, a 1.5 million TEU handling capacity, and 42 hectares of service area in the port.

The Petlim Container Terminal will be operated by APM Terminals, the world's second largest terminal operator, for 28 years with the option of a 4 year extension.

The terminal, which will provide general cargo services, is also used as the main arterial port in the shipment of STAR Refinery investment materials.

Power plant projects to serve as the energy pillar of the investments

Work on installation of the Wind Farm project with 17 wind turbines and a mechanical power of 51 MW, got underway 2014 with the aim of increasing Petkim's energy security, reducing the energy costs included in production costs and meeting a proportion of the electricity needed in the production process from environmentally friendly renewable energy resources, and was completed in 2017. The 25 MW generation capacity was accepted by the Ministry of Energy and Natural Resources and the system was commissioned.

The process of benefiting from the Renewable Energy Resources Support Mechanism started for a duration of 10 years as of 1 January 2018.

The Wind Farm, which has been developed with an investment of EUR 55 million, is anticipated to increase Petkim's electricity generation production capacity by 22%, while reducing CO_2 emissions by 120,000 tons.

Investments in the Petkim Peninsula and Benefits to Petkim

STAR Refinery

- 1.6 million tons of light naphtha supply
- Reduction in logistics costs
- Feedstock safety
- Sustainability in product specifications
- Increased efficiency in the production of aromatics
- Production of medium distillate fuels

Petlim Container Terminal

- The terminal will be able to accept vessels with capacities exceeding 11,000 TEU
- With the advantage of a water depth of 16 meters, it will rival the ports of Piraeus and Alexandria
- High capacity in cargo services
- The important logistics center of the region

Wind Farm

- Energy security
- Use of renewable energy resources
- A 22% increase in electricity generation capacity
- A 120,000 ton reduction in CO_2 emissions

The TANAP Project: The most strategic step taken so far for Turkey to become an energy corridor

SOCAR Turkey is taking one of the most strategic steps ever taken for Turkey to become one of the world's energy corridors with the TANAP (Trans Anatolian Natural Gas Pipeline) project, which is the most important part of the Southern Gas Corridor and has a project cost of approximately USD 8 billion.

The TANAP project, initiated in March 2015, aims to increase Turkey's natural gas supply security and diversify its supply resources, as well as opening the Republic of Azerbaijan to new markets and contributing to the energy supply security and stability of the region.

The TANAP pipeline will pass from the Türkgözü village of the town of Posof in the Ardahan province, located on the border between Georgia and Turkey, through a total of 20 provinces including Ardahan, Kars, Erzurum, Erzincan, Bayburt, Gümüşhane, Giresun, Sivas, Yozgat, Kırşehir, Kırıkkale, Ankara, Eskişehir, Bilecik, Kütahya, Çanakkale, Tekirdağ and Edirne, and will end at the town of İpsala, in the Edirne province on the border with Greece. At this point, the pipeline will be connected to the TAP (Trans-Adriatic Pipeline), which will transport natural gas to European countries.

Within the scope of the project, there will be two exit points for the connection to the national natural gas transmission network; one in Eskişehir and the other in Thrace (Trakya) within the borders of Turkey. The TANAP system will pass through Turkey from east to west, with a main pipeline of 1,850 km, including 19 km under the Sea of Marmara. With additional investments, the capacity of the pipeline is planned to be raised from 16 billion m^3 initially to 24 billion m^3, and then to 31 billion m^3.

TANAP, which is planned to be commissioned in 2018, will place Turkey as an energy corridor extending from the Caucasus to Europe. The TANAP project, developed to transport the natural gas that will be extracted from the Shah Deniz-2 field in Caspian Sea through Turkey to Europe, will position Turkey and Azerbaijan as Europe's largest alternative gas suppliers and the industry's most important players.

91% of TANAP, which will perform the first gas transmission to Turkey in 2018, was completed in December 2017.

The SOCAR Fiber Optic Network - the communication network that will share the route with TANAP

The SOCAR Fiber Optic Network is planned as a communication infrastructure project that will be rolled out in parallel with the TANAP Natural Gas Pipeline. The fiber optic network, which will start from the border with Georgia and end at the Greek border, will also extend from one end of Turkey to the other.

Established to realize investments in fiber optic infrastructure, SOCAR Turkey Fiber Optik A.Ş. (SOCAR Fiber) will expand fiber optic infrastructure in the region with the investments that it has initiated to support the global need for the expansion of communication infrastructures, thereby providing the operators and telecommunication companies in Turkey and the region with access to world-class data transfer speeds and additional capacity and line backup to their services.

KEY PARAMETERS AND FINANCIAL HIGHLIGHTS

Five-Year Key Indicators (TL thousand)	2013	2014	2015	2016	2017
Total Assets	3,245,630	3,788,257	5,460,665	6,268,528	7,788,858
Net Sales	4,158,730	4,132,846	4,532,636	4,532,591	7,363,824
Net Profit	48,897	8,679	639,209	731,687	1,389,444
Exports (USD million)	816	564	503	448	725
Issued Capital	1,000,000	1,000,000	1,500,000	1,500,000	1,500,000
Number of Employees (year-end)	2,457	2,425	2,471	2,395	2,464

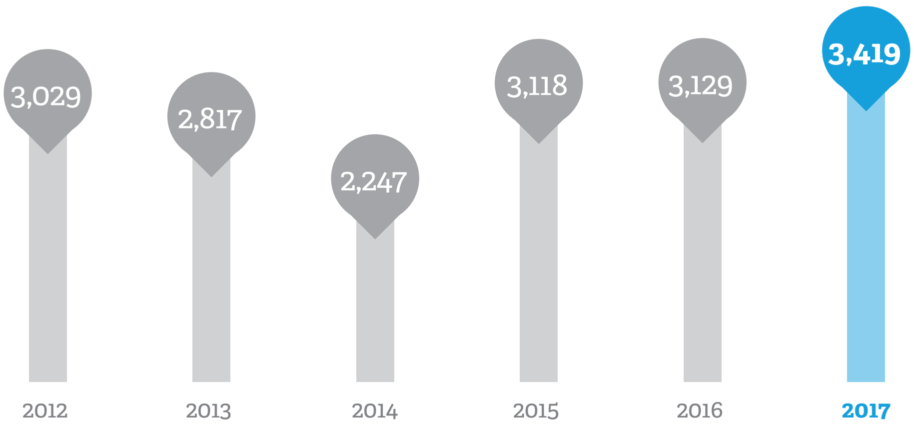
Summary Balance Sheet (TL thousand)	2016	2017
Current Assets	2,659,946	4,208,404
Non-Current Assets	3,608,582	3,580,454
Total Assets	**6,268,528**	**7,788,858**
Short-term Liabilities	1,796,641	2,346,909
Long-term Liabilities	1,402,447	1,587,871
Shareholders' Equity	3,069,440	3,854,079
Total Equity and Liabilities	**6,268,528**	**7,788,858**

Summary Income Statement (TL thousand)	2016	2017
Net Sales	4,532,591	7,363,824
Gross Profit	957,819	1,857,960
Operating Profit	777,608	1,696,209
EBITDA	889,905	1,790,796
Net Profit for the Year	**731,687**	**1,389,444**

Key Ratios	2016	2017
Current Ratio	1.48x	1.79x
Liquidity Ratio	1.08x	1.01x
Financial Leverage Ratio	0.51x	0.51x
Debt Ratio (Total Debt/Equity)	1.04x	1.02x
Gross Profit Margin (%)	21.1	25.2
Operating Profit Margin (%)	17.16	23.03
EBITDA Margin (%)	19.63	24.32
Net Profit Margin (%)	16.14	18.87

Raising its net profit by 90% YoY to TL 1.4 billion in 2017, Petkim's earnings before interest, taxes, depreciation and amortization (EBITDA) increased by 101% YoY to TL 1.8 billion.

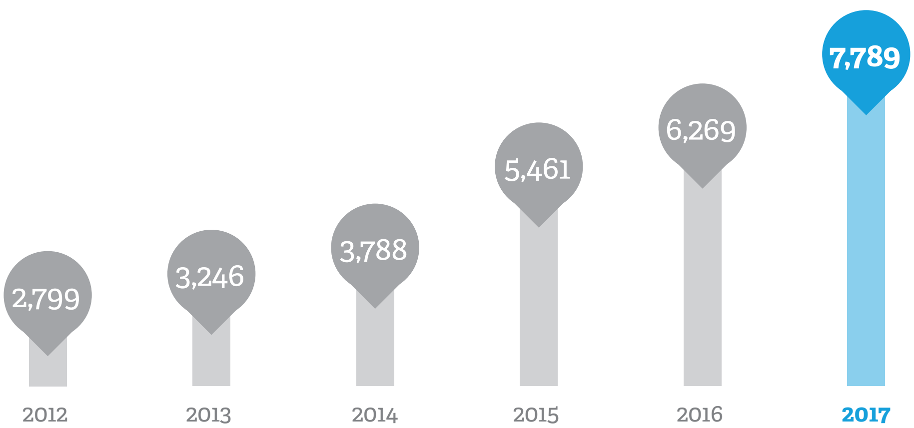
GROSS PRODUCTION
(THOUSAND TONS)



Growth in Asset Size
24%

Total Assets
7,789
TL million

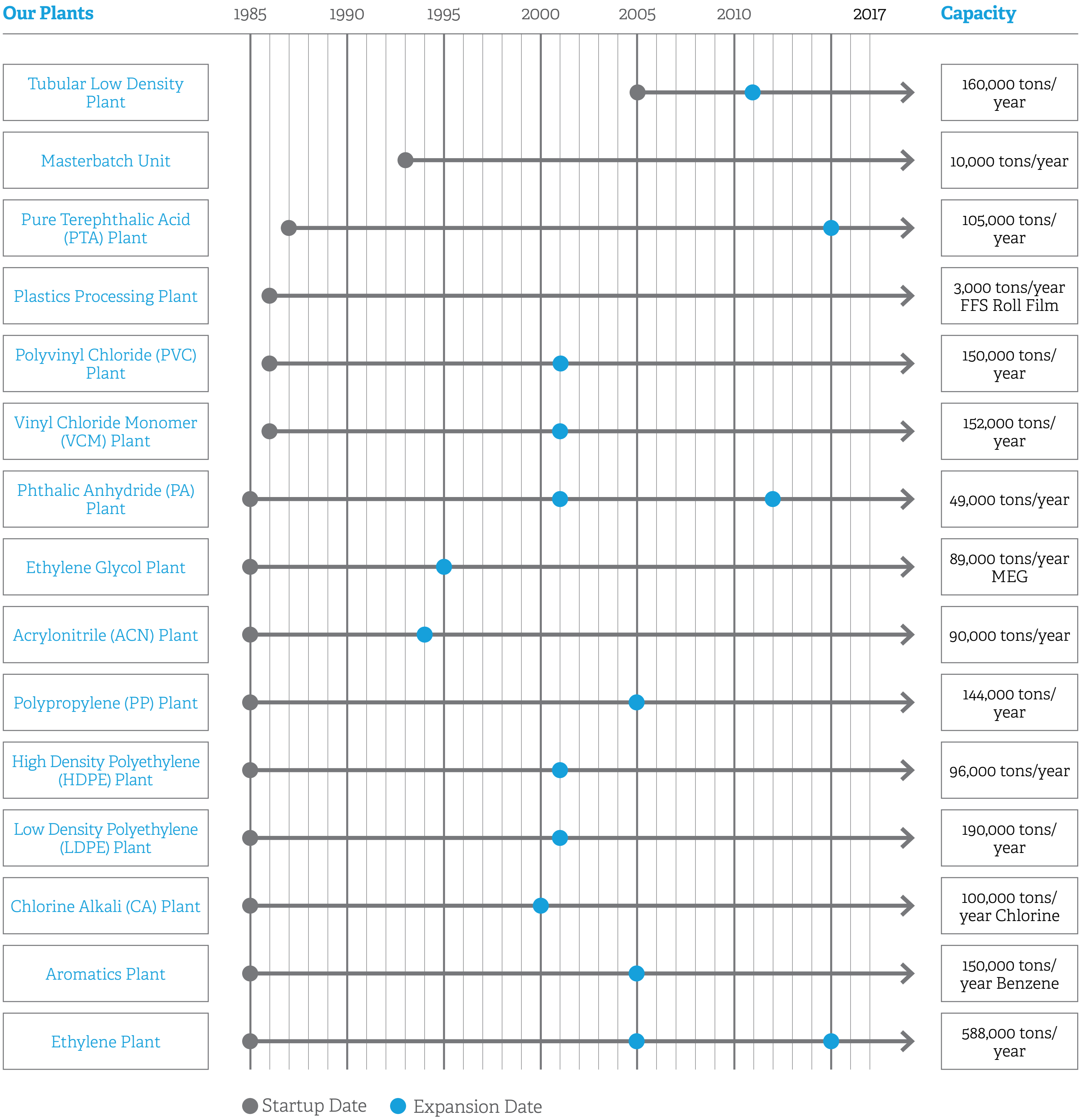
TOTAL ASSETS
(TL MILLION)



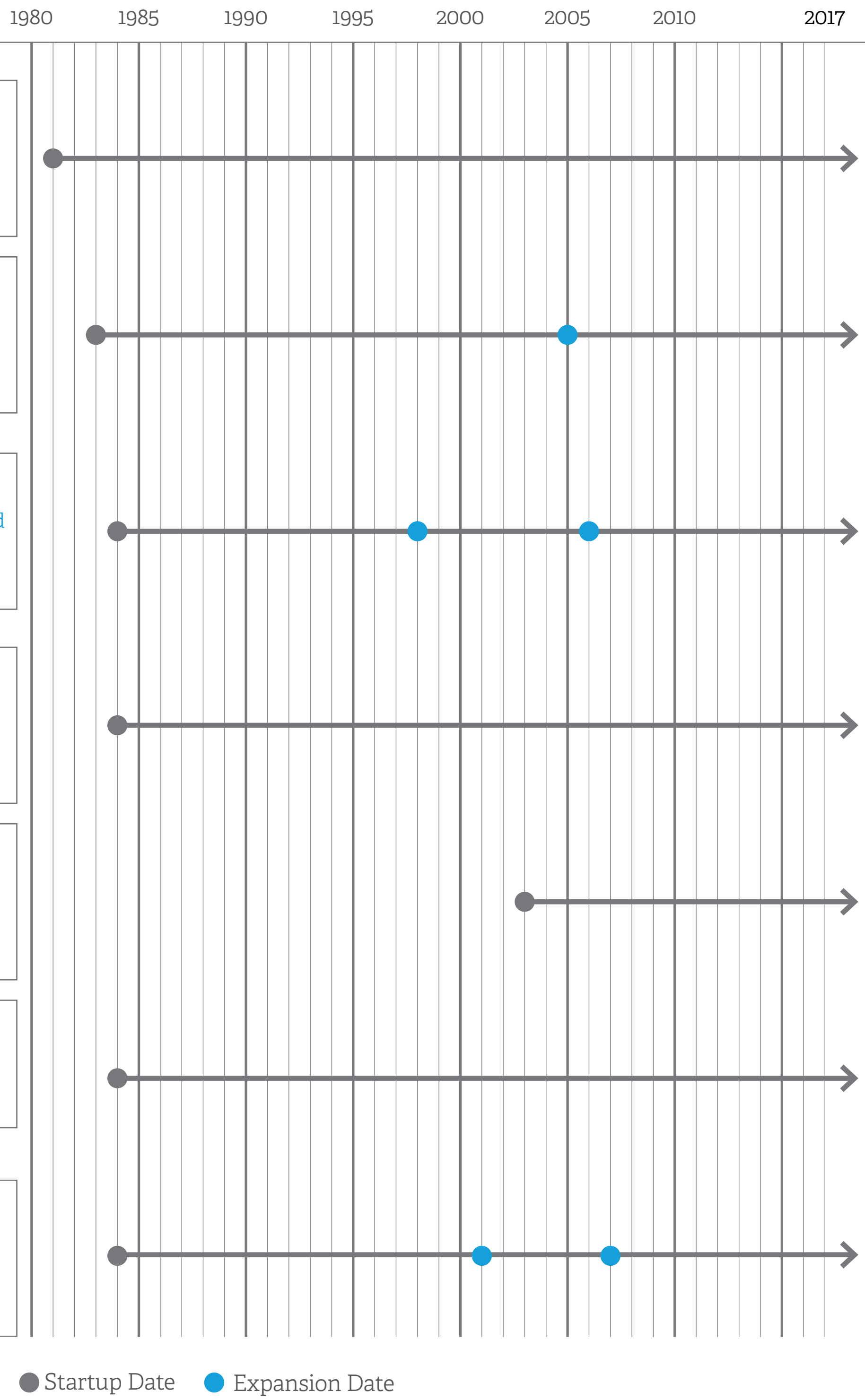
Net Profit
1,389
TL million

Production Amount
3.4
million tons

PETKİM PLANTS



Auxiliary Processing Units



Güzelhisar Dam	**Rainfall Area:** 450 km^2 **Annual Average Rainfall:** 500-600 kg/m^2 **Water Level:** 63 m. (min.), 104 m. (normal), 107 m. (max.) **Active Volume:** 137 million m^3 **Total Storage Volume:** 150 million m^3
Water Purification Unit	**Capacity:** 7,800 m^3/h **Start up Date:** 1983 **Expansion Date:** 2005 **Total Storage Capacity of Raw Water Basins:** 80,000 m^3
Demineralized Water Unit	**Capacity:** 1,700 m^3/h **Start up Date:** 1984 **Expansion Date:** 1998, 2006
Wastewater Treatment Plant	**Capacity:** 1,670 m^3/h 550 m^3/h Oily Wastewater 120 m^3/h Domestic Wastewater 1,000 m^3/h Chemical Wastewater
Solid-Liquid Waste Incinerator	**Capacity:** 2.26 tons/h 0.85 tons/h Solid Waste 1.07 tons/h Treatment Sludge 0.34 tons/h Waste Oil
Port	**Handling Amount:** 2.8 million tons
Energy Production	**Electricity Production Capacity:** 1,200 tons/h XHS **Electricity Production-Distribution Installed Capacity:** 226 MW **Capacity Increases:** 2001 (TG4), 2007 (Gas Turbine)

MILESTONES FROM PETKİM'S HISTORY

1965-1970

- Petkim Petrokimya A.Ş. was established with TL 250 million in capital.
- Construction of the Ethylene, Polyethylene, CA, VCM and PVC plants at the Yarımca Complex was completed and trial operations began.
- A decision was made to establish a second petrochemical complex in the Aliağa region.

1971-1975

- Production began at the Çanakkale Plastics Processing Plant.
- The DDB Plant within the Yarımca Complex was established and began operations.
- Petkim's capital was increased to TL 1.5 billion.
- Expansions at the Ethylene and LDPE plants within the Yarımca Complex were completed.
- The Carbon Black, Synthetic Rubbers (SBR-CBR), Styrene and Polystyrene plants at the Yarımca Complex began operations.

1976-1983

- Expansions of the VCM and PVC plants at the Yarımca Complex were completed. Caprolactam units began production.
- Due to the rapid growth of the Turkish automotive industry, Petlas Lastik Sanayi A.Ş. was established to produce tires as of 19 August 1976 under the management of Petkim.
- Petkim's capital was increased to TL 8 billion, TL 40 billion and finally TL 100 billion.
- Auxiliary plants and shared facilities at the Aliağa Complex were completed.

1984-1989

- Plants at the Aliağa Complex began production.
- The Aliağa and Yarımca complexes were converted into subsidiary companies; Alpet A.Ş. and Yarpet A.Ş.
- Petkim was brought within the scope of the state privatization program under the provisions of law number 3291 dated 28 May 1986.

1990-1995

- Petkim's capital was raised to TL 2 trillion in 1990 and TL 3 trillion in 1991.
- As a result of expansion and rehabilitation projects at the Aliağa Complex's LDPE, HDPE, PP and ACN plants in 1993 and the Yarımca Complex's PVC, PS, CB, SBR, CBR and BDX plants in 1995, a significant increase was achieved in Petkim's production capacity.

1996-1999

- Petkim obtained a TS-EN-ISO 9002 Quality Assurance Certificate.
- The Company's record keeping was converted from the Paid-up Capital System to the Authorized Capital System. The Company increased its capital to TL 117 trillion, on the basis of TL 114 trillion transferred from the Revaluation of Fixed Assets Fund.

2000-2004

- Chlorine Alkali production technology was changed to membrane type to achieve lower production cost and more HSE friendly plant. Investments increased chlorine production capacity from 75,000 tons/year to 100,000 tons/year.
- Capital was increased from TL 117,000 billion to TL 204,750 billion.
- As per the Privatization High Council's decree, the Yarımca Complex was sold to Tüpraş.
- The second expansion of the HDPE Plant, which increased production capacity from 66,000 tons/year to 96,000 tons/year, was completed in 2001.
- 10,000 tons were added to the PVC plant capacity.
- The Çanakkale Plastic Processing Plant was shut down; its equipment was transferred to the Aliağa Complex.
- The construction and installation of the Solid-Liquid Waste Incineration Unit began operations in 2003.
- Petkim's dry cargo jetty was opened for service to third parties.

2005-2007

- The expansion of the Ethylene, LDPE and PP plants was completed in 2005. The capacities of the plants increased from 400,000 tons/year to 520,000 tons/year for ethylene, from 190,000 tons/year to 310,000 tons/year for LDPE and from 80,000 tons/year to 144,000 tons/year for PP. This represents the largest investment program undertaken in the past 18 years.
- At the Aromatics Plant, PX capacity was increased from 100,000 tons/year to 136,000 tons/year, whilst benzene capacity was increased from 123,000 tons/year to 134,000 tons/year.
- As a result of a USD 90 million investment, the 57 MW gas turbine went into operation at the Steam Production and Electric Power Generation units in 2007. In the steam boilers, in addition to fuel-oil, the use of environmentally friendly natural gas has started which also provided fuel flexibility for operations.
- Elsewhere, the use of an FFS Roll Film-producing co-extruder unit was started for Bag Production operations in 2007. With a view to replacing valve bags, FFS bag packaging was introduced gradually for all solid products.
- In addition, a privatization tender using the block sale method for the state-owned shares of Petkim, equivalent to a 51% stake in the Company, was announced. The tender, which was open to the public, took place on 5 July 2007. The sale of these shares to the second highest bidder, the SOCAR & Turcas Consortium, was approved by decision number 2007/63 of the Privatization High Council on 22 November 2007.

2008-2009

- On 30 May 2008, in a privatization tender again using the block sale method, 51% of Petkim's public shares were handed over to SOCAR & Turcas Consortium for USD 2.04 billion.
- A 1.3 million m² parcel of land owned by Petkim was allocated to the STAR Rafineri A.Ş. for the establishment of a raw materials refinery.
- Major improvements in productivity were realized by upgrading technology to increase feedstock flexibility. Petkim began cracking not only naphtha but also LPG.
- Within the scope of the Company's expansion plans, feasibility studies and detailed terminal plans were conducted for the Petkim Port.
- As a result of the Integrated Management System Certification Audit carried out by Turkish Standards Institute (TSI), the ISO 9001 Quality Management System was renewed. Petkim was granted the ISO 14001 Environmental Management System and TS 18001 Occupational Health and Safety Management System certifications.

2010

- On 23 June 2010, STAR Rafineri A.Ş. received the license for a 10 million ton capacity refinery at the Petkim Complex.
- In order to boost the efficiency of port operations, Petlim Limancılık Ticaret A.Ş. was established in November 2010.
- The enterprise Resource Planning Project (ERP) was launched on 1 October 2010 and all operational processes began being monitored through this initiative.
- Petkim's capital was increased via bonus issues from TL 204,750,000 to TL 1,000,000,000.
- Petkim also received approval for its license application to the Energy Market Regulatory Authority (EMRA) for the construction of a wind power plant on 15 December 2010, as part of the EMRA decision numbered 2922-16

2011

- In this year, the Company held the groundbreaking ceremony for the STAR Refinery located on the Petkim Peninsula.
- The Company also made further investments to expand the capacity of the LDPE-T Plant, increasing its capacity by 20%.
- In addition, the groundbreaking ceremony for the Heydar Aliyev Technical and Industrial Vocational High School took place.
- The Company's Atmospheric Nitrogen and Oxygen plant was handed over to French Air Liquide.
- Petkim's land in Yarımca was sold in a tender.
- An agreement to increase the capacity of Ethylene plant was also signed.
- Following the withdrawal of Turcas from the shareholding structure, 51% of Petkim shares were handed over to SOCAR Turkey Enerji A.Ş.

MILESTONES FROM PETKİM'S HISTORY

2012

- A preliminary agreement for operation of the container port was signed between Petlim Limancılık A.Ş., a 100% subsidiary of Petkim and APM Terminals, a Dutch-based company active in operation and management of container terminals. It will be built at Petkim production facilities by APMT.
- Following the expansion investment completed in August 2012, the capacity of the PA plant increased from 34,000 tons/year to 49,000 tons/year.
- In the National Awards of Quality, one of the most prestigious awards of Turkey, which was held in cooperation with TÜSİAD and KalDer, Petkim was awarded National Quality Success Award in the category of Large-scale Institutions.
- A project to modify and increase the capacity of the Ethylene and PTA plants received the "Strategic Investment Incentive Certificate."
- Petkim received first prize in the large manufacturers category of the "Energy Efficiency Increase in Industry Project" competition. This initiative is organized by the Ministry of Energy and Natural Resources, and comprises seven projects that provide TL 58 million/year profit and a reduction of 140,000 tons/year in CO_2 emissions.
- Also, by means of Petkim's contributions, the construction of the Heydar Aliyev Technical and Industrial Vocational High School was completed. Following completion, the school was handed over to the Aliağa Directorate of National Education.

2013

- Petkim was awarded with the grand prize in the Efficiency in Industry category of The National Energy Prizes contest.
- Petkim has been the first industrial institution to obtain ISO 50001 Energy Management System Certificate among the large-scale industrialists consuming energy more than 500,000 TEP.
- Petkim crowned its customer oriented efforts with TS ISO 10002 Customer Satisfaction Management System Certificate.
- In line with the integration targets, an operation agreement was signed on 22 February 2013 with APMT BV and APM Terminals for the operation of the Container Port by APM Terminalleri Liman İşletmeciliği A.Ş. (APM Terminals).
- Petkim Academy was established.
- Petkim was awarded with four prizes in Successful Industrial Enterprises Ceremony, which is held every year by the Aegean Region Chamber of Industry.
- Excavation works for the Petlim Container Port were begun.
- With exports worth USD 765,751,000, Petkim became the export leader of both the Aegean Region and the overall chemical industry in the region.

2014

- As part of the Petkim Wind Power Project, a final agreement was signed with Alstom.
- Following the purchase of 30% of shares worth USD 250 million, Goldman Sachs became a shareholder of Petlim Limancılık A.Ş., a 100% subsidiary of Petkim.
- Capacity at the Ethylene plant was increased by 13% to 588,000 tons/year, while the capacity at the PTA plant reached 105,000 tons/year having risen from 70,000 tons/year. As a consequence, Petkim's gross production capacity increased by 13%. The plant underwent a comprehensive maintenance program as part of the broader structure of the Company.
- The Company's Corporate Governance Rating rose to 9.01, following a study carried out by Kobirate.
- The Plastic Processing Plant came online at its new location.
- Petkim received the ISO 27001 Information Security Management System Certificate developed by TSI.
- Furthermore, Petkim became one of the 15 companies listed on the BIST Sustainability Index

2015

- Conducting its activities based on its 45 years' R&D culture, Petkim's research center reached the status of R&D Center following the certification of the Ministry of Science, Industry and Technology on 13 January 2015. The center operates on an area of 1,200 m^2 consisting of 6 laboratories, a 400 m^2 pilot plant and offices, located at Petkim complex.

- Petkim celebrated its 50th year of operation with its employees, senior officials from Petkim and SOCAR, the business and media world and distinguished guests from Turkey and Azerbaijan in a series of events.
- The capacity of the PTA plant, which supplies raw materials to textiles and PET packaging production, was increased from 70,000 tons/year to 105,000 tons/year.
- Petkim Port received the "GreenPort Certificate" following an audit carried out by the Directorate General of Merchant Marine and TSI (Turkish Statistics Institute).
- Petkim was selected as one of Turkey's most preeminent digital companies. Accenture Turkey, which is evaluating the performance of digitalization in private sector companies at all stages from production to the customer, has implemented Digitalization Index. As a result of the work performed under a systematic approach and a scientific methodology, Petkim became the leader of the "Manufacture of Chemicals and Chemical Products" sector.
- Petkim received the first prize in the Industrial Energy Efficiency Project competition organized by the General Directorate of the Renewable Energy of Ministry of Energy (YEGM). In the contest, where the projects of industrial enterprises on increasing energy efficiency of their current systems evaluated, Petkim won the first place in the SEVAP-3 (50,001 TEP and higher) category, participating with total of 8 energy projects selected from the LDPE, Ethylene, Aromatics, ACN and LDPE-T plants.

2016

- On 6 December 2016 the first phase of the 800,000 TEU capacity Petkim Container Terminal was completed and it entered operation.
- The ACN plant broke a 31-year production record and was selected as "The Best Plant" among Petkim facilities.
- Petkim started to produce organoleptic lid types with nonwoven in High Density Polyethylene plant, supplying producers of bottle lids for fizzy liquids.
- Petkim received the "Aegean Region's Top Company that Has the Biggest Exports" and "Top Company in Chemistry Sector Having the Biggest Exports" awards in recognition of its exports, which reached USD 447 million in 2016.
- The Petkim Port was awarded the GreenPort Certificate for a second time, following checks conducted by the Ministry of Transport, Maritime Affairs and Communications Directorate General of the Merchant Marine and Turkish Standards Institute.

2017

- Petkim received the "Biggest Exporter in the Aegean Region" and "Biggest Exporter in the Chemicals Industry" awards, in recognition of the USD 671 million of exports it realized in 2017.
- Reaching 100% capacity in the Ethylene Plant, a record high production of 3.42 million tons was achieved with a record 97% capacity utilization rate in all facilities as a whole.
- The installation of the Wind Farm project with 17 turbines and a mechanical power capacity of 51 MW was completed in 2017 and the system, with 25 MW electricity generation, was commissioned.
- The construction of the second phase of the Petlim Container Terminal was completed.
- Petkim's Corporate Transformation Program, "Petkim Benim" started in January 2017.
- The Digital Transformation initiation has got underway at Petkim. Accordingly, the Deputy Directorate General of Digitalization and Technology was established.

MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

As one of Turkey's most important companies, we are strongly committed to playing our part in helping Turkey produce more.

ESTABLISHING ONE OF EUROPE'S LARGEST PRODUCTION CENTERS IN TURKEY

SOCAR's key goals include establishing one of Europe's largest production centers in Turkey and to host Turkey's most comprehensive clustering concept in 2023, the year we will celebrate the 100th anniversary of the foundation of the Republic of Turkey.

VAGİF ALİYEV
Chairman of the Board of Directors

We launched "Petkim Benim", our transformation program, which is aimed at building stronger Petkim with a common culture and common goals, in a key step to shape our future.

Dear shareholders and business partners,

2017 marked a new beginning in global growth.

The global economy started to grow with a performance which confounded forecasts, and trade volume displayed a relatively high growth trend in 2017.

While it was observed that economic growth in developed countries gained pace in 2017, the growth performance of developing countries also improved during the year. After the first quarter of 2017, the rise in global risk appetite was positively reflected to capital inflows to developing economies.

The market conditions in 2017 provided a supportive operating climate for the petrochemical industry and NAFTA (North American Free Trade Agreement) based producers. Oil prices, which oscillated throughout the year, started to follow an upward trend from the second half of the year, reaching a 2 ½ year peak at the end of the year. On the other hand, global trade volume reached its highest rate since 2011, at 4.5% in 2017, following the feeble performance in 2016. The projections for 2018 indicate that this growth can be maintained.

In 2017, Turkey's economy achieved strong growth thanks to the government incentives aimed at supporting economic activity, also helped by the effect of the previous year's low base. The defences that the Turkish economy has built up over the years to tackle crises and its powerful dynamics reinforces our belief in a better future in the coming period.

Investments reinforce Petkim's ambitious targets.

Established by the toil and sweat of the Turkish people and now a massive production base, the 2008 acquisition of Petkim by SOCAR, an important center of value in Azerbaijan backed with deeply rooted experience in the oil sector, marked a very important threshold in the relations between the two countries. With this acquisition, key goals were set out such as new investments to be undertaken in the future, crowning centuries-old fraternal relations with economic value for the people of both countries.

SOCAR's key goals include establishing one of Europe's largest production centers in Turkey and hosting Turkey's most comprehensive clustering concept in 2023, the year we will celebrate the 100th anniversary of the foundation of the Republic of Turkey.

This clustering strategy, which covers "Refinery-Petrochemical-Energy-Logistics-Distribution Integration" investments, is of vital importance not only for Petkim, but also for Turkish industry and for the economies of both countries.

In this context, the first major project on the Petkim Peninsula, the USD 400 million Petlim Container Terminal, started operating and thus the logistics pillar of the integration has become operational. On the other hand, work on the construction of the STAR Refinery located in Aliağa is about to be completed and the production is planned to be started by the end of 2018. The STAR refinery with an investment value of USD 6.3 billion will provide a positive contribution for the closure of the current account deficit in Turkey with the supply of domestic raw materials. At the beginning of 2018 with a strategic decision, Petkim signed a contract to be an indirect partner in the STAR Refinery with an 18% stake, for a consideration USD 720 million. We regard this partnership as an important breakthrough in terms of increasing Petkim's income diversity in different areas in the period ahead.

Petkim's strong potential for development

Petkim Benim, our transformation program, which we started at Petkim and which is aimed at building a stronger Petkim with a common culture and common goals, is a key step we are taking to shape our future. Our material and spiritual achievements in this transformation process, which urges our human resources to make better use of their potential and help them create more value for Petkim and for Turkey with strong motivation, brings us great pride and strengthens our hope for the future.

As one of Turkey's most important companies, we are strongly committed to doing our part to help Turkey produce more and with this determination, we produce with the aim of giving life to numerous industries, while creating jobs for more of our citizens.

We have a profound belief that as the Petkim family, we will achieve many more successes with our determination and focus on the future. I would like to take this opportunity to thank all of our stakeholders for their support and confidence in us.

With my sincere love and respect,

MESSAGE FROM THE GENERAL MANAGER

As Petkim notched up record breaking production and sales in 2017, it also achieved record profitability.

We broke record after record in 2017.

Petkim, which has posted strong results on a steadily improving performance since 2015, achieved record operational and financial results in 2017.

Petkim achieved historic levels in production and sales, gaining the maximum benefit from the favorable conditions in the petrochemical market and reaching record-high profitability.

Total production stood at 3.4 million tons in 2017 with 97% capacity utilization throughout the complex.

The production capacity of the Ethylene Plant - Petkim's flagship facility - where naphtha is processed for the supply of raw material to Petkim's other facilities, reached 100%. Six plants posted their highest ever production volumes, notable the Aromatics plant.

Petkim's net sales posted an increase of 62% YoY to TL 7.4 billion compared to the previous year. With a 90% YoY surge in net profit to TL 1.4 billion, Petkim's earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to TL 1.8 billion, marking a YoY increase of 101%.

Petkim received the "Biggest Exporter in the Aegean Region" and "Biggest Exporter in the Chemicals Industry" awards, in recognition of its USD 671 million of exports in 2017.

Petkim's operational excellence and efficiency, achieved through uninterrupted optimization efforts and a halving in downtimes on the operating and maintenance side, played an important role in achieving these fine results. Meanwhile,

A MORE THAN DOUBLING IN EBITDA TO TL 1.8 BILLION.

Petkim recorded net sales of TL 7.4 billion, marking an increase of 62% YoY, with a 90% YoY increase in profit to TL 1.4 billion. Meanwhile, Petkim's earnings before interest, taxes, depreciation and amortization (EBITDA) surged by 101% YoY to reach TL 1.8 billion.

ANAR MAMMADOV
General Manager

While the BIST 100 Index posted an increase of 48% in 2017, Petkim shares outperformed strongly, chalking up a gain of 128%.

Petkim maintains a balanced and strong balance sheet and operates with a very limited foreign exchange position.

Petkim has the full confidence of our investors

While the BIST 100 Index posted a gain of 48% in 2017, Petkim shares strongly outperformed, chalking up a gain of 128% - an important and concrete reflection of how much confidence our investors have placed in Petkim.

Within the scope of the revenue diversification strategy in areas other than the petrochemical market, Petkim signed a contract to be an indirect partner at the STAR Refinery in 2018, purchasing an 18% stake in the refinery for USD 720 million. Having won over investor confidence with a succession of strong financial results, Petkim achieved another resounding success with the issue of USD 500 million of bonds with a maturity of 5 years at the beginning of 2018 in order to finance this acquisition.

Supporting its contribution to the economy with investments

As our country's first and sole domestic petrochemical product producer, Petkim, which has an 18% market share in the domestic market, offers Turkish industrialists and SMEs a great price advantage. In addition, while providing domestic customers with the basis for sustainable production with the supply security it provides, it reinforces its identity of being a reliable supplier both at home and abroad with the high quality of its products.

In addition to being the supplier for dozens of sectors in Turkey, Petkim provides a significant contribution to the Turkish economy through its investments and business partnerships.

In the Petkim Peninsula, which is SOCAR's most important investment area in terms of global operations, more than USD 10 billion of investment has been undertaken by our controlling shareholder.

The Petlim Container Terminal, the 3rd largest port in Turkey and the largest integrated port in the Aegean Region with a 16-meter water depth and the capacity to serve new generation ships with a 16,000 TEU capacity, entered operation. This brought the logistics pillar of the refinery-petrochemical-energy-logistics-distribution integration chain into service.

A 25 MW portion of the capacity at the wind farm, which has 17 turbines and a 51 MW installed power capacity, was commissioned in 2017 and become operational, generating efficient energy.

Work on the STAR Refinery investment has reached the final stages ahead of its completion. The refinery, which will be commissioned at the end of 2018, will create synergies for Petkim thanks to the 100% raw material security, logistics savings and common infrastructure and services that it will provide. The refinery, which will also pave the way for the production of the naphtha at optimal quality and its continuity, will open up opportunities for to further enhance the added value of Petkim products.

In addition to the investments in Turkey, SOCAR invested about USD 90 million in Petkim in 2017, mostly in the form of maintenance-operation, capacity increase and energy efficiency projects.

Our goal is always to progress further

We regard Petkim Benim, which we started to implement in 2017, as a program of excellence. We have achieved significant gains in the process of cultural transformation and value creation. The fundamental goals of the program include the establishment of a dynamic organizational culture that is strong, proactive and adapts rapidly with employees who come together under common objectives, to finally achieve the culture of "One Petkim" with all of our employees, and to spread a higher performance culture and value creation.

An important initiative that we have launched in 2017 was digitalization, and in this context, the Industry 4.0 transformation.

A new Deputy General Directorate was created under the name of "Digitalization and Technology" in this process, in which we took our first step by setting out our digital road map. In the coming period, we will continue to develop the advanced analytical applications that have started to be implemented in 2017.

Our ultimate goal in this area is to elevate Petkim to the level of being the best digital company in Turkey and Azerbaijan.

Petkim's strategic objectives are operational excellence, innovation and sustainable and profitable growth. Our priority in the short term is to increase the level of operational excellence to the standards of the industrial companies at global level. Our long-term goal is to achieve a growth momentum that will last and lead our Company to leadership.

In 2018, which we expect to be a more difficult period in terms of market conditions, we are preparing for a new era in which Petkim will achieve new successes with a focus on efficiency. In this vein, an important downtime was added to the business plan to ensure that investments are carried out that will increase factory efficiencies. On the other hand, our action plan was created with the determination to make good use of the opportunities that will arise once the STAR Refinery starts production. We expect to receive the first outputs of the digitalization process, which is a mid-term project, at the end of the year.

By linking the Petkim family with an even stronger culture, we are building the "Petkim of the Future" and we will increase our tempo with the intention of consolidating the successes that we have achieved in this direction. We will continue to work devotedly to produce more value for Petkim and Turkey.

I would like to extend my sincere thanks to all of our stakeholders.

ORGANIZATION, CAPITAL AND SHAREHOLDING STRUCTURE OF THE COMPANY

Organizational Structure

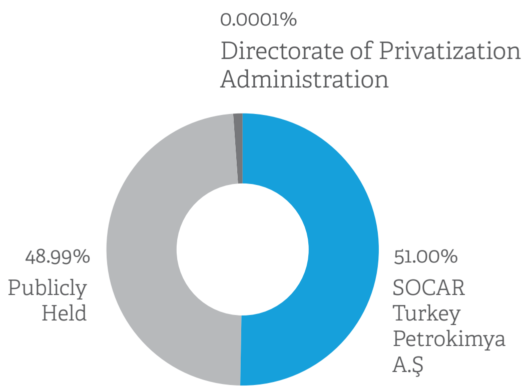
The executive management of the Company consists of one General Manager and nine Assistant General Managers.

Name	Position
Anar Mammadov	General Manager
Riza Bozoklar	Assistant General Manager (Finance)
Nihat Gürbüz	Assistant General Manager (Operations)
Bilal Guliyev	Assistant General Manager (Projects and Maintenance)
Kanan Mirzayev	Assistant General Manager (Strategy and Business Development)
Khalig Mustafayev	Assistant General Manager (Business Support)
Levent Kocagül	Assistant General Manager (Human Resources)
Agshin Salimov	Assistant General Manager (Sales and Marketing)
Oğuzhan İpek	Assistant General Manager (Supply Chain)
Murad Abdullayev	Assistant General Manager (Digitalization and Technology)

Capital and Shareholding Structure

Real and legal persons directly holding 5% or higher share or voting rights in the capital (other than the Privatization Administration)

Shareholder	Paid-in Capital (TL)	%
SOCAR Turkey Petrokimya A.Ş.	765,000,000.00	51.00
Directorate of Privatization Administration	0.01	0.0001
Traded on BIST (Publicly Held)	734,999,999.99	48.9999
Total	1,500,000,000.00	100.00



Information on Privileged Shares and Voting Rights of Shares

- Article 32 of the Company's Articles of Association stipulated that each share entitles its holder to one vote in General Assembly Meetings. Group C shares enjoy the privilege of making nominations to the Board of Directors.
- Furthermore, Board of Directors decisions passed in relation to matters specified in Article 15 of the Company's Articles of Association become valid if Group C shares cast affirmative votes.

At the end of 2017, 49% of Petkim shares were traded on Borsa İstanbul.

BOARD OF DIRECTORS

Vagif Aliyev
Chairman of the Board of Directors

Born in 1959, Vagif Aliyev graduated from Azerbaijan Civil Engineering Institute's Hydraulic Engineering program in 1981.

Active in business life since 1981, Mr. Aliyev began his career at the Caspian Sea Oil & Gas Production Union's Azer Sea Oil Construction Trust, successfully moving up the ranks from engineer to senior engineer and then section manager. Since 2005, he has been the Head of Investments at the State Oil Company of Azerbaijan Republic (SOCAR); since 2008, he has served as a member of the Board of Directors at Petkim Petrokimya Holding A.Ş. In October 2009, Mr. Aliyev was named Chairman of the Board of Directors at Petkim.

David Mammadov
Vice Chairman of the Board of Directors

Born in 1955, David Mammadov graduated from the M. Azizbeyov Petroleum and Chemicals Institute, Azerbaijan, in 1980 with a Chemical Engineering degree.

He began his career in 1976 as an Operator at the Baku Oil Refinery; since 2005, he has served as Vice President in charge of refineries at the State Oil Company of Azerbaijan Republic (SOCAR). Since 2008, Mr. Mammadov has been a member of the Board of Directors at Petkim.

Mehmet Bostan
Board Member - Independent

Born in 1971 in İstanbul, Mehmet Bostan graduated from İstanbul University, Faculty of Economics with a degree in international relations, and received his MBA from İstanbul Bilgi University. He began his career in 1995 and worked as a Corporate Banking Officer at Denizbank, Marketing Manager at BNP Ak Dresdner Bank, Manager at Türkiye Sınai Kalkınma Bankası, and last, Chief Representative of Turkey Operations at Dresdner Bank AG. Mehmet Bostan became Assistant General Manager of Finance at Güneş Sigorta in 2009. He then served as General Manager of Vakıf Emeklilik for six years. Between November 2016 and September 2017, he worked as the General Director of the Turkey Asset Management Fund while serving as Chairman of the Board. He was appointed as an Independent Member of the Turkcell Board of Directors by the CMB on 15 August 2013, and has been carrying out this duty since then.

* Mehmet Bostan complies with the requirements of Capital Markets Board's Corporate Governance Principles of independent board member. He does not have relationship of interest between Petkim Petrokimya Holding A.Ş. and its related parties.

Farrukh Gasimov
Board Member

Born in 1959 in Baku, Farrukh Gasimov graduated with a law degree from Baku State University in 1981 and earned his Ph.D. from Moscow Public Studies and Law Institute in 1985.

From 1985 to 1991, he served as a Lecturer and Associate Professor at the Baku Public Administration and Politics University. Since 2006, he has been Deputy Head of the Legal Department at SOCAR and since 2009, a member on the Board of Petkim.

Ertuğrul Altın*
Board Member

Born in 1967, Ertuğrul Altın graduated from Yıldız University with a degree in mechanical engineering. He successfully completed the Management Certification Program (8 months) at Marmara Contemporary Management Techniques Foundation and University of Maine, and also attended a graduate program in the European Community Institute at Marmara University. He started his career in 1990 in his family business. He worked as an engineer, specialist, supervisor, manager and last, as district manager at İGDAŞ (İstanbul Gas Distribution Co.) between 1996 and 2004, and as General Manager of Bursagaz of the Çalık Group from 2004 to 2008. He worked as a freelance consultant in 2008 and 2009, and published a book titled Dört Yılda Kalite Ödülüne - Bir Örnek Olay (A Case Study: A Quality Award in Just Four Years). He functioned as General Manager of Trakya Gaz and Gazdaş companies at the Zorlu Group from 2009 to 2011, General Manager of TANAP from 2011 to 2013, was involved in the negotiation process on behalf of SOCAR Turkey, and was a member of the Technical Contract Committee at TANAP on behalf of SOCAR in 2014 and 2015. He has been serving as an advisor to the Minister at the Ministry of Energy and Natural Resources since November 2015.

*Ertuğrul Altın left his position on 28 February 2018.

Neslihan Tonbul was assigned for Ertuğrul Altın's seat as to be submitted to the approval of the General Assembly in accordance with Article 11 of the Articles of Association of the Company and Article 363 of Turkish Commercial Code in its first meeting to be held.

BOARD OF DIRECTORS

İlhami Özşahin
Board Member

Born in Kastamonu in 1950, İlhami Özşahin graduated with a degree in Electric Engineering from İstanbul State Architecture Engineering Faculty. In 1976, Mr. Özşahin started his professional career at TEK as a System Operating Engineer, and in 1995 he was appointed as the TEAŞ Load Dispatching Department Chair. At the end of 2000 he was appointed as Counselor in the General Management of TEAŞ. From 1995 to 2000, he also served as Chair of the TEAŞ Environmental Department and Scientific Inspection and Efficiency Department. From 2002 to 2003, he served as Energy Specialist at the Energy Market Regulatory Authority, and in March 2003 he was appointed as General Manager and Board Chair in Türkiye Elektrik İletim A.Ş., retiring in 2009. Over the course of his career, he attended various domestic and overseas short-term education activities and received long-term educational training related to energy planning and coordination in Japan, and completed Energy Management studies in England.
Mr. Özşahin still works as an independent consultant.

Süleyman Gasimov
Board Member

Süleyman Gasimov was born in the village of Fakhraly in the Bolnisi district of Georgia on 26 December 1961. He graduated from the Azerbaijan National Economic Institute (now Azerbaijan State Economic University) in 1982 and from Academy of Public Administration under the President of the Republic of Azerbaijan in 2003. He worked in various positions- accountant, economist, deputy chief accountant and chief accountant- in the oil and gas industry from 1982 to 1991. Between 1991-2003, he was a chief accountant at the Khazardenizneftgas (Caspian Sea Oil and Gas) Production Unit of Azerineft (Azeri Oil) Oil and Gas Production Department, Offshore Oil and Gas Production Unit. In 2004-2006, he was Chief of Division of Economics and Accounting Department of SOCAR, Deputy Chief of the Department and Chief of the Department. In 2006, Mr. Gasimov became the Company's Vice President responsible for economic issues.
In 2006, he was presented with the Taraggi (Progress) Medal and in 2011, the Shohrat (Glory) Order. He has a Ph.D. in Economics and is the author of one scientific work and more than 15 scientific articles and is a member of the New Azerbaijan Party.

Tevfik Bilgin
Board Member - Independent

Born in 1967 in Aydın, Tevfik Bilgin graduated from the Middle East Technical University, Faculty of Economics and Administrative Sciences with a degree in public administration. He received his MBA from the University of Iowa, USA. He worked as a Sworn Bank Auditor at the Prime Ministry Undersecretariat of Treasury from 1992 to 2001, and as Assistant Financial Coordinator responsible for Financial Institutions at Anadolu Endüstri Holding from 2001 to 2003. He became General Manager of Halkbank in 2003, and served as the Chairman of the Savings Deposit Insurance Fund (SDIF) in 2003 and 2004. He held the position of the Chairman of the Banking Regulation and Supervision Agency (BRSA) from 2003 to 2012. Tevfik Bilgin serves as the Chairman of the Board of Nuh Çimento San. A.Ş. since 2013.

* Tevfik Bilgin complies with the requirements of Capital Markets Board's Corporate Governance Principles of independent board member. He does not have relationship of interest between Petkim Petrokimya Holding A.Ş. and its related parties.

Prof. Dr. Mehmet Ceylan
Board Member - Independent

Born in 1958 in Safranbolu, Mehmet Ceylan completed his secondary and high school education in Safranbolu and Karabük. He graduated with a degree in mechanical engineering from Konya State Engineering Architectural Academy (now Selçuk University) at the top of his class in 1979 and then his master's degree in the same field from İstanbul State Engineering and Architectural Academy (now Yıldız Technical University). He worked as an assistant and member of faculty at Zonguldak Karaelmas University from 1981 to 1985, and then graduated from the Middle East Technical University, School of Foreign Languages where he pursued his academic studies as a research associate. He transferred to State Planning Organization as an assistant specialist in 1986, where he was appointed as planning specialist in 1991. After successfully completing his second master's degree in economics at the Western Illinois University, USA, between 1989 and 1991, he returned to his position at the State Planning Organization. He embarked upon a political career with the local elections held on 18 April 1999. He served as Mayor of Safranbolu for one term. He was elected as a Member of the Parliament for the constituency of Karabük twice as a result of the general elections held on 3 November 2002 and 22 July 2007. As an MP, he served as a Member of the Planning and Budgeting Commission and the EU Harmonization Commission and as Vice President of the Turkey-EU Joint Parliamentary Commission during the 22nd term. During the 23rd term of the Parliament, he acted as Deputy President of the Foreign Affairs Commission and as a member of the NATO Parliamentary Assembly as a member of the parliament. For eight years, he presided the Turkey-Saudi Arabia Friendship Group, which he founded. After his duty as MP ended, he served as Deputy Minister of Development from September 2011 until September 2015. On 2 January 2016, he has been appointed as Deputy Minister of Environment and Urbanization, in which post he still serves.

* Mehmet Ceylan complies with the requirements of Capital Markets Board's Corporate Governance Principles of independent board member. He does not have relationship of interest between Petkim Petrokimya Holding A.Ş. and its related parties.

DECLARATIONS OF INDEPENDENCE OF INDEPENDENT BOARD MEMBERS

DECLARATION OF INDEPENDENCE

I hereby stand for serving as an **"Independent Member"** on the Board of Directors of Petkim Petrokimya Holding A.Ş. (the Company) as per the criteria specified in the legislation, articles of association, and the Capital Markets Board of Turkey (CMB) Corporate Governance Principles set out in the Corporate Governance Communiqué (II-17.1) of the CMB enforced upon its publication in the Official Gazette issue 28871 dated 3 January 2014.

Within this context, I hereby declare for the information of the Company's Board of Directors, General Assembly, shareholders and all stakeholders as follows:

a) Neither I, nor my spouse, nor any relative of mine whether by blood or by marriage unto the second degree, have, within the most recent five years, entered into any employment relationship in an executive capacity involving major duties and responsibilities, or individually or jointly held more than 5% of the capital or voting rights or privileged shares, or established any commercial interest of a significant nature, with any corporate entity with which the Company, any company in which the Company has management control as per Turkish Financial Reporting Standards 10 or significant influence as per Turkish Accounting Standards 28, or any shareholder having management control or significant influence over the Company or any corporate entity in which these shareholders have management control,

b) I was neither a shareholder (5% and higher), nor have I worked in an executive capacity involving major duties and responsibilities for, and/or served as a member on the boards of directors of any company from/to which, under a contract, the Company purchased/sold services or products of material quantity during the period of time such services or products were being purchased or sold, and particularly of the firms performing the audit (including tax audit, legal audit and internal audit), rating and consultancy of the Company, in the past five years,

c) I possess the professional education, knowledge and experience for due performance of the duties I will assume in connection with being an independent board member,

d) I am not a full-time employee of public institutions and establishments,

e) I am considered to be a resident of Turkey for the purposes of the Income Tax Law (ITL) no. 193 dated 31 December 1960,

f) I possess strong ethical standards, professional credibility and experience that are necessary for making positive contributions to the Company's operations, maintaining my independence in possible conflicts of interest between the Company and its shareholders, and making decisions freely taking into consideration the rights of stakeholders,

g) I shall dedicate sufficient amount of time to be able to follow up the execution of the Company's affairs and to fully meet the requirements of the duties I undertake and to fulfill the representation duties on behalf of the company that I have been assigned by the Board of Directors,

h) I have not held a seat on the Company's Board of Directors for more than six years in the past ten years,

i) I am not serving as an independent board member in more than three companies controlled by the Company or by shareholders having management control over the Company, or in more than a total of five companies traded on the stock exchange.

24 February 2016

Name/Surname: Tevfik BİLGİN

TR Identity No: 35437655356

DECLARATION OF INDEPENDENCE

I hereby stand for serving as an **"Independent Member"** on the Board of Directors of Petkim Petrokimya Holding A.Ş. (the Company) as per the criteria specified in the legislation, articles of association, and the Capital Markets Board of Turkey (CMB) Corporate Governance Principles set out in the Corporate Governance Communiqué (II-17.1) of the CMB enforced upon its publication in the Official Gazette issue 28871 dated 3 January 2014.

Within this context, I hereby declare for the information of the Company's Board of Directors, General Assembly, shareholders and all stakeholders as follows:

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b) I was neither a shareholder (5% and higher), nor have I worked in an executive capacity involving major duties and responsibilities for, and/or served as a member on the boards of directors of any company from/to which, under a contract, the Company purchased/sold services or products of material quantity during the period of time such services or products were being purchased or sold, and particularly of the firms performing the audit (including tax audit, legal audit and internal audit), rating and consultancy of the Company, in the past five years,

c) I possess the professional education, knowledge and experience for due performance of the duties I will assume in connection with being an independent board member,

d) I am not a full-time employee of public institutions and establishments,

e) I am considered to be a resident of Turkey for the purposes of the Income Tax Law (ITL) no. 193 dated 31 December 1960,

f) I possess strong ethical standards, professional credibility and experience that are necessary for making positive contributions to the Company's operations, maintaining my independence in possible conflicts of interest between the Company and its shareholders, and making decisions freely taking into consideration the rights of stakeholders,

g) I shall dedicate sufficient amount of time to be able to follow up the execution of the Company's affairs and to fully meet the requirements of the duties I undertake and to fulfill the representation duties on behalf of the company that I have been assigned by the Board of Directors,

h) I have not held a seat on the Company's Board of Directors for more than six years in the past ten years,

i) I am not serving as an independent board member in more than three companies controlled by the Company or by shareholders having management control over the Company, or in more than a total of five companies traded on the stock exchange.

5 May 2016

Name/Surname: Mehmet CEYLAN

TR Identity No: 43115085456

DECLARATIONS OF INDEPENDENCE OF INDEPENDENT BOARD MEMBERS

DECLARATION OF INDEPENDENCE

I hereby stand for serving as an **"Independent Member"** on the Board of Directors of Petkim Petrokimya Holding A.Ş. (the Company) as per the criteria specified in the legislation, articles of association, and the Capital Markets Board of Turkey (CMB) Corporate Governance Principles set out in the Corporate Governance Communiqué (II-17.1) of the CMB enforced upon its publication in the Official Gazette issue 28871 dated 3 January 2014.

Within this context, I hereby declare for the information of the Company's Board of Directors, General Assembly, shareholders and all stakeholders as follows:

a) Neither I, nor my spouse, nor any relative of mine whether by blood or by marriage unto the second degree, have, within the most recent five years, entered into any employment relationship in an executive capacity involving major duties and responsibilities, or individually or jointly held more than 5% of the capital or voting rights or privileged shares, or established any commercial interest of a significant nature, with any corporate entity with which the Company, any company in which the Company has management control as per Turkish Financial Reporting Standards 10 or significant influence as per Turkish Accounting Standards 28, or any shareholder having management control or significant influence over the Company or any corporate entity in which these shareholders have management control,

b) I was neither a shareholder (5% and higher), nor have I worked in an executive capacity involving major duties and responsibilities for, and/or served as a member on the boards of directors of any company from/to which, under a contract, the Company purchased/sold services or products of material quantity during the period of time such services or products were being purchased or sold, and particularly of the firms performing the audit (including tax audit, legal audit and internal audit), rating and consultancy of the Company, in the past five years,

c) I possess the professional education, knowledge and experience for due performance of the duties I will assume in connection with being an independent board member,

d) I am considered to be a resident of Turkey for the purposes of the Income Tax Law (ITL) no. 193 dated 31 December 1960,

e) I possess strong ethical standards, professional credibility and experience that are necessary for making positive contributions to the Company's operations, maintaining my independence in possible conflicts of interest between the Company and its shareholders, and making decisions freely taking into consideration the rights of stakeholders,

f) I shall dedicate sufficient amount of time to be able to follow up the execution of the Company's affairs and to fully meet the requirements of the duties I undertake and to fulfill the representation duties on behalf of the company that I have been assigned by the Board of Directors,

g) I have not held a seat on the Company's Board of Directors for more than six years in the past ten years,

h) I am not serving as an independent board member in more than three companies controlled by the Company or by shareholders having management control over the Company, or in more than a total of five companies traded on the stock exchange.

9 June 2016

Name/Surname: Mehmet BOSTAN

TR Identity No: 28876952636

INFORMATION ON OUTSIDE POSITIONS HELD BY THE MEMBERS OF THE BOARD OF DIRECTORS AND EXECUTIVES

Name - Surname	Title		Positions Outside the Company
SOCAR Turkey Petrokimya A.Ş. (Representative: Vagif Aliyev)	Chairman	Non-executive	In-group/State Oil Company of Azerbaijan Republic, Head of Capital Management
David Mammadov	Vice Chairman	Non-executive	In-group/State Oil Company of Azerbaijan Republic, Vice President, Refinery
Mehmet Bostan	Member	Independent	Out-group / Turkcell İletişim Hizmetleri A.Ş., Member of the Board of Directors
SOCAR Turkey Enerji A.Ş. (Representative: Farrukh Gasimov)	Member	Non-executive	In-group/State Oil Company of Azerbaijan Republic, Vice President, Law
Ertuğrul Altın	Member	Non-executive	Out-group/Ministry of Energy and Natural Resources, Advisor to the Minister
İlhami Özşahin	Member	Non-executive	Out-group/ Freelance Consultant
Süleyman Gasimov	Member	Non-executive	In-group/SOCAR Vice President, Economy
Tevfik Bilgin	Member	Independent	Out-group/Nuh Çimento San. A.Ş., Chairman of the Board
Mehmet Ceylan	Member	Independent	Out-group/Ministry of Environment and Urbanization, Deputy Minister

COMMITTEES OF BOARD OF DIRECTORS

Audit Committee

Members	Title	Relationship with the Company	Dependent/ Independent	Duties in Other Committees
Mehmet Ceylan	Committee Chairman	Independent Member of Board of Directors (Non-Executive)	Independent	-
Tevfik Bilgin	Committee Member	Independent Member of Board of Directors (Non-Executive)	Independent	Chairman of the Corporate Governance Committee

The Audit Committee acts with the consent of the Board and within the framework of the Board's working principles. The Audit Committee consists of two independent Board members.

The Audit Committee is responsible for ensuring the overall soundness of financial and operational activities; specifically, transparency of internal and independent auditing activities, efficiency of internal control system, analysis and election of independent auditing firm, compliance of financial statements of the Company to international accounting standards and prevailing legislation.

Early Detection of Risk Committee

Members	Title	Relationship with the Company	Dependent/ Independent	Duties in Other Committees
Mehmet Bostan	Committee Chairman	Independent Member of Board of Directors (Non-Executive)	Independent	None
Vagif Aliyev	Committee Member	Chairman of the Board of Directors	-	Corporate Governance Committee
Süleyman Gasimov	Committee Member	Member of Board of Directors (Non-Executive)	-	None

Made up of three members of the Board, the Chairman of the Risk Management Committee is an independent Board member. Operating principles of the Committee are defined by the Board of Directors resolution dated 29 June 2012, numbered 111-199. The existing Risk Management Committee's name has been changed as "Early Detection of Risk Committee" at the Company's Board of Directors meeting no: 103/184 held on 21 March 2012.

Corporate Governance Committee

Members	Title	Relationship with the Company	Dependent/ Independent	Duties in Other Committees
Tevfik Bilgin	Committee Chairman	Independent Member of Board of Directors (Non-Executive)	Independent	Audit Committee
Vagif Aliyev	Committee Member	Chairman of the Board of Directors	-	Early Detection of Risk Committee
Farrukh Gasimov	Committee Member	Member of Board of Directors (Non-Executive)	-	None
Mustafa Çağatay	Committee Member	Coordinator of Investor Relations (Executive)	-	None

In accordance with the Article 11-2 of the Capital Markets Board Corporate Governance Communiqué (II-17.1), Investor Relations Coordinator Mr. Mustafa Çağatay was appointed as a member of the Corporate Governance Committee.

Made up of three members of the Board, the Chairman of the Corporate Governance Committee is an independent Board member.

Within the framework of the CMB's Communiqué Serial IV, No: 56 on Determination and Implementation of Corporate Governance Principles, article 4.5.1, it was decided that the duties of the Nomination Committee and Remuneration Committee will be carried out by the Corporate Governance Committee at the meeting of the Company's Board of Directors dated 21 March 2012 and numbered 103/184.

An Assessment of the Committees by the Board of Directors

It has been stated by the Board of Directors that the committees complied with their respective operating principles and held meetings at defined frequencies in the January-December 2017 period. The minutes on the outcomes of the meetings have been submitted to the Board of Directors. It has been established that the committees effectively fulfilled their functions.

EXECUTIVE MANAGEMENT

Anar Mammadov
General Manager

Born in 1971 in Baku, Anar Mammadov graduated from Azerbaijan Medical Institute with a degree in medicine and received his degree in law from Baku State University. He received his Ph.D. in oil supply, logistics, and trading from the College of Petroleum Studies in England. He received his MBA from TRIUM Global Executive. Between 1995 and 1998, he managed Avista Company as a founder. Between 1998 and 2007, he worked at Milio International as Regional Director. He served as CEO of Arxiel Carbonexis (2007-2009), of SOCAR Georgia (2009-2014) and of SOCAR Greece (2014-2016). Having more than 15 years of experience in the oil and energy industry, Anar Mammadov began serving as the General Manager of Petkim in July 2016. Fluent in English, Russian and Greece, Anar Mammadov is married and has 2 children.

Nihat Gürbüz
Assistant General Manager
Operations

Born in 1952 in the Evciler village of İvrindi, Balıkesir, Nihat Gürbüz graduated from the Ankara University Faculty of Chemical Engineering in 1975. Having worked as Project, Planning, and Operations Engineer at Sümerbank's chemicals and textile plants from 1975 to 1983, he transferred to Petkim Aliağa Petrochemicals Complex as a Production Engineer in 1983. He later served as Engineer, Chief Engineer, Assistant Manager, and Manager of Production at the VCM, PP, and Ethylene plants. Appointed as the Department Head responsible for production in the plants in 2004, Nihat Gürbüz worked as Production Group Manager responsible for production and maintenance between June 2008 and October 2011 and was appointed as Assistant General Manager of Operations in October 2011. Nihat Gürbüz, who has 42 years of professional experience, speaks English. He is married and has two children.

Bilal Guliyev
Assistant General Manager
Projects and Maintenance

Born in 1977 in Nakhchivan, Bilal Guliyev graduated from Nakhchivan State University with a degree in chemistry in 1998 and received his master's degree from Ankara University Institute of Sciences in 2002. He then received his Ph.D. in 2007 from the Institute of Petrochemical Processes at Azerbaijan Academy of Sciences. He completed a Project Management Certification Program at George Washington University in 2013.

Mr. Guliyev has a 15 years' experience in the areas of petro-chemistry, downstream projects development and management. He worked as an engineer and then as chief engineer in the Refinery-Petrochemicals Strategic Development Department at SOCAR Azerbaijan between 2007 and 2011, as process manager and project coordinator at STAR Rafineri A.Ş. between 2011 and 2014, and as Investment Manager of Petrochemicals Projects at SOCAR Türkiye A.Ş. between 2014 and 2016. He functioned as Project Execution Coordinator at SOCAR Türkiye A.Ş. from May 2016 until August 2016. Appointed as Assistant General Manager of Projects and Maintenance on 4 August 2016, Bilal Guliyev has more than 10 published academic articles and owns patents in Europe and the US. Having 15 years of professional experience in the petrochemicals industry, project development and management, Bilal Guliyev is fluent in English, Russian and Turkish. He is married with three children.

Kanan Mırzayev
Assistant General Manager
Strategy and Business Development

Born in 1987 in Azerbaijan, Kanan Mirzayev graduated from the Department of Finance at Azerbaijan State University of Economics and then received his master's degree in industrial enterprise management from the Aston University in the UK. He also holds an Executive Diploma in Management from the Chartered Management Institute in the UK. He was an Operator and HSE Consultant at Azfen-Tekfen Consortium from August 2004 to August 2007, and HSE Engineer at SOCAR Rodan LLC from August 2008 to March 2009. He worked in the Finance Department at Interenergy LLC from May 2009 until November 2009, before working as a Quality Control Supervisor at Azeri Fugro JV from October 2009 until March 2010. He was an HSE Supervisor for the Baku Wind Energy Project at Gamesa between March 2010 and October 2011, Business Analyst in the Investment Department of SOCAR between October 2011 and June 2012, and Senior Business Analyst and Deputy CEO at SOCAR Energy Greece between June 2014 and October 2016. He has been appointed as Assistant General Manager of Strategy and Business Development at Petkim in October 2016. Fluent in English, Russian and Greek, Kanan Mirzayev is married and has one child.

Riza Bozoklar
Assistant General Manager
Financial Affairs

Born in 1969 in İzmir, Riza Bozoklar is a graduate of İzmir Saint Joseph College, İzmir Sciences High School and Boğaziçi University Industrial Engineering Department. He received his MBA from Bilgi University and completed Paris Essec University Delphi Management Program. He is currently preparing his dissertation for his Ph.D. degree in financial economics at Doğuş University. He has over 20 years of job experience in the industrial field; he has spent 5.5 years working in Italy and France. After starting his career at the Italcementi Group, he worked as CFO within Fiat and Ata Holding groups, Delphi Automotive and finally of Çimko A.Ş., a joint venture of Sanko Holding and Barbetti. He has been serving as Assistant General Manager of Financial Affairs at Petkim since October 2013. Fluent in Italian, French and English, Riza Bozoklar is a CPA. He is married and has two children.

Levent Kocagül
Assistant General Manager
Human Resources

Born in 1978 in Turgutlu, Manisa, Levent Kocagül graduated from Dokuz Eylül University with a degree in business administration in 2000. He worked as Human Resources Services Manager at Japan Tobacco International (JTI) from November 2001 to September 2007, and Human Resources Shared Services Manager at Coca-Cola İçecek (CCİ) from October 2007 to March 2016. He joined Petkim in May 2016 as Organizational Development Manager, where he became Assistant General Manager of Human Resources in November 2016, in which position he still serves. Fluent in English, Levent Kocagül is married and has two children.

EXECUTIVE MANAGEMENT

Khalig Mustafayev
Assistant General Manager
Business Support

Born in 1971 in Baku, Azerbaijan, Khalig Mustafayev graduated from Baku State University, earning a degree in history in 1993 and in law in 2001; he acquired a degree in economics and management from Azerbaijan State Oil Academy in 2007. From 1993 until 2005, he worked in relation to protecting the public order in various units of the T.R. Ministry of the Interior. He then worked as Ata Holding Security and Surveillance Department Manager, SOCAR Security Department Internal Affairs Branch Manager (2006-2010), and as Assistant General Manager of Human Resources, Regime, and Information Technology at SOCAR Azerikimya (2010-2016). He has been appointed as Assistant General Manager of Business Support at Petkim in November 2016. Having more than 20 years of experience, Khalig Mustafayev speaks English and is fluent in Russian. He is married and has two children.

Agshin Salimov
Assistant General Manager
Sales and Marketing

Born in 1989 in Azerbaijan, Agshin Salimov graduated from the Department of Political Science and Public Administration at the Middle East Technical University. He worked in international trade and energy companies in Azerbaijan, Switzerland and the UK, as an Operations Specialist, Commerce Officer, Senior Commerce Officer and Head of Commerce. He has been appointed as Assistant General Manager of Sales and Marketing at Petkim in November 2016. Agshin Salimov is fluent in English and Russian.

Oğuzhan İpek*
Assistant General Manager
Supply Chain

Born in Istanbul in 1970, Mr. Oğuzhan İpek completed his high school education at the Istanbul Kadıköy Anatolian High School in 1988 before going on to graduate from the Department of Food Engineering at the Middle East Technical University in 1995. In 1995, he began to work at Eti Gıda A.Ş., where he was first a Quality Supervisor and then a Production Supervisor. He served as the Production Manager at Perfetti Gıda in 1997, and the Manager of Quality Assurance, Procurement, Planning and Logistics at DanoneSA in 1998. In 2005, he moved to the Carlsberg (Tuborg) company as the Procurement Director. For a short time he also simultaneously worked as the Quality Assurance Director. He moved to Denmark in 2007 to become the Category Manager at Carlsberg Breweries AS in Copenhagen and started purchasing glass bottles for Carlsberg worldwide. In 2008, he was promoted to the position of Vice President of Procurement Responsible for Packaging Purchasing. He moved to Switzerland in 2010 and was appointed as Vice President of Northern Europe Procurement, during which time he served at the Executive Boards of the Carlsberg Global Procurement Company and Carslberg Northern Europe. In 2012, he became Vice President of Asian Procurement and moved to Hong Kong, where he served on the Executive Boards of the Carlsberg Global Procurement Company and the Carlsberg Asia. He returned to Turkey in 2013 and established the Procurement Academy. Mr. Oğuzhan İpek has been serving as the Assistant General Manager of Supply Chain at Petkim Petrokimya Holding A.Ş. since 23 March 2017. Married with two children, Mr. İpek speaks English and German.

Murad Abdullayev**
Assistant General Manager
Technology and Digitalization

Born in Baku in 1983, Mr. Murad Abdullayev graduated from the Department of Chemistry at the Baku State University and completed his Master's degree in the Chemistry Department of Sumgayit State University. He received MBA training at the INSEAD Business School in France In 2016. He worked as the Senior Science Research Officer and the Commercial Manager at Alkan between 2003 and 2006, as an Auditor at Ernst & Young between 2006 and 2008, as Product Development Manager at Bakcell between 2008 and 2010, as a Consultant at PwC between 2010 and 2012 and as a consultant at the Walgreens Boots Alliance between 2012 and 2015. Mr. Murad Abdullayev, who has been serving as the Strategy and Business Development Manager at Petkim since July 2017, was appointed as the Assistant General Manager of Technology and Digitalization in February 2018. Married with two children, Mr. Abdullayev is fluent in English, Russian and Turkish.

*Oğuzhan İpek was appointed as Assistant General Manager of Supply Chain on 23 March 2017.
**Murad Abdullayev was appointed as Assistant General Manager of Technology and Digitalization on 23 February 2018.

AVERAGE NUMBER OF EMPLOYEES BY CATEGORIES DURING THE REPORTING PERIOD

2,413 (Excluding the members of the Board of Directors)

INFORMATION ON ACTIVITIES BY THE COMPANY'S BOARD MEMBERS FALLING UNDER NON-COMPETITION

The Company's Board members have not engaged in any activity falling under the prohibition of competition.

FINANCIAL RIGHTS PROVIDED TO BOARD MEMBERS AND SENIOR EXECUTIVES

Provided in Article 29 of the financial statements and the notes thereto, and in Corporate Governance Principles Compliance Report.

The R&D Center

34 Projects

In 2017, 34 projects were carried out, including two projects under the TÜBİTAK-TEYDEB status.

62%

62% of the total budget of the projects was funded from Petkim's own resources, 38% of which was funded by TÜBİTAK and the Ministry of Science, Industry and Technology.

The digitization work has begun.

R&D CENTER ACTIVITIES

In 2017, the proposal for the H2020-NMBP-2016-2017-PPP / 760884-2 project CARMOF, in which Petkim is also a project partner, was deemed worthy of funding by, the European Commission's Horizon 2020 scheme.

In 2017, the Petkim R&D Center operated with 21 full time researchers consisting of Chemical Engineers, Chemists and Biologists, two of whom hold a PhD, and seven hold post graduate degrees.

In 2017, 34 projects were carried out, including two projects under the TÜBİTAK-TEYDEB status. A 62% portion of the total budget of the projects, which were carried out in the areas of new product development, creation of new application areas for products, improvement of product properties, energy and raw material efficiency in production processes and biological waste treatment in wastewater and drinking water, was funded through Petkim's own resources, while 38% of the amount was funded by TÜBİTAK and the Ministry of Science, Industry and Technology.

CARMOF, Petkim's first EU project gets underway
In 2017, the proposal for the H2020-NMBP-2016-2017-PPP / 760884-2 project CARMOF (New Process for Efficient CO_2 Capture by Innovative Adsorbents Based on Modified Carbon Nanotubes and MOF Materials), in which Petkim is also a project partner, was deemed worthy of funding by the Horizon 2020 scheme of the European Commission.

In addition, Petkim has also taken part in the consortia of two different H2020 project proposals, and the results of the evaluation are expected in due course.

Two new TÜBİTAK-TEYDEB projects completed, three new applications submitted.
With the completion of two TÜBİTAK-TEYDEB projects, an adaptive vaccine culture for wastewater treatment was developed and efforts to increase the CO_2 removal efficiency in the MEG (monoethylene glycol) production offered positive results.

Three new TÜBİTAK-TEYDEB project applications were submitted, one of which was accepted for support. These projects are namely (1) the development of a polypropylene product for the Injection, Nonwoven and the BCF Applications, and (2) Mixed Culture Stabilization for the PTA (Purified Terephtalic Acid) Wastewater Treatment and (3) improvement of yield and product properties in the VCM Polymerization.

Digitalization work gets underway
As part of the process development studies, the APC team, which will implement Petkim's digitalization projects, was established and work on the related projects was initiated.

SIX LABORATORIES

- Rheology
- Environment and Biotechnology
- Catalyzer
- Chemical Analysis
- Polymer Characterization
- Chromatography

The Petkim R&D Center

The Petkim R&D Center, which has the benefit of 46 years of R&D background, was certified by the Ministry of Science, Industry and Technology on 13 January 2015 and attained the status of R&D center. The Petkim R&D Center, which is installed on an area of 1,200 m^2 in the Petkim campus, includes six laboratories, a 400 m^2 pilot facility and offices. The Petkim R&D Center continues its work in the petrochemical, materials, metallurgy and chemistry, plastic and packaging sectors with suppliers, customers and universities, and acts with a special focus on the vision of strengthening collaboration between academia and industry.

The Petkim R&D Center has Rheology, Catalyzer, Polymer Characterization, Environment and Biotechnology, Chemical Analysis and Chromatography laboratories. The R&D Center Pilot Plant is host to extensive equipment infrastructure with state-of-the-art technology that enables polymer processing, polymerization and chemical process operations to be carried out.

The Petkim R&D Center continues to carry out product development and improvement efforts aimed at improving efficiency in the use of energy and raw materials and activities aimed at cost reduction and protecting the environment with its strong team, advanced infrastructure and laboratories. Focusing on the development of high value-added technological products, Petkim also carries out patent acquisition and commercialization processes based on the results of its studies.

IN 2017...

7.4 TL billion

Petkim's 2017 turnover

1.4 TL billion

Petkim's 2017 net profit

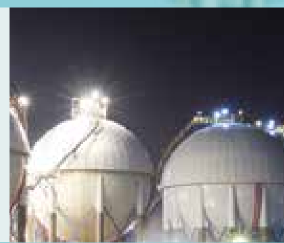
725 USD million

Petkim's 2017 international sales

059

PRODUCTION

Petkim's total production stood at 3.4 million tons in 2017 with a capacity utilization rate of 97% in the whole complex.



060

SUPPLY CHAIN

An end-to-end supply chain structure was established at Petkim.

064

SALES AND MARKETING

Petkim recorded total sales revenues of TL 7.4 billion in 2017, an increase of 62% YoY. Sales of commercial products posted an increase of 37% YoY.

070

SUSTAINABILITY

Maintaining its success on the Sustainability Index of the Istanbul Stock Exchange, in which it was included in 2014, Petkim retained its place following the review carried out in 2017.

082

INVESTOR RELATIONS

Our high profitability and strong cash position have reinforced the confidence of our investors, as reflected in the strong performance of Petkim's share price in 2017, which outperformed the BIST-100 by 55%.

KEY DEVELOPMENTS RELATED TO THE MARKET IN 2017

The global economy exhibited moderate growth in 2017 on the back of the more vigorous growth performance in developed countries. The recovery in economic growth supported an increase in petrochemical product demand. Meanwhile, a number of new ethylene-based facilities came on stream in the USA, adding to supply.

Market conditions, had been generally supportive for naphtha based integrated producers since 2014 and remained favorable until the second half of 2017. As it was the case in the previous year, strong demand and the limited supply of ready stocks on a global level strongly supported prices and margins. Oil prices have demonstrated a steady upward trend since July, rising from USD 50/bbl at the beginning of 2017 to USD 65 /bbl at the end of the year. The increase in oil prices precipitated a slight contraction in margins in the petrochemical sector.

The decision of oil producing countries to continue to cut production throughout the year and the positive developments in global economic activity supported an upward movement in oil prices. In contrast, China's relatively slack economic performance brought downward pressure on oil prices.

In the OPEC meeting held at the end of November 2017, the organization decided to extend its production cuts until the end of 2018. Whether or not this decision will have an additional upward effect on oil prices will be observed in the coming period.

Political turmoil and rising geopolitical risks continued to affect the region close to our country throughout 2017, taking a toll on Turkey's risk premium. On the other hand, the global uncertainties and volatility in capital flows caused volatility in financial markets and exchange rates. In contrast, the Turkish economy stood out as one of the world's fastest growing economies as a result of its successful performance, with its solid foundations and dynamics.

Measures taken by the government and the intervention from the Credit Guarantee Fund during 2017 had a very positive impact on economic activity. The economy recorded an extremely high growth rate of 11.1% in the third quarter of the year. At this point, it is estimated that the rate of growth for the entire year will be around 7%. Ongoing cuts in the rate of special consumption tax (SCT), which started in the last quarter of 2016, also precipitated an increase in production in parallel with higher demand for consumer durables. On the other hand, especially strong export driven production growth was observed in the automotive sector. The petrochemical industry experienced an increased pace of growth in 2017 with the positive reflection of these developments. The plastics sector demonstrated a record 10.2% growth in volume terms in 2017.

Oil prices have exhibited a steady upward trend since July, rising from USD 50/bbl at the beginning of the year to USD 65 / bbl at the end. The increase in oil prices precipitated a slight contraction in margins in the petrochemical sector.

Recovery in economic growth

The recovery in economic growth supported the growth in demand for petrochemical products. Meanwhile, a number of new ethylene-based facilities came on stream in the USA, adding to supply.

The plastics sector demonstrated a record 10.2% growth in volume terms during 2017.

PETKİM IN 2017

Record production on a total product basis

In 2017, when the program realization stood at 106%, total production stood at 3.4 million tons with a 97% capacity utilization rate across the complex.

Lowered its energy consumption per unit by 18%

Projects carried out at the power plants and the facilities precipitated an 18% reduction in unit energy consumption per product at Petkim.

PRODUCTION

Record production level with high capacity

Petkim, which continued operational activities at its 15 main factories and 6 auxiliary facilities throughout the year in line with its program objectives, achieved record production levels on a total product basis due to the high capacity utilization of the facilities and longer working hours.

The program realization stood at 106% in 2017 with total production of 3.4 million tons, marking an increase of 9% YoY, with a 97% capacity utilization rate across the complex.

On a facility basis, the Ethylene, Aromatics, Ethylene Glycol (EG), Low Density Polyethylene-Tubular (LDPE-T), Pure Terephthalic Acid (PTA), High Density Polyethylene (HDPE) and Phthalic Anhydride (PA) all recorded their highest ever production levels.

Production activities carried out on the basis of sustainability

Petkim's main principle in its production processes is to protect the natural environment, give precedence to occupational health and process safety and to ensure continuity of production at high capacity utilization by using resources efficiently.

Also in 2017, improvements were achieved within the plants by realizing expansions and modernization investments and maintenance work.

Periodic maintenance work was carried out in the PTA, ACN (acrylonitrile), LDPE -1, LDPE -2, HDPE and EO / EG plants, Catalyst replacement was carried out in the PA plant, thereby unit raw material consumption was reduced. The capacity of the Chlorine Alkali plant was increased by increasing the number of cells which are in service.

Savings up to USD 2,625,220 /year in energy costs were achieved, while a total of USD 3,430,874 was invested in 16 energy efficiency projects completed throughout the year. A total of 1,845 TOE of energy savings were achieved.

Four of the completed projects were under the heading of the EIP (the Efficiency Increase Project). TL 1,069,687.30 was awarded to 4 projects by the General Directorate of Renewable Energy of the Ministry of Energy in 2017. Works on 22 energy efficiency projects continued in 2017, while EIP applications were submitted for the "Replacing Existing Hot Oil Boiler with a New High Efficiency Hot Oil Boiler at the PP Plant", "Application of Variable-Speed Drive to the H, G and F Cooling Water Tower Fans" and the "Gas Turbine Jacket Air Waste Heat Recovery" projects was performed in 2017.

A total of 53 energy efficiency projects were defined within the energy efficiency action plan for 2018.

Unit energy consumption per product has been reduced by 18% over the last 10 years with the projects carried out at the power plants and the facilities at Petkim.

14 of the 17 turbines in the Petkim Wind Farm were commissioned on 26 March 2017 and the remaining three turbines were commissioned on 27 July 2017. Total installed capacity of the wind farm is 51 MW. 25 MW was produced in accordance with the power stated in the license.

Throughout the year, Auxiliary Facility Units provided a continuous supply of the utilities needed by the plants. The water production (Water Pre-Treatment, Demineralized Water, Cooling Water), Waste Treatment and Disposal (Wastewater Treatment, Waste Incineration), Common Jetty activities ensured uninterrupted production in the complex. A total of 6,617 tons of hazardous waste was disposed of in the Waste Incineration Unit under the license, while the disposal operations for waste both from inside and outside Petkim was continued.

Support for the on-site work for other SOCAR organizations being established on the Petkim Peninsula continued in 2017.

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SUPPLY CHAIN

In 2017, the Assistant General Directorate of the Supply Chain was created, which includes the departments of Purchasing, Supply Chain Planning, Logistics, Quality Assurance, Customs Services and Port Terminal Services. It aims at increasing operational and strategic efficiency within Petkim.

Digitalization work has got underway in areas such as packaging, loading, warehouse management and customs processes.

End-to-end supply chain structuring

In 2017, the Assistant General Directorate of Supply Chain was created, which includes the departments of Purchasing, Supply Chain Planning, Logistics, Quality Assurance, Customs Services and Port Terminal Services. It aims to increase operational and strategic efficiency within Petkim. Within the scope of this restructuring, the Supply Chain Planning Department was established to carry out the material planning process more effectively and efficiently. The Purchasing Group Directorate was restructured and the transition was made to strategic purchasing and category management. The Quality Assurance Directorate was restructured from a vertical management structure to a process-based and customer-oriented horizontal management structure.

In addition, digitalization work started in areas such as packaging, loading, warehouse management, and customs processes.

Process improvements in the supply chain reflected to the operating results in 2017

Within the scope of purchasing, procurement services;

- New Purchasing Regulation studies were completed and process-based strategic purchasing management was introduced.
- Catalogue and contracted purchasing orders were defined in order to ensure procurement security and shorten procurement times.
- The new goods groups and coding system infrastructure was created for more effective management of various materials.
- The contracted purchasing work for 60 material groups was initiated. In 9 of these groups, long-term contracts were entered into with suppliers. A total of 6,850 purchase requests were received in 2017 while a TL 4.7 billion order was made for these requests.
- The number of materials registered in the inventory was reduced by 6.4% to about 85,000.
- The ratio of paraffin in the naphtha, that directly affects ethylene production, reached its highest level for 5 years in 2017.

Within the scope of quality assurance;

- A total of 527,731 quality analyses were conducted on 228,368 samples within the scope of input, production, product, packaging and technical support activities. In addition, Petkim met paid analysis requests from the petroleum, refinery, packaging and plastics sectors.
- Within the scope of the TS EN ISO / IEC 17025 Laboratory Accreditation Standard, the company participated in international competence testing programs with 107 parameters, and achieved a 99% success rate. These programs are indicative of the reliability and sustainability of the analysis performed by the laboratories.

Within the scope of customs services;

- In foreign trade, the "Status of Authorized Economic Operator (AEO)" document, which is the most prestigious status, was renewed.
- Import-based raw materials were supplied in the required quantity, quality and time frame in 2017, as in previous years, thus ensuring supply security without loss of production.
- 13.19% of all customs transactions as the number of import declarations and 77.41% (USD 867,602,357.85) of the declaration value were carried out by direct representation in 2017, when imports from 47 different countries were carried out. Direct representation activities brought TL 635,075.00 in savings.

Within the scope of logistic operations;

- 889,690.81 tons of solid product shipments were realized, with an increase of 16.27% compared to 2016. Of this amount, 111,128.50 tons consisted of international shipments, representing an increase of 70.64% compared to the previous year.
- Domestic railway cargo, which stood at 6,900 tons in 2015 and 15,500 tons in 2016, increased by 29.26% YoY to reach 20,035 tons in 2017.
- Warehouse management was carried out in the facility area of 20 million m² by starting to monitor all in-house and off-site warehouses from a single center.
- As a result of planning activities carried out in 2017, the number of spare parts stock turnover days was reduced from 1,153 days to 993 days.
- A 44% reduction was achieved in material stock volumes held in the temporary storage areas.

Within the scope of terminal services;

- A total of 602 ships (456 ships belonging to Petkim, 146 being third Party ships) arriving at the Petkim ports were provided with guidance, tug, waste and refuse collection services.
- Loading and discharging operations were carried out for 2,846,457 tons of liquid chemical load.

We are reducing our environmental impact

Improvements were achieved that reduced the environmental impact from the Petkim supply chain in 2017.

The accreditation of 17 parameters was completed within the scope of the Water Pollution Control Regulation. The Environment Laboratory was accredited in a total of 34 parameters.

The "Green Port" certificate, held by the Petkim Port, was renewed following the successful audit carried out by the Ministry of Transport, Maritime Affairs and Communications, the General Directorate of Maritime Trade, and the Turkish Standards Institute.

With the use of plastic pallets with the PETKİM logo, which are lighter, hygienic, easier to recycle and environmentally friendly, carbon emissions were reduced thanks to the resulting 2% reduction in vehicle tonnage.

With the renewal and modernization carried out in packaging machines, energy and air consumption was reduced, lifting efficiency.

SUPPLY CHAIN

The "Green Port" certificate held by the Petkim Port was renewed following the successful audit carried out by the Ministry of Transport, Maritime Affairs and Communications, the General Directorate of Maritime Trade, and the Turkish Standards Institute.

Loading and discharging operations for liquid chemical loads
2,846,457
tons

Domestic shipments
778,562
tons

+

International shipments
111,128
tons

In 2017 total solid product shipments
889,690
tons

Petkim Port providing handling and warehouse services

The Petkim Port was established in 1978 to carry out the unloading of factory montage materials brought by sea from other countries for the construction of the Aliağa Complex, the unloading of imported raw material inputs once the Complex became operational and the loading of export goods for sale. The Port started operation in 1985 to serve third parties in 2004. Dry cargo handling and warehouse services provided to third parties was suspended in 2013 due to the container port project. As of the end of 2017, the Port was continuing to serve Petkim over a 47,401 m² area.

The activities of the port include the unloading of liquid chemical raw materials required for the production in Petkim facilities from vessels and the transfer of these materials to the facilities through pipelines, the transfer of liquid chemical products manufactured in Petkim's facilities from the storage areas of the facilities to the pier through pipelines, and the loading of these materials to vessels.

The loading/unloading of general cargo and bulk cargo ships and oil product, chemicals and liquefied gas tankers can be carried out in the Port.

Petkim Port operates in accordance with national and international legislations and regulations.

The Port has three liquid cargo berths and piers and one dry cargo berth. The Port has a capacity for a ship of up to 25,000 DWT at Berth 2; 10,000 DWT vessels at Berth-3/1 and 3/2 and a 40,000 DWT vessel at Pier-5. The construction of one liquid cargo berth in the inner side of the new breakwater is planned. The loading/unloading of 25 different products can be carried out in the Port.

Docking and tug services provided to vessels through Pilotage and Tugs

The Pilotage and Tug Organization was established in 1979. Its vessels and personnel were also structured to allow it to serve the APMT and STAR piers up until 2023. The Organization provides docking and tug services to vessels on a 24/7 basis with 6 tugs, 3 mooring boats and 1 pilotage vessel.

The docking and tug services provided to vessels are carried out in accordance with the port's directives. Safety is a priority in the Petkim Pilotage and Tug Organization services. Therefore, the Company attaches great importance to the equipment used in its operations and quality, as well as their planned maintenance and modernization.

Aims of the "GreenPort" Project

To form an integrated quality management system approach in the ports	The protect and improve the quality of sea water around ports	To reduce the environmental pollution resulting from vessel or port operations	To maximize energy savings and maximize energy efficiency in port operations	To decrease the volume of waste stemming from port operations by ensuring waste recycling	To take necessary precautions for occupational health and safety in the port operations and ensure the sustainability of occupational health and safety

SALES AND MARKETING

Petkim's sales from production rose by 13% YoY to reach 1.8 million tons in 2017, while commercial product sales rose by 37% YoY to 189,000 tons.

We broke a record in total sales and exports.

The positive conjuncture, which began to take hold in the global petrochemical sector since the last quarter of 2014, especially for naphtha based producers, continued in 2017. Petkim achieved a record sales performance during the year, although crude oil prices did edge higher from the second half of the year with petrochemical product margins beginning to contract in the last quarter.

Petkim's sales from production rose by 13% YoY to 1.8 million tons in 2017, while commercial product sales surged by 37% YoY to 189,000 tons. Total sales volumes reached 2 million tons for the first time, marking a 15% YoY rise. Total sales revenues, meanwhile, rose by 62% YoY to TL 7.4 billion, with TL 6.6 billion of this amount comprised of sales from production and TL 0.8 billion of sales from commercial activity.

Petkim's exports increased by 24% YoY to 916,000 tons – a new record. With USD 671 million of exports to 69 countries, the Company's success in exports was rewarded with the Aegean Exporters Association's "Biggest Exporter" award and the "Biggest Exporter in the Chemical Industry" in the region.

Turkey's first and sole integrated petrochemical producer, Petkim continues to serve as the most reliable provider of raw materials for industrialists. While the plastics sector demonstrated a record 10.2% YoY growth in volumes in 2017, Petkim contributed to the growth in the sector with a special focus on the trade of products it does not produce, in addition to sales from production, in order to meet the rising demand for plastic raw materials in the Turkish market.

Petkim's exports surge by 24% YoY to reach a new record,

With USD 671 million exported to 69 countries, the Company's success in exports was crowned with the Aegean Exporters Association's "Biggest Exporter" award and the "Biggest Exporter in the Chemical Industry" awards in the region.

More new product types introduced in 2017, in line with market and customer requirements.

Reflecting feedback we receive from our customers and the market to our business processes.

Production of new product types in line with the requirements of the market and our customers continued in 2017. In particular, the I457-O type, with Organoleptic features, was produced instead of the I457-UV following a high level of requests from HDPE customers.

Petkim broke a new production record by having produced I86-0 and I457-O types within the scope of type optimization, instead of the butane types that reduce production capacity.

There were increases in productivity, efficiency, sales and profitability as a result of the optimization work carried out in the PP, LDPE-T and PVC product types. Work got underway for the production of Coating Grade-Low Density Polyethylene, which has attracted increasing demand in Turkey and in the export market. In line with the strategy of producing high value-added products, Petkim initiated production processes after conducting market research into what products were needed in Turkey for additive and compound production, which are used intensively in the plastics industry.

The Customer Satisfaction Survey, which had been conducted once a year, has been conducted twice a year starting from 2017, including in the first and second semesters. Feedback from the survey results was reflected to the business processes. In this context, the application for credit insurance, which is used extensively in exports, has been rolled out increasingly in the domestic market. The company achieved a successful switch to the use of plastic pallets for all solid products. In a bit to be closer to customers, customers were able to benefit from shorter delivery times thanks to external warehouse services in locations of intensive demand.

At the same time, Petkim has actively participated in national and international sectoral fairs and events which allow the company to keep its finger on the pulse of the market, and information on market developments was shared with customers through meetings.

We played an active role in the process of enactment of the KKDİK, Turkey’s version of REACH (Registration, Evaluation, Authorization and Restriction of Chemicals).

Petkim played an active role in the process of the enactment of the KKDİK regulation, which is Turkey’s version of the EU’s chemical regulation REACH (Registration, Evaluation, Authorization and Restriction of Chemicals). Moreover, Petkim received an appreciation from ECHA (European Chemical Agency) for his successful compliance to this regulation.

TECHNOLOGY

Petkim redoubled its efforts to prepare for the upcoming era of the “Digital Age”, while the emerging technological world has been taking us towards digital transformation.

Digital technologies, renewed fast and secure infrastructure

Petkim redoubled its efforts in the digital transformation to prepare for the upcoming era of “Digital Age”, while the emerging technological world has been taking us towards digital transformation.

In 2017, Petkim aimed to provide business continuity and the security of company information in line with the principles of the Information Security Management System, in addition to ensuring the physical security of the Petkim Peninsula by approaching the concept of “Security”, and raising awareness of this among employees.

IT infrastructure is used in the production units as well as in the auxiliary units of the company which support production, so providing an uninterrupted service is crucial. The Directorate of Information Technologies provides a continuous uninterrupted service on a 24/7 basis for those facilities operating 24 hours a day.

With the improvements in software, hardware and IT technologies in order to increase business continuity and business efficiency, employees of the IT Directorate have been given the opportunity to participate in training programs and events related to the sector and the new technologies are reflected to the Company’s business processes. Within this scope, the Response Team for Cyber Events (RTCE) and Information Security was established with a staff of 5 personnel. Cyber security trainings were provided with the aim of protecting operational and industrial IT security.

Enterprise data generated with experience and know-how is stored in the central disk unit and is protected from possible internal or external threats with the state-of-the-art technology security software.

The enterprise data generated with experience and know-how are stored in the central disk unit and they are protected from possible internal or external threats with state-of-the-art technology security software.

Legislation dealing with IT issues is followed closely and any required action is taken. Related Records are kept in accordance with Law No. 5651 on the Regulation of Broadcasting on the Internet and Tackling Crime Committed through Internet Broadcasting. Within the scope of Law No. 6698 on the Protection of Personal Data, which entered force in 2016, personal data was identified and action as required by the law was taken.

The ISO 27001 Information Security certificate that covers the entire company in its scope was obtained in 2017. The certificate renewal audit, which must be carried out every three years, was conducted by specialists of the Turkish Standards Institute (TSI), and the certificate was successfully renewed.

The decision was taken to install the Security Information and Event Management (SIEM) application in order to protect the company against cyber-attacks. This will further enhance internet and network security. The end-user security project will enable mobile devices to work more securely against threats that may come from the external environment.

Improvements were made in active and passive devices that are in the infrastructure of the enterprise network; thus, the security, service quality and speed of the system was enhanced. Work has been performed on isolating of the Industrial Control Systems from the external environment with the aim of ensuring the security of the Industrial Control Systems. In order to increase the existing security level to higher levels, joint work has been carried out with the relevant units and the companies that possess the technology. In addition, the version of the Distributed Control System (DCS) systems in the facilities will be upgraded to further increase the level of security.

The SAP system, which has been in use since 2010 to carry out Enterprise Resource Planning, serves the corporate processes with 15 modules. While using E-billing and E-book systems, which are legal requirements, the E-archiving system was established in 2017 with the aim of sending bills to taxpayers and personnel who are not obliged to use E-billing in the digital media through the Department of Revenues Administration.

Priority will be given to projects based on Industry 4.0 and the Internet of Things (IoT) in 2018, when digitalization efforts will gain pace.

In this framework, it is planned that the projects that will help Petkim identify with the digitalization and advanced analytical applications will be implemented.

Projects that stand out in 2017

The Sales Pricing system for the evaluation and approval of product sales price proposals

The CRM (Customer Relations Management) System Project to implement customer relationship management application, through which sales personnel can manage sales and marketing processes from anywhere at any time.

The Digital Archiving of Customs Documents Project, which aims to digitally store foreign trade documents at the Petkim corporate data center, through the integration carried out with customs consultancy firms.

The Instant Cost Tracking of Commercial Products Project, which allows instantaneous calculation of estimated costs of commercial products without waiting until the end of the month.

Bringing the SOCAR Turkey Candidate Pool application, which was developed entirely by the Information Technologies Directorate with internal resources, online together with historical data in the SOCAR Turkey Candidate Pool Project

The Collective Bargaining Simulator Project, which instantly calculates the costs that will arise during the collective bargaining negotiations according to the pay rise or benefits, and that provides opportunity to carry out a comparison according to the rates of pay rise by mapping out different scenarios.

Optimization of the production of the plant by means of presenting proposals to operators by examining past process data and using the machine learning algorithm at the Vinyl Chloride Monomer plant through the YET application.

Digitalization at Petkim

Digitalization in all processes

Advanced analytical applications

The Industry 4.0 transformation

To become the most digital company in Azerbaijan and Turkey

INVESTMENTS

Petkim shapes its future with its investments, and supports change by following innovations. To this end, projects for capacity increases, the environment, technological development, completion of maintenance, general improvements, energy and increasing efficiency in production were carried out in 2017.

The company's total investment expenditures amounted to TL 366.4 million in 2017.

The Company carried out its investments in 2017 within the scope of two incentive certificates, as regional and strategic, benefiting from the 4th regional grants.

In 2017, a total of TL 6.5 million of the investment spending was eligible for R&D incentives in the projects carried out at the R&D Center.

Investments carried out in 2017

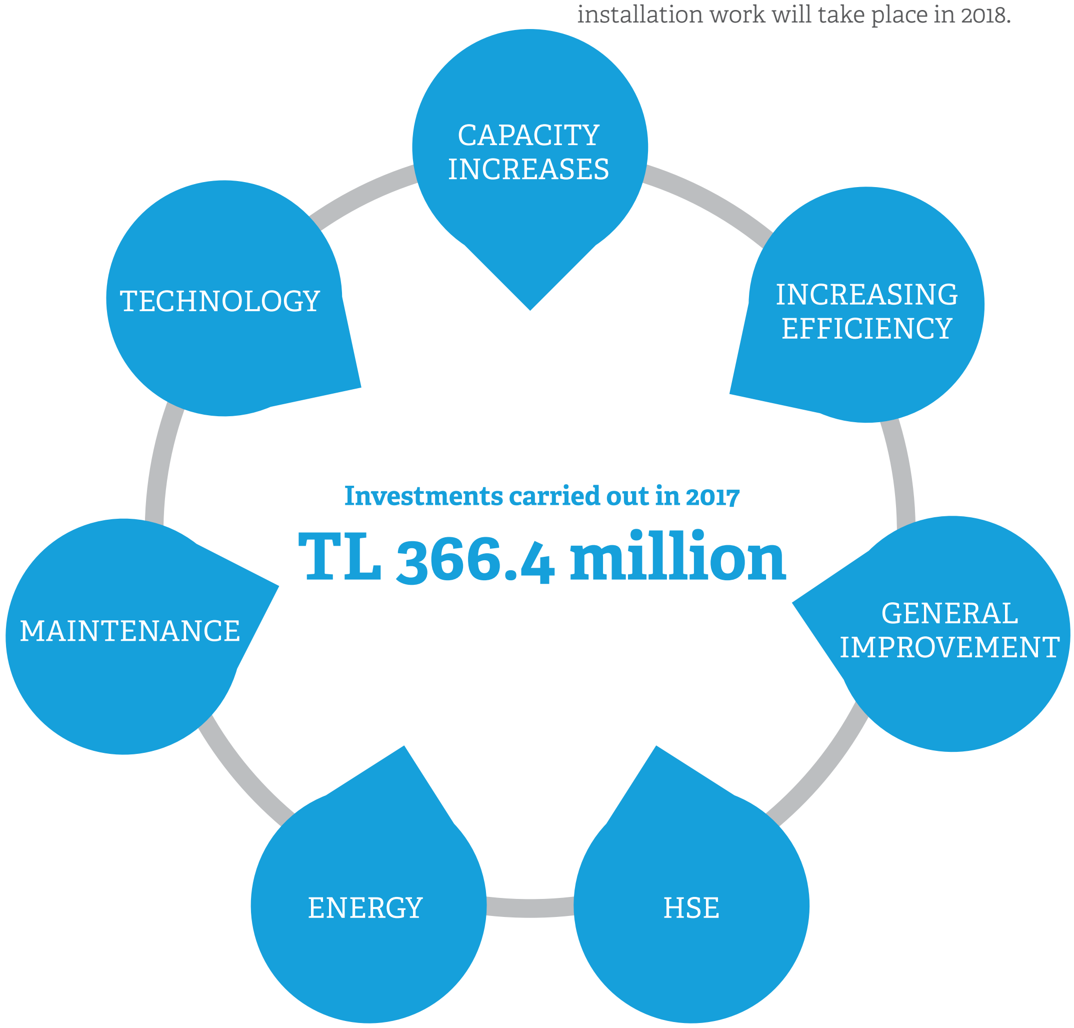
Wind Farm

The development of the Wind Farm project with 17 turbines and a mechanical power of 51 MW to generate energy from sustainable and environmentally friendly resources and reduce carbon emissions was completed in 2017. The system with a generation capacity of 25 MW electricity was commissioned.

LDPE Plant

Systems have been commissioned to increase the efficiency of the booster and primary compressors at the LDPE 1 and 2 Plants. Energy savings amounting to 230 kWh were provided for each of the plants.

Preliminary work has been completed on the "Compressor Monitoring System Upgrade" project, which aims to provide more effective process safety. Equipment purchasing and installation work will take place in 2018.



Plastic Processing Plant

Engineering studies have been completed by supplying equipment for the new masterbatch line in order to increase the diversity of additive masterbatch. The new line will be commissioned in 2018.

PVC Plant

Installation of highly energy efficient and environmentally friendly cooling systems aimed at cooling reactor jacket water has been completed. This has reduced the carbon footprint and lowered energy costs.

Aromatics Plant

Within the scope of integration of the Aromatics Plant with the STAR Refinery, technical studies were carried out for the related units of the factory and capacity expansion opportunities by the licensor of the Aromatics Plant.

Ethylene Plant

Modifications to remove bottlenecks were identified by the licensor and equipment procurements have got underway.

The engineering study for the project, which will save energy thanks to the use of C-204 column bottom water, has been completed. The field application will be carried out in due course.

The EO/EG (Ethylene Oxide/Ethylene Glycol) Plant

The installation of the ethylene recovery system, aimed at preventing the loss of ethylene in the process waste gas was completed and the system has been commissioned.

The Chlorine Alkali Plant

The aim of the investments in the chlorine alkali plant is to increase energy saving and process safety through the transition from monopolar technology into bipolar technology in electrolysis. Engineering studies and equipment-material procurement were completed in the project in 2017 and installation work will get underway in 2018.

Pilot testing work to switch to a more modern filtration system in order to prevent downtime and production losses stemming from the existing brine filtration system started in 2017. These studies will be completed in 2018.

VCM (Vinyl Chloride Monomer) Plant

The tender process has been initiated for the propylene package unit, which will have a greater cooling capacity, in order to meet the growing cooling needs of the plant.

PTA (Pure Terephthalic Acid) Plant

The sieve modernization work of the packaging unit has reached the final stages and technical studies have been carried out to achieve savings of the nitrogen used in product transportation and packaging.

The external pool configuration was changed in order to increase the recovery of the wet PTA (Purified Terephthalic Acid). Test applications have got underway at the pool outlet.

STAR-Petkim Pipelines Investment

Installation of pipelines and systems, which will provide product and utility transfer between STAR and Petkim, have been completed and commissioned.

Modernization of Sea Filler Arms

In order raise the level of safety in filling and discharging work carried out from ships, sea filling arms that were available at Pier 2 and the Pier 5 were replaced with the high-tech sea filling arms that have four-armed emergency release couplings. The installation of two LPG / C3 / C4 arms at Pier 2 and Pier 5, one ACN arm at Pier 2 and one Ammonia arm at Pier 5 was carried out. The process for the purchase of an additional four sea filling arms was initiated.

Gas - Liquid Waste Incinerator Unit Dual Gas Burner Investment

In order to utilize the energy potential from waste oil, material procurement was initiated for the dual burner system, which can burn both liquids and gas at the same time.

New Waste Disposal Unit Investment

In line with increased needs, work has got underway on building a new waste disposal unit.

Electric Instrument Activities

The feeder installation, which is necessary for the connection of the Aliağa-1 TM and the Petkim TM 154 kV switchyards, which was requested by TEİAŞ (Turkish Electricity Transmission Company), was completed and brought into operation.

SUSTAINABILITY

While Petkim continues to increase the high added value that it provides the economy, it also continues its operations without deviating from its devotion to ethical rules, transparency and honesty based on an awareness of its responsibilities to its stakeholders as a corporate citizen.

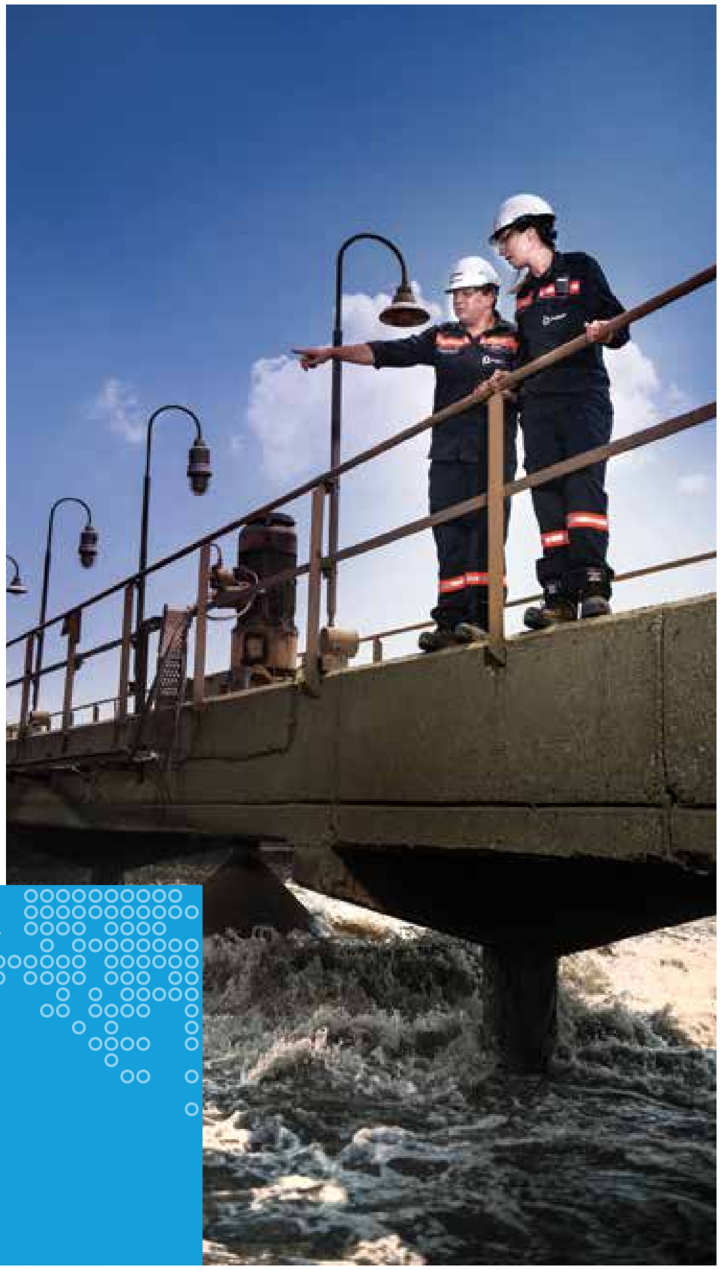
Petkim's Sustainability Vision

The petrochemicals sector is one of the main drivers of sustainable development. Industrially developed countries are, at the same time, the world's leading petrochemical producers. Petkim's products are used as raw materials in the most important sectors of Turkish manufacturing industry. This production and value-added chain is one of the key elements of sustainable development.

Aware of its responsibilities as a corporate citizen, Petkim has been operating without compromising the ethics of its stakeholders, transparently and honestly while it has increased the value it adds to the economy. In addition, the Company sets itself apart with a corporate identity whose concept of sustainability has adopted dedication and determination in all aspects in order to minimize the environmental impact of its activities. This is in accordance with the Company's vision of the future and to contribute to the environment, while always acting with sensitivity towards the occupational safety and health of workers and to provide the maximum contribution to society through social responsibility projects.

4th year in the BIST Sustainability Index

Having been included in the Borsa İstanbul's Sustainability Index in 2014, Petkim maintained its position following the review conducted in 2017, continuing its success.



The petrochemicals sector is one of the driving forces of sustainable development. Countries with the developed industries are also the world's leading petrochemical producers.

The products manufactured by Petkim are used as raw materials in the most important sectors of the Turkish manufacturing industry. Production and the added value chain are among the key elements of sustainable development.

Continuously increasing and reinforcing its immense know-how with its competent human resources Petkim has a unique intellectual capital. Petkim has been building an agile organization with human resources that are dynamic, open to development, focused on common targets.

Human Resources at Petkim

Continuously increasing and reinforcing its immense know-how with its competent human resources, Petkim offers unique intellectual capital. Petkim has been building an agile organization with human resources that are dynamic, open to development and focused on common targets.

Human Resources Policy

Petkim's human resources policy aims to create a corporate culture that is fair, transparent and which recognizes employees' right to voice their opinions, offers employees the opportunity to reveal their potential, where every employee contributes to the future of Petkim by creating value and where every employee is valued. It aims to create a corporate culture that reflects the unique Petkim spirit with a high performance, which is focused on development, demonstrating strong and effective leadership in every arena, and with a workforce that is highly loyal, happy, productive, successful and healthy.

In order to attract, develop and maintain the most valuable talent towards this goal, Petkim adopts fair, transparent and integrated practices that are in accordance with trends in global human resources under three main headings, and develops them. Thus, the company aims achieve giant strides forward to become the most preferred employer and the best work place.

I. Talent Acquisition Process

Based on the vision, mission and values of Petkim, all recruitment means are effectively used for placing the most suitable and competent candidates in existing positions. The primary recruitment resource used is the database in Petkim's website, while the Company also uses alternative recruitment resources such as kariyer.net and LinkedIn. Competence-based interviews, potential analysis, technical interviews, talent tests as well as foreign language exams for some positions are also applied in the recruitment process.

Employees prepare for their new positions in collaboration with İşkur and university with the "Petrochemical Production Employee Training" course program that is organized before the taking up positions for blue collar workers at Petkim.

Petkim aims to contribute to the personal and professional development of the interns through its "Internship Development Program" that is developed for vocational high school and university interns. Petkim also attaches importance to coming together with all potential candidates through activities such as career days and employment fairs. The Intern employment process is also seen as a social responsibility approach for Petkim at the same time.


At Petkim, the human resources department acts with a management approach that works with all units in the spirit of a strategic business partner, constantly analyzing company and employee needs, creating value and adapting quickly to changing conditions.

SUSTAINABILITY

II. Talent Management Process

In the performance management system applied at Petkim, the goals are broken down from the top to bottom within the framework of a certain model so that everyone can work for the same objectives by determining the corporate and functional success indicators at the beginning of each year. In order to focus not only on what is done, but also on "how" it is done in the implementation of goals and following up the behavior that feeds the Company culture, a framework of competence consisting of basic, functional and managerial competencies has been constructed and included in the performance management system.

A performance management system is implemented in which sustainable and successful performance is rewarded, where performance that is open to development is improved through the development program, and performance results are integrated with other human resources systems. In addition, potential evaluation, back-up, rotation and career mapping work is carried out, in which the potential of employees in their current roles is assessed and their added value enhanced and supported with developmental opportunities. The "Leadership Development Program" has been implemented, which has taken approximately one year, for employees serving in managerial and higher positions to adopt a leadership understanding in line with corporate values. In order to support employees' development, 360 degree evaluations are carried out throughout the year. Depending on the evaluation feedback, employees are supported through the "Evaluation and Development Center" application. Professional Development Programs, Technical Education School and Simulations, Competency Development Programs are implemented within the Petkim Academy. In-house coaching and mentoring practices are also carried out in line with the employee needs, and in-house mentors and coaches are trained by volunteer employees.

III. Retention Process

One of the most important building blocks in the retention process is that employee loyalty is sustainable, something that is increased by Petkim's strong and long-lasting corporate culture which has shared by all its employees since Petkim's foundation. Trends in remuneration and benefit packages in the world, the country and the sector are followed closely, and a remuneration policy in accordance with these trends is applied. A system of reward, which rewards employee behavior that creates added value and appreciates their professional endeavors, is applied. Working hours are adopted with the aim of protecting the work - life balance of employees, and efficient work is supported. For open positions, the evaluation process for internal candidates is actively carried out. For new recruitment and job changes, a job adjustment and orientation program is implemented, which is structured within the framework of the job adjustment program.

In order to support employee development, 360 degree evaluations are carried out during the year. According to the evaluation feedback, employees are supported through the "Evaluation and Development Center" application.

One of the most important building blocks in the retention process is that employee loyalty is sustainable, something that is enhanced by Petkim's strong and long-lasting corporate culture which has been shared by all employees since Petkim's foundation.

Developments in the number of employees

Working to a principle of investing in qualified human resources, Petkim is adding new employees in its organization in line with its needs and growth targets. In 2017, the average number of personnel working at Petkim stood at 2,413 in total, including 546 white-collar employees and 1,867 blue-collar employees. As of the year-end, the total number of employees stood at 2,464.

Petkim Benim: Petkim not only for the present, but for the future

Petkim initiated its "Petkim Benim" corporate transformation program within the scope of its functional excellence (value creation) strategy at the beginning of 2017, with the aim of achieving sustainable efficiency. "Petkim Benim" is formation that will carry Petkim from present to the future.

The scope of the program, which is based on reaching better results with the common culture and the common goal, is to reach "Tek Petkim (One Petkim)" by realizing a transformation in the organizational culture on the basis of fairness, transparency, a focus on people and development.

Acting with the initiative of creating value for Petkim, employees offer contributions by developing projects on an axis that ranges from purchasing, commercial and operational processes to digitalization and advanced analytical applications with the support of the open minded decision-making mechanism.

With the outputs, which can be summarized as the new management approach, optimal processes, new organizational culture and high performance culture, Petkim Benim is focused on creating more value firstly for Petkim and then for Turkey in line with more ambitious goals.

The year 2017 has been a record year in the Fikrimce system, where innovations in the system led to a 160% increase in the number of suggestions received, to 1,366.

Impressive results from "Petkim Benim" in its first year

Having confidently progressed towards a high performance culture in this transformation process, the company rapidly develops and implements the projects that create added value with this program, which is managed by the experienced and successful human resources department.

Operational excellence studies that are targeted in each area continue without interruption. The applications have proven themselves through increased efficiency and value. Within the scope of the Petkim Benim program, team members in over 100 categories had the opportunity to present their ideas through the work, which has been progressing under the headings of both the organizational culture and creating value. USD 50 million of value was created for Petkim through these suggestions.

Fikrimce (Employee Suggestion System)

Evaluating the ideas of its employees sensitively and systematically, Petkim commissioned the new employee suggestion system that is "Fikrimce (In my opinion)" in 2013. It aims to improve its business processes by effectively evaluating the know-how of its employees through this platform.

In 2017, 32 opinion evaluation committees were held to evaluate ideas that came within the scope of the continuity of the Fikrimce System. A total of 426 people attended the committees, including 114 individuals from 29 separate departments.

The year 2017 has been a record year in the Fikrimce system; thanks to innovations made in the system, 1,366 suggestions were received, an increase of 160% over the previous year. A net profit of TL 3.05 million was achieved for Petkim as a result of suggestions implemented in 2017.

SUSTAINABILITY

The Petkim Academy provided 80,000 hours of training to employees in 2017. A total of 86 internal instructors provided employees with technical training under 119 different headings, with 15 training courses offered to different customers and suppliers in the sector.

The Petkim Academy and Training Activities

Petkim Academy;

- Serving the company's current and future strategies
- Development tools that address different learning styles and individual needs
- Guidance in Career Development
- Petkim Academy adopts an approach to development shaped on the basis of implementing the programs in which the development activities and the competencies complement each other in the long term.

Training programs, which are provided under the categories of orientation, professional development, system training, personal development, leadership and mandatory trainings such as HSE, Information Security, Code of Conduct and Ethics are carried out through the business partnerships provided with internal trainers and external companies.

Petkim Academy provided employees with 90,000 hours of training. A total of 86 internal instructors provided employees with technical training under 119 different headings, with 15 training courses offered to different customers and suppliers in the sector.

In order to facilitate the adaptation of Petkim employees, who are in the process of cultural change, into this process, and to develop their different competencies, the number of personal development training sessions has been increased 20-fold when compared to previous years.

A total of 1,566 office workers and 1,005 field workers received training on subjects such as 7 Habits of Highly Effective People, Time Management, Presentation Skills, Effectiveness, Body Language, Mentoring and Good Speaking. In addition, English Speaking Clubs continued to be provided by a professional company at Petkim during working hours.

At the Petkim Academy, the Fire Safety Unit offers external companies the opportunity to pay for training.

In order to facilitate the adaptation of Petkim employees, who are in the process of a cultural change, into this process, and to develop their different competencies, there has been a 20-fold increase in the amount of personal development training provided when compared to previous years.

Petkim Academy organizes periodical seminars that will contribute to the development of its employees as well as their families. These seminars, which have the aim of raising employee awareness, will be on subjects such as Industry 4.0, Digitalization, Raising Children and Reflecting their Potential to Life, The things that we are not aware of when we live, Petkim Competencies, Emotional First Aid and Healthy Life, and to share information about current trends with them. These seminars also aim to ensure their families benefit from these development opportunities.

Next Generation Program, which has been initiated by the Petkim Academy for the children of Petkim employees, is designed to support employees' children between the ages of 17 and 23. The program consists of a 6-day development adventure which aims to help children get one step ahead when they start their working life, and covers a wide array of topics such as leadership, communication, presentation skills, conflict management and cooperation.

Leadership Programs at Petkim

"Chemistry of Leadership" program was designed to support cultural change at Petkim. This program is aimed at raising leaders who will carry Petkim towards its vision for the future. 193 Petkim employees, who are in managerial or higher positions and who keep the values and principles of Petkim alive, are taking a part in the program.

The content of the program, which covers the subjects such as "Petkim Leadership Competencies" and "What does a Petkim Leader do and what does a Petkim Leader not do?", has been created in accordance with the "Leadership Manifesto" as defined by the Deputy General Directors and managers as the result of the workshops carried out.

The content, which differs according to the needs of supervisors and managers, includes practices going far beyond a classroom education, and takes participants on a 10-month development journey. According to 70-20-10 Learning Methodology, there are different learning approaches such as Development Center and 360 Evaluation, Coaching and Feedback Sessions, Development Planning, On The Job & Classroom Trainings, Follow-up Sessions. The program will be finalized with a Graduation Ceremony.

SUSTAINABILITY

SOCAR Turkey has a culture that adopts the best OHS-E (Occupational Health & Safety-Environment) practices in the industry, which forms the basis for the provision of occupational health & safety and environmental excellence.

Occupational Health and Safety, Environment

SOCAR Turkey has a culture that adopts the best OHS-E (Occupational Health & Safety-Environment) practices of the industry, which forms the basis for the provision of occupational health & safety and environmental excellence. SOCAR Turkey Enerji A.Ş. aims to ensure that its work is always safe, reliable and efficient wherever it operates. Within this scope, the SAFE Management System consisting of 4 bases, 16 principles and 100 expectations was established by the SOCAR OHS-E Directorate. Petkim continues its activities under the SAFE Management System.

Occupational Health and Safety

Petkim ensures that all operations carried out by the Company are evaluated in terms of compliance with the legislation on occupational health and safety. The Company also ensures the constitution of occupational health and safety enforcement system, its registration, and association of these operations with integrated management systems and other processes.

Internal audits are planned and carried out within OHSAS 18001. An external audit is carried out each and every year by an external auditor. In addition, necessary actions are planned through updating occupational safety risks in the processes by third-party inspections.

At the end of each year, a fire drill plan for the next year is prepared by İSGÇM. At least 13 scenarios (environment-fire, sabotage-fire, gas leak-fire, rescue-fire, evacuation) fire drills are carried out annually. Related factory managers and senior management representatives take part in the drills, and continuous improvement is provided.

An assessment of compliance of all activities carried out at Petkim with occupational health and safety legislation established that the occupational health and safety implementations are systematically carried out for activities within this scope.

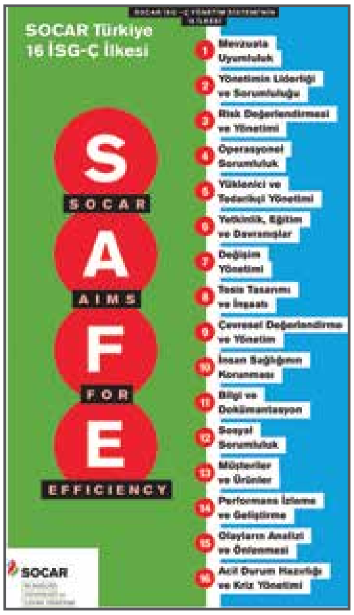
Work permits, inspection, control and firefighting services were provided within the scope of 1,000,000 man hours for the pipelines (pipe rack), channel and waste treatment disposal facility constructed at the Petkim site within the scope of the STAR Refinery construction installation work. There was no significant occurrence of work accidents during this process.

In 2017;

- General support was provided to third parties operating in the Petkim area.
- Fire brigade services were provided for the STAR Refinery, Petlim and the wind farm projects.
- According to the Communiqué on the Procedures and Principles of Occupational Health and Safety Training of Employees within the framework of Law No. 6331 on Occupational Health and Safety, a 100% participation rate in the revised HSE training programs was achieved.
- To ensure the OHS-E training sessions were more efficient, four hours of practical OHS and fire training were planned within the 16-hour compulsory training period within the scope of the Education Plan. The Training Application Field was established within this scope. Training was provided to all personnel on the subjects such as hot work, closed vessels, fire risks and responses.
- A total of 324 periodic inspections were carried out by blue-collar personnel in 2017 in areas such as facilities, workshops, switch rooms, warehouses and laboratories on a monthly basis. 54 periodic audits were carried out by white-collar personnel within the six-month periods. The findings identified as a result of the audits were followed up under the SAP-HSE (Health-Safety & Environment) module.
- Within the framework of the Petkim Periodic Control Plan, which was prepared under Law No. 6331 on Occupational Health and Safety and the OHSAS 18001-Occupational Health and Safety standard, the follow-up and coordination of periodic controls was carried out. Review meetings were convened twice during the year under the presidency of the General Directorate of Businesses.
- The number of occupational safety specialists has been increased to 10 in accordance with the obligatory workplace hazard standard under Article 8 of Law No. 6331 on Occupational Health and Safety. With the increase in the number of specialists, the number of instantaneous inspections carried out across the field increased. Actions were quickly taken, with the support of the Petkim Management, to rectify any incidences of non-compliance identified during the course of these inspections. As a result, there was a significant improvement in Petkim's OHS performance.
- In line with Petkim's policy on sustainability, the following activities were carried out to increase employees' degree of awareness on occupational health and safety:
    - Site visits were organized.
    - HSE (Health Security Environment) training programs were provided.
    - Contest organizations were held.
    - Health Security Environment Boards were set up.
    - Technique security videos were broadcast on the corporate TV channel.
    - HSE Bulletins were issued.
- Heat-resistant work clothes were provided to all employees to prevent work accidents in the chemicals sector.
- Vehicles found to be a potential danger during dangerous goods entry and exit checks were not permitted to enter through the PETKİM B Gate. The checks were conducted within the scope of the European Convention on the

SUSTAINABILITY

The SAFE Management System consisting of 4 bases, 16 principles and 100 expectations was established by the SOCAR OHS-E Directorate. Petkim continues its activities under the SAFE Management System.



International Carriage of Dangerous Goods by Road in compliance with both ADR and OHS. No criminal proceedings were filed against the Company as a result of inspections carried out by the traffic police gendarmes and municipal police officers at roadside inspection stations. No accidents occurred during the filling and discharging operations.

- Within the scope of the "Communiqué on the Prevention and Reduction of Major Industrial Accidents", the Safety Report has been completed with the existing personnel, without receiving any consultancy services.
- The incidence of accidents was reduced by 51% when compared to 2015 as a result of intense studies conducted within the framework of Occupational Health and Security.
- In 2017, a total of 30,167 hot and closed vessel work permits were issued by the OHS -E personnel and within the scope of these permits, no work accidents were experienced.
- Work permits, inspection, control, firefighting services were provided within the scope of 1,000,000 man hours for the pipelines (pipe rack), channel and waste treatment disposal facility being constructed on the Petkim site within the scope of the STAR Refinery construction installation work. There was no significant incidence of work related accidents during this process.
- Work was carried out with the aim of sharing information and experience in order to ensure that OHS-E practices are always safe and efficient under the SAFE Management System. Within this scope, the OHS-E Bulletin started to be issued to provide useful information related to OHS-E and past work-related accidents.
- Events were organized with the participation of the General Manager in order to raise awareness within Petkim, within the scope of the OHS Week held between May 4th and 10th. Various gifts were given to participants as a souvenir of the day.
- Within the scope of social responsibility efforts, 300 pupils from the Petkim Primary School and 200 pupils from the Gazi secondary school received talks on work safety training as part of the activities held for Occupational Health and Safety week in 2017. The talks included both visual and practical explanations and the pupils were then asked for their drawings and paintings after the event, in order to receive feedback on the subjects that the learned about.
- Four Petkim employees took part in the half-marathon (21 km), organized within the scope of the activities for September 9th, to commemorate İzmir's Independence. They ran in their work clothes and safety helmets with the aim of raising social awareness for occupational safety. All four of the employees completed the marathon.

Environment and Waste Management Activities

As an organization that has succeeded in integrating sustainability into its deeply rooted production culture dating back half a century, Petkim has achieved significant progress in initiations such as optimum use of resources such as water, energy and raw materials, minimizing the environmental impact of its operations under a holistic and preventive environmental strategy, increasing the number of environmental R&D projects and raising the level of investment in environment areas.

Petkim's environmental activities are carried out in line with the Integrated Management System, which includes the ISO 9001 Quality Management System, the OHSAS 18001 Occupational Health and Safety Management System and the ISO 14001 Environmental Management System.

Continuously monitored environmental performance through environmental indicators which include water and waste water analysis, measurements of emissions, waste management, control of marine pollution, constant reviewing of environmental dimension analysis, the efficient and effective operation of the wastewater treatment plant and the hazardous waste incineration plant, the development of company-wide environmental culture, management of chemicals, monitoring greenhouse gas emissions, evidence the ambition to go beyond legal obligations in Petkim.

The main activities in 2017 are highlighted as follows:

- The audit conducted by the external certification company in accordance with the ISO 14001: 2015 revision was successfully completed, ensuring the revision transition.
- The Petkim Port received Green Port certificate for a 3rd time.
- Greenhouse gas emissions from Petkim's activities in 2015 and 2016 were calculated in accordance with the Regulation on Monitoring Greenhouse Gas Emissions. The emission reports were verified by the verifying body and submitted to the Ministry of Environment and Urbanization.
- Two joint maritime pollution exercises were held with the participation of authorized institutions and other ports for preparatory purposes and to tackle any marine pollution which may arise due to shipping traffic and port activities in Nemrut Bay, where the Petkim Port is located.
- A total of 14,139 tons of waste were treated in the Petkim Waste Incineration Unit, which operated at a capacity utilization ratio of 81%.

Greenhouse gas emissions from Petkim's activities in 2015 and 2016 were calculated as required by the Regulation on Monitoring of Greenhouse Gas Emissions. The emission reports were verified by the verifying body and submitted to the Ministry of Environment and Urbanization.

Energy Efficiency Studies

Regular production costs are reduced through ongoing efficiency enhancing and energy saving investments in existing plants, and this advantage is also reflected to the final product consumers.

Financial savings amounting to USD 2.6 million / year were achieved in energy costs, while USD 3.4 million was invested in 16 energy efficiency projects that were completed during the year. This led to total energy savings of 1,846 TOE.

Four of the completed projects formed part of the EIP (the Efficiency Increasing Project). In 2017, a total of TL 1.1 million in grant support was extended by the General Directorate of Renewable Energy of the Ministry of Energy for four projects.

Work on 22 energy efficiency projects continued. The EIP application was submitted for the "Replacing Existing Hot Oil Boiler with a High Efficiency New Hot Oil Boiler at the PP Plant" project, the "Application of a Variable-Speed Drive to the H, G and F Cooling Water Tower Fans" project and the "Gas Turbine Jacket Air Waste Heat Recovery" project.

53 energy efficiency projects were defined within the energy efficiency action plan for 2018.

At Petkim, unit energy consumption per product has been cut by 18% over the last 10 years through projects carried out at the power plants and the facilities.

The new Wind Farm was commissioned in 2017 in order to provide more efficient energy production. The Petkim Wind Farm generates 25 MW of electricity from its 17 turbines with an installed capacity of 51 MW, in accordance with the power stated in the license.

The Petkim Integrated Management System

Aiming to achieve high quality, effective and sustainable processes in its operations, Petkim adds new system certificates

SUSTAINABILITY

Targeting quality, effective and sustainable processes in its operations, Petkim strengthens its integrated management system by making new additions to its management system certificates each year.

to its existing set of management system certificates every year, and renews the system certificates by successfully completing the audits of existing certificates, and strengthens its integrated management system.

The 2nd surveillance audit of the PETKİM Laboratory Accreditation System, which was conducted by TÜRKAK on 10 February 2017 in accordance with TS EN ISO / IEC 17025: 2012 General Requirements for the Competence of Testing and Calibration Laboratories, was successfully completed. The decision was taken to continue the existing laboratory accreditation.

The "TS ISO IEC 27001 Information Security Management System Re-Certification Audit", which was conducted with four auditors from the Ankara Area of Turkish Standards Institute between the 22-24 August 2017, was successfully completed and the decision was taken to re-certify Petkim's "TS ISO IEC 27001 Information Security Management System".

The "GreenPort Re-Certification Audit ", which was also was conducted with four auditors from the Ankara Area of the Turkish Standards Institute and the Ministry of Transport, Maritime Affairs and Communications and the General Directorate of Maritime Trade, was successfully completed on 25-26 October 2017. The decision was taken for Petkim to be re-certified in accordance with the "GreenPort Sectoral Criteria".

Surveillance audits of the following systems, which were carried out by six auditors from the Turkish Standards Institute between 20-25 November 2017, were completed successfully. The decision was taken for the systems to be continued.

- ISO 9001 Quality Management System, (the transition into the new revision was also carried out.)
- ISO 50001 Energy Management System,
- ISO 14001 Environment Management System, (the transition into the new revision was also carried out.)
- TS ISO 10002 Customer Satisfaction Management System,
- TS ISO 31000 Risk Management Verification System,
- OHSAS 18001 Occupational Health and Safety Management System,

"TS EN ISO / IEC 17025 Surveillance and Scope Extension (17 parameters) Audit" conducted by two auditors from TÜRKAK on 28-29 December was successfully completed. The decision was taken to continue the existing laboratory accreditation with 17 new parameters to be included in the scope.

In the Valve Workshop, 5S studies were initiated and 5S inspections carried out. The 5S procedure was also prepared.

The presentation on the Implementation of the ISO 9001 Quality Management in the Petrochemical Sector was given at the European Organization for Quality (EOQ) Congress that was held in Slovenia on 11-12 October 2017.

The poster presentation entitled "System 2015 Revision in the Petrochemical Sector" was carried out.

In the Quality Documentation Management System (QDMS), a total of 916 documents were revised and 272 documents were reissued.

Continuing to support culture and art

At the same time as increasing the high added value it provides to the Turkish industry and economy, Petkim continues to provide sustainable support for cultural and artistic activities in İzmir, the home of Petkim's production facility, and the people of the region.

As an organization that prides itself on is support for culture and arts, Petkim hosted a very special guest at the 31st International İzmir Festival and became the program sponsor of the 'Nigel Kennedy Playing Hendrix' concert.

The renowned classical violinist, Nigel Kennedy, and his group provided an unforgettable concert for the festival audience while exhibiting the immortal rhythms of Jimmy Hendrix at the Ahmed Adnan Saygun Art Center (AASAC).

International İzmir Festival

İKSEV (the İzmir Culture and Arts Foundation), which continues to host the International İzmir Festival under the slogan of "İzmir, City of Culture and Art", provided a stage for some of the world's most important artists in their fields at the International İzmir Festival, which it realized for the 31st time in İzmir in 2017. It also successfully exhibited a promotion of İzmir. Bringing historical places together with art, the İzmir Festival added an impressive list of places to its list of event venues; the Ephesus Antique Theatre, the Library of Celsus, the Ephesus Odeon, the Virgin Mary House, the Saint Policarp Church, Agora, the Bayraklı Ruins site, the Metropolis, which is the city of the Mother Goddess, Kadifekale where Alexander the Great re-established İzmir, Bergama Asklepion, which had been the capital of healing with music throughout the ages, the Çeşme Castle and the Sığacık Castle in Seferihisar that is Turkey's first slow city, the Ayavukla Church, the İzmir Cigarette Factory and the Ephesus Trade Agora, which are the important witnesses in the city's history. The International İzmir Festival is known as one of the most prestigious members of the European Festivals Association with its quality programs and events that bring historical venues together with the arts.

As an organization that is a sustainable supporter of culture and the arts, Petkim's sponsorship of the International İzmir Festival over the years has raised awareness in society.

As an organization supporting culture and arts, Petkim hosted a very special guest at part of its program sponsorship of the 31st International İzmir Festival.

INVESTOR RELATIONS

Petkim maintained its position in the Borsa İstanbul's Sustainability Index, in which it was first included in 2014, following reviews conducted in 2017 which recognized its production approach based on efficiency which respects the environment and society.

Despite the instability and volatility in the financial markets in 2017, Petkim shares performed strongly with our high profitability, strong cash position and the confidence of our investors, and outperformed the BIST 100 by 55%.

The decision was taken in the Annual General Meeting held on 29 March 2017 to start distributing profits amounting to TL 600,000,000.00 (a gross 40% payout ratio) on 14 April 2017. The profit distribution was realized on 14 April 2017.

The Petkim Investor Relations Department is devoted to increasing customer satisfaction and shareholder value with corporate governance which meets international standards, investor relations practices and its understanding of social responsibility. In accordance with the provisions of the Capital Markets Board, the Investor Relations Department was established in our Company on 31 May 2013.

The fulfillment of the obligations associated with Capital Markets Legislation, ensuring coordination in corporate governance practices and carrying out relations with shareholders are also gathered under the roof of this department. Investor Relations Department carries out a number of activities in Petkim, including ensuring compliance with the legislation, the articles of association and other in-house regulations regarding the use of shareholder rights, to take measures to ensure the exercise of rights, to report to the Board of Directors within the scope of the defined duties and to strengthen the compliance capacity of the Company with CMB legislation and the relations with investors, analysts and institutions that regulate capital markets.

The Investor Relations Department received a monthly average of 40 information requests by e-mail and telephone in 2017 and all requests were answered. In the same period, a total of 7 investor information meetings were organized including 4 analyst meetings and 3 teleconferences, and investors were informed of the Company's financial status, strategies and activities by the upper management.

Investor Relations Department

Tel: 0 232 616 12 40 /2501 -4438

E-mail: yatirimci.iliskileri@petkim.com.tr / investor.relations@petkim.com.tr

Petkim's 2017 Share Price Performance

Petkim Petrokimya Holding A.Ş. shares have been trading under the PETKM ticker on the BIST Star Market since 9 July 1990.

As of the end of 2017, the Company was included in the BIST 30 and BIST Sustainability indices. Petkim maintained its place in the "BIST Sustainability Index" in 2017, which includes companies that are traded at Borsa İstanbul and which currently have a high level of corporate sustainability performance.

In 2017, the Company share price fluctuated between a minimum of TL 3.26 and a maximum of TL 7.81. While the BIST 100 and BIST 30 indices gained 48% and 49%, respectively, in value during 2017, Petkim's share price increased by 128% in the same period. Petkim's shares outperformed the BIST 100 Index by 55% and the BIST 30 Index by 53%.

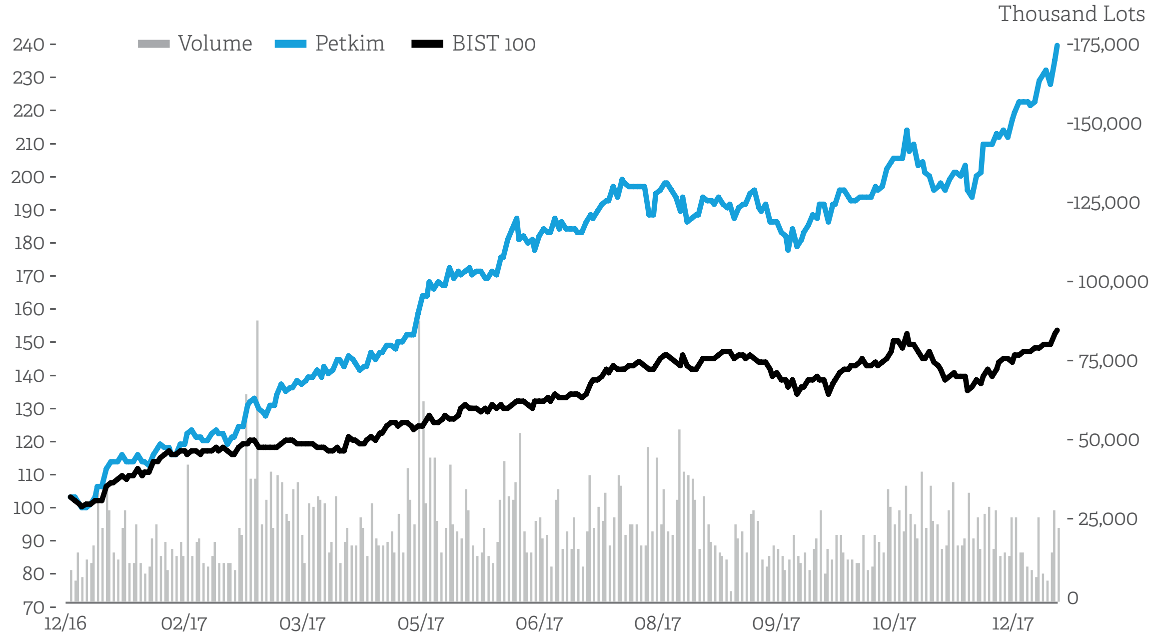
Reuters Code: PETKM.IS

Bloomberg Code: PETKM.IT

Date of Public Offering: 19.06.1990

Paid-in Capital: TL 1,500,000,000

PETKİM'S 2017 SHARE PRICE PERFORMANCE



INTERNAL AUDIT SYSTEMS

Information is shared with the Audit Committee during its meetings held within the year to ensure healthy execution of the internal control mechanism. The Committee constantly supervises the operation and efficiency of the system, and communicates the issues relating to risk management and internal control mechanism and suggested solutions to the Board of Directors as and when necessary.

In addition to its activities in the corporate risk management, Internal Audit Department runs internal audit activities. Carrying out its business with a risk-focused and proactive approach, the unit particularly focuses on the most risky fields; shares the results with related departments, ensures that required action plans are made and follows up the improvements.

The Internal Audit Unit classifies its activities under four groups: compliance, operations, financial tables and specific audits. Compliance audits focus on the compliance of the Company with legal legislation as well as rules and principles set by the senior management. Operational controls include the monitoring efficiency of the Company's policies and activities, work flowcharts, organizational structure and improvement of internal control systems. The unit also controls and reports the compliance of financial tables to generally accepted accounting standards. Within the context of specific controls, a department, an issue or an incident is audited upon the request of top management or as a result of professional initiative of an auditor.

The corporate integrated management system is used in drawing up the Company's consolidated financial statements, and the Company's subsidiaries are also audited within the frame of the annual audit plan.

Information on the Company's Internal Control System and Internal Audit Activities and the Opinion of the Governing Body

Risk management and internal control procedures in relation to the Company's financial and operational activities have been brought to completion, and their execution and efficiency in accordance with the applicable capital market legislation and regulations are being followed up by the Internal Audit Department.

Information on Associates

Associates in which more than 5% of the capital is directly held

Subsidiaries, Financial Fixed Assets and Financial Investments

Company Name	Company's Field of Activity	Paid-in/Issued Capital (TL)	Share in Capital (%)
Petlim Limancılık Ticaret A.Ş.	Port operation services	150,000,000.00	70
Petkim Specialities Mühendislik Plastikleri San. ve Tic. A.Ş.	Engineering, plastics manufacturing	100,000.00	100
SOCAR Power Enerji Yatırımları A.Ş.	Energy	90,000,000.00	9.9

No changes occurred in the interests the Company owns in its associates and subsidiaries during 2017.

The Company has no cross-shareholding relationship with any other company.

Repurchased Own Shares by the Company

The Company did not repurchase any of its own shares during 2017.

Disclosure on Special Audit and Public Audit

Shareholders did not request a special audit under Article 438 of the Turkish Commercial Code. The Company undergoes independent audits for the full year at 12-month periods and interim independent audits at 6-month periods by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., the independent audit firm appointed by the General Assembly.

Lawsuits Filed Against the Company and Potential Results

There were no lawsuits filed against the Company, which may affect the Company's financial standing and operations as at 31 December 2017.

Disclosure of Administrative or Judicial Fines against the Company and/or Board of Directors Members

There were no fines of material nature imposed against the Company and/or members of its board due to practices that breach the provisions of legislation in 2017. The Ministry of Finance initiated a limited tax audit on special consumption tax for 2014 in connection with the company's productions of Pygas, claiming that Pygas has a Customs Tariff Statistics Position number with special consumption tax. As a result of the audit, on 25 June 2017, the Company was notified of a special consumption tax penalty amounting to TL 66 million and a tax penalty amounting to TL 99 million and interest for the delay. Payment is not considered at this stage. In the meantime, reconciliation is sought with regard to this notification and the process is ongoing. As a result of the reconciliation, all our legal rights will be exercised, including options for appealing in court.

Fines paid by the Company during the period are provided under the heading Compensation and Penalty Charges in Footnotes to Consolidated Financial Statements, Other Operating Expenses.

Assessment of Prior Period Targets and General Assembly Decisions

In view of the increasing profitability of the petrochemicals industry from the end of 2014 and the Company's positive performance in 2015 and 2016, high profitability was targeted for 2017 on the back of maximum production and fast sales strategy. In line with this strategy, the Company registered a high level operating profitability through high capacity utilization ratio, production volume and turnover in 2017.

The actions as required by the decisions adopted in the Ordinary General Assembly meeting convened during 2017 have been carried out. There are no unfulfilled decisions.

Information on Extraordinary General Meetings

The Company did not call any Extraordinary General Meeting in 2017.

Expenses Incurred in Relation to Donations and Grants and Social Responsibility Projects

İzmir Provincial Security Directorate Vehicle Donation	TL 86,651
Aliağa Municipal Ambulance Assistance	TL 155,760
Assistance made to students in Azerbaijan	TL 344,218
Heydar Aliyev Vocational High School Workshop Building	TL 4,926,500
Heydar Aliyev Vocational High School Security Help	TL 59,059
Chess Tournament Parent Participation Donation	TL 8,500
Donation to Baku Junior College Students	TL 56,710
TEMA Foundation	TL 140,000
İKSEV 31st Sponsorship of the İzmir Festival	TL 278,208
Turkey Physically Disabled Sports Federation	
BOCCIA National Team Sponsorship	TL 35,000
Turkey Chess Federation's National Team	
For Atakan Mert Biçer, a Sportsman in the 12 Age Group	
The 2017 World Championship held in Brazil	
Travel and Accommodation Sponsorship	TL 8,500
Aliağa District National Education Directorate	
Sponsorship of the Activities of the Culture, Art and Sports Project Team	TL 47,780
İzmir Provincial Directorate of National Education	
Teacher's Day Event Sponsorship	TL 19,287

Relations with the Controlling Company

The Company did not engage in any transactions apart from those on an arms' length basis with its principal shareholder SOCAR Turkey Enerji A.Ş. and other group companies at the direction of the group companies, which would be to the benefit of other group companies and which would require equalization.

Risk management, oversight and audit activities are carried out taking into consideration the legislation provisions governing the Board of Directors and the committees set up thereunder. The report drawn up pursuant to Article 199 of the TCC in relation to 2017 activities within this context concluded as follows: "According to the conditions and circumstances known to us, a commensurate counter-performance was provided in all legal transactions Petkim Petrokimya Holding A.Ş. realized in 2017 with the controlling company or the subsidiaries specified in Article 199 of the TCC; there were no actions taken or avoided, nor the Company sustained any loss due to an action taken or avoided."

Conflicts of Interest between the Company and Firms from Which Services are Procured Such as Investment Advisory and Rating and Measures Adopted by the Company to Prevent Such Conflicts of Interest

No conflicts of interest arose between the Company and the firms from which services are procured such as investment advisory and rating.

Main Factors Affecting the Company's Performance, Material Changes in the Environment Where the Company Operates, Measures Adopted by the Company in Relation to Such Changes

Material changes in the environment where the Company operates and main factors affecting its performance are addressed in risk management activities, and controls are added as deemed necessary.

AN ASSESSMENT OF THE FINANCIAL STANDING BY THE MANAGEMENT

a) In 2017, the Company defined its strategy as maximizing production and sales in order to take optimum advantage of the positive circumstances in the petrochemicals industry. Within the frame of this strategy, high production performance has been one of our top targets. Capacity utilization was a high 97%. Our turnover was registered as TL 7,364 million and our gross profit margin was 25.2%.

The balance sheet composition, which is formed so as to minimize the effects of the economic conjuncture, was preserved and our risks were maintained at the minimum level thanks to our longstanding conservative approach to our financial risks.

b)

Key Financial Highlights	2016	2017
TURNOVER (TL MILLION)	4,533	7,364
GROSS PROFIT MARGIN	21.1%	25.2%
EBITDA (TL MILLION)	890	1,791
NET PROFIT (TL MILLION)	732	1,389
DEBT/EQUITY	104%	102%
PRODUCTION (THOUSAND TONS)	3,129	3,419

c) The Company's capital did not remain uncovered during the fiscal year. The Company enjoys a solid financial standing on the back of its profitability generated on its operations. Therefore, the Company did not see any need to improve its financial standing. With its performance in 2015 and 2016, our Company has exhibited that it is capable of attaining high profitability levels by making optimum use of market conditions, provided that the positive conjuncture in the industry persists in the years ahead.

PROFIT DISTRIBUTION POLICY

With our Board of Directors' decision no: 3/10 taken on 25/02/2014, our Company's Profit Distribution Policy for 2013 and succeeding years were determined as follows

In the 37th Article "Determining the Profit", the 38th Article "Reserve Funds" and the 39th Article "Method and Timeframe for Profit Distribution" of the Articles of Association of our Company, profit distribution policy is specified in conformity with the relevant provisions of the Turkish Commercial Code and Capital Markets Board.

- Within this framework; as our Company's Profit Distribution Policy for 2013 and succeeding years; our Company has adopted the principle of distributing the maximum amount of dividends in cash in line with its medium and long term strategies and investment and financial plans, and by taking the market conditions and developments in the economy into consideration.
- In conformity with the 37th Article of the Articles of Association of our Company, the Company may distribute advance dividends.
- In the event that distributable profit is available in accordance with relevant communiqués, the profit distribution resolution is to be taken by the Board of Directors in the form of cash and/or shares and/or installments, as long as the amount is not below 50% of the distributable profit, within the framework of the provisions of Capital Markets Board and Turkish Commercial Code, and shall be submitted to the approval of General Assembly; and the distribution shall be completed within the legal time allotted.
- According to the Articles of Association of the Company, the amount to be determined by the General Assembly, not exceeding the 0.1% of distributable profits remaining after distribution of first dividend, shall be distributed to Board Members.
- A consistent policy shall be followed recognizing both the interests of the shareholders and the Company in the implementation of the Profit Distribution Policy.
- The date of distribution shall be decided by the General Assembly upon proposal of the Board. Profit distribution payments shall be completed within the legal time allotted. The relevant legislation, communiqués, and regulations of CMB shall be followed in regards to other profit distribution matters.
- In the event that the calculated "net distributable profit for the year" is below 5% of issued capital, no profit shall be distributed.
- When no profit is distributed, the Board of Directors shall inform the shareholders at the General Assembly meeting about the reasons and how the undistributed profits are to be allocated.

RISKS AND AN ASSESSMENT BY THE GOVERNING BODY

Corporate Risk Management Practices

The Company conducts its operations in a transparent, accountable, fair and responsible manner. The Board of Directors sets up the internal control systems incorporating the risk management, information systems and processes for minimizing the risks that might have an impact on the Company's stakeholders and particularly its shareholders, by taking into consideration the feedback from the relevant Board of Directors committees, as well.

The Early Detection of Risk Committee makes proposals and suggestions to the Board of Directors regarding early detection and assessment of all kind of risks such as strategic, financial, operational and similar risks that might affect the Company, regarding calculation of their impact and probability, management and reporting of these risks in accordance with the corporate risk appetite of the Company; implementation of necessary measures in relation to identified risks, their consideration in decision-making mechanisms and creation and integration of efficient internal control systems along this line. In 2017, the Early Detection of Risk Committee held six meetings and presented the reports of these meetings to the Board of Directors.

As a result of analyses and assessments made in risk evaluation process, the decisions are taken among four different risk attitudes: Accept, mitigate, transfer and avoid. The risks related to the Company are evaluated under four categories to systematically manage the corporate risk management activities: Strategic, financial, operational and external risks

Strategic Risks

Strategic risks are composed of sales, supply chain, investment, R&D and compliance risks, which can create an obstacle for Company's short, medium and long-term strategies.

The management of sales risks is a continuum. Within this framework, market analyses are completed; global capacities and competition in the sector are monitored. Therefore, the most appropriate sales strategies are determined in line with the target of maximum customer satisfaction.

Regarding supply chain risks, naphtha, the most important feedstock for the Company, is analyzed. Additionally, analyses are made to ensure effective management of supply processes of other raw materials, equipment and services.

In its domestic and international activities, the Company is subject to a series of laws and legislation. Within the framework of compliance risk, these laws and legislation are closely monitored; employees are informed through training activities and seminars and relative tables are periodically updated. The Company gets consultancy service when required in order to mitigate the risks that it may encounter.

Financial Risks

Within the scope of financial risks, the Company manages interest rate, currency, credit and liquidity risks. Closely monitoring the economic developments at national and international level, the Company takes necessary actions considering the possible impacts of economic developments on its assets and liabilities.

Regarding the management of interest rate risk, the quantities, terms and interest rates of interest-sensitive assets and liabilities are carefully monitored and balanced in favor of the Company.

The Company makes large amount of foreign currency transactions for its commodity sales and purchases. The related department closely monitors foreign currency transactions and targets to manage the currency risks through in-balance sheet transactions.

The Company attaches importance to asset-liability balance in the management of liquidity risk and monitors liquidity on daily basis to avoid maturity mismatch and payment problems. Systems that ensure facility of payment are actively used to make the collections easier through credit risk management policies. With this method, the Company guarantees its collections and increases the liquidity.

Operational Risks

Environment, work health and safety, human resources, information technologies and security risks are managed within the framework of operational risks. Basically targeting to manage the operations in a reliable manner, the works in this field also aim at preserving physical assets and being in compliance with laws and regulations.

Environmental risks as well as work health and safety risks are the fields that the Company attaches great importance by carefully considering the risks that may threat the environment and work health during its operations, continuously and carefully monitoring the laws and legislation and training its employees. In addition, emergency operations plans and drills are made in order to ensure effective response in emergencies. To control that the waste are in conformity with laws and legislation, sample analyses are made and monitored with daily and spot checks. The results of periodical audits done during the year and incident notification forms are evaluated to determine if environment and work health and safety risks arise due to the weaknesses in the processes and systems or human errors. The required improvements are made and thus the security of operations is increased.

The risks in the field of human resources are monitored to ensure the realization of the Company's targets and strategies, to maximize employee satisfaction and to enhance corporate loyalty. The works in this field are conducted with the Company's employee focused approach, which also takes place among the corporate values of Petkim. Professional knowledge and motivation of employees are increased by various training programs and social activities.

The Company uninterruptedly invests in information technologies. The risks that may arise in this field are managed either by its own employees or through external consultancy services received when required. During the periods of program changes and revisions, the advices of consultants are immediately put into practice. Backups are taken periodically and measures are taken to prevent loss of company information.

The Security Department uses aversive and preventive techniques in its actions and activities conducted in line with Security Management Standard and related laws and legislation. Effectively benefiting from technology as well, the Department has sufficient number of vehicles and equipment. The training and drills and exercises of security staff are periodically carried out and audited. The Company's assets are also secured with extensive insurance policies in addition to security measures.

External Risks

The Company also carries out activities against the risks stems from natural disasters, economic risks at national and international level as well as political risks.

Against natural disaster risks, emergency and business continuity plans are prepared and the employees are provided emergency response training periodically Periodical drills are done in the units. Additionally, all assets are insured against natural disaster risks.

Regarding the procurement of feedstock, the Company is largely dependent on imports. As such, economic and political situation in both domestic market and foreign countries, from which the feedstock is procured, are followed through national and international publications and the relevant studies are periodically updated.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

SECTION I: CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

The Company operates under the company name Petkim Petrokimya Holding A.Ş. at the address of Siteler Mahallesi Necmettin Giritlioğlu Caddesi No: 6 Aliağa, and it is registered with Aliağa Trade Registry Directorate under the trade registry number 314. The Company has a branch at the address Reşitpaşa Mahallesi Eski Büyükdere Cad. Park Plaza No: 14 2. Kat 8 no'lu Bağımsız Bölüm Şişli-İstanbul, and a representative office at the address of Haydar Aliyev 121, "SOCAR Tower" 14th floor, Baku, Azerbaijan. The Company's website can be reached at www.petkim.com.tr.

In corporate governance practices, the Company makes the utmost effort to comply with the Corporate Governance Principles (the Principles) of the Capital Markets Board (CMB). In areas where compliance cannot be met, Petkim provides reasons for the failure to comply and announces precautions taken against potential conflicts of interest that could arise from non-compliance. The Company updates its annual report and web site in compliance with the Principles and for the use of its stakeholders. Stakeholders can access detailed information via the corporate web site or direct their inquiries to the Investor Relations Department.

Corporate governance rating activity at the Company started in 2009. Assigned a corporate governance score of 7.71 in 2009, our Company was included in Borsa İstanbul Corporate Governance Index. Since then, our Company underwent periodic corporate governance rating review, and improved its score every year, increasing it from 8.19 in 2010 to 9.03 in 2015.

Within the scope of corporate governance rating activities, our Company's score was upgraded every year from 2009 until 2015, when it reached 9.03 on a scale of 10. During the process, our corporate governance practices came to a superior level. Corporate governance rating was discontinued in 2016.

During the year 2017, 22 material event disclosures were made to BIST in accordance with the CMB's Communiqué on Public Disclosure of Material Events. No additional information was requested by the Capital Markets Board and BIST for the announcements made for material events. The Capital Markets Board has not imposed any sanctions on the Company caused by any non-compliance to material event disclosures. All of the Company's material event disclosures were made in a timely fashion.

a) Compulsory Principles that we fail to implement

None.

b) Non-compulsory Principles

- The absence of cumulative voting method: A cumulative voting system has not been adopted by Petkim as it is not deemed to be a convenient practice.
- The absence in the Articles of Association of the shareholders' right to appoint an independent auditor and lack of additional stipulations concerning minority rights: The Articles of Association feature no stipulation concerning the shareholders' right to appoint an independent auditor at the General Assembly. However, the shareholders' right to information and inspection are protected by Article 438 of the Turkish Commercial Code.
- Privileges concerning voting rights: The Group C share belonging to the Privatization Administration corresponds to a legal regulation and the Company does not have the capacity to make related amendments.
- The Company shall determine a target rate that is not to be less than 25% and a target time for woman representation on the Board of Directors, and devise a policy to achieve these goals: The issue is being evaluated by the Company.
- As per the Articles of Association, General Assembly meeting is held at the headquarters of the Company in Aliağa, İzmir.
- An insurance policy is to be obtained at a sum insured of 25% in excess of the Company capital against losses that board members may cause to the Company by reason of their faults in the performance of their duties: The matter is being evaluated by the Company.

There are no conflicts of interests arising from not fully complying with these principles.

Activities in the Period for Compliance with the Principles

Company's website provides up-to-date information and is effectively used as a public disclosure tool.

Annual report was reviewed and necessary revisions were made in terms of fully complying with the principles.

At the General Assembly, the rules on the following issues were abided by: provision of information as concerns the candidates to Board membership, the announcement of the agenda and relevant information documents at least three weeks prior to the Assembly, provision of information on privileged shares, participation of managers at the meeting, invitation of the media and stakeholders to the meeting, open voting via raising hands and the announcement of this procedure to partners, and the publication of examples of power of attorney documents.

SECTION II: SHAREHOLDERS

2.1. Investor Relations Unit

Petkim's Investor Relations Department is responsible for managing relations with current and potential shareholders, responding to questions by investors and analysts in the most efficient manner, and undertaking efforts to increase the Company's value.

Within the scope of the 11th Article of the Corporate Governance Communiqué no II-17.1. of the Capital Markets Board; Mustafa Çağatay, who holds a Corporate Governance Rating Specialist License (license no: 700269) and a Capital Market Activities Advanced Level License (license no: 203652), served as Investor Relations Coordinator at our Company and İlkay Çetin served as the supervisor of our Investor Relations Department.

The report of the Investor Relations Department regarding the activities it carried out within the period was presented to the Board of Directors on 15 December 2016.

Within the context of shareholder relations, the Company is committed to carry out the following activities in accordance with Corporate Governance Principles:

To fulfill the requirements of Capital Markets Board (CMB) legislation, to make the necessary internal and external disclosures for compliance with the Corporate Governance Principles, to undertake improvements,

- To maintain communications with relevant institutions including the Capital Markets Board, Borsa İstanbul and the Central Registry Agency (CRA),
- To organize Material Event Disclosures to be made to the public within the framework of current legislation and the Company's Public Disclosure Policy, and to pass these on to the Public Disclosure Platform (PDP), and to monitor all public disclosures within the framework of current legislation and the Company's Public Disclosure Policy,
- To make improvements for compliance to the Corporate Governance Principles,
- To ensure the maintenance of shareholder records in a sound, secure and updated manner,
- To conduct transactions regarding share certificates,
- To provide accurate, complete and regular information to shareholders, as well as to current and potential investors, regarding the Company's activities, financial outlook and strategies,
- To respond to the written and oral information demands of analysts carrying out research on the Company (excluding commercial secrets), to support the Company in the best manner and to ensure that reports prepared for investors are accurate and complete,
- To provide information to investors via organizing and attending meetings and conferences, and cooperating with domestic and foreign firms to organize or attend the same,
- To prepare and update information published on the corporate web site (www.petkim.com.tr) in the section titled Investor Relations, in both Turkish and English,
- To carry out all transactions related to Ordinary and Extraordinary General Assembly meetings, in accordance with current legislation and the Articles of Association of the Company.

The contact information for the Investor Relations Department follows below:

Investor Relations Department

Mustafa Çağatay (Investor Relations Coordinator)

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İlkay Çetin (Supervisor)

Phone: +90 232 - 616 12 40/4438

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In 2017, our investors were informed through teleconferences, investor conferences and our web page. In the reporting period, a total of seven investor information meetings were organized, including four teleconferences, whereby top management informed the investors about the Company's financial position, strategies and operations.

During the year 2017, approximately 40 written and oral information requests from shareholders (except for confidential information and commercial secrets) were received and answered each month on a range of subjects including Company activities, general assembly meetings and stock certificate procedures.

There were no lawsuits filed against the Company, which may affect the Company's financial standing and operations, as at 31 December 2017.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

2.2. Exercise of Shareholders' Right to Obtain Information

There is no discrimination among the shareholders with respect to the exercise of the right to obtain information. All necessary information and documents relevant to shareholders' exercise of their rights is presented without discrimination between any shareholders and is available on the corporate web site, (www.petkim.com.tr). Developments that may affect the exercise of the shareholders' rights are sent as an explanation to the PDP system; such information is also disclosed on our web page as announcements in both English and Turkish.

The Articles of Association feature no stipulation concerning the shareholders' right to appoint an independent auditor at the General Assembly. However, the shareholders' right to obtain information and inspection are protected by Article 438 of the Turkish Commercial Code. During the period, no demand has been received regarding appointment of an independent auditor.

2.3. General Assembly Meetings

During 2017, the Company convened a General Assembly meeting. Detailed disclosures related to the respective meeting and agenda items were posted on PDP prior to the General Assembly meetings.

The 2016 Ordinary General Assembly Meeting was held at the Company headquarters in Aliağa, İzmir on 29 March 2017 at 13:00 and was registered on 11 April 2017. Convening with physical participation, General Assembly Meeting was synchronously held in the Electronic General Assembly System in compliance with the "Regulation about the General Assembly Meetings to be held by the Incorporations in the electronic platform" which was announced in the Trade Registry Gazette no: 28395 dated 28 August 2012, and in compliance with the "Communiqués About the Electronic General Assembly Meeting System that will be implemented in the General Assembly Meetings of the Incorporations" which was announced in the Trade Registry Gazette no: 28396 dated 29 August 2012.

All shareholders/stakeholders and the media organs were invited to the Ordinary General Assembly meeting held in 2017 in accordance with the "transparency" principle of the Company.

Before the General Assembly, examples of power of attorney documents to be used for those who would be represented by proxies were in the announcements and could be found on the web site. Before the meeting, the voting procedure was announced and shareholders were informed via electronic means.

The shareholders and their representatives, who were stated in the shareholders' list received from the Central Registry Agency (CRA) and who applied to the Company; Members of the Board of Directors; Auditors; General Manager; Assistant General Managers; and the Corporate Secretary of the Board of Directors carrying out the preparations for the General Assembly of the Company, attended the General Assembly Meeting.

In the General Assembly, the shareholders exercised their right to ask questions and the questions were answered during the meeting. The minutes drawn up according to the agenda items of the General Assembly are sent to PDP as a "Material Event Announcement" on the same day and announced to the public. The minutes of the General Assembly are registered and announced in the Turkish Trade Registry Gazette. On Petkim's website, the minutes to the General Assembly, list of attendees, agendas, information documents and ads are published for all investors.

The invitation for the General Assembly meeting; the information regarding the meeting date and place and the agenda items are duly announced three weeks prior to the meeting at PDP via a material event disclosure, and in the Turkish Trade Registry Gazette and in the national newspapers via advertisements.

From the time of the announcement of the General Assembly meeting, all relevant documents including the annual report, financial tables and statements, the profit distribution proposal, informational documents relating to the Assembly agenda, the latest version of the Articles of Association, as well as proposals for amendments to the text of the Articles of Association, were made available at the Company's headquarters and on the web site so as to provide access to the greatest number of shareholders in the easiest way.

The opposition proposal was not submitted in the 2017 Annual General Meeting. The shareholders who spoke on the wishes and suggestions contained in the article expressed their views on the company's progress, projects and investments. Officials from the Company responded to their questions.

Within the period, there were no transactions left to the General Assembly for resolution due to majority of the independent members of the Board of Directors casting negative votes in cases where affirmative votes of the majority of the independent members of the Board of Directors is required for the Board of Directors to take a decision.

Our Company's majority shareholders (who control the management of the Company), Board of Directors' members, managers who have administrative responsibilities, and their spouses and blood relatives and relatives by marriage up to second-degree did not make any important transaction with the Company or its associate companies which may lead to conflicts of interest and/or did not make any transaction, related to a commercial business that is within the scope of the Company's or its associate companies' field of activity, for their own account or for the account of others or did not become unlimited partners in other companies carrying out similar commercial businesses.

The members of the Board of Directors did not carry out any transactions with the Company on their own or others' behalf within the frame of the authorization granted by the Company's General Assembly, nor did they engage in any activities falling under the prohibition of competition.

The resolutions adopted in the Ordinary General Assembly meeting convened in 2017 have been carried out during the year. There are no unfulfilled decisions related to the matter.

The Company provided detailed information to shareholders about the aids and donations made during 2016 in the information document made available prior to Ordinary General Assembly meeting in 2017. Furthermore, the matter was included in the Ordinary General Assembly meeting agenda, and information was provided to shareholders during the General Assembly.

During 2017, the Company's donations and grants amounted to TL 5,637,538.

2.4. Voting Rights and Minority Rights

Article 32 of the Articles of Association of the Company states that shareholders who attend General Assembly Meetings shall have one vote per share. In the Articles of Association there is no provision that prevents a non-shareholder to cast a vote as proxy. Votes cast through proxies are in accordance with CMB regulations. Group C share enjoys a privilege in making nominations to the Board of Directors.

Furthermore, the validity of the Board of Directors decisions taken about the issues specified in the 15th Article of the Articles of Association of our Company depends on the affirmative votes of the Group C shareholders.

Minority shares are represented in the General Assembly directly or through their proxies. There is no cross-shareholding relationship with the Company's majority shareholders. There is no provision in the Articles of Association of the Company on the cumulative voting method. No change was made to a provision in the Articles of Association allowing minority shareholders to send a representative to the Board of Directors through the cumulative voting method.

There is no provision in the Articles of Association concerning the shareholders' right to demand the appointment of a special auditor at the General Assembly; however, the shareholders' right to obtain information and inspection is guaranteed by the Article 438 of Turkish Commercial Code.

Furthermore, according to the 30th Article of the Articles of Association of our Company; shareholders who have at least one twentieth of the Company capital may ask the Board of Directors to make a call for the General Assembly -provided that they specify the necessary reasons and the agenda in writing- or if the General Assembly is already going to convene, they may ask the Board of Directors to add the issues they request to be resolved on the agenda.

2.5. Profit Distribution Right

The Company's profit distribution procedures are set out according to the Articles 37, 38 and 39 of the Articles of Association of the Company, the Turkish Commercial Code and Capital Market regulations.

With regard to the Company's profits, no privileges are granted by the Articles of Association. The Company established its profit distribution policy and submitted it to the General Assembly. Information pertaining to Petkim's Profit Distribution Policy is published in the annual report and on the corporate web site (www.petkim.com.tr) under the link: Investor Relations/Corporate Governance/Profit Distribution Policy.

The decision was taken to start distributing profits amounting to TL 600,000,000.00 (gross 40% dividend payout ratio) on 14 April 2017 in the Annual General Meeting held on 29 March 2017. The profit distribution was realized on 14 April 2017.

2.6. Transfer of Shares

Restrictions on the transfer of shares have been made in Article 9 of the Articles of Association of the Company.

Article 9- Apart from the shares traded in the stock exchange; validity of the transfer of registered shares is subject to the approval of the Board of Directors. Affirmative vote of the members of the Board of Directors elected to represent Group C shares is required in order for the Board of Directors to approve the share transfer.

Group C share certificates can be transferred to another Turkish Public Institution having, in principle, the authorities assigned to the Prime Ministry Privatization Administration of the Republic of Turkey with Law Act no: 4046. In such a case, the transfer shall immediately be registered in the book of shares without necessitating the Board of Directors' decision.

During the term of the preliminary license obtained from the Energy Market Regulatory Authority (EMRA) until the generation license is obtained, the Company's shares or shares certificates may not be transferred and/or no acts and actions may be carried that will result in the transfer of shares or share certificates or lead to direct or indirect change in the Company's shareholding structure, save for by reason of inheritance or bankruptcy and the exceptions specified in Article 57 of the Electricity Market Licensing Regulation.

Once the generation license from the EMRA is obtained, it is obligatory to seek EMRA's advance approval in each instance for transfer of shares or share certificates that result in the change of control in the Company's shareholding structure, independent of the changes in capital interest mentioned above and independent of acquisition of shares representing five percent or more of the Company's capital directly or indirectly by a real or legal person.

The provisions of the Capital Market legislation are reserved.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

SECTION III: PUBLIC DISCLOSURE AND TRANSPARENCY

3.1. Company Web Site and Contents

The Company actively uses its corporate website (www.petkim.com.tr) to ensure the fastest and most efficient communications with shareholders in line with CMB Corporate Governance Principles. Within the framework of CMB Corporate Governance Principles, information is given via the internet on: trade register information, latest partnerships and management structure, detailed information on privileged shares, trade registers in which changes are published, the Articles of Association in their latest form along with date and number, announcements of material event, annual reports, periodic financial statements and tables, prospectuses, circulars relating to public offerings, the agendas of General Assembly meetings, lists of attendees, forms for vote by proxy and frequently asked questions. The web site's contents and structure have been developed in line with CMB principles both in English and Turkish. The Investor Relations Department is responsible for the preparation of the Investor Relations section, for updating and correcting information and adding new information.

The site is continually updated in order to provide increasingly higher levels of service in line with the Company's goal of continuous improvement.

The issues related to the Corporate Governance Principles are available at the web page of the Company.

3.2. Annual Report

The issues related to the Corporate Governance Principles are available in the annual report of the Company.

SECTION IV: STAKEHOLDERS

4.1. Provision of Information to Stakeholders

In relation to matters concerning the stakeholders, the Company holds vis-à-vis contacts and uses private lines of communication with its customers, and provides information efficiently to other shareholders through material event disclosures, the Company website and the printed and visual media.

Within the framework of the efforts to ensure timely and efficient information provision to customers, customer visits take the forefront, the number and efficiency of which have been constantly increased in recent years in a bid to be closer to customers, to respond to their needs and expectations, and to keep a close eye on product quality, supply continuity and logistic requirements. In order to reinforce its market presence and strengthen its relations with its customers, Petkim carried on and further increased its activities including participation in industrial meetings, trade shows, regional meetings, and customer visits in 2017.

The Customer Information System makes up one of our Company's most important communication channels with customers. Using this system, our customers are able to convey their demands, confirmations, orders, loading requests and complaints, and also to follow up shipment, invoice, loading, analysis reports and notifications given by Petkim.

Within the same scope, the Call Center, which was launched in 2013 to help our customers reach Petkim more easily, has been used much more efficiently during 2017 as compared with the previous years, and has become one of the fastest and most effective communication tools between our Company and our customers.

Under the programs of Personal Development School and Technical Training School run by Petkim Academy that was established in 2013 to channel Petkim's know-how and experience in the sector to its customers; face-to-face industrial, technical and security trainings were given to every level staff employed by our customers and by our Company. Within the scope of Personal Development Training, technical and commercial training programs as well as training programs about and sectoral regulations were offered to a number of companies in Turkey.

The findings of the annual Customer Satisfaction Questionnaire and the conclusions drawn from trade shows, customer visits and regional meetings are reflected in Petkim's business processes.

Within the scope of our customer oriented sales and marketing policy, in the first external control (TSEK) that was performed in our TSE-ISO 10002 certified (certification obtained in 2013) Customer Complaints Management System, all our implementations' compliance with the standards was checked. Last year, the certification was extended for another two years due to the good practices recorded.

On the issue of the suppliers that provide the Company with the goods and services it requires in the production process, the Company's target is to work with them in a long term corporation based on mutual trust, transparency and openness.

Moreover, collaboration is made with the suppliers, non-governmental organizations and educational institutions in order to create mutual benefit, to support each other on the common goals, to create value together, and to improve capacity and skills.

Petkim monitors and evaluates the improvement of its suppliers and collaborations.

In this aspect; enhancement is made with regard to the outcomes of the meetings and visits that Petkim has been organizing in order to get feedback regarding the needs and expectations of its suppliers.

In order to keep informed and audit our suppliers, which assign personnel to our site, with respect to occupational health and safety and technical safety rules, their work on site is followed up via the Mutual Health and Safety Unit that they have a contract with according to Law no. 6331. HSE is kept under strict supervision on the back of mutual activities carried out.

As summarized briefly above, for the issues regarding "the effectiveness of the management of suppliers and collaborations", we set our targets and continue our intensive efforts to reach these targets.

4.2. Stakeholders' Participation in Management

The participation of stakeholders in management by representing the 49% publicly held portion of our Company is made possible by Articles 11 and 22 of the Articles of Association.

Evaluating employees' opinions sensitively and systematically since 2004, Petkim launched a new employee suggestion system "In My Opinion" in 2013. With this platform, our Company aims to improve business processes by utilizing its employees' know-how effectively.

One of the most important communication channels of our Company with our customers is the "Customer Information System". On this system, our customers can make requests, confirmations, orders, loading requests, and complaints while they can track shipments, invoices, loadings, analysis reports and Petkim's notifications.

Results of the activities such as Customer Satisfaction Surveys, fairs we attend, our visits to our customers and regional meetings are reflected in Petkim's operational processes.

4.3. Human Resources Policy

Petkim's human resources policy aims to create a corporate culture that is fair, transparent and which recognizes employees' right to voice their opinions, offers employees the opportunity to reveal their potential, where every employee contributes to the future of Petkim by creating value and where every employee is valued. It aims to create a corporate culture that reflects the unique Petkim spirit with a high performance, which is focused on development, demonstrating strong and effective leadership in every arena, and with a workforce that is highly loyal, happy, productive, successful and healthy.

In order to attract, develop and maintain the most valuable talent towards this goal, Petkim adopts fair, transparent and integrated practices that are in accordance with trends in global human resources under three main headings, and develops them. Thus, the company aims achieve giant strides forward to become the most preferred employer and the best work place. At Petkim, the human resources department acts with a management approach that works with all units in a strategic business partner approach, constantly analyses company and employee needs, creates value and adapts quickly to changing conditions.

Talent Acquisition Process

Based on the vision, mission and values of Petkim, all recruitment means are effectively used for placing the most suitable and competent candidates in existing positions. The primary recruitment resource used is the database in Petkim's website, while the Company also uses alternative recruitment resources such as kariyer.net and LinkedIn. Competence-based interviews, potential analysis, technical interviews, talent tests as well as foreign language exams for some positions are also applied in the recruitment process.

Employees prepare for their new positions in collaboration with İşkur and university with the "Petrochemical Production Employee Training" course program that is organized before the taking up positions for blue collar workers at Petkim.

Petkim aims to contribute to the personal and professional development of the interns through its "Internship Development Program" that is developed for vocational high school and university interns. Petkim also attaches importance to coming together with all potential candidates through activities such as career days and employment fairs. The Intern employment process is also seen as a social responsibility approach for Petkim at the same time.

Talent Management Process

In the performance management system applied at Petkim, the goals are broken down from the top to bottom within the framework of a certain model so that everyone can work for the same objectives by determining the corporate and functional success indicators at the beginning of each year. In order to focus not only on what is done, but also on "how" it is done in the implementation of goals and following up the behavior that feeds the Company culture, a framework of competence consisting of basic, functional and managerial competencies has been constructed and included in the performance management system.

A performance management system is implemented in which sustainable and successful performance is rewarded, where performance that is open to development is improved through the development program, and performance results are integrated with other human resources systems. In addition, potential evaluation, back-up, rotation and career mapping work is carried out, in which the potential of employees in their current roles is assessed and their added value enhanced and supported with developmental opportunities. The "Leadership Development Program" has been implemented, which has taken approximately one year, for employees serving in managerial and higher positions to adopt a leadership understanding in line with corporate values. In order to support employees' development, 360 degree evaluations are carried out throughout the year. Depending on the evaluation feedback, employees are supported through the "Evaluation and Development Center" application. Professional Development Programs, Technical Education School and Simulations, Competency Development

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

Programs are implemented within the Petkim Academy. In-house coaching and mentoring practices are also carried out in line with the employee needs, and in-house mentors and coaches are trained by volunteer employees.

Retention Process

One of the most important building blocks in the retention process is that employee loyalty is sustainable, something that is increased by Petkim's strong and long-lasting corporate culture which has shared by all its employees since Petkim's foundation. Trends in remuneration and benefit packages in the world, the country and the sector are followed closely, and a remuneration policy in accordance with these trends is applied. A system of reward, which rewards employee behavior that creates added value and appreciates their professional endeavors, is applied. Working hours are adopted with the aim of protecting the work - life balance of employees, and efficient work is supported. For open positions, the evaluation process for internal candidates is actively carried out. For new recruitment and job changes, a job adjustment and orientation program is implemented, which is structured within the framework of the job adjustment program.

Representative to carry out relations with the employees;

Within the scope of Article 27 entitled “Assignment and duties of the trade union representative of the workplace” of the Law No. 6356 on Trade Unions and Collective Bargaining Agreements, there is a Head Labor Representative and Representatives in the workplace.

Any complaints about discrimination by employees and action to rectify the problem;

There have been no reports of discrimination in the company and no complaints have been received in this regard to date.

Any announcement of performance criteria to employees;

In the performance management system applied at Petkim, the goals are broken down from the top to bottom within the framework of a certain model so that everyone can work for the same objectives by determining the corporate and functional success indicators at the beginning of each year. In order to focus not only on what is done, but also on “how” it is done when the goals are implemented and to follow up behavior that feeds the Company culture, a framework of competence consisting of basic, functional and managerial competencies has been constructed and included in the performance management system. The sustainability of our high performance, awarding successful performance and developing a performance that is open to development are ensured through our performance management system, in which the competency manual that can be used in feedback is shared. Managers and employees meet at least 3 times a year and the performance results are integrated with other human resources systems.

4.4. Ethical Rules and Social Responsibility

In line with the CMB's Corporate Governance Principles Communiqué, Code of Ethics was issued at the Company with a Board of Directors Decision and was publicly announced. The Code of Ethics is available in detail on the Company website (www.petkim.com.tr).

Giving weight to extending support to educational matters during 2017, Petkim never considers its investments in the people as a cost factor.

Petkim pronounced these investments as an integral part of the Company's vision and competitive nature.

The Aliağa Inter School Chess Tournament

With the contribution of the Aliağa District National Education Directorate Culture, Art and Sports Project Team, Petkim organized the Aliağa Inter-school 2nd Chess Tournament with the participation of 101 pupils from all primary and middle schools across the district. The top three of those students who participated in the tournament, which was held at the Petkim Sports Hall, in the primary and middle school categories were awarded. It was decided to make the tournament sustainable and organize it every year in order to support the spread of the chess, which is an important sports discipline for the pupils to develop fast decision making and rational thinking skills.

The Aliağa District Governor, the Garrison Commander, the Deputy Mayor of Aliağa, the General Manager of Petkim, the District Director of National Education, the teachers and the pupils as well as the parents participated in the awards ceremony at the Petkim Sports Hall.

The Aliağa Schools Ankara Trip Sponsorship

Within the scope of social responsibility projects, our company organized a trip to Ankara for a group consisting of pupils with limited financial resources from the Aliağa Schools. The pupils and the teachers, who visited Anıtkabir on the first day of the two-day tour, visited parliament after attending the special ceremony at the Anıtkabir, and visited museums in Ankara.

The pupils and the teachers who participated in the trip and saw Ankara for the first time thanked the District Director of National Education and the General Manager of Petkim with their letters that they wrote.

The BOCCIA National Team Camp Sponsorship

Within the framework of sustainable social responsibility activities, Petkim carried out the camp sponsorship for the Turkey Disability Federation BOCCIA National Team. The Petkim employees also volunteered at the national team camp that was held at the İzmir Karşıyaka Mustafa Kemal Atatürk Sports Hall in November 2017. Petkim has decided to continue to support the BOCCIA National Team in the coming years.

SECTION V: BOARD OF DIRECTORS

5.1. The Structure and Composition of the Board of Directors

The information on the members of the Board of Directors as selected according to the Company's Articles of Association and the General Manager, who is not a Board member, are below. There are no set rules on Board members' undertaking other duties outside the Company. The current titles of the Board members within/out of the Group are shown in Table-1.

Table-1

Board Members

Name - Surname	Title		Positions Outside the Company
SOCAR Turkey Petrokimya A.Ş. (Representative: Vagif Aliyev)	Chairman	Non-executive	In-group/State Oil Company of Azerbaijan Republic, Head of Capital Management
David Mammadov	Vice Chairman	Non-executive	In-group/State Oil Company of Azerbaijan Republic, Vice President, Refinery
Mehmet Bostan	Member	Independent	Out-group/Turkish Wealth Fund CEO and Chairman
SOCAR Turkey Enerji A.Ş. (Representative: Farrukh Gasimov)	Member	Non-executive	In-group/State Oil Company of Azerbaijan Republic, Vice President, Law
Ertuğrul Altın	Member	Non-executive	Out-group/Ministry of Energy and Natural Resources, Advisor to the Minister
İlhami Özşahin	Member	Non-executive	Out-group/Freelance Consultant
Süleyman Gasimov	Member	Non-executive	In-group/SOCAR Vice President, Economy
Tevfik Bilgin	Member	Independent	Out-group/Nuh Çimento San. A.Ş., Chairman of the Board
Mehmet Ceylan	Member	Independent	Out-group/Ministry of Environment and Urbanization, Deputy Minister

The Board of Directors is composed of 9 members selected by the General Assembly.

Comprehensive information regarding the Board members is available in the initial pages of the Annual Report and on our web page. The rules for selection of the Board are defined in detail in Articles 11-18 of the Articles of Association.

There are three independent members at the Board of Directors in accordance with the Corporate Governance Principles. All of the Company's Board members are non-executive members of the Board. Provisions of the Law, Capital Markets Board regulations/decisions and other relevant legislations in force are applicable regarding the determination, nomination, election, dismissal and/or resignation, and qualifications and the number of independent member candidates for the Board of Directors. The independent members of the Board of Directors are vested with independent membership as per CMB's Corporate Governance Principles. They have no relations with Petkim Petrokimya Holding A.Ş. and its related parties.

The functions of the Nomination Committee are fulfilled by the Corporate Governance Committee at our Company.

Declarations of independence of our independent Board members are presented on pages 40-42 of this annual report. Within the reporting period, there have not been situations that jeopardize the independence.

The term of Board membership is three (3) years. The General Assembly may remove Board members before the completion of their term. Members who have completed their terms may be elected to consecutive terms.

The working principles of the meetings of the Board of Directors are specified in written form with the decision of the Board of Directors dated 8 October 2009 and no: 48/110.

In the General Assembly meeting held within 2017, an announcement was made that the shareholders who have control over the management of the Company, the members of the Board of Directors, senior executives and their spouses, and their next kin and their relatives in kinship by marriage up to the second degree; did not make any transactions which could cause a conflict of interest with the Company or its affiliates and/or, on their behalf or someone else's behalf, did not make any commercial transactions intruding the business field of the Company or its affiliates, or, did not join another company, dealing with the same type of commercial businesses, as a partner with unlimited liability.

The below mentioned minimum qualifications sought for the election of members to the Board of Directors of the Company are in compliance with Corporate Governance Principles of the CMB.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

According to the 12th clause of the Company's "Articles of Association", members of the Board of Directors shall be elected from the persons who are fully competent, preferably university graduates, who have technical and/or general financial and legal knowledge and managerial experience in the fields of activity of the Company, who have not been sentenced due to disgraceful offenses and who will be available and determined to participate in all meetings of the Board of Directors. Independent members of the Board of Directors shall be elected from the persons who have the qualifications required as per the regulations of the Capital Markets Board regarding corporate governance. In cases allowed by the Capital Markets Legislation, the persons who do not qualify with a part of these prerequisites can be elected as a member of the Board of Directors in compliance with the principles and the procedures stipulated in this legislation.

In case a legal entity is elected as a member of the Board of Directors, together with this legal entity, only one real person chosen by the legal entity, who will act on behalf of the legal entity, shall be registered and announced as well. Moreover, a prompt message, regarding the completion of the registry and announcement, is given on the website of the Company. Only this registered person can participate in the meetings and can vote on behalf of the legal entity. It is obligatory that the person who will be registered on behalf of the legal entity is fully competent.

While entering into any business or competition with the Company, the members of the Board of Directors, the shareholders who have control over the management of the Company, senior executives and their spouses, their next kin and their relatives in kinship by marriage up to the second degree will be subject to the Turkish Commercial Code and the regulations of the Capital Markets Board regarding the corporate governance.

Members of the Board of Directors cannot attend the discussions on the issues regarding the conflict between the Company's interests and the personal interests/interests outside the Company of the members of the Board of Directors or their spouses and their next of kins and their relatives in kinship by marriage up to the third degree. If such an issue is to be discussed, they are to inform the Board of Directors about this relation and to state this issue in the meeting minutes.

A target ratio/time or a policy for woman representation on our Board of Directors has not yet been determined.

In 2017, there were no administrative and/or judicial sanctions of a material nature imposed against the members of the Board of Directors on account of practices that are contradictory to the provisions of the legislation.

5.2. Principles of the Board of Directors' Activities

Board of Directors is structured in a manner that will create maximum impact and effectiveness. In this issue, utmost attention is paid to comply with the Law, CMB Regulations and Decisions. Principles regarding this issue are specified in the Articles of Association of our Company.

The qualifications and the number of the independent members of the Board of Directors will be determined in accordance with the Capital Markets Board regulations on Corporate Governance Principles. Independent members of the Board of Directors are elected from among the candidates -who will be nominated by the shareholders- in conformity with this Articles of Associations and the procedures and principles specified in the Capital Markets Board regulations on Corporate Governance Principles.

The tasks and working principles of the committees that will be established under the Board of Directors; are determined in accordance with the provisions of the Turkish Code of Commerce, Capital Markets Law, Capital Markets Board regulations on Corporate Governance Principles and the relevant legislations.

Meetings of the Board of Directors can be held completely in an electronic platform or can be held with the attendance of some of the members in the electronic platform while some members are present physically. Meetings of the Board of Directors in which there is physical participation are held at the Company headquarters or at another suitable location. Board of Directors convenes -with the attendance of at least 5 (five) members- in such a schedule that the members can perform their duties effectively. Board of Directors resolves with the affirmative vote of five members. The Board of Directors of the Company convened 5 times in 2017. The agenda of the Board of Directors' meeting is determined by the Chairman of the Board of Directors taking the suggestions made by the Company into consideration, and consequently members of the Board of Directors are informed.

A General Secretariat was structured under the Board of Directors in order to provide services to all Members of the Board of Directors with the aim of regularly keeping/filing the documents related to the Board of Directors meetings. Board of Directors decisions are signed and recorded in the decision book. Members casting negative votes must explain their motives and sign the minutes. Documents and correspondences regarding the meeting are regularly archived by the Company. When the independent members of the Board of Directors cast negative votes in cases where affirmative votes of the independent members of the Board of Directors is required, measures stipulated in the regulations of the Capital Markets Law and Capital Markets Board are applicable. Majority of the members of the Board of Directors participated in all meetings.

Unless any of the members requests to make a meeting, the decisions of the Board of Directors can also be taken with the written consent of at least 5 (five) members upon the proposal made by any member in a written resolution form.

Every year, following the General Assembly meeting, the Board of Directors takes necessary decisions for the establishment of the committees.

The validity of the decisions of the Board of Directors depends on the fact that they are written and signed. Not reaching a decision quorum on a certain issue means that the proposal is rejected.

The management and representation of the Company before third persons belongs to the Board of Directors. The Board of Directors may transfer these representation authorities to others partially or completely. The validity of the documentation to be given and the agreements to be contracted by the Company depends on the fact that they are signed by the persons having the authority to put his/her signature under Company title.

The different opinions and grounds for opposing votes explained in the Board meetings are recorded in the decision minutes. However, recently, there has been no public announcement, due to the nonexistence of any opposing opinions or differences of opinion.

In 2017, there were no administrative and/or judicial sanctions of a material nature imposed against the members of the governing body on account of practices that are contradictory to the provisions of the legislation.

Group C share certificates can be transferred to another Turkish Public Institution having, in principle, the authorities assigned to the Prime Ministry Privatization Administration of the Republic of Turkey with Law Act no: 4046. In such case, the transfer shall immediately be registered in the book of shares without necessitating the Board of Directors' decision.

Moreover, as per the 15th clause of the Articles of Association;

The validity of the decisions that will be taken by the Board of Directors on the following issues depends on the affirmative vote of the member of the Board of Directors elected from the Group C;

a) The amendments to the Articles of Association that will affect the privileges assigned to C Group share,

b) Registration of the transfer of registered shares on the share ledger,

c) Determination of the form of letter of proxy indicated in the Article 31 of the present Articles of Association,

d) Decisions envisaging a 10% decrease in the capacity of any plant owned by the Company,

e) Establishment of a new company or partnership, acquisition of a company, participating to and/or merging with existing companies, demerger of the Company, changing the type of the Company, termination and liquidation of the Company.

The Company purchased an Officers' Liability insurance to cover the compensation demands stemming from claims of losses that may result in relation to mistakes or negligence of the Board of Directors members in the fulfillment of their duties in 2017 and to cover related litigation costs.

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

In the Company, Corporate Governance Committee and Risk Detection Committee were established in addition to the Audit Committee in order to enable the Board of Directors to carry out its duties and responsibilities in a healthy manner. The working principles of the committees are available at the web site (www.petkim.com.tr) of the Company.

The committees of the Board of Directors performed their duties regularly and effectively and submitted the necessary reporting to the Board of Directors.

The chairman of each committee of the Board of Directors' is an independent member of the Board while all committee members are non-executive members. In conformity with their working principles, the committees of the Board of Directors convened at least three times a year. On the other hand, the committee responsible of auditing (Audit Committee) convened 4 times, at least once in 3 months. Committee members participated in all meetings held and 4 written disclosures were presented to the Board of Directors during the reporting period. The Early Detection of Risk Committee met six times and presented the reports drawn up pursuant to TCC 378 to the Board of Directors during the reporting period.

Tevfik Bilgin, independent member of the Board of Directors, is the member of both Audit Committee and Corporate Governance Committee. There are three independent members in the Board of Directors. Since it is a requisite that the chairman of each committee, as well as the chairman and all members of the Audit Committee should be constituted by the independent Board members, each of these members take responsibility in two committees. At the General Assembly to be held in 2018, distribution of tasks at the committees will be rearranged.

AUDIT COMMITTEE

Members	Title	Relationship with the Company	Dependent/ Independent	Duties in Other Committees
Mehmet Ceylan	Committee Chairman	Independent Member of Board of Directors (Non-Executive)	Independent	-
Tevfik Bilgin	Committee Member	Independent Member of Board of Directors (Non-Executive)	Independent	Chairman of the Corporate Governance Committee

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

The Audit Committee acts with the consent of the Board and within the framework of the Board's working principles. The Audit Committee consists of two independent Board members.

The Audit Committee is responsible from ensuring the overall soundness of financial and operational activities; specifically, transparency of internal and independent auditing activities, efficiency of internal control system, analysis and election of independent auditing firm, compliance of financial statements of the Company with international accounting standards and prevailing legislation

CORPORATE GOVERNANCE COMMITTEE

Members	Title	Relationship with the Company	Dependent/ Independent	Duties in Other Committees
Tevfik Bilgin	Committee Chairman	Independent Member of Board of Directors (Non-Executive)	Independent	Audit Committee
Vagif Aliyev	Committee Member	Chairman of the Board of Directors	-	Early Detection of Risk Committee
Farrukh Gasimov	Committee Member	Member of Board of Directors (Non-Executive)	-	None
Mustafa Çağatay	Committee Member	Coordinator of Investor Relations (Executive)	-	None

In accordance with the Article 11-2 of the Capital Markets Board Corporate Governance Communiqué (II-17.1), Investor Relations Coordinator Mustafa Çağatay was appointed as a member of the Corporate Governance Committee.

Made up of three members of the Board, the chairman of the Corporate Governance Committee is an independent Board member.

Within the framework of the CMB's Communiqué Serial IV, No: 56 on Determination and Implementation of Corporate Governance Principles, article 4.5.1, at the meeting of the Company's Board of Directors dated 21 March 2012 and numbered 103/184, it was decided that the duties of the Nomination Committee and Remuneration Committee will be carried out by the Corporate Governance Committee.

EARLY DETECTION OF RISK COMMITTEE

Members	Title	Relationship with the Company	Dependent/ Independent	Duties in Other Committees
Mehmet Bostan	Committee Chairman	Independent Member of Board of Directors (Non-Executive)	Independent	None
Vagif Aliyev	Committee Member	Chairman of the Board of Directors	-	Corporate Governance Committee
Süleyman Gasimov	Committee Member	Member of Board of Directors (Non-Executive)	-	None

Made up of three members of the Board, the chairman of the Risk Detection Committee is an independent Board member.

Operating principles of the Committee are defined by the Board of Directors resolution dated 29 June 2012, numbered 111-199. At the Company's Board of Directors meeting no: 103/184 held on 21 March 2012, the existing Risk Management Committee's name was changed as "Early Detection of Risk Committee".

5.4. Risk Management and Internal Control Mechanism

Corporate Risk Management Practices

The Company conducts its operations in a transparent, accountable, fair and responsible manner. The Board of Directors sets up the internal control systems incorporating the risk management, information systems and processes for minimizing the risks that might have an impact on the Company's stakeholders and particularly its shareholders, by taking into consideration the feedback from the relevant Board of Directors committees, as well.

The Early Detection of Risk Committee makes proposals and suggestions to the Board of Directors regarding early detection and assessment of all kind of risks such as strategic, financial, operational and similar risks that might affect the Company, regarding calculation of their impact and probability, management and reporting of these risks in accordance with the corporate risk appetite of the Company; implementation of necessary measures in relation to identified risks, their consideration in decision-making mechanisms and creation and integration of efficient internal control systems along this line. In 2017, the Early Detection of Risk Committee held six meetings and presented the reports of these meetings to the Board of Directors.

As a result of analyses and assessments made in risk evaluation process, the decisions are taken among four different risk attitudes: Accept, mitigate, transfer and avoid. The risks related to the Company are evaluated under four categories to systematically manage the corporate risk management activities: Strategic, financial, operational and external risks.

Strategic Risks

Strategic risks are composed of sales, supply chain, investment, R&D and compliance risks, which can create an obstacle for Company's short, medium and long-term strategies.

The management of sales risks is a continuum. Within this framework, market analyses are completed, global capacities and competition in the sector are monitored. Therefore, the most appropriate sales strategies are determined in line with the target of maximum customer satisfaction.

Regarding supply chain risks, naphtha, the most important input for the Company, is analyzed. Additionally, analyses are made to ensure effective management of supply processes of other raw materials, equipment and services.

In its domestic and international activities, the Company is subject to a series of laws and legislation. Within the framework of compliance risk, these laws and legislation are closely monitored; employees are informed through training activities and seminars and relative tables are periodically updated. The Company gets consultancy service when required in order to mitigate the risks that it may encounter.

Financial Risks

Within the scope of financial risks, the Company manages interest rate, currency, credit and liquidity risks. Closely monitoring the economic developments at national and international level, the Company takes necessary actions considering the possible impacts of economic developments on its assets and liabilities.

Regarding the management of interest rate risk, the quantities, terms and interest rates of interest-sensitive assets and liabilities are carefully monitored and balanced in favor of the Company.

The Company makes large amount of foreign currency transactions for its commodity sales and purchases. The related department closely monitors foreign currency transactions and targets to manage the currency risks through in-balance sheet transactions.

The Company attaches importance to asset-liability balance in the management of liquidity risk and monitors liquidity on daily basis to avoid maturity mismatch and payment problems. Systems that ensure facility of payment are actively used to make the collections easier through credit risk management policies. With this method, the Company guarantees its collections and increases the liquidity.

Operational Risks

Environment, work health and safety, human resources, information technologies and security risks are managed within the framework of operational risks. Basically targeting to manage the operations in a reliable manner, the works in this field also aim at preserving physical assets and being in compliance with laws and regulations.

Environmental risks as well as work health and safety risks are the fields that the Company attaches great importance by carefully considering the risks that may threaten the environment and work health during its operations, continuously and carefully monitoring the laws and legislation and training its employees. In addition, emergency operations plans and drills are made in order to ensure effective response in emergencies. To control that the waste are in conformity with laws and legislation, sample analyses are made and monitored with daily and spot checks. The results of periodical audits completed during the year and incident notification forms are evaluated to determine if environment and work health and safety risks arise due to the weaknesses in the processes and systems or human errors. The required improvements are made and thus the security of operations is increased.

The risks in the field of human resources are monitored to ensure the realization of the Company's targets and strategies, to maximize employee satisfaction and to enhance corporate loyalty. The works in this field are conducted with the Company's employee focused approach, which also takes place among the corporate values of Petkim. Professional knowledge and motivation of employees are increased by various training programs and social activities.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

The Company uninterruptedly invests in information technologies. The risks that may arise in this field are managed either by its own employees or through external consultancy services received when required. During the periods of program changes and revisions, the advices of consultants are immediately put into practice. Backups are taken periodically and measures are taken to prevent loss of company information.

The Security Department uses aversive and preventive techniques in its actions and activities conducted in line with Security Management Standard and related laws and legislation. Effectively benefiting from technology as well, the Department has sufficient number of vehicles and equipment. The training and drills and exercises of security staff are periodically carried out and audited. The Company's assets are also secured with extensive insurance policies in addition to security measures.

External Risks

The Company also carries out activities against the risks stems from natural disasters, economic risks at national and international level as well as political risks.

Against natural disaster risks, emergency and business continuity plans are prepared and the employees are provided emergency response training periodically. Periodical drills are completed in the units. Additionally, all assets are insured against natural disaster risks.

Regarding the procurement of feedstock, the Company is largely dependent on imports. As such, economic and political situation in both domestic market and foreign countries, from which the feedstock is procured, are followed through national and international publications and the relevant studies are periodically updated.

Internal Audit Systems

Information is shared with the Audit Committee during its meetings held within the year to ensure healthy execution of the internal control mechanism. The Committee constantly supervises the operation and efficiency of the system, and communicates the issues relating to risk management and internal control mechanism and suggested solutions to the Board of Directors as and when necessary.

In addition to its activities in the corporate risk management, Internal Audit Unit runs internal audit activities. Carrying out its business with a risk-focused and proactive approach, the unit particularly focuses on the most risky fields; shares the results with related departments, ensures that required action plans are made and follows up the improvements.

The Internal Audit Unit classifies its activities under four groups: Compliance, operations, financial tables and specific audits. Compliance audits focus on the compliance of the Company to legal legislation as well as rules and principles set by the senior management. Operational controls include the monitoring efficiency of the Company's policies and activities, work flowcharts, organizational structure and improvement of internal control systems. The unit also controls and reports the compliance of financial tables to generally accepted accounting standards. Within the context of specific controls, a department, an issue or an incident is audited upon the request of top management or as a result of professional initiative of an auditor.

Our Board of Directors and the committees under the Board of Directors carry out risk management, supervision and audit activities in line with the relevant regulations and legislation. In our report prepared as per the Article 199 of the Turkish Commercial Code, regarding our activities in 2017, it was concluded as follows: "For us and according to the evident circumstances and conditions, in 2017, in each transaction of Petkim Petrokimya Holding A.Ş. with controlling companies and affiliates, which were specified in Article 199 of Turkish Commercial Code, an appropriate counter action has been carried out, there were not any steps being taken or avoided or any damages to the Company caused by the steps taken or avoided."

The corporate integrated management system is used in drawing up the Company's consolidated financial statements, and the Company's subsidiaries are also audited within the frame of the annual audit plan.

Shareholders did not request a special audit under Article 438 of the Turkish Commercial Code. The Company undergoes independent audits for the full year at 12-month periods and interim independent audits at 6-month periods by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., the independent audit firm appointed by the General Assembly.

5.5. The Company's Strategic Goals

The Deputy Directorate General of Strategy and Business Development carried out work on determining the company's strategies and reviewing and managing the corporate performance system. Individual performances were reviewed by the Organizational Development Department under the Deputy Directorate General of Human Resources in accordance with the company strategies.

The Organizational Development Department, under the Deputy Directorate General of Human Resources, took measures to develop the existing system with the aim of increasing the efficiency of the performance system by implementing interim performance interviews. In addition, annual performance assessment interviews were carried out between employees and the managers.

In the second half of the year, the Deputy Directorate General of Strategy and Business Development organized meetings with the Senior Management in order to determine the company's strategic plan for 2018. As a result of various special diagnoses and analysis, it determined the strategies and goals for the future of the company and subsequently established the Strategic Plan.

Petkim has updated its "Corporate" and "Functional" performance indicators, which it has defined to fulfill its mission and implement the strategies that it has established in order to achieve its vision. In this context, following the determination of the "Corporate" objectives, in coordination with the Deputy Directorate General of Strategy and Business Development, the General Manager, working in coordination with the relevant Assistant General Managers, determined the objectives of the Performance Indicators, which are necessary to achieve the "functional" objectives. The objectives are determined in line with the budget, stakeholder expectations, improvement opportunities and benchmarking-comparison activities, and are given to the owners of performance indicators in reconciliation. The main rule in determining the objectives pertaining to the performance indicators of the following year is to achieve the "Corporate" goals and to demonstrate an improving performance by taking into account the benchmarking data. Once the objectives of all the Assistant General Managers have been determined, the department managers identified the Performance Indicators with the Assistant General Managers under the coordination of the Deputy Directorate General of Human Resources in order to reach the "Functional" objectives.

Internal and external environmental analyses were completed for use as inputs in the Strategic Plan studies. These analyses conducted include stakeholder feedback, current and future market conditions, competitors and the competitive environment (Porter's 5 Forces Analysis), PESTEL analysis (Political, Economic, Social, Technological, Environmental, Legal), analysis of Petkim's competitive power, supply chain and cooperation evaluation analysis, benchmarking learning information, analysis of indicators and analysis of internal and external audits, and profitability analysis. At the same time, Current Situation Analysis studies were carried out within the scope of the integrated management system. The success of implementing the strategies is followed up by a holistic review of performance indicators. All of our processes designed to achieve "corporate" goals are measured with relevant performance indicators in certain periods and any indicators deviating from the goal are analyzed. In addition, development work is planned in the company processes by adding the improvement of the most up-to-date processes to the goals of all Assistant General Managers. The evaluation board, consisting of the senior management, holistically reviewed those performance indicators deviating from the goals in Performance Indicator Assessment Meetings held periodically. The board assessed the deviation analyses and improvement plans, and where necessary determined which processes should be improved. The follow up of the corporate performance is carried out through weekly coordination meetings and the Steering Committee meetings.

The Company's vision and mission statement are published on the official website, www.petkim.com.tr, Company portal and in its annual report.

The Company's annual targets are given in a definite form within the frame of the budget efforts submitted for the approval of the Board of Directors. The company's overall goals for 2018 are to achieve operational excellence by further strengthening the corporate culture, raising the level of digitalization and by fully measuring the processes through writing down procedures for each process.

5.6. Financial Rights

The Company has a "Remuneration Policy for Board Members and Executives" which was approved by the Board of Directors and announced to the public with a material event disclosure on 28 March 2012, and then published on the web site

Remuneration and other benefits to which Board Members shall be entitled are determined at the General Assembly. Relative information is announced, together with the benefits entitled to other executive managers, under the title of "Benefits provided to the Executive Managers" on the Article no: 32 of independent auditor's report, which is also included into the Company's annual report. Also, a rewarding that is reflecting the performance of the Company is not applied.

The Company does not lend money or loan nor give neither indemnities nor similar securities to any of its Board members or to directors of the Company.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

No amendments were undertaken to the Articles of Association of the Company in 2017.

AGENDA

AGENDA OF PETKİM PETROKİMYA HOLDİNG A.Ş.

DATED 30 MARCH 2018

ORDINARY GENERAL ASSEMBLY MEETING FOR 2017 OPERATING YEAR

1. Opening and composition of the Meeting Presidency,

2. Reading, discussion and approval of the Activity Report of the Board of Directors for the 2017 operational year,

3. Reading the Auditor's report pertaining to the 2017 operational year.

4. Reading, discussion and approval of the financial statements pertaining to the 2017 operational year,

5. Release of the Chairman and members of the Board of Directors on account of their activities and account for the 2017 operational year,

6. Discussion of the proposal of the Board of Directors on the profit usage pertaining to the 2017 operational year; determination of the declared profit and dividend share ratio and taking a resolution thereon,

7. To decide on the amendment to Article 6, entitled "Capital" of the Articles of Association of our Company,

8. Submitting the election of the new Board Member for a vacant position to the approval of the General Assembly in accordance with Article 11 of the Articles of Association of the Company and Article 363 of TCC,

9. Election of the Auditor pursuant to the Turkish Commercial Code,

10. Approval of the selection of the Independent Auditing Institution carried out by the Board of Directors in accordance with the Turkish Commercial Code and the regulations of the Capital Markets Board,

11. Informing the Shareholders on the aid and donations granted by our Company within the 2017 operational year,

12. Taking a resolution on the limit of aid and donations of our Company that will make up to the Ordinary General Assembly Meeting for 2017 accounts pursuant to the article 19 clause 5 of the Capital Markets Law (CML),

13. Informing the General Assembly regarding respective transactions of the persons mentioned in the clause (1.3.6) of "Corporate Governance Principles" which is annex to Communiqué of the Capital Markets Board "Corporate Governance" numbered (II-17.1),

14. Granting the Members of the Board of Directors authorization to perform the transactions provided for in Articles 395 and 396 of the Turkish Commercial Code,

15. Pursuant to the clause of 12/4 of Communiqué of the Capital Markets Board "Corporate Governance" numbered (II-17.1), informing the General Assembly in regards to the guarantees, pledges and mortgages given by the Company in favor of third parties in the year 2017 and of any benefits or income thereof,

16. Closing remarks and meeting close.

PROFIT DISTRIBUTION TABLE

PETKİM PETROKİMYA HOLDİNG A.Ş.
PROFIT DISTRIBUTION TABLE FOR 2017 TO BE SUBMITTED FOR THE APPROVAL OF THE ORDINARY GENERAL ASSEMBLY (TL)

	According to Capital Market Regulations	According to Legal Records
DISTRIBUTION OF CURRENT PERIOD PROFIT		
1) Paid In/ Issued Capital	1,500,000,000.00	1,500,000,000.00
2) Total Legal Reserve Funds (Per Legal Records)	192,598,686.03	192,598,686.03
Information on privileges in profit distribution if any in the Articles of Association		
3) Current Period Profit	1,670,575,738.00	1,679,437,407.48
4) Taxes Payable	(268,616,240.00)	(248,526,087.04)
5) NET PROFIT	**1,401,959,498.00**	**1,430,911,320.44**
6) Previous Years Losses	-	-
7) First Legal Reserves	71,545,566.03	71,545,566.03
8) NET DISTRIBUTABLE PROFIT FOR THE PERIOD	**1,330,413,931.97**	**1,359,365,754.41**
9) Donations Made During The Year	5,637,538.65	5,637,538.65
10) NET DISTRIBUTABLE PROFIT ADDED DONATIONS	1,336,051,470.62	1,365,003,293.06
11) First Dividend to Shareholders	690,000,000.00	
- Cash	540,000,000.00	
- Bonus	150,000,000.00	
12) Dividend to Privileged Shareholders	-	
13) Dividend to Board Members and Employees, etc.	-	
14) Dividend to Redeemed Shareholders	-	
15) Secondary Dividend to Shareholders	-	
16) Secondary Legal Reserves	46,500,000.00	
17) Statutory Reserves	-	-
18) Special Reserves	-	-
19) EXTRAORDINARY RESERVES	593,913,931.97	622,865,754.41
20) Other resources payable		
- Previous Years Profit	-	-
- Extraordinary Reserves	-	-
- Other Distributable Reserves As Per the Law And the Articles of Association	-	-
Earnings Per Share (Krş)	0.9346	
Earnings Per Share (Krş) (Gross)	0.4600	

INFORMATION ABOUT DIVIDEND RATIO

	Information About Dividend Ratio Group	Total Dividend Amount TL Cash TL	Bonus TL	Dividend to 1 Krş Nominal Shares Amount Krş	Rate %
GROSS	A				
	SOCAR Turkey Petrokimya A.Ş.	275,400,000.00	76,500,000.00	0.460000	46.000
	Others (Publicly Held Shares)	264,600,000.00	73,500,000.00	0.460000	46.000
	C				
	Directorate of Privatization Administration	0.00	0.00	0.460000	46.000
	Total:	540,000,000.00	150,000,000.00		
NET	A				
	SOCAR Turkey Petrokimya A.Ş.	275,400,000.00	76,500,000.00	0.460000	46.000
	Others (Publicly Held Shares)*	224,910,000.00	73,500,000.00	0.406000	40.600
	C				
	Directorate of Privatization Administration	0.00	0.00	0.460000	46.000
	Total:	500,310,000.00	150,000,000.00		

THE RATIO OF DIVIDEND DISTRIBUTED OVER NET DISTRIBUTABLE PROFIT ADDED DONATIONS

Dividend Distributed to Shareholders (TL)	The Ratio of Dividend Distributed Over Net Distributable Profit Added Donations (%)
690,000,000.00	51.64

(*) While calculating the net dividend, tax withholding rate of 15% is used, assuming that all publicly held shares are owned by full-fledged real persons. Tax withholding may change in line with information that will be obtained from Central Registry Agency on the date of distribution.

STATEMENT OF RESPONSIBILITY

BOARD OF DIRECTORS RESOLUTION ON THE APPROVAL OF FINANCIAL STATEMENTS

DECISION DATE: 1 MARCH 2018

DECISION NO: 2018 - 7 - 14

1 MARCH 2018

STATEMENT OF RESPONSIBILITY PURSUANT TO CAPITAL MARKETS BOARD COMMUNIQUÉ SERIAL: II-14.1, SECTION TWO, ARTICLE 9

We hereby declare that;

a) We have examined the Board of Directors' Annual Report for the period ended 31 December 2017;

b) The annual report does not contain any misrepresentation of the facts in material aspects or any omissions that may turn out to be misleading as of the date of the disclosure based on the information we have obtained in the scope of our duty and responsibility in the organization;

c) The annual report drawn up pursuant to the CMB Communiqué Serial: II-14.1 presents a fair view of the development and performance of the business and the organization's financial position, major risk exposure and uncertainties, together with those subject to consolidation, based on the information we have obtained in the scope of our duty and responsibility in the organization;

Sincerely,

Anar MAMMADOV	**Mehmet CEYLAN**	**Tevfik BİLGİN**
General Manager	Chairman of the Audit Committee	Member of the Audit Committee

STATEMENT OF RESPONSIBILITY

BOARD OF DIRECTORS RESOLUTION ON THE APPROVAL OF THE ANNUAL REPORT

DECISION DATE: 8 MARCH 2018

DECISION NO.: 2018 - 9 - 21

8 MARCH 2018

STATEMENT OF RESPONSIBILITY PURSUANT TO CAPITAL MARKETS BOARD COMMUNIQUÉ SERIAL: II-14.1, SECTION TWO, ARTICLE 9

We hereby declare that;

a) We have examined the Board of Directors' Annual Report for the period ended 31 December 2017;

b) The annual report does not contain any misrepresentation of the facts in material aspects or any omissions that may turn out to be misleading as of the date of the disclosure based on the information we have obtained in the scope of our duty and responsibility in the organization;

c) The annual report drawn up pursuant to the CMB Communiqué Serial: II-14.1 presents a fair view of the development and performance of the business and the organization's financial position, major risk exposure and uncertainties, together with those subject to consolidation, based on the information we have obtained in the scope of our duty and responsibility in the organization;

Sincerely,

Anar MAMMADOV	**Mehmet CEYLAN**	**Tevfik BİLGİN**
General Manager	Chairman of the Audit Committee	Member of the Audit Committee

AUDIT COMMITTEE REPORTS

To the Board of Directors of Petkim Petrokimya Holding A.Ş.

01.01.2017-31.12.2017 Accounting Period Financial Statements

The independently audited comparative consolidated financial statements, (in comparison with previous period's financials) prepared for the accounting period of 01.01.2017-31.12.2017, in compliance with the Turkish Accounting Standards and the Turkish Financial Reporting Standards ("TAS" and "TFRS") published by the Public Oversight Authority and the Turkish Accounting and Auditing Standards Board within the scope of the Communiqué (Serial: II, No: 14.1) of Capital Markets Board ("CMB"), and prepared in compliance with the presentation principles that were determined with the Decision (dated 07.06.2013, No: 20/670) of CMB and announced in the weekly CMB Bulletin (dated 07.06.2013, No: 2013/19), was audited by getting the opinions of the executives who are responsible for the preparation of the Company's financial statements.

Limited within the scope of the information we have and we have been given, our opinion relating to this financial statements, were presented to the executives who have responsibility in the preparation of the financial statements. Within the framework of this opinion, we have reached a conclusion that this financial statements; truly reflects the facts regarding the Company's activity results and does not contain any significant deficiency that may cause misleading results, and complies with the CMB regulations.

Sincerely,

2 March 2017

Audit Committee

Chairman of the Audit Committee
Mehmet CEYLAN

Member of the Audit Committee
Tevfik BİLGİN

AUDIT COMMITTEE REPORTS

To the Board of Directors of Petkim Petrokimya Holding A.Ş.

01.01.2017-31.12.2017 Accounting Period Annual Activity Report

The independently audited comparative consolidated financial statements, (in comparison with previous period's financials) prepared for the accounting period of 01.01.2017-31.12.2017, in compliance with the Turkish Accounting Standards and the Turkish Financial Reporting Standards ("TAS" and "TFRS") published by the Public Oversight Authority and the Turkish Accounting and Auditing Standards Board within the scope of the Communiqué (Serial: II, No: 14.1) of Capital Markets Board ("CMB"), and prepared in compliance with the presentation principles that were determined with the Decision (dated 07.06.2013, No: 20/670) of CMB and announced in the weekly CMB Bulletin (dated 07.06.2013, No: 2013/19), was audited by getting the opinions of the executives who are responsible for the preparation of the Company's financial statements.

Limited within the scope of the information we have and we have been given, our opinion relating to this financial statements, were presented to the executives who have responsibility in the preparation of the financial statements. Within the framework of this opinion, we have reached a conclusion that this financial statements; truly reflects the facts regarding the Company's activity results and does not contain any significant deficiency that may cause misleading results, and complies with the CMB regulations.

Sincerely,

2 March 2017

Audit Committee

Chairman of the Audit Committee
Mehmet CEYLAN

Member of the Audit Committee
Tevfik BİLGİN

CONVENIENCE TRANSLATION INTO ENGLISH OF INDEPENDENT AUDITOR'S REPORT ON THE BOARD OF DIRECTORS' ANNUAL REPORT ORIGINALLY ISSUED IN TURKISH

pwc

To the General Assembly of Petkim Petrokimya Holding A.Ş

1. Opinion

We have audited the annual report of Petkim Petrokimya Holding A.Ş (the "Company") and its subsidiaries (collectively referred to as the "Group") for the 1 January - 31 December 2017 period.

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

2. Basis for Opinion

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

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

We expressed an unqualified opinion in the auditor's report dated 1 March 2018 on the full set consolidated financial statements for the 1 January - 31 December 2017 period.

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

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

pwc

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

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

c) to include the matters below in the annual report:

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

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

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

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

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

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

Çağlar Sürücü, SMMM
Partner

İstanbul, 8 March 2018

Petkim Petrokimya Holding Anonim Şirketi and its Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017 TOGETHER WITH INDEPENDENT AUDITORS'REPORT

(Convenience Translation into English of Financial Statements Originally Issued in Turkish)

INDEPENDENT AUDITORS' REPORT

pwc

To the General Assembly of Petkim Petrokimya Holding A.Ş.

A. Audit of the Consolidated Financial Statements

1. Opinion

We have audited the accompanying consolidated financial statements of Petkim Petrokimya Holding A.Ş. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of 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.

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.

INDEPENDENT AUDITORS' REPORT

Key Audit Matter	*How our audit addressed the key audit matter*
Contingent liabilities and disclosures related to continuing tax inspections (See Note 31). There are tax inspections related to the special consumption tax ("SCT") practices for a product that the Group uses in its production processes. For the inspection related to transactions in 2014, as explained in detail in Note 31, the total of tax base, penalty and interest ("tax penalty") levied by the Ministry of Finance to the Group amounts to TRY165 million, and there are significant estimates and judgements regarding whether a provision should be recognized in relation to the tax inspection according to related TAS provisions. We focused on this issue during our audit work and identified this issue as a key audit matter due to the following reasons: - As a result of the assessments performed, the Group management did not recognize any provision for the tax penalty in the consolidated financial statements as of 31 December 2017 and there is possibility that the impact of this matter could have a material impact on the Group's consolidated financial statements, - The tax penalty levied by the Ministry of Finance includes significant judgements, based on technical assessments and complex processes specific to the product and the petrochemical industry in which the Group operates, regarding whether the product is subject to special consumption tax. The Group management makes estimates and judgements on assessing the legal base of the matter, the measurement of the tax penalty, whether the administration incurred any losses and the time limit for the refund for SCT, - Involvement of experts in audit process regarding legal and tax matters.	For the ongoing tax inspection, we had meetings with the Group's top management, legal advisors and tax specialists, obtained their assessments and opinions and performed the following audit procedures, with the involvement of our tax law specialists in the audit process: · We discussed significant control processes and practices with management based on the information derived from the Group's supply management and production processes related to the product and questioned the current SCT practices. · We calculated risk amounts based on the relevant legislation by examining documents related to the inspection. · We evaluated the likehood of realization of the risks by examining precedents legal cases and inspections. · As a result of the above information and work performed, our tax law specialists assessed, within the framework of their professional expertise, the outcome of the Group management's estimation and judgement of the legal base and method of calculation of the inspection and the conclusion not to recognize any provision in the consolidated financial statements as of 31 December 2017. · Appropriateness and sufficiency of explanations is evaluated in the consolidated financial statement notes as per relevant accounting standards.

4. Other Matter

The consolidated financial statements of Petkim Petrokimya Holding A.Ş. as of 31 December 2016 and for the year then ended were audited by another audit firm whose audit report dated 2 March 2017 expressed an unqualified opinion.

5. 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 Company's financial reporting process.

6. 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.

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.

INDEPENDENT AUDITORS' REPORT

- 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 1 March 2018.

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

Çağlar Sürücü
Partner

İstanbul, 1 March 2018

CONTENTS

Petkim Petrokimya Holding Anonim Şirketi and its Subsidiaries

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2017

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)
(Convenience Translation into English of Financial Statements Originally Issued in Turkish)

	Notes	Audited 31 December 2017	(*) Audited 31 December 2016	(*) Audited 31 December 2015
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	4	1.460.448.945	1.267.188.405	1.341.536.749
Financial investments		-	-	160.452.259
Trade receivables		918.838.151	674.471.489	551.425.057
- Trade receivables from third parties	7	918.838.151	674.471.489	551.425.057
Other receivables		837.367.389	30.792.406	261.559.561
- Other receivables from related parties	29	833.339.383	14.321.046	255.049.233
- Other receivables from third parties	8	4.028.006	16.471.360	6.510.328
Derivative financial instruments	18	-	7.466.471	1.646.432
Inventories	5	893.578.568	604.333.833	363.508.864
Prepaid expenses		35.669.845	31.915.791	52.347.705
- Prepaid expenses to third parties	15	30.220.566	19.037.704	39.469.618
- Prepaid expenses to related parties	29	5.449.279	12.878.087	12.878.087
Other current assets		62.501.220	43.777.394	35.096.475
- Other current assets related to third parties	17	62.501.220	43.777.394	35.096.475
TOTAL CURRENT ASSETS		**4.208.404.118**	**2.659.945.789**	**2.767.573.102**
NON - CURRENT ASSETS				
Financial investments	6	8.910.000	8.910.000	8.910.000
- Available for sale financial assets		8.910.000	8.910.000	8.910.000
Other receivables		75.290.079	423.305.661	105.206.024
- Other receivables from related parties	29	75.290.079	423.305.661	105.206.024
Investment properties	10	1.469.935	1.469.935	1.469.935
Property, plant and equipment	11	3.172.393.372	2.831.261.149	2.276.634.074
Intangible assets	12	23.613.956	22.398.670	18.327.669
Prepaid expenses		46.358.138	64.040.243	109.875.699
- Prepaid expenses to third parties	15	25.270.112	59.747.547	92.704.917
- Prepaid expenses to related parties	29	21.088.026	4.292.696	17.170.782
Deferred income tax assets	20	237.963.174	244.963.987	133.346.497
Other non-current assets		14.455.426	12.232.354	39.322.328
- Other non-current assets related to third parties	17	14.455.426	12.232.354	39.322.328
TOTAL NON - CURRENT ASSETS		**3.580.454.080**	**3.608.581.999**	**2.693.092.226**
TOTAL ASSETS		**7.788.858.198**	**6.268.527.788**	**5.460.665.328**

(*) See Note 2.4 for prior year reclassifications.

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

Petkim Petrokimya Holding Anonim Şirketi and its Subsidiaries

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2017

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)
(Convenience Translation into English of Financial Statements Originally Issued in Turkish)

	Notes	Audited 31 December 2017	(*) Audited 31 December 2016	(*) Audited 31 December 2015
LIABILITIES				
CURRENT LIABILITIES				
Short-term borrowings		1.428.313.674	1.164.193.179	1.157.428.765
- Short-term borrowings from third parties		1.428.313.674	1.164.193.179	1.157.428.765
- Bank borrowings	9	630.422.309	461.698.893	319.638.074
- Other financial liabilities	9	797.891.365	702.494.286	837.790.691
Short-term portion of long-term borrowings		174.250.481	55.495.727	41.912.519
- Short-term portion of long-term borrowings from third parties		174.250.481	55.495.727	41.912.519
- Bank borrowings	9	174.250.481	55.495.727	41.912.519
Derivative financial instruments	18	-	432.006	11.008.960
Trade payables		540.279.371	412.369.070	299.184.435
- Trade payables to related parties	29	30.044.053	29.584.837	31.306.140
- Trade payables to third parties	7	510.235.318	382.784.233	267.878.295
Payables related to employee benefits	16	6.827.698	25.429.492	12.842.787
Other payables		38.095.958	38.733.947	5.767.645
- Other payables to related parties	29	29.049.019	26.450.401	1.750.437
- Other payables to third parties	8	9.046.939	12.283.546	4.017.208
Deferred revenue		40.805.353	39.144.851	26.093.160
- Deferred revenue from related parties	29	4.176.411	4.198.100	4.168.083
- Deferred revenue from third parties	14	36.628.942	34.946.751	21.925.077
Short term provisions		40.660.167	4.000.981	13.970.602
- Provision for employee benefits	16	19.729.889	2.617.402	13.027.856
- Other short term provisions	31	20.930.278	1.383.579	942.746
Current tax liabilities	20	68.416.863	48.864.818	9.684.055
Other current liabilities		9.259.169	7.976.519	6.495.411
- Other current liabilities related to third parties	17	9.259.169	7.976.519	6.495.411
TOTAL CURRENT LIABILITIES		**2.346.908.734**	**1.796.640.590**	**1.584.388.339**
NON-CURRENT LIABILITIES				
Long term financial liabilities		1.349.501.649	1.172.474.368	914.267.416
- Long term financial liabilities from third parties		1.349.501.649	1.172.474.368	914.267.416
- Bank borrowings	9	1.349.501.649	1.172.474.368	914.267.416
Derivative financial instruments	18	6.739.314	9.027.379	-
Deferred revenue		136.064.140	129.637.103	67.499.141
- Deferred revenue from related parties	29	5.095.099	8.829.511	12.705.027
- Deferred revenue from third parties	14	130.969.041	120.807.592	54.794.114
Long term provisions		95.565.463	91.308.322	89.126.935
- Provision for employee termination benefits	16	95.565.463	91.308.322	89.126.935
TOTAL NON - CURRENT LIABILITIES		**1.587.870.566**	**1.402.447.172**	**1.070.893.492**
TOTAL LIABILITIES		**3.934.779.300**	**3.199.087.762**	**2.655.281.831**

(*) See Note 2.4 for prior year reclassification

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

Petkim Petrokimya Holding Anonim Şirketi and its Subsidiaries

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2017

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)
(Convenience Translation into English of Financial Statements Originally Issued in Turkish)

	Notes	Audited 31 December 2017	Audited 31 December 2016	Audited 31 December 2015
EQUITY				
Equity attributable to owners of the parent company		**3.793.932.189**	**3.001.710.146**	**2.741.388.114**
Share capital	19	1.500.000.000	1.500.000.000	1.500.000.000
Adjustment to share capital	19	238.988.496	238.988.496	238.988.496
Share premium		214.187.872	214.187.872	214.187.872
Other comprehensive income / (expense) not to be reclassified to profit or loss				
- Actuarial loss arising from defined benefit plan		(27.290.839)	(24.694.546)	(23.668.037)
Other comprehensive (expense) / income to be reclassified to profit or loss		(6.568.922)	572.240	(7.490.023)
- Currency translation differences		(2.794.906)	-	-
- (Loss) / Gain on cash flow hedges		(3.774.016)	572.240	(7.490.023)
Restricted reserves	19	192.598.686	104.957.638	36.548.777
Retained earnings		280.057.398	241.912.168	156.442.236
Net profit for the period / year		1.401.959.498	725.786.278	626.378.793
Non-controlling interest		**60.146.709**	**67.729.880**	**63.995.383**
TOTAL EQUITY		**3.854.078.898**	**3.069.440.026**	**2.805.383.497**
TOTAL LIABILITIES AND EQUITY		**7.788.858.198**	**6.268.527.788**	**5.460.665.328**

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

Petkim Petrokimya Holding Anonim Şirketi and its Subsidiaries

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIODS 1 JANUARY- 31 DECEMBER 2017 AND 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)
(Convenience Translation into English of Financial Statements Originally Issued in Turkish)

	Notes	Audited 1 January - 31 December 2017	(*) Audited 1 January - 31 December 2016
PROFIT OR LOSS			
Revenue	21	7.363.824.480	4.532.590.622
Cost of sales	21	(5.505.864.559)	(3.574.771.797)
GROSS PROFIT		**1.857.959.921**	**957.818.825**
General administrative expenses	22	(200.938.253)	(138.143.303)
Selling, marketing and distribution expenses	23	(59.439.716)	(42.276.221)
Research and development expenses	24	(17.167.963)	(12.782.619)
Other operating income	25	230.773.507	131.297.346
Other operating expense	25	(157.339.370)	(131.415.678)
OPERATING PROFIT		**1.653.848.126**	**764.498.350**
Income from investing activities	26	42.466.253	17.322.323
Expense from investing activities	26	(105.470)	(4.212.586)
OPERATING PROFIT BEFORE FINANCIAL INCOME/ (EXPENSE)		**1.696.208.909**	**777.608.087**
Financial income	27	647.614.293	451.893.803
Financial expenses	27	(682.727.972)	(447.618.646)
PROFIT BEFORE TAX FROM CONTINUED OPERATIONS		**1.661.095.230**	**781.883.244**
Tax expense from continuing operations		**(271.650.860)**	**(50.195.898)**
- Current tax expense	20	(248.526.087)	(163.030.686)
- Deferred tax income	20	(23.124.773)	112.834.788
PROFIT FOR THE PERIOD CONTINUED OPERATIONS		**1.389.444.370**	**731.687.346**
DISTRIBUTION OF INCOME / (EXPENSE) FOR THE PERIOD			
- Non-controlling interest		(12.515.128)	5.901.068
- Owners of the parent company		1.401.959.498	725.786.278
Earnings Per Share	28	**0,9346**	**0,484**
- Earnings per Kr 1 number of shares from continued operations		**0,9346**	**0,4839**
OTHER COMPREHENSIVE (LOSS) / INCOME			
Items to be reclassified to Profit or Loss		**(2.209.205)**	**5.895.692**
Currency translation differences		1.587.916	-
Other comprehensive (loss) / income related with cash flow hedges		(4.746.401)	7.369.615
Tax relating to (loss) / gain on cash flow hedge		949.280	(1.473.923)
Items not to be reclassified to Profit or Loss		**(2.596.293)**	**(1.026.509)**
Defined benefit plans remeasurement Earnings (losses)		(3.245.366)	(1.283.136)
Taxes relating to remeasurements of defined benefit plans		649.073	256.627
OTHER COMPREHENSIVE INCOME		**(4.805.498)**	**4.869.183**
TOTAL COMPREHENSIVE INCOME		**1.384.638.872**	**736.556.529**
Attributable to:			
Non-controlling interests		(7.583.171)	3.734.497
Owners of parent company		1.392.222.043	732.822.032

(*) See Note 2.4 for prior year reclassification

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

Petkim Petrokimya Holding Anonim Şirketi and its Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIODS 1 JANUARY- 31 DECEMBER 2017 AND 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)
(Convenience Translation into English of Financial Statements Originally Issued in Turkish)

			Other comprehensive (expense) / income not to be reclassified to profit or loss	Other comprehensive (expense) / income to be reclassified to profit or loss	
	Share capital	**Adjustment to share capital**	**Actuarial loss arising from defined benefit plan**	**(Loss) / gain on cash flow hedges**	**Currency translation differences**
1 January 2016	**1.500.000.000**	**238.988.496**	**(23.668.037)**	**(7.490.023)**	**-**
Transfers	-	-	-	-	-
Total comprehensive income	-	-	(1.026.509)	8.062.263	-
- Other comprehensive income	-	-	(1.026.509)	8.062.263	-
- Net profit for the period	-	-	-	-	-
Dividend paid	-	-	-	-	-
31 December 2016	**1.500.000.000**	**238.988.496**	**(24.694.546)**	**572.240**	
1 January 2017	**1.500.000.000**	**238.988.496**	**(24.694.546)**	**572.240**	**-**
Transfers	-	-	-	-	-
Total comprehensive income	-	-	(2.596.293)	(4.346.256)	(2.794.906)
- Other comprehensive incomer)	-	-	(2.596.293)	(4.346.256)	(2.794.906)
- Net profit for the period	-	-	-	-	-
Dividend paid	-	-	-	-	-
31 December 2017	**1.500.000.000**	**238.988.496**	**(27.290.839)**	**(3.774.016)**	**(2.794.906)**

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

Share premium	Restricted reserves	Net profit for the period	Retained earnings	Equity attributable to owners of the parent company	Non-controlling interests	Total equity
214.187.872	**36.548.777**	**626.378.793**	**156.442.236**	**2.741.388.114**	**63.995.383**	**2.805.383.497**
-	28.658.861	(626.378.793)	597.719.932	-	-	-
-	-	725.786.278	-	732.822.032	3.734.497	736.556.529
-	-	-	-	7.035.754	(2.166.571)	4.869.183
-	-	725.786.278	-	725.786.278	5.901.068	731.687.346
-	39.750.000	-	(512.250.000)	(472.500.000)	-	(472.500.000)
214.187.872	**104.957.638**	**725.786.278**	**241.912.168**	**3.001.710.146**	**67.729.880**	**3.069.440.026**
214.187.872	**104.957.638**	**725.786.278**	**241.912.168**	**3.001.710.146**	**67.729.880**	**3.069.440.026**
-	35.141.048	(725.786.278)	690.645.230	-		
-	-	1.401.959.498	-	1.392.222.043	(7.583.171)	1.384.638.872
-	-	-	-	(9.737.455)	4.931.957	(4.805.498)
-	-	1.401.959.498	-	1.401.959.498	(12.515.128)	1.389.444.370
-	52.500.000	-	(652.500.000)	(600.000.000)	-	(600.000.000)
214.187.872	**192.598.686**	**1.401.959.498**	**280.057.398**	**3.793.932.189**	**60.146.709**	**3.854.078.898**

Petkim Petrokimya Holding Anonim Şirketi and its Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE PERIODS 1 JANUARY- 31 DECEMBER 2017 AND 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)
(Convenience Translation into English of Financial Statements Originally Issued in Turkish)

	Notes	Audited 1 January - 31 December 2017	Audited (*) 1 January - 31 December 2016
A. Cash flows from operating activities:		**1.171.669.761**	**731.875.679**
Net profit for the year (I)		1.389.444.370	731.687.346
Adjustments related to reconciliation of (II) net profit (loss) for the year:		**526.827.751**	**167.637.955**
Adjustments for depreciation and amortization		168.598.448	116.598.304
Adjustments for impairments/ reversals			
- Adjustments for impairment of inventories	5	678.951	(11.047.336)
- Adjustments for other impairment		(22.698.521)	34.474.127
Adjustments for provisions			
- Adjustments for provision employment termination benefits	16	41.004.474	16.255.132
- Adjustments for provision legal cases	31	1.818.769	492.319
- Adjustments for provision / other cases		24.173.866	2.409.040
Adjustments for interest income/ (expense)			
- Adjustments for interest income	27	(86.185.577)	(54.088.875)
- Adjustments for interest expense	27	95.251.509	19.120.786
- Deferred interest expense due to credit purchase		(3.710.678)	(370.037)
- Unearned interest income due to credit sales		10.248.051	9.094.381
Adjustments for unrealized foreign currency translation differences		49.954.279	(14.709.088)
Adjustments for tax income/ losses	20	271.650.860	50.195.898
Adjustments for gain/ losses on sale of property, plant and equipment		(24.222.463)	(566.058)
Adjustments for income from government incentives		265.783	(220.638)
Changes in working capital (III)		**(492.748.106)**	**(17.780.878)**
Adjustments related to (increase)/decrease in trade receivables		(261.060.648)	(118.577.973)
Adjustments related to (increase)/decrease in other receivables		(53.417.075)	(17.849.840)
Adjustments related to (increase)/decrease in inventory		(280.053.092)	(219.828.939)
(Increase)/decrease in prepaid expenses		(11.201.172)	52.707.537
Adjustments for increase/(decrease) in trade payables		131.818.158	163.544.568
Adjustments for increase/(decrease) in other payable		644.657	34.447.411
Increase/(decrease) in payables related to employee benefits	16	(18.601.794)	12.586.705
Adjustments for increase/(decrease) in deferred revenue		(877.140)	75.189.653
Cash flows from operating activities (I+II+III)		**1.423.524.015**	**881.544.423**
Employee termination benefits paid	16	(22.880.212)	(25.767.335)
Income taxes (paid)	20	(228.974.042)	(123.849.923)
Other cash outflows		-	(51.486)

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

Petkim Petrokimya Holding Anonim Şirketi and its Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE PERIODS 1 JANUARY- 31 DECEMBER 2017 AND 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)
(Convenience Translation into English of Financial Statements Originally Issued in Turkish)

	Notes	Audited 1 January - 31 December 2017	Audited (*) 1 January - 31 December 2016
B. Cash flows from investing activities		**(765.575.111)**	**(404.617.342)**
Cash outflows from purchases of property, plant and equipment		(446.677.677)	(567.261.634)
Proceeds from sale of property, plant and equipment		(508.959)	1.129.142
Advances given and payables to related parties		(355.077.283)	-
Other cash advances and payables given		36.688.808	1.062.891
Other cash inflows		-	160.452.259
C. Cash flows from financing activities		**(201.438.933)**	**(580.755.589)**
Proceeds from borrowings	7	1.595.100.182	617.137.859
Repayments of borrowings	7	(1.275.913.171)	(443.003.374)
Proceeds from other financial liabilities	7	1.018.816.094	697.685.358
Repayments of other financial liabilities	7	(930.588.059)	(958.990.116)
Interest received		85.486.097	53.187.872
Interest paid		(94.340.076)	(74.273.188)
Dividends paid		(600.000.000)	(472.500.000)
D. Net increase / (decrease) in cash and cash equivalents before foreign currency translation differences (A+B+C)		**204.655.717**	**(253.497.252)**
E. Effect of currency translation differences on cash and cash equivalents		**(11.395.177)**	**179.148.908**
Net increase / (decrease) in cash and cash equivalents (D+E)		**193.260.540**	**(74.348.344)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**4**	**1.267.188.405**	**1.341.536.749**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**1.460.448.945**	**1.267.188.405**

(*) See Note 2.4 for previous period reclassifications

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

Petkim Petrokimya Holding Anonim Şirketi and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY- 31 DECEMBER 2017

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)
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NOTE 1 - GROUP'S ORGANISATION AND NATURE OF OPERATIONS

Petkim Petrokimya Holding A.Ş. ("Petkim" or "the Company") was established on 3 April 1965. The Company started its investment activities in İzmit-Yarımca and initially established the Ethylene, Polyethylene, Chlorine Alkali, VCM and PVC plants in 1970 in the Yarımca Complex and in the following years, construction of other plants continued. In 1985, Aliağa Petrochemical Complex was established with advance technology and optimum capacity. The Company has 14 main plants, 1 bag production unit and 1 solid waste incineration facility. The Company operates its facilities in the petrochemical sector in Turkey.

The major operations of the Company and its subsidiaries are as follows:

- To establish and to operate factories, plants in Turkey home or abroad in relation to the petro-chemistry, chemistry and such other industrial sectors,
- To process and to treat the raw materials and supplementary/auxiliary substances, materials and chemicals necessary for the production of petrochemicals, chemicals and such other materials/substances by procuring such materials/substances either from Turkey or abroad, to produce such materials/substances, and to carry out and to perform the domestic and international trading thereof,
- In accordance with the Law 4628 on the Electricity Market, and the related legislation thereto, to establish power plants as per the auto-producer's license in order to meet its own need for electricity and heat/thermal energy at first, to generate electricity and heat/thermal energy, to sell the generated electricity and heat/thermal energy and/or the capacity to other legal persons holding the requisite licenses or to the eligible consumers as per the mentioned legislation in case of any surplus production, and to carry out and to perform the activities in relation to the obtainment of any and all kinds of equipment and fuel in relation to the electricity power/ generating plant provided that such activities are not of commercial nature,
- To carry out and to perform the activities in relation to the importation or purchase from domestic resources, of natural gas on wholesale and retail basis, utilization, storage of natural gas imported and purchased, in accordance with the legislation thereto,
- To carry out and to perform pilotage, trailer and mooring activities, to operate ports, cruise ports, passenger terminals, seaports, docks, harbors, berths, liquid fuel/liquefied petroleum pipeline and buoy systems, and such other similar onshore facilities/ plants, and to be involved in port management activities, to offer port, agency, provision, bunkering services, and to provide that such services are offered by third parties either by way of leasing or such other methods when required, and to purchase, to have built and to lease, to sell the necessary vessels/naval platforms, and to establish either domestic or international partnerships in relation thereto, to operate warehouses, and to offer warehousing services,

The "Share Sales Agreement", with respect to the sale of 51% of shares of Petkim Petrokimya Holding A.Ş. (which has been in the privatization process for several years) to SOCAR & Turcas Petrokimya A.Ş. ("STPAŞ"), 44% of which previously owned by the Republic of Turkey Ministry Privatization Administration ("Administration") and 7% State Pension Fund ("Emekli Sandığı Genel Müdürlüğü") transferred to Republic of Turkey Social Security Institution, was signed on 30 May 2008.

On 22 June 2012, the public shares amounting to 10,32% of the Company capital which belonged to Prime Ministry Privatization Administration was sold to SOCAR İzmir Petrokimya A.Ş ("SİPAŞ") which is the subsidiary of the Company's main shareholder, SOCAR Turkey Enerji A.Ş. ("STEAŞ")

Petkim Petrokimya Holding Anonim Şirketi and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY- 31 DECEMBER 2017

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)
(Convenience Translation into English of Financial Statements Originally Issued in Turkish)

NOTE 1 - GROUP'S ORGANISATION AND NATURE OF OPERATIONS (Continued)

On 22 September 2012, the listed shares of 10,32% in the Company, which belonged to Prime Ministry Privatisation Administration, was sold to SOCAR İzmir Petrokimya A.Ş ("SİPAŞ"), the subsidiary of the Company's main shareholder, merged with SOCAR Turkey Enerji A.Ş. ("STEAŞ") on 22 September 2014.

As of 31 December 2017 and 31 December 2016 the ultimate shareholder of the Company is State Oil Company of Azerbaijan Republic ("SOCAR").

The Group is registered at the Capital Markets Board ("CMB") and 49% (31 December 2016: 49%) of its shares have been quoted in Borsa İstanbul ("BIST") since 9 July 1990 (Note 19).

These consolidated financial statements were approved to be issued by the Board of Directors and signed on 1 March 2018. The General Assembly and certain regulatory bodies have the authority to make amendments after the publication of the statutory financial statements.

The registered address of the Company as of the date of preparation of the condensed consolidated financial statements is as follows:

Siteler Mh. Necmettin Giritlioğlu Cd. No: 6 35800 Aliağa/İZMİR

As of 31 December 2017, the Company's subsidiaries ("subsidiaries") the Company and its subsidiaries (hereinafter collectively referred to as the "Group") and their respective operating segments are as follows:

		Nature of operations	Business segment
1.	Petlim Limancılık Ticaret A.Ş. ("Petlim")	Port operations	Port
2.	Petkim Specialities Mühendislik Plastikleri Sanayi ve Ticaret A.Ş.	Plastic Processing	Petrochemistry

As of 31 December 2017, the average number of employees working for the Group is 2.425 (31 December 2016: 2.434). The details of the employees as of 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
Union (*)	1.877	1.857
Non - union (**)	587	538
	2.464	**2.395**

(*) Indicates the personnel who are members of Petrol İş Union.

(**) Indicates the personnel who are not members of Petrol İş Union.

Petkim Petrokimya Holding Anonim Şirketi and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY- 31 DECEMBER 2017

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT

2.1 Basis of Presentation

The accompanying consolidated financial statements are prepared in accordance with the Communiqué Serial II, No: 14.1, "Principals of Financial Reporting in Capital Markets" published in the Official Gazette numbered 28676 on 13 June 2013. According to the article 5 of the Communiqué, condensed consolidated financial statements are prepared in accordance with Turkish Accounting Standards / Turkish Financial Reporting Standards ("TAS" / "TFRS") and its addendum and interpretations ("IFRIC") issued by the Public Oversight Accounting and Auditing Standards Authority ("POAASA") Turkish Accounting Standards Board.

The Group and its subsidiaries registered in Turkey maintains its accounting records and prepares its statutory financial statements in accordance with the Turkish Commercial Code ("TCC"), tax legislation and the uniform chart of accounts issued by the Ministry of Finance. The financial statements, except for financial assets and liabilities are presented with their fair values, are maintained under historical cost conventions and presented in TL which is the functional and reporting currency of the Group.

In addition, the Group arranged its consolidated financial statements prepared as per the TCC within the framework of the accounting policies determined under Note 2.5 in order to provide accurate presentation of legal records in line with TAS. The Group carried out the required adjustments and classifications considering the reporting formats in Financial Statement Formats and Guidance issued by the POAASA.

2.2 Amendments in Turkish Financial Reporting Standards

a) Standards, amendments and interpretations applicable as at 31 December 2017:

- **Amendments to IAS 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. The amendment has been applied but did not have a significant effect on the notes of the consolidated financial statements of the Group.
- **Amendments IAS 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 clarifies certain other aspects of accounting for deferred tax assets. The amendments did not have an effect on the notes of the consolidated financial statements of the Group.
- **Annual improvements 2014-2016,** effective from annual periods beginning on or after 1 January 2017:
- IFRS 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 IFRS 12 are applicable to interest in entities classified as held for sale except for summarized financial information.

Petkim Petrokimya Holding Anonim Şirketi and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY- 31 DECEMBER 2017

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)
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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.2 Amendments in Turkish Financial Reporting Standards (Continued)

b) Standards, amendments and interpretations effective after 1 January 2018:

- **IFRS 9, 'Financial instruments';** effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes 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.
- **IFRS 15, 'Revenue from contracts with customers';** effective from annual periods beginning on or after 1 January 2018. IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.
- **Amendment to IFRS 15, 'Revenue from contracts with customers'**, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.
- **Amendment to IAS 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.
- **Amendments to IFRS 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 IFRS 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.

Petkim Petrokimya Holding Anonim Şirketi and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY- 31 DECEMBER 2017

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)
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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.2 Amendments in Turkish Financial Reporting Standards (Continued)

- **Annual improvements 2014-2016;** effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:
  - IFRS 1, 'First time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19 and IFRS 10,
  - IAS 28, 'Investments in associates and joint venture' regarding measuring an associate or joint venture at fair value.
- **IFRIC 22, 'Foreign currency transactions and advance consideration';** effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.
- **Amendment to IFRS 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 recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.
- **Amendment to IAS 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 IFRS 9.
- **IFRS 16, 'Leases';** effective from annual periods beginning on or after 1 January 2019, this standard replaces the current guidance in IAS 17 and is a farreaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to 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. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.2 Amendments in Turkish Financial Reporting Standards (Continued)

- **IFRIC 23, 'Uncertainty over income tax treatments';** effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 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. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.
- **IFRS 17, 'Insurance contracts';** effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

The Group estimates that the impact of IFRS 15 and IFRS 9 adoption will not be significant. Impact of IFRS 16 is currently being assessed.

2.3 Basis of consolidation

The consolidated financial statements include the accounts of the parent company, Petkim and its subsidiaries on the basis set out in sections below. The financial statements of the companies included in the scope of consolidation have been prepared as of the date of the consolidated financial statements and have been prepared in accordance with TAS / TFRS applying uniform accounting policies and presentation.

a) Subsidiaries

The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date the control ceases.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.3 Basis of consolidation (Continued)

Intercompany transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The non-controlling share in the net assets and results of subsidiaries for the period are separately classified as "non-controlling interest" in the consolidated balance sheet and statement of income.

The accounting policies of the subsidiaries have been changed where necessary to be consistent with the accounting policies accepted by the Group.

The table below sets out all subsidiaries included in the scope of consolidation together with the related voting rights and effective ownership rates at 31 December 2017;

Subsidiaries	Direct or Indirect Control Shareholding rates of the Group (%)	
	31 December 2017	31 December 2016
Petlim	73,00	73,00
Petkim Specialities Mühendislik Plastikleri Sanayi ve Ticaret A.Ş.	100,00	100,00

b) Foreign currency translation

i) Functional and presentation currency

The financial statements of each company within the Group are measured in the currency in which the entity is located and in which the operations are maintained ("functional currency"). As a result of the Group management's assessment, the functional currency of Petlim has been designated as US Dollars as of 1 January 2017 due to Petlim's commencement of its operations and generating all its revenues in US Dollars. The condensed consolidated financial statements have been prepared and presented in Turkish lira ("TL"), which is the parent Company's functional and presentation currency.

ii) Transactions and balances

Transactions in foreign currencies have been translated into functional currency at the exchange rates prevailing at the date of the transaction. Exchange gains or losses arising from the settlement and translation of monetary assets and liabilities denominated in foreign currency at the exchange rates prevailing at the balance sheet dates are included in consolidated comprehensive income, except for the effective portion of foreign currency hedge of cash flow which are included under shareholders equity.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.3 Basis of consolidation (Continued)

iii) Translation of financial statements of subsidiaries, whose functional currency is not Turkish liras

Upon the change in functional currency of Petlim as US Dollars as of 1 January 2017, in accordance with the transition provisions of TMS 21, "Effects of Changes in Foreign Exchange", the financial statements of Petlim have been converted to US Dollars with the exchange rate as of 1 January 2017.

As of 31 December 2017, Petlim's assets and liabilities are translated into TL from the foreign exchange rate at the date of that balance sheet date. The income and expenses of Petlim are translated into TL at the average exchange rate. The effects of conversion of opening net assets of Petlim and the differences arising from the exchange rates at the average exchange rates and balance sheet dates are recognized in "currency translation differences" in other comprehensive income.

The balance sheet date rates and average rates used for translation for the related periods are as follows:

The end of the period:	**31 December 2017**	**31 December 2016**
Turkish Liras / US Dollars	3,7719	3,5192

Average:	**31 December 2017**
Turkish Liras / US Dollars	3,6443

2.4 Comparative information and correction of prior period financial statements

The Group prepared its consolıdated financial statements on a comparative basis with the preceding financial period, which enables determination of trends in financial position and performance. The Group prepared its balance sheet at 31 December 2017 on a comparative basis with balance sheet at 31 December 2016; and statements of profit or loss comprehensive income, cash flows and changes in equity for the period of 1 January - 31 December 2017 on a comparative basis with financial statements for the period of 1 January - 31 December 2016. For the purpose of convenience with the presentation of current period consolidated financial statements, comparative information is restated when necessary and major changes are disclosed.

In line with the guidance ("Taxonomy") provided by the CMB, Group management detected the following corrections concerning balance sheet items. Reclassifications were made for the balance sheets prepared on 31 December 2016 and 31 December 2015 the consolidated cash flow prepared on 31 December 2016. These reclassifications were made as per the classifications in place on 31 December 2017 and are as follows:

- As of 31 December 2016 and 31 December 2015 payables with letters of credit to financial institutions amounting TL 702.494.286 and TL 837.790.691 which were recognised in trade payables to unrelated parties, were reclassified under other financial payables as per TMS 39 (Note 9). Financial expenses amounting TL 108.629.080 related to these financial liabilities previously recognised under other operating expenses were recognised under financial expense. (Note 25 and 27).
- Net cash outflow amounting TL 270.470.525 previously recognised under cash flows from activities, were recognised under cash flow from financing activities consistent with the reclassification of payables with letters of credit.
- Group investments amounting to TL 927.411.743 previously recognised under investment property, were reclassified under property, plant and equipment since they do not meet the investment property criteria as per TMS 40 (Note 10).
- Foreign exchange gains amounting to TL 53.209.200 and interest income amounting to TL 19.656.133 earned from due from related parties which are previously presented in other operating income are classified as financial income.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.5 Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are summarized below:

a. Inventories

Inventories are valued at the lower of cost and net realizable value. The cost of inventory consists of purchase materials, cost of conversion and other costs that are necessary to bring the inventories to their present location and condition. The costs of inventories are determined on a weighted average basis by the Group.

Net realizable value is the estimated selling price in the ordinary course of business, less cost of completion and selling expenses (Note 5).

Spare parts in the forms of operating supplies are presented in the other inventory. These inventories are valued at the lower of cost and net realizable value Spare parts and material inventory are valued at the lower of cost and net recoverable value. The cost of spare parts and material inventory consist of purchase materials and other costs that are necessary to bring them to their present location and condition. The costs of spare parts and material stocks are determined on a weighted average basis by the Group (Notes 5).

b. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment losses if any. Historical costs include the costs directly related to the acquisition of property plant and equipment. Land is not depreciated as it is deemed to have an indefinite useful life.

Buildings, machinery and equipment are capitalized and depreciated when they are in the condition necessary for operations in the manner intended by the management. Residual values of property, plant and equipment are deemed as insignificant. Expected useful life, residual value and depreciation method are reviewed annually to determine the probable effects of changes in estimates.

The Group determines useful lives of tangible and intangible assets and investment properties in line with opinions of technical experts and recognizes depreciation and amortization expenses during aforementioned useful lives. Useful lives of land improvements related to port project are estimated by considering leasing period granted by Petlim in via operator agreement dated 22 February 2013.

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

	Useful life
Land improvements	4-50 years
Buildings	18-50 years
Machinery and equipment	4-50 years
Motor vehicles	5 years
Furniture and fixtures	3-20 years
Other fixed assets	5 years
Leasehold Improvements	at the lower of 3 years or lease term
Assets subject to operating lease	32-50 years

(*) The Group determines useful lives of property, plant and equipment and intangible assets in line with opinions of technical experts and recognizes depreciation and amortization expenses during aforementioned useful lives. Useful lives of land improvements related to port project are estimated by considering leasing period granted by Petlim in via operator agreement dated 22 February 2013. The Group reviews useful lives of assets subject to aforementioned depreciation in each reporting period and it is estimated that there exist no situation requiring any adjustment in useful lives.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.5 Significant accounting policies (Continued)

Expenses after the capitalization are added to the cost of related asset and reflected in financial statements as a separate asset if they shall mostly provide an economic benefit and their cost is measured in a trustable manner. Tangible assets are reviewed for impairment if there are conditions showing that the securities are more than amount recoverable. Assets are grouped at the lowest level which is cash-generating unit in order to determine impairment. Carrying amount of a tangible asset and recoverable value is the one which is higher than the net sales price following the deduction of commensurable value for the sale of the asset. Useful life of assets are reviewed as of date of balance sheet and adjusted, if required.

Maintenance and repair expenses are recorded as expense to the income statement of the related period. The Company omits the carrying values of the changed pieces occurred with respect to renovations from the balance sheet without considering whether they are subject to depreciation in an independent manner from other sections. Main renovations are subject to deprecation based on the shortest of residual life of the related tangible asset or useful life of the renovation itself.

Advances paid related to purchasing of tangible assets are monitored in prepaid expenses under fixed assets until the related asset is capitalized or recognized under on-going investments. Advances paid in foreign currency are evaluated based on being monetary or non-monetary items and measured accordingly. It is evaluated that a significant part of advances paid in foreign currency are in nature of non-monetary item and tracked over exchange rate on the date of advance payment. Impairment regarding advances given is evaluated in accordance with the impairment of non-financial assets policy and recognized on profit and loss statement of the related period.

Spare parts and material stocks qualify as property, plant and equipment when they are expected to be used more than one period and only in connection with an item of property, plant and equipment. Spare parts and material stocks are carried at cost less the accumulated depreciation which is calculated over the remaining useful life of the related item of property, plant and equipment.

Gains or losses on disposals of property, plant and equipment are included in the other operating income and expense accounts, in the consolidated statement of comprehensive income as appropriate.

c. Intangible assets

Rights and software

Intangible assets comprise acquired rights, information systems and software and capitalized development costs. Intangible assets are amortized on a straight-line basis over their estimated useful lives from the date of acquisition. In case of impairment, the carrying values of the intangible assets are written-down to their recoverable amounts (Note 12).

The estimated useful lives of intangible assets are as follows:

	Useful life
Rights and software	3-15 years

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.5 Significant accounting policies (Continued)

d. Investment properties

Land held for the purposes of long-term rental yields, for capital appreciation or both rather than land held in the production or supply of goods or services, for administrative purposes and for sale in the ordinary course of business, are classified as "investment property". Investment properties are carried at cost and any accumulated impairment losses. Investment properties are depreciated with the straight-line depreciation method over their useful lives.

Investment properties are reviewed for possible impairment losses and where the carrying amount of the investment property is greater than the estimated recoverable amount, it is written down to its recoverable amount. The recoverable amount of the investment property is the higher of future net cash flows from the utilisation of this investment property or fair value less costs to sell.

e. Impairment of assets

At each reporting date, the Group assesses whether there is an impairment indication for the assets, except for the deferred income tax asset and financial assets stated at fair values.

The Group assesses whether there is any indication that the book value of tangible and intangible assets, calculated by the acquisition cost less accumulated amortization, may be impaired. When an indication of impairment exists, the Group estimates the recoverable values of such assets. When the individual recoverable value of assets cannot be measured, the recoverable value of the cash-generating unit of that asset is measured.

Impairment exists if the carrying value of an asset or a cash-generating unit is greater than its recoverable amount, which is the higher of value in use or fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

When the recoverable amount of an asset (or a cash-generating unit) is lower than its carrying value, the asset's (or cash-generating unit's) carrying value is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of comprehensive income. An impairment loss recognized in prior periods for an asset is reversed if the subsequent increase in the asset's recoverable amount is caused by a specific event since the last impairment loss was recognized. Such a reversal amount cannot be higher than the previously recognized impairment and is recognized in the consolidated statement of comprehensive income.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.5 Significant accounting policies (Continued)

f. Financial instruments

Financial assets and financial liabilities are recognized in the Group's consolidated balance sheet when the Group becomes a legal party for the contractual provisions of the financial instrument.

Financial assets

Financial assets, are initially measured at fair value, less transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale financial assets' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest rate method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the ratio exactly discounts the estimated future cash receipts through the expected life of the financial asset to the net present value of the financial asset or in a shorter period where appropriate.

Incomes related to the debt instruments that are held to maturity and are available for sale, and financial assets that are classified as loans and receivables are calculated according to the effective interest rate method.

Available for sale financial assets

Some of the shares and long term marketable securities held by the Group are classified as available for sale and recognized at their fair values.

The financial assets, which are not priced in an active market and the fair value cannot be recognized accurately, are recognized at cost less accumulated impairments.

Gains and losses arising from changes in fair value are recognized directly in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognized directly in the consolidated income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in the consolidated income statement for the period.

Some of the shares and long term marketable securities held by the Group are classified as available for sale and recognized at their fair values.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.5 Significant accounting policies (Continued)

Receivables

Trade receivables and other receivables are initially recognized at their fair value. Subsequently, receivables are measured at amortized cost using the effective interest method.

When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated income statement under general administrative expenses. With the exception of available for sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Provision for doubtful receivables is booked in the consolidated financial statements when there is an indication that the related receivable cannot be collected. 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 impairment amount decreases due to an event occurring after the write-down, the release of the provision is credited to other income in the current period.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For receivables, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

In respect of available for sale equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in the consolidated statement of comprehensive income.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor,
- A breach of contract, such as a default or delinquency in interest or principal payments
- For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider,
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization,
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.5 Significant accounting policies (Continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three-months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value.

Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below. Financial liabilities are classified as either financial liabilities' at fair value through profit or loss' or other financial liabilities.

Financial payables

Bank borrowings are recognized initially at the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortized cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the period of the borrowings. If the maturity of the bank borrowings is less than 12 months at the balance sheet date, these are classified in current liabilities; and if more than 12 months, they are classified under non-current liabilities (Note 9).

Trade payables

Trade payables are recognized initially at fair value of and subsequently measured at amortized cost using the effective interest method (Note 7).

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.5 Significant accounting policies (Continued)

Other financial liabilities

Other financial liabilities are initially accounted at fair value, net of transaction costs. Subsequently other financial liabilities are accounted at amortized cost using the effective interest method, with interest expense recognized on an effective interest rate basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating the interest expense to the relevant period. The effective interest rate is the rate that exactly discounts the estimated

g. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the consolidated statement of comprehensive income in the period they incurred.

h. Government grants

All government grants, including non-monetary government grants followed up at fair values, are taken into account in the financial statements when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received or when the grant is actually received by the Group. Government grants shall be recognized in profit or loss on a systematic and pro rata basis over periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate.

i. Derivative financial instruments and hedge accounting

Derivatives are initially recognized at cost of acquisition and are subsequently accounted to their fair value at the end of each reporting period. The method of recognizing the result of gain or loss is dependent on the nature of the item being hedged. 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 from changes that could affect the statement of income due to a specific risk in cash flow of a forecasted transaction (cash flow hedge). Fair value of the Group's interest swap contracts is determined by valuation methods depending on analyzable market data.

Changes in the fair value of the derivatives that are designated and qualified as cash flow hedges and that are highly effective, are recognized in equity as hedging reserve. Where the forecasted transaction or firm commitment results in the recognition of an asset or a liability, the gains and losses previously booked under equity are transferred from equity and included in the initial measurement of the cost of acquisition of the asset or liability. Otherwise, amounts booked under equity are transferred to the consolidated statement of income and classified as revenue or expense in the period in which the hedged item affects the statement of income.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.5 Significant accounting policies (Continued)

When the hedging instrument expires, is sold, or when a hedge no longer meets the criteria for hedge than hedge accounting is terminated. Any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the committed or forecasted transaction ultimately is recognized in the statement of income. However, if the hedged transaction is not realized, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss of the current period.

The Group measures the derivative financial instruments held for fair value hedge purpose with their fair values and recognizes them in the consolidated income statement under financial income/(expense).

j. Statement of cash flow

Cash flows during the period are classified and reported as operating, investing and financing activities in the consolidated statement of cash flows.

Cash flows from operating activities represent the Group's cash flows from the sale of petrochemical products and port operations.

Cash flows arising from investment activities represent the cash flows that are used in or provided by the investing activities (direct investments and financial investments) of the Group.

Cash flows arising from financing activities represent the cash proceeds from the financing activities of the Group and the repayments of these funds.

k. Related parties

Parties are considered related to the Group if

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

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

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.5 Significant accounting policies (Continued)

(b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others),
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member),
- (iii) Both entities are joint ventures of the same third party,
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity,
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity,
- (vi) The entity is controlled or jointly controlled by a person identified in (a),
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity). A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

Key management personnel are identified as Board of Directors, general manager and vice general managers (Note 29).

l. Taxation and deferred income taxes

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the consolidated financial statements, have been calculated on a separate-entity basis. Income tax expense represents the sum of the current tax and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in future and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.5 Significant accounting policies (Continued)

Deferred tax

Deferred tax is determined by calculating the temporary differences between the carrying amounts of assets/liabilities in the financial statements and the corresponding tax bases, used in the computation of the taxable profit, using currently enacted tax rates. Deferred tax liabilities are generally recognized for all taxable temporary differences where deferred 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. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized if it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.5 Significant accounting policies (Continued)

Deferred income tax is determined using tax rates that have been enacted by the balance sheet date. Tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized in equity. Taxes arisen on items recognized in equity are recognized directly in equity.

Deferred income tax liabilities are recognized for all taxable temporary differences; whereas 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. Deferred income tax asset is recognized to the extent that it is probable that the entity will have sufficient taxable profit in the same period as the reversal of the deductible temporary difference arising from tax losses carried forward. 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. Deferred income tax assets and deferred income tax liabilities are classified as long-term in the consolidated financial statements.

m. Employee benefits

Defined benefit plans

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Furthermore, the Group has an employee benefit plan, namely "Seniority Incentive Bonus", which is paid to employees with a certain level of seniority.

In the consolidated financial statements, the Group has recognized a liability using the "Projected Unit Credit Method" based upon factors derived using the Group's experience of personnel terminating and being eligible to receive benefits, discounted by using the current market yield at the balance sheet date on government bonds. All actuarial gains and losses are recognized in the consolidated statement of comprehensive income.

Defined contribution plan

The Group pays contributions to the Social Security Institution on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense when they are due.

Unused vacation

Liabilities due to unused vacations classified as provisions due to employee benefits are accrued and discounted if the discount effect is material.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.5 Significant accounting policies (Continued)

n. Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions, as of the balance sheet date, are recorded with the best estimate of management in order to provide for the estimated obligation and are discounted, if they are material for the consolidated financial statement.

o. Contingent assets and liabilities

Contingent assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, not wholly within the control of the Group, are not included in the consolidated financial statements and are treated as contingent assets or liabilities (Note 31).

Contingent liabilities are not recognized in the consolidated financial statements, and disclosed only, unless the possibility of an outflow of resources embodying economic benefits is probable. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is mostly probable.

p. Revenue recognition

Revenue is measured at the fair value of the received or receivable amount. The estimated customer returns, rebates, and other similar allowances are deducted from this amount.

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- The Group transfers the significant risks and benefits of the ownership of the goods to the buyer;
- The Group retains neither a continuing managerial involvement usually associated with ownership nor effective control over the goods sold;
- The amount of revenue is measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred due to the transaction are measured reliably.

Revenue from port operation

The port operations of the Group have started on 1 January 2017. The fixed revenue to be generated by the Group based on the contract is updated annually by considering the related inflation coefficient stated in the contract and recognized as revenue within the contractual period on a straight line basis. The variable revenue to be generated over the port operator's revenue, at amount exceeding the minimum revenue limits stated in the contract, will be recognized when incurred.

Rental income

Rental income from investment properties is recognized on a straight-line basis over the term of the relevant lease and recognised under other operating income.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.5 Significant accounting policies (Continued)

Interest income

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The Group's interest income from time deposits is recognized in financial income. Group's interest income from sales with maturities is recognized in other operating income.

When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognized as interest income on a time proportion basis that takes into account the effective yield on the asset.

r. The effects of foreign exchange rate changes

Foreign currency transactions are recorded at the rates of exchange prevailing on the dates of the transactions. Assets and liabilities denominated in foreign currencies are converted at the exchange rates prevailing on the balance sheet date.

Transactions realized in foreign currency (currencies other than TL) are recorded through based on the exchange rate on date of the transaction during the preparation of financial statements of each entity. Foreign exchange indexed monetary assets and liabilities included in the balance sheet are converted by using the exchange rates effective on balance sheet date. Those recorded in foreign currency from the non-monetary items followed-up with fair value are converted through based on the exchange rates on date when the fair value is determined. Nonmonetary items in foreign currency measured in type of historical cost may not be subjected to conversion again.

Exchange differences are recognized in the profit or loss of the period when they occur except for below stated circumstances:

- Exchange differences considered as the correction item in the interest costs on the debts associated with the assets built for the purpose of future use and indicated in foreign currency and included in the cost of such assets,
- Exchange differences resulted from the transactions realized for the purpose of financial protection against the risks rising from foreign currency (accounting policies related with provision of financial protection against risks are explained below).

s. Operating lease

The Group as the lessee

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

The Group as the lessor

Assets leased out under operating leases are classified under property, plant and equipment in the consolidated balance sheet and rental income is recognized on a straight-line basis over the lease term.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.5 Significant accounting policies (Continued)

t. Share capital and dividends

Ordinary shares are classified as equity. Dividends payable on ordinary shares are recognized as an appropriation of the profit in the period they are declared.

u. Share premiums

Share premium represents differences resulting from the sale of the Company's subsidiaries and associates' shares at a price exceeding the face values of those shares or differences between the face values and the fair value of shares issued for acquired companies.

v. Subsequent events

Subsequent events and announcements related to net profit or even declared after other selective financial information has been publicly announced; include all events that take place between the balance sheet date and the date when the balance sheet is authorized for issue. 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 consolidated financial statements (Note 34). Post period end events that are not adjusting events are disclosed in the notes when material.

y. Earnings per share

Basic earnings per share are calculated by dividing the net profit by the weighted average number of ordinary shares outstanding during the year. The companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings. For the purpose of the earnings per share calculation such Bonus Share issues are regarded as stock dividends. Accordingly, the weighted average number of shares used in earnings per share calculation is derived by giving retroactive effect to the issue of such shares.

z. Segment reporting

Reporting of operating segments is arranged in a manner consistent with reporting to the competent boards of the operating decision-makers. It is the responsibility of the business operator to make decisions on the decision-making mechanisms related to the activities or on the resources to be allocated to the competent division in this regard and to evaluate the performance of the division. The Board of Directors of the Company has been designated as the competent authority to decide on the activities of the company.

aa. Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liabilities simultaneously.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.6 Significant accounting estimates, judgments and assumptions

Provision for lawsuits

Provision for lawsuits is evaluated by the Group based on opinions of Group Legal Counsel and legal consultants. The Group determines the amount of provisions based on best estimates. As of reporting date, provision for lawsuits is stated in Note 31.

a) Useful life of tangible and intangible assets and investment property

The Group determines useful lives of tangible and intangible assets and investment properties in line with opinions of technical experts and recognizes depreciation and amortization expenses during aforementioned useful lives. Useful lives of land improvements related to port project are estimated by considering leasing period granted by Petlim in via operator agreement dated 22 February 2013. The Group reviews useful lives of assets subject to aforementioned depreciation in each reporting period and it is estimated that there exist no situation requiring any adjustment in useful lives as of 31 December 2017.

b) Deferred income tax assets

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and significant judgment is required in determining the provision for income taxes. The Group recognizes tax liabilities for anticipated tax issues based on estimates of whether additional taxes will be due and recognizes tax assets for the tax losses carried forward and investment incentives to the extent that the realization of the related tax benefit through the future taxable profits is probable (Note 20). Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

c) Provision for employee benefits

Actuarial assumptions about discount rates, inflation rates, future salary increases and employee turnover rates are used to calculate Group's provision for employee benefits. Such assumptions used in determination of the provision for defined benefit plans are disclosed in Note 16.

d) Recoverability of available-for-sale investments on related parties and receivables from related parties

At each reporting period, the assessment of the recoverability of available-for-sale investments on related parties and receivables from related parties are performed by the Group management including a determination of the counterparty's ability and intention to repay its obligation to the Group. This assessment includes the Group management's judgment about the ability of the debtor to generate additional sources of financing, revenue, and ultimately adequate cash flows to service those receivables. The Group management does not anticipate any material financial risk in relation to the recoverability of those assets at 31 December 2017.

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NOTE 3 - SEGMENT REPORTING

Operating segments are identified on the same basis as financial information is reported internally to the Group's chief operating decision maker. The Company Board of Directors has been identified as the Group's chief operating decision maker who is responsible for allocating resources between segments and assessing their performances. The Group management determines operating segments by reference to the reports reviewed by the Board of Directors to make strategic decisions.

The operating segment of the Group are as follows;

- Petrochemical
- Port

The Board of Directors assesses the performance of operating segments with specific criteria and measurement units. This measurement criterion consists of net sales and operating profit. Assets and liabilities of the segment include all assets and liabilities of the Group.

a) Revenue

	1 January - 31 December 2017	1 January - 31 December 2016
Petrochemical	7.276.769.831	4.532.691.950
Port	87.068.705	-
Total before eliminations and adjustments	**7.363.838.536**	**4.532.691.950**
Consolidation eliminations and adjustments	(14.056)	(101.328)
	7.363.824.480	**4.532.590.622**

b) Operating profit/(loss)

	1 January - 31 December 2017	1 January - 31 December 2016
Petrochemical	1.625.303.397	803.596.883
Port	11.231.491	(17.597.790)
Total before eliminations and adjustments	**1.636.534.888**	**785.999.093**
Consolidation eliminations and adjustments	17.313.238	(21.500.743)
Operating profit	**1.653.848.126**	**764.498.350**
Financial (expenses)/income, net	(35.113.679)	4.275.157
Income from investing activities, net	42.360.783	13.109.737
Profit before tax from continued operations	**1.661.095.230**	**781.883.244**
Tax expense	(271.650.860)	(50.195.898)
Profit for the period	**1.389.444.370**	**731.687.346**

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NOTE 3 - SEGMENT REPORTING (Continued)

c) Total assets

	1 January - 31 December 2017	1 January - 31 December 2016
Petrochemical	6.891.966.408	5.474.315.400
Port	1.527.341.838	1.449.507.641
Total before eliminations and adjustments	**8.419.308.246**	**6.923.823.041**
Consolidation eliminations and adjustments	(630.450.048)	(655.295.253)
	7.788.858.198	**6.268.527.788**

d) Total liabilities

	1 January - 31 December 2017	1 January - 31 December 2016
Petrochemical	2.940.164.452	2.334.125.024
Port	1.336.228.803	1.233.117.523
Total before eliminations and adjustments	**4.276.393.255**	**3.567.242.547**
Consolidation eliminations and adjustments	(341.613.955)	(368.154.785)
	3.934.779.300	**3.199.087.762**

NOTE 4 - CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash	-	-
Banks	1.460.448.945	1.267.188.405
- Demand deposits	16.525.953	13.644.245
- TL	4.581.028	3.620.195
- Foreign currency	11.944.925	10.024.050
- Time deposits	1.443.922.992	1.253.544.160
- TL	459.829.795	264.674.114
- Foreign currency	984.093.197	988.870.046
	1.460.448.945	**1.267.188.405**

As of 31 December 2017, foreign currency time deposits consist of overnight or monthly deposits. The weighted average effective interest rates of USD and Euro overnight deposits are 3,81% and 1,64% per annum, respectively. (31 December 2016: USD - 2,45%, Euro - 1,17%). The weighted average effective interest rate of the USD denominated time deposits was respectively 4,59% (31 December 2016: 3,62%).

As of 31 December 2017, the TL dominated time deposits consist of overnight deposits and the weighted average effective interest rate is 14,78% and 15,14% per annum. (31 December 2016: overnight 10,45%, monthly 11,60%). The Group has no blocked deposits as of 31 December 2017 (31 December 2016: None).

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NOTE 5 - INVENTORIES

	31 December 2017	31 December 2016
Raw materials	261.720.846	131.205.558
Work-in-progress	187.455.323	151.387.512
Finished goods	236.956.015	155.419.561
Trade goods	45.883.468	16.287.036
Goods in transit	115.474.443	107.705.559
Other inventories	47.766.238	43.327.421
Less: Provision for impairment on inventories	(1.677.765)	(998.814)
	893.578.568	**604.333.833**

Movements of provision for impairment on inventory for the periods ended 31 December 2017 and 2016 were as follows:

	2017	2016
1 January	**(998.814)**	**(12.046.150)**
Net current period (expense)/income	(678.951)	11.047.336
31 December	(1.677.765)	(998.814)

Allocation of the provision for impairment on inventories in terms of inventory category is as follows:

	31 December 2017	31 December 2016
Raw materials	(460.295)	(555.245)
Trade goods	(1.196.754)	(173.195)
Other inventories	(20.716)	(270.374)
	(1.677.765)	**(998.814)**

Cost of the raw materials and trade goods included in the cost of sales for the period 1 January - 31 December 2017 amounts to TL 4.721.309.596 (1 January - 31 December 2016: TL 2.935.002.861).

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NOTE 6 - FINANCIAL INVESTMENTS

	31 December 2017		31 December 2016	
	Amount	**Shareholding rate (%)**	**Amount**	**Shareholding rate (%)**
SOCAR Power Enerji Yatırımları A.Ş	8.910.000	9,90	8.910.000	9,90
	8.910.000		**8.910.000**	

TRY 8.910.000 shares having a nominal price of TL 1 per share corresponding to 9,9% of capital of SOCAR Power Enerji Yatırımları A.Ş. (SOCAR Power) (TL 8.910.000) owned by SOCAR Turkey Elektrik Yatırımları Holding A.Ş (Power Holding), which is a subsidiary of controlling shareholder of the Group, SOCAR Turkey Enerji A.Ş., in Socar Power are purchased by the Group on January 26, 2015.

NOTE 7 - TRADE RECEIVABLES AND PAYABLES

a) Short - term trade receivables from third parties

	31 December 2017	**31 December 2016**
Trade receivables	941.103.694	690.291.096
Provision for doubtful trade receivables (-)	(22.265.543)	(15.819.607)
	918.838.151	**674.471.489**
The maturity of trade receivables as of 31 December 2017 and 31 December 2016 are as follows:		
Overdue receivables	28.338.352	16.203.086
The trade receivables that are not overdue are as stated below:		
0 to 30 days due	390.164.605	326.609.470
31 to 60 days due	198.562.499	137.770.278
61 to 90 days due	138.311.562	97.536.981
More than 91 days due	163.461.133	96.351.674
	918.838.151	**674.471.489**

As of 31 December 2017, weighted average yearly effective interest rates for the calculated not accrued income arising from short term trade receivables in TL, USD and EUR are 15,38%, 5,55% and 4,98%, respectively (31 December 2016: TL, USD and EUR - 16,17%, 5,39% and 4,88%)

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NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

Other information related with the Group's credit risk is explained in Note 32. Concentrations of credit risk with respect to trade receivables are limited due to the Group's widely diversified customer base, covering the spectrum of manufacturing and distribution and the variety of available end markets in which they sell. As part of its sales policy, the Group obtains 100% of total outstanding TL trade receivables from its customers. An appropriate provision is provided by the Group according to the past experiences of the collections of trade receivables. Therefore, management believes that no additional credit risk exists beyond the Group's trade receivables, which have been identified as doubtful receivable and have been fully provided.

Letters of guarantee received for trade receivables

The Group's receivables mainly arise from sales of thermoplastics and fiber materials. As of December 31, 2017, total amount of letters of guarantee received and bank guarantees within the context of direct order collection system ("DOCS") from domestic and foreign customers are amounting to TL 1.394.023.684 (December 31, 2016 - 964.923.454 TL) (Note 31)

	2017	**2016**
1 January	**(15.819.607)**	**(14.544.081)**
Provision for doubtful trade receivables	(6.774.313)	(1.275.526)
Write-offs	328.377	-
31 December	**(22.265.543)**	**(15.819.607)**

b) Trade payables

	31 December 2017	**31 December 2016**	**31 December 2015**
Trade payables	510.235.318	382.784.233	267.878.295
	510.235.318	**382.784.233**	**267.878.295**

Average maturity for short-term trade payables other than letter of credits is 15 days as of 31 December 2017 (31 December 2016 - 17 days). The effective weighted average interest rates used in the calculation of finance costs of short-term trade payables are 17,75%, 5,9% and 4,30% for TL, USD and EUR denominated trade payables, respectively (31 December 2016 - The effective weighted average interest rates of short-term trade payables for TL, USD and EUR denominated trade payables are 13,68%, 5,25% and 4,13% respectively).

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NOTE 8 - OTHER RECEIVABLES AND PAYABLES

a) Other short term receivables:

	31 December 2017	31 December 2016
Loan interest incentive accrual	1.602.476	1.868.259
Receivables from contract of port services	-	7.270.342
Other	3.359.138	9.399.881
	4.961.614	**18.538.482**
Provision for other doubtful receivables (-)	(933.608)	(2.067.122)
	4.028.006	**16.471.360**

b) Other short term payables:

	31 December 2017	31 December 2016
Deposits and guarantees received	6.641.217	10.447.190
Other	2.405.722	1.836.356
	9.046.939	**12.283.546**

NOTE 9 - BORROWINGS AND BORROWING COSTS

	31 December 2017	31 December 2016	31 December 2015
Short-term borrowings	630.422.309	461.698.893	319.638.074
Short-term portions of long-term borrowings (*)	174.250.481	55.495.727	41.912.519
Other financial liabilities (**)	797.891.365	702.494.286	837.790.691
Short term financial liabilities	**1.602.564.155**	**1.219.688.906**	**1.199.341.284**
Long term borrowings (*)	1.349.501.649	1.172.474.368	914.267.416
Long term borrowings	1.349.501.649	1.172.474.368	914.267.416
Long term financial liabilities	**2.952.065.804**	**2.392.163.274**	**2.113.608.700**

(*) Certain provisions concerning the long-term loan agreement for the container terminal investment of Petlim may possibly be deemed to have been breached because the second phase of the harbour was not commissioned in the current period. Currently, there is no dispute with the relevant finance institution concerning the loan in question. With the second phase of the terminal expected to be commissioned in short term and by obtaining an official waiver of the financial institution on the relevant provisions of the agreement, compliance with TMS 1 is achieved. Therefore, the Group classified the loan amounting to TRY 723.756.709, equivalent to USD 191.881.203, as long term liability, considering the relevant provisions of TMS 1, as there is an explicit written legal document that prevents the withdrawal of the loan.

(**) Other financial liabilities consist of letters of credits arising from naphtha purchases. The average maturity of letter of credits is 186 days including commission expenses accrued in accordance with the effective interest method as of 31 December 2017 (31 December 2016: average maturity 108 days).

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NOTE 9 - BORROWINGS AND BORROWING COSTS (Continued)

	Effective weighted average Interest rate p.a. (%)		Original currency		TL equivalent	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Short - term borrowings:						
TL borrowings	12,80	10,20	343.757.892	90.735.333	343.757.892	90.735.333
USD borrowings	Libor + 0,65	Libor + 0,75 - 1,25	76.000.000	105.411.332	286.664.400	370.963.560
Short - term portions of long-term borrowings:						
USD borrowings	Libor + 4,67 - 4,26	Libor + 1,70 - 4,26	28.646.978	8.071.505	108.053.536	29.071.835
Euro borrowings	Euribor + 0,6 + 3,00 - 1,64	Euribor + 0,87 + 3,00 - 1,64	14.659.941	6.942.856	66.196.962	26.423.892
Total short - term borrowings					**804.672.790**	**517.194.620**
Long - term borrowings:						
USD borrowings	Libor + 4,67 - 4,26	Libor + 4,67 - 4,26	225.890.954	239.001.672	852.038.091	841.094.684
Euro borrowings	Euribor + 0,6 + 3,00 - 1,64	Euribor + 0,73 + 3,00 - 1,64	110.167.990	89.323.076	497.463.558	331.379.684
Total long - term borrowings					**1.349.501.649**	**1.172.474.368**
Total borrowings					**2.154.174.439**	**1.689.668.988**

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NOTE 9 - BORROWINGS AND BORROWING COSTS (Continued)

The redemption schedule of long-term bank borrowings as of 31 December 2017 and 31 December 2016 is as follows:

	31 December 2017
2019	125.042.162
2020	129.040.372
2021	148.231.795
2022	160.292.545
2023	151.477.939
2023 and over	635.416.836
	1.349.501.649

	31 December 2016
2018	148.913.757
2019	90.177.581
2020	93.636.722
2021	110.240.586
2022 and over	729.505.722
	1.172.474.368

Fair values of the short-term bank borrowings and other financial liabilities approximate their carrying values due to their short-term nature and long-term borrowings due to having floating interest rate updated with market conditions.

As of 31 December 2016, the collaterals given by the Group against US Dollar and Euro loans held are explained in Note 31.

Movements of financial liabilities are as of 31 December 2017 and 31 December 2016 as follows:

	2017	**2016**
1 January	**2.392.163.274**	**2.113.608.700**
Proceeds from financial liabilities	2.613.916.276	1.381.898.686
Repayments of financial liabilities	(2.206.501.230)	(1.407.135.871)
Changes in foreign exchange	149.110.944	321.224.608
Changes in interest accrual	3.376.540	(17.432.849)
Less: Cash and cash equivalents	(1.460.448.945)	(1.267.188.405)
31 December	**1.491.616.859**	**1.124.974.869**

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NOTE 10 - INVESTMENT PROPERTIES

	31 December 2017	31 December 2016
Land	1.469.935	1.469.935
	1.469.935	**1.469.935**

30 years right of construction of the land, that is 1.969.478,40 m^2, is given to the Star Rafineri A.Ş. ("STAR") by Group. The annual cost of the land, that is located in Aliağa district Arapçiftliği, is USD 4.937.099 and the cost will be increased at the rate of Libor + 1% each year. 30 years right of construction of the land, that is 11.017.36 m^2, is given to the Air Liquide Gaz Sanayi ve Ticaret A.Ş. by the Group.

According to the a real estate appraisal company authorized by the CMB to the market value of the land has been determined as TL 378.125.000 in January 2013. The increase of the market value of the mentioned land resulted from the approval of the change of construction plan and the investments made by Star Rafineri A.Ş. to the land for making the land possible to investment properties.

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2017	Additions	Transfers	Disposals	Foreign currency translation differences	31 December 2017
Cost:						
Land	13.522.050	-	-	(44.265)	23.083	13.500.868
Land improvements	115.726.542	-	61.831.028	-	128.976	177.686.546
Buildings	171.618.043	-	86.699	-	38.587	171.743.329
Machinery and equipment	6.560.805.488	-	311.917.838	(9.859.648)	-	6.862.863.678
Motor vehicles	12.513.098	-	821.986	(1.823.035)	-	11.512.049
Furniture and fixtures	91.565.404	-	18.065.263	(11.483.268)	30.498	98.177.897
Other fixed assets	996.152	-	-	-	-	996.152
Leasehold improvements	671.403	-	-	-	-	671.403
Assets subject to operating lease (**)	536.666.080	-	87.829.869	-	38.535.894	663.031.843
Construction in progress (*)	966.567.852	467.393.203	(486.131.747)	(15.425.306)	31.424.786	963.828.788
	8.470.652.112	**467.393.203**	**(5.579.064)**	**(38.635.522)**	**70.181.824**	**8.964.012.553**
Accumulated depreciation:						
Land improvements	(87.814.829)	(3.072.192)	-	-	(8.761)	(90.895.782)
Buildings	(102.921.777)	(3.745.362)	-	-	(13.558)	(106.680.697)
Machinery and equipment	(5.373.700.672)	(140.978.472)	-	9.825.972	-	(5.504.853.172)
Motor vehicles	(9.648.129)	(957.992)	-	1.713.588	-	(8.892.533)
Furniture and fixtures	(62.187.463)	(6.374.304)	-	11.473.019	(19.794)	(57.108.542)
Other fixed assets	(996.152)	-	-	-	-	(996.152)
Leasehold improvements	(589.294)	(44.786)	-	-	-	(634.080)
Assets subject to operating lease	(1.532.647)	(19.122.410)	-	-	(903.166)	(21.558.223)
	(5.639.390.963)	**(174.295.518)**	-	**23.012.579**	**(945.279)**	**(5.791.619.181)**
Net book value	**2.831.261.149**					**3.172.393.372**

(*) Construction in progress mainly consist of port investments.

(**) Consist of Petlim port leased to a third party.

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2016	Additions	Transfers	Disposals	31 December 2016
Cost:					
Land	13.522.050	-	-	-	13.522.050
Land improvements	113.957.571	-	1.768.971	-	115.726.542
Buildings	171.618.043	-	-	-	171.618.043
Machinery and equipment	6.436.255.729	-	142.233.057	(17.683.298)	6.560.805.488
Motor vehicles	12.319.269	-	1.418.840	(1.225.011)	12.513.098
Furniture and fixtures	74.702.806	-	17.417.764	(555.166)	91.565.404
Other fixed assets	996.152	-	-	-	996.152
Leasehold improvements	581.831	-	89.572	-	671.403
Assets subject to operating lease	-	-	536.666.080	-	536.666.080
Construction in progress (*)	987.285.985	688.475.284	(706.526.290)	(2.667.127)	966.567.852
	7.811.239.436	**688.475.284**	**(6.932.006)**	**(22.130.602)**	**8.470.652.112**
Accumulated depreciation:					
Land improvements	(85.089.479)	(2.725.350)	-	-	(87.814.829)
Buildings	(99.181.426)	(3.740.351)	-	-	(102.921.777)
Machinery and equipment	(5.281.270.613)	(109.668.482)	-	17.238.423	(5.373.700.672)
Motor vehicles	(9.909.746)	(853.914)	-	1.115.531	(9.648.129)
Furniture and fixtures	(57.753.151)	(4.980.749)	-	546.437	(62.187.463)
Other fixed assets	(996.152)	-	-	-	(996.152)
Leasehold improvements	(404.795)	(184.499)	-	-	(589.294)
Assets subject to operating lease	-	(1.532.647)	-	-	(1.532.647)
	(5.534.605.362)	**(123.685.992)**	**-**	**18.900.391**	**(5.639.390.963)**
Net book value	**2.276.634.074**				**2.831.261.149**

(*) The ongoing investments mainly consist of investment in port investment and wind power plant.

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group compared the investment loans in foreign currency to the TL market loan interest and capitalized the borrowing cost amounting to TL 15.091.215 (December 31 2016 - TL 121.213.650).

Depreciation charges amounting to TL 178.666.219 for the year ended 31 December 2017 (31 December 2016 - TL - 122.153.345) were allocated to cost of sales by TL 150.850.237 (31 December 2016 - TL - 97.320.770) to idle capacity expenses by TL 6.583.419 (31 December 2016 - TL - 6.992.975), to inventories by TL 10.067.771 (31 December 2016 - TL 9.948.694), to general administrative expenses by TL 8.789.436 (31 December 2016 - TL 6.371.129), to marketing, selling and distribution expenses by TL 1.394.588 (31 December 2016 - TL 772.786), and to research and development expenses by TL 980.768 (31 December 2016 - TL 746.992).

As of December 31, 2017, Petlim Limancılık Ticaret A.Ş. has given 1st degree mortgage in favor of Akbank T.A.Ş. on its land amounting to USD 350 million on the date of November 20, 2015 (December 31, 2016 - USD 350 million).

NOTE 12 - INTANGIBLE ASSETS

2017	1 January 2017	Additions	Transfers	Foreign currency differences	31 December
Cost:					
Rights and software	29.635.449	-	1.646.062	9.604	31.291.115
Capitalized development costs	7.567.187	-	3.933.002	-	11.500.189
	37.202.636	**-**	**5.579.064**	**9.604**	**42.791.304**
Accumulated amortization:					
Rights and software	(13.890.392)	(2.165.617)	-	(2.681)	(16.058.690)
Capitalized development costs	(913.574)	(2.205.084)	-	-	(3.118.658)
	(14.803.966)	**(4.370.701)**	**-**	**(2.681)**	**(19.177.348)**
Net book value	**22.398.670**				**23.613.956**

2017	1 January 2017	Additions	Transfers	Foreign currency differences	31 December
Cost:					
Rights and software	28.703.310	-	932.139	-	29.635.449
Capitalized development costs	1.567.320	-	5.999.867	-	7.567.187
	30.270.630	**-**	**6.932.006**	**-**	**37.202.636**
Accumulated amortization:					
Rights and software	(11.825.758)	(2.064.634)	-	-	(13.890.392)
Capitalized development costs	(117.203)	(796.371)	-	-	(913.574)
	(11.942.961)	**(2.861.005)**			**(14.803.966)**
Net book value	**18.327.669**				**22.398.670**

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NOTE 13 - GOVERNMENT GRANTS

As of December 31, 2017, government grants consist of research and development incentives granted from TÜBİTAK amounting to TL 2.109.363 (31 December 2016: TL 1.732.189) and TL 377.174 (31 December 2016: TL 192.552) of that incentives grant has been presented in income statement.

NOTE 14 - DEFERRED REVENUE

a) Short term deferred revenue

	31 December 2017	31 December 2016
Advances received	34.590.123	28.820.322
Deferred revenue (*)	2.038.819	6.126.429
	36.628.942	**34.946.751**

b) Long term deferred revenue

Deferred revenue (*)	130.969.041	120.807.592
	130.969.041	**120.807.592**

(*) Based on the operating agreement between the Company and APM Terminalleri Liman İşletmeciliği A.Ş. ("APM Terminalleri") dated 22 February 2013, upfront payments of USD 48 million were received as part of the total operating fee throughout the lease term of the port. The Group defers the upfront payments and realized respective revenue on a straight line basis.

NOTE 15 - PREPAID EXPENSES

	31 December 2017	31 December 2016
a) Short - term prepaid expenses		
Advances given for customs procedures	11.088.454	3.599.354
Prepaid rent, insurance and other expenses	10.436.417	14.850.908
Advances given for inventory	8.695.695	587.442
	30.220.566	**19.037.704**
b) Long - term prepaid expenses		
Advances given for customs procedures	12.772.125	12.772.125
Advances given for property, plant and equipment	8.154.971	76.651.061
Prepaid rent, insurance and other expenses	4.343.016	2.131.361
	25.270.112	**91.554.547**
Impairment on advances given (*)	-	(31.807.000)
	25.270.112	**59.747.547**

(*) Based on the decision of board of directors dated 18 September 2017, it was decided that the advance previously given for the construction of administration building to be transferred without recourse at its carrying amount of USD 11 million, and the respective lands, where this building is based on, to be sold at TL 22.431.000 to SCR Gayrimenkul A.Ş. ("SCR"). As of 31 December 2017, the sale of land was completed whereas legal the transfer of order advances was completed in October 2017. In this respect, the Group management recognized the reversal of the impairment provision and the gain from the sale of the land by TL 31.807.000 and TL 22.392.024, respectively.

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NOTE 16 - EMPLOYEE BENEFITS

a) Liabilities for employee benefits

	31 December 2017	31 December 2016
Social security contribution	6.338.721	5.032.032
Due to personnel	488.977	10.873.080
Personnel performance bonus accrual	-	9.524.380
	6.827.698	**25.429.492**

b) Short - term employee benefits:

Provision for bonus premium	14.970.000	-
Provision for seniority incentive bonus	4.759.889	2.617.402
	19.729.889	**2.617.402**

c) Long - term employee benefits:

Provision for employment termination benefits	79.164.040	79.216.848
Provision for unused vacation rights	11.490.940	8.867.379
Provision for seniority incentive bonus	4.910.483	3.224.095
	95.565.463	**91.308.322**

Provision for unused vacation:

Movements of the provision for unused vacation rights are as follows:

	2017	2016
1 January	**8.867.379**	**7.686.675**
Changes in the period, net	2.623.561	1.180.704
31 December	**11.490.940**	**8.867.379**

Provision for employment termination benefits:

Under Turkish Labour Law, the Group is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who is called up for military service, dies or retires after completing 25 years of service (20 years for women).

The amount payable consists of one month's salary limited to a maximum of TL 4.732,48 for each year of service as of 31 December 2017 (31 December 2016 - TL 4.297,21).

The liability is not funded, as there is no funding requirement.

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NOTE 16 - EMPLOYEE BENEFITS (Continued)

The provision is calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees.

TAS 19 requires actuarial valuation methods to be developed to estimate the enterprises' obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	31 December 2017	31 December 2016
Net discount rate (%)	4,39	3,61
Probability of retirement (%)	100,00	100,00

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of TL 5.001,76 which is effective from 1 January 2018, has been taken into consideration in the calculation of employment termination benefits of the Group (1 January 2017 - TL 4.426,16).

The movements of the provision for employment termination benefits are as follows:

	2017	2016
1 January	**79.216.848**	**78.796.553**
Interest cost	9.267.182	7.091.690
Payments during the period	(12.422.250)	(13.920.087)
Service cost	6.347.626	5.965.556
Actuarial (gain)/loss	(3.245.366)	1.283.136
31 December	**79.164.040**	**79.216.848**

Sensitivity analysis of the assumptions, that are used in order to calculate the provision of the employment termination benefit as December 31, 2017 and 2016, are follows

	31 December 2017 Net discount rate		31 December 2016 Net discount rate	
Sensitivity analysis	**100 Basis point increase**	**100 Basis point decrease**	**100 Basis point increase**	**100 Basis point decrease**
Rate	5,39%	3,39%	4,61%	2,61%
Change in liability of employment Termination benefit	(5.794.139)	4.360.527	(4.641.699)	5.818.827

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NOTE 16 - EMPLOYEE BENEFITS (Continued)

Provision for seniority incentive bonus:

Seniority incentive bonus is a benefit provided to the personnel to promote their loyalty to the job and workplace.

The bonus amounting to 40 days of gross salary for 5 years seniority, 50 days of gross salary for 10 years seniority, 65 days of gross salary for 15 years seniority, 80 days of gross salary for 20 years seniority, 90 days of gross salary for 25 and 100 days of gross salary for 30, 35 and 40 years seniority is paid to the union personnel with the gross salary of the month when they are reached to the seniority level. In case of termination of employment for any reason that does not prevent gaining severance pay, 20% of seniority incentive which the employee will gain, for each year last first seniority incentive level. In this calculation the periods which are shorter than six months are not considered. Periods which are more than six months are considered as one year.

For the non-union personnel working at the Group, the bonus amounting to 40 days of gross salary for 5 years seniority, 50 days of gross salary for 10 years seniority, 65 days of gross salary for 15 years seniority, 80 days of gross salary for 20 years seniority, 90 days of gross salary for 25 years and 100 days for 30, 35 and 40 years seniority for the seniority levels in which they are entitled as of the aforementioned date and 30 days of gross salary for the following seniority levels that they are going to be entitled is paid with the gross salary of the month when they are reached to the seniority level. In case of termination of employment for any reason that does not prevent gaining severance pay, 20% of seniority incentive which the employee will gain, for each year last first seniority incentive level. In this calculation the periods which are shorter than six months are not considered. Periods which are more than six months are considered as one year.

The seniority incentive bonus provision is calculated by estimating the present value of the future probable obligation arising from the qualification of the employees for the bonus.

TAS 19 requires that actuarial valuation methods to be developed to estimate the employee benefit provisions. The following actuarial assumptions have been used in the calculation of the total provision:

	31 December 2017	**31 December 2016**
Net discount rate (%)	4,39	3,61
Used rate related to retirement probability (%)	100,00	100,00

The movements of the provision for seniority incentive bonus are as follows:

	2017	**2016**
1 January	**5.841.497**	**5.671.563**
Interest cost	683.455	510.441
Payments during the period	(3.967.230)	(4.515.482)
Service cost	7.112.650	4.174.975
31 December	**9.670.372**	**5.841.497**

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NOTE 17 - OTHER ASSETS AND LIABILITIES

a) Other current assets

	31 December 2017	31 December 2016
Value added tax ("VAT") receivable	61.227.053	42.714.395
Other	1.274.167	1.062.999
	62.501.220	**43.777.394**

b) Other non - current assets

	31 December 2017	31 December 2016
Spare parts	14.334.017	12.110.315
Other	121.409	122.039
	14.455.426	**12.232.354**

c) Other liabilities

	31 December 2017	31 December 2016
Taxes and funds payable and other deductions	8.577.266	7.277.511
Other	681.903	699.008
	9.259.169	**7.976.519**

NOTE 18 - DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2017		31 December 2016	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedge	-	(6.739.314)	7.466.471	(9.459.385)
	-	**(6.739.314)**	**7.466.471**	**(9.459.385)**

	31 December 2017			31 December 2016		
		Fair value (TL)			Fair value (TL)	
	Nominal contract amount (TL)	Assets	(Liabilities)	Nominal contract amount (TL)	Assets	(Liabilities)
Foreign currency forward transactions	-	-	-	18.549.500	928.319	-
Foreign currency option transactions	-	-	-	285.055.203	28.505	(432.006)
Purchase and sale of futures	-	-	-	23.376.286	3.364.044	-
Emtia swap contract	-	-	-	17.332.907	3.145.603	-
Interest rate swap transactions	18.086.159		(6.739.314)	12.672.105	-	(9.027.379)
	18.086.159		**(6.739.314)**	**356.986.001**	**7.466.471**	**(9.459.385)**

The Group's hedging transactions that fulfil the conditions of hedge accounting from financial risk are classified as derivatives for hedging purposes. The maturities of these contracts are matched to the interest payment dates of the bank loans with floating interest rates and the fair value changes of the derivative instruments are accounted in the statement of other comprehensive income.

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NOTE 19 - EQUITY

The shareholders of the Company and their shareholdings as of 31 December 2017 and 31 December 2016 were as follows:

		31 December 2017		31 December 2016	
:	**Shareholder**	**Amount**	**Share (%)**	**Amount**	**Share (%)**
A	Socar Turkey Petrokimya A.Ş.	765.000.000	51,00	765.000.000	51,00
A	Publicly traded and other	735.000.000	49,00	735.000.000	49,00
C	Privatization Administration	0,01	-	0,01	
Total paid share capital		**1.500.000.000**	**100**	**1.500.000.000**	**100**
Adjustment to share capital		238.988.496		238.988.496	
Total share capital		**1.738.988.496**		**1.738.988.496**	

Adjustment to share capital represents the difference between the inflation adjusted amounts of the cash and cash equivalents of the paid-in capital and the amounts before the inflation adjustment.

Approved and issued capital of the Company consist of 149.999.999.999 Group A shares, each of them having a registered nominal price of 1 Kr, and 1 Group C preferred stock belonging to Management (December 31, 2015 - Approved and issued capital of the Company consist of 149.999.999.999 Group A shares, each of them having a registered nominal price of 1 Kr, and 1 Group C preferred stock belonging to Management).

Capital of the Company is composed of all registered shares.

The following matters are subject to the approval of the member of the Board of Directors representing the C type share:

- The amendments on the articles of association affecting the privileges of type C,
- The recording of the transfer of the registered shares in the stock ledger,
- The determination of the form of the certificate of authority stated in the 31st clause of the Articles of Association,
- The decision related with the reduction of the capacity of any plant by 10% owned by the Company
- The foundation of new company or partnership, acquisition of a company being a partner of existing companies and/or merging with them, spin-off, changes of the titles, annulment and winding-up.

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NOTE 19 - EQUITY (Continued)

Dividend distribution

Listed companies shall distribute their profit in accordance with the Capital Market Board's Communiqué on Dividends II-19.1 which is effective from February 1, 2014.

Companies shall distribute their profits as part of the profit distribution policies to be determined by their general assemblies and in accordance with the related regulation provisions. A minimum distribution rate has not been determined in these regulations. The companies pay dividends as determined in their main agreements or profit distribution policies. Furthermore, dividends may be paid in instalments with same or different amounts and profit share advances may be distributed over the profit in the financial statements.

In accordance with the Turkish Commercial Code (TCC), no decision may be made to set aside other reserves, to transfer profits to the subsequent year or to distribute dividends to the holders of a usufruct right certificate, to the members of the board of directors or to the employees unless the required reserves and the dividend for shareholders as determined in the main agreement or in the dividend distribution policy of the company are set aside; and no dividend can be distributed to these persons unless the determined dividend for shareholders is paid in cash.

The dividend distribution policy of the Company has been determined in accordance with the Communiqué on Dividends II-19-1 as follows:

- In line with the determination of Profit Distribution Policy in 2013 and in the forthcoming years; the Company, in principle, accepts to distribute profits in cash to shareholders at the maximum level without disregarding its medium term and long term strategies, investment and financial plans, market conditions, and economic developments.
- According to the Article numbered 37 of Association of the Company, dividends in advance can be distributed.
- In the event that distributable profit is available in accordance with relevant communiqués, the Profit Distribution resolution to be taken by the Board of Directors in the form of cash and/or shares and/or installments as long as the amount is not below than 50% of the distributable profit within the frame of the provisions of Capital Market Legislation and Turkish Commercial Code shall be submitted to the approval of General Assembly; and the distribution shall be completed within legal terms.
- According to the Articles of Association of the Company, the amount to be determined by the General Assembly, not exceeding the 0,1% of distributable profits remaining after distribution of first dividend shall be distributed to Board Members.
- A consistent policy shall be followed between the benefits of the shareholders' and the company in the application of Profit Distribution Policy.
- The date of distribution shall be decided by General Assembly upon proposal of the Board. Profit distribution payments shall be completed within legal terms. For other methods of profit distribution, relevant legislation, communiqués, and regulations of CMB shall be followed.
- In the event that calculated "net distributable profit for the year" is below 5% of issued capital, no profit shall be distributed.
- When no profit is distributed, the Board of Directors shall inform the shareholders at General Assembly meeting about the reasons and how the undistributed profits would be allocated.

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NOTE 19 - EQUITY (Continued)

A provision in the main agreement is required for dividend to be distributable to holders of privileged shares, holders of usufruct right certificate, to the members of the board of directors, to the employees of the company and to non-shareholders. If, despite the fact that a provision is present in the main agreement regarding dividend distribution to these persons, a rate has not been determined, the dividend to be distributed to these persons may not exceed one fourth of the dividend distributed to shareholders under any circumstance except for those arising from privilege.

In accordance with the Communiqué No:XI-29 and related announcements of CMB, effective from January 1, 2008, "Share Capital", "Restricted Reserves" and "Share Premiums" shall be carried at their statutory amount. The valuation differences shall be classified as follows:

- the difference arising from the "Paid-in Capital" and not been transferred to capital yet, shall be classified under the "Inflation Adjustment to Share Capital";
- the difference due to the inflation adjustment of "Restricted reserves" and "Share premium" and the amount has not been utilized in dividend distribution or capital increase yet, shall be classified under "Retained earnings". Other equity items shall be carried at the amounts calculated based on CMB Financial Reporting Standards.

Adjustment to share capital has no use other than being transferred to paid-in share capital.

In the Ordinary General Assembly dated on March 29, 2017, it is decided that profit of the year 2016 amounting to TL 600.000.000 (2016: 472.500.000) to be distributed in cash dividends (each with a nominal value of 1 kuruş 100 (the krş 1 amount) gross per share dividend: 0,40 TL). Such dividend payment was completed by December 31, 2017.

NOTE 20 - TAX ASSETS AND LIABILITIES

a) Corporate tax:

Current tax liabilities at 31 December 2017 and 31 December 2016 are summarized below:

	31 December 2017	31 December 2016
Calculated corporation tax	248.526.087	163.030.686
Less: Prepaid taxes (-)	(180.109.224)	(114.165.868)
Total corporation tax liability	**68.416.863**	**48.864.818**

Tax expenses included in the income statement for the condensed consolidated periods ended 31 December 2017 and 2016 are summarized below:

	1 January - 31 December 2017	1 January - 31 December 2016
Deferred tax (expense) / income	(23.124.773)	112.834.788
Current period tax expense	(248.526.087)	(163.030.686)
Total tax (expense) / gains	**(271.650.860)**	**(50.195.898)**

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NOTE 20 - TAX ASSETS AND LIABILITIES (Continued)

Tax expenses included in the income statements for the years ended 31 December 2017 and 2016 are summarized below:

Turkish tax legislation does not permit a parent company, its subsidiaries and its subsidiaries to file a tax return on its consolidated financial statements. For this reason, the tax provisions reflected in the financial statements in this consolidated are separately calculated for the subsidiaries

In Turkey, the corporate tax rate is 20% for 2017 (2016: 20%). Institutions tax rate is applied to the tax base that will result in deducting expenses not included in the deduction according to the tax legislation of the corporation's commercial income, deduction in the tax laws (exemption of participation profits, exception of investment discount etc.) and discounts (such as R&D discount). No further tax is payable unless the profit is distributed (except for the withholding tax at the rate of 19.8% calculated and paid on the exemption amount utilized in case of investment reduction exemption utilized under Article 61 of the Income Tax Law).

b) Deferred taxes

The Group recognizes deferred income tax assets and liabilities based upon temporary differences arising between their financial statements as reported under the TMS and the statutory tax financial statements prepared in accordance with Corporate Tax Law.

For the companies operating in Turkey, deferred income taxes are calculated on temporary differences that are expected to be realized or settled based on the taxable income in future periods under the liability method using a principal tax rate of 20% (31 December 2016 - 20%).

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017,"Bazı Vergi Kanunları le Diger Bazı Kanunlarda Degisiklik Yapılmasına Dair Kanun", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 December 2017 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

Details of cumulative temporary differences and the resulting deferred income tax assets and liabilities provided as of 31 December 2017 and 31 December 2016 are as follows:

	Taxable Temporary Differences		Deferred Income Tax Assets/(Liabilities)	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Difference between the carrying values and tax bases of property, plant, equipment and intangible assets	(201.665.466)	(234.712.829)	(40.333.094)	(46.942.565)
Other	(3.338.493)	(11.499.654)	(667.698)	(2.299.931)
Deferred income tax liabilities	**(205.003.959)**	**(246.212.483)**	**(41.000.792)**	**(49.242.496)**
Unused investment incentives	894.457.188	947.460.922	239.802.902	250.612.314
Provision for employee benefits	115.290.230	103.444.982	23.058.046	20.688.997
Deferred revenue related to the transfer of operating rights	35.478.144	74.386.834	7.095.629	14.877.367
Adjustment to rediscount of receivables	10.182.556	9.094.536	2.036.511	1.818.907
Rent allowance fee	4.476.024	4.643.350	895.205	928.670
Provision for legal cases	3.202.348	1.383.579	640.470	276.716
Other	21.176.025	25.017.557	5.435.203	5.003.512
Deferred income tax assets	**1.090.262.515**	**1.165.431.760**	**278.963.966**	**294.206.483**
Deferred tax assets / (liabilities) - net			**237.963.174**	**244.963.987**

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NOTE 20 - TAX ASSETS AND LIABILITIES (Continued)

The reconciliations of the taxation on income for the years ended December 31, 2017 and 2016 were as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Profit before tax	1.661.095.231	781.883.244
Statutory tax rate	20%	20%
Calculated tax expense based on effective tax rate	(332.219.046)	(156.376.649)
Reconciliation between the tax provision and calculated tax:		
Carry forward tax losses utilized in current year	-	6.662.907
Effect of unused tax losses for which no deferred tax asset was recognized	(2.661.480)	-
Utilised investment incentives during the year	52.882.999	98.231.086
Income exempt from tax	8.356.195	1.898.119
Non-deductible expense	(3.410.011)	(3.400.477)
Adjustments with no tax effects	3.442.222	2.515.064
Other	1.958.261	274.052
Total tax income (expense) reported in the profit or loss statement	**(271.650.860)**	**(50.195.898)**

The movement of deferred income tax is as follows:

	2017	2016
1 January	**244.963.987**	**133.346.497**
Recognized in the profit or loss statement	(23.124.773)	112.834.788
Recognized in other comprehensive income	1.598.353	(1.217.298)
Foreign currency translation differences	14.525.607	-
31 December	**237.963.174**	**244.963.987**

The Group obtained a strategic investment incentive certificate from TC Ministry of Economy for PTA capacity increase project on January 4, 2013. The Group will be able to deduct 50% of the expenditures within the investment period that are in the scope of the investment incentives, from tax base, up to 90% as deduction from corporate tax. As a result of request from TC Ministry of Economy for RES investment, the project was included in the scope of the strategic incentive certificate for the request made in April 20, 2015. The Group will be able to deduct 22.2% of the expenditures within the investment period that are in the scope of the investment incentives, from tax base, up to 90% as deduction from corporate tax. The group has TL 274.177.812 unused investment incentive within the scope of strategic investment incentive certificate as of December 31, 2016. In this context, as of December 31, 2017, the Group has recognized deferred tax asset, that can be used in following periods, amounting to TL 43.349.669.

The Group has obtained regional investment incentive certificates from T.C. Ministry of Economy for factory modernization investment at the date of June 15, 2012. The Group will be able to deduct 50% of the expenditures within the investment period that are in the scope of the investment incentives, from tax base, up to 15% deduction from corporate tax. The group has TL 235.601.193 unused investment incentive within the scope of strategic investment incentive certificate as of December 31, 2017. In this context, as of December 31, 2016, the Group has recognized deferred tax asset, that can be used in following periods, amounting to TL 8.219.071.

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NOTE 20 - TAX ASSETS AND LIABILITIES (Continued)

The Group has obtained large scale of investment incentive certificate from T.C. Ministry of Economy for port project investments at the date of November 20, 2014. The Group will be able to deduct 25% of the expenditures within the investment period that are in the scope of the investment incentives, from tax base, up to 50% as deduction from corporate tax. The Group has TL 752.936.648 unused investment incentives within the scope of the port project investment certificate. In this context, as of December 31, 2017, the Group has recognized deferred tax asset, that can be used in following periods, amounting to TL 188.234.162.

As a result of projections made as of December 31, 2017, total investment expenditures made within the scope of total investment incentive documents foreseen to be used in deduction of expected future financial income amounted to TL 894.457.188 (December 31, 2016 -947.460.922 TL).

NOTE 21 - REVENUE AND COST OF SALES

	1 January - 31 December 2017	1 January - 31 December 2016
Domestic sales	4.726.838.880	3.206.977.195
Export sales	2.754.187.136	1.367.236.573
Other sales	39.960.174	30.995.483
Sales discounts (-)	(157.161.710	(72.618.629)
Net sales	**7.363.824.480**	**4.532.590.622**
Direct raw materials and supplies	(3.942.755.516)	(2.551.956.008)
Cost of trade goods sold	(778.554.080)	(383.046.853)
Energy	(381.284.120)	(320.841.953)
Labour costs	(251.300.764)	(198.593.556)
Depreciation and amortization	(150.850.237)	(105.462.778)
Other	(1.119.842)	(14.870.649)
Cost of sales	**(5.505.864.559)**	**(3.574.771.797)**

NOTE 22 - GENERAL ADMINISTRATIVE EXPENSES

	1 January - 31 December 2017	1 January - 31 December 2016
Personnel expense	(76.801.300)	(53.020.777)
Consultancy and outsourced services	(74.521.908)	(40.362.019)
Energy expenses	(10.663.255)	(11.574.115)
Depreciation and amortization	(8.789.436)	(7.943.247)
Taxes, funds and fees	(6.736.859)	(6.573.965)
Other	(23.425.495)	(18.669.180)
	(200.938.253)	**(138.143.303)**

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NOTE 23 - MARKETING, SELLING AND DISTRIBUTION EXPENSES

	1 January - 31 December 2017	1 January - 31 December 2016
Consultancy and outsourced services	(33.590.978)	(23.782.074)
Personnel expense	(14.895.895)	(11.952.846)
Depreciation and amortization	(1.394.588)	(772.786)
Other	(9.558.255)	(5.768.515)
	(59.439.716)	**(42.276.221)**

NOTE 24 - RESEARCH AND DEVELOPMENT EXPENSES

	1 January - 31 December 2017	1 January - 31 December 2016
Personnel expense	(11.644.197)	(9.478.000)
Consultancy and outsourced services	(1.248.475)	(1.060.937)
Depreciation and amortization	(980.768)	(886.846)
Other	(3.294.523)	(1.356.836)
	(17.167.963)	**(12.782.619)**

NOTE 25 - OTHER INCOME/ EXPENSES FROM OPERATING ACTIVITIES

a) Other operating income:

	1 January - 31 December 2017	1 January - 31 December 2016
Foreign exchange gains	110.404.540	64.281.977
Interest income on trade receivables	54.240.337	44.869.477
Reversal of impairment on advances given	31.807.000	-
Rent income	10.755.988	11.841.318
Rediscount income on trade payables	3.710.679	370.037
Other	19.854.963	9.934.537
	230.773.507	**131.297.346**

b) Other operating expenses

Foreign exchange losses on trade payable	(88.193.798)	(73.171.696)
Rediscount expense on trade receivables	(12.507.504)	(9.094.381)
Provision for doubtful receivables	(9.361.322)	(2.409.040)
Interest expense on trade payables	(3.645.082)	(4.813.880)
Impairment of advances given	-	(31.807.000)
Other	(43.631.664)	(10.119.681)
	(157.339.370)	**(131.415.678)**

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NOTE 26 - INCOME / (EXPENSES) FROM INVESTMENT ACTIVITIES

a) Income from investment activities

	1 January - 31 December 2017	1 January - 31 December 2016
Rent income	18.243.790	16.756.265
Gain on sale of property, plant and equipment	24.222.463	566.058
	42.466.253	**17.322.323**

b) Expenses from investment activities

Impairment of assets	-	(2.667.127)
Other	(105.470)	(1.545.459)
	(105.470)	**(4.212.586)**

NOTE 27 - FINANCIAL INCOME / EXPENSES

a) Finance income

	1 January - 31 December 2017	1 January - 31 December 2016
Foreign exchange gains	556.410.238	373.263.653
Interest income	86.185.577	73.745.008
Other	5.018.478	4.885.142
	647.614.293	**451.893.803**

b) Finance expense

Foreign exchange loss	(566.312.134)	(410.107.698)
Interest expense	(95.251.509)	(28.286.553)
Interest expense on employee benefits	(9.950.637)	(7.602.130)
Commission expense	(6.230.488)	(1.622.265)
Other	(4.983.204)	-
	(682.727.972)	**(447.618.646)**

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NOTE 28 - EARNINGS PER SHARE

	1 January - 31 December 2017	1 January - 31 December 2016
Net profit for the period of the equity holders of the parent	1.401.959.498	725.786.278
Weighted average number of shares with nominal value of Kr l each (thousand)	150.000.000	150.000.000
Earnings per share (Kr)	**0,9346**	**0,4839**

NOTE 29 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Summary of the intercompany balances as of 31 December 2017 and 31 December 2016 and significant intercompany transactions during the period were as follows:

i) Balances with related parties

a) Short - term other receivables from related parties:

	31 December 2017	31 December 2016
STEAŞ [1]	541.651.644	13.169.638
SOCAR Turkey Petrokimya A.Ş. [1]	223.250.122	-
SCR Gayrimenkul A.Ş. [2]	68.432.330	-
SOCAR Turkey Akaryakıt Depolama A.Ş. [2]	3.898	-
STAR [2]	-	1.149.900
TANAP Doğalgaz İletişim A.Ş. [2]	1.389	1.508
	833.339.383	**14.321.046**

b) Long - term other receivables from related parties:

SOCAR Power Enerji Yatırımları A.Ş. [2]	75.290.079	66.429.849
STEAŞ [1]	-	356.875.812
	75.290.079	**423.305.661**

The effective weighted average interest rate applied to TL and USD denominated other trade receivables from related parties as of 31 December 2017 is 17,11% p.a. and 5,39%, respectively.

Revenue from Socar Power Enerji Yatırımları A.Ş. consist from land sale and rent receivable amounting to TL 63.069.878, interest and other receivables amounting to TL 12.220.201.

[1] Shareholders of the Company

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NOTE 29 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

c) Short - term trade payables to related parties:

	31 December 2017	31 December 2016
STEAŞ [1]	29.558.516	404.943
Azoil Petrolcülük A.Ş. [2]	408.186	284.141
SOCAR Turkey Akaryakıt Depolama A.Ş. [2]	77.351	-
SOCAR Power Enerji Yatırımları A.Ş. [2]	-	1.474
Petrokim Trading Ltd. ("Petrokim") [2]	-	3.675.964
SOCAR Gaz Ticareti A.Ş. [2]	-	25.217.360
STAR [2]	-	955
	30.044.053	**29.584.837**

Short term trade payables to related parties are mainly consist of natural gas, fuel, and trade goods purchases. Average maturity of short term trade payables is 6 days. (31 December 2016 - 15 days).

d) Other payables to related parties:

STAR [2]	28.961.902	26.363.285
Due to shareholder [1]	87.117	87.116
	29.049.019	**26.450.401**

e) Short - term deferred revenue from related parties

STAR [2]	4.176.411	4.188.726
SOCAR Power Enerji Yatırımları A.Ş. [2]	-	9.374
	4.176.411	**4.198.100**

f) Long - term deferred revenue from related parties

STAR [2]	5.095.099	8.829.511
	5.095.099	**8.829.511**

g) Short - term prepaid expense to related parties

STAR [2]	5.399.008	12.878.087
STEAŞ[1]	50.271	-
	5.449.279	**12.878.087**

h) Long - term prepaid expense to related parties

STAR [2]	20.998.726	4.292.696
STEAŞ[1]	89.300	-
	21.088.026	**4.292.696**

[1] Shareholders of the Company

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NOTE 29 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

ii) Transactions with related parties

a) Other income / (expenses), Income from investing activities and finance income / (expenses) from related party transactions - net:

	1 January - 31 December 2017	1 January - 31 December 2016
STEAŞ [1]	46.130.549	72.913.287
SCR Gayrimenkul A.Ş. [2]	29.473.202	-
SOCAR Power Enerji Yatırımları A.Ş. [2]	8.222.717	12.980.191
SOCAR Turkey Petrokimya A.Ş. [1]	5.128.582	-
STAR [2]	4.996.762	3.688.064
Petrokim [2]	139.243	(1.557.210)
SOCAR Turkey Akaryakıt Depolama A.Ş. [2]	19.111	-
Azoil Petrolcülük A.Ş. [2]	3.019	(768)
SOCAR Azerikimya Production Union [2]	(108)	(466)
Socar Gaz Ticareti A.Ş. [2]	(162.184)	(40.372)
Socar Turkey Petrol Ener. Dağ. [2]	(597.397)	
	93.353.496	**87.982.726**

The Group has interest income for TL receivables with the rates of 17,14% and 17,39%, interest income for US Dollar receivables with the rates of 4,56% and 5,39% from SOCAR Power Enerji A.Ş. and interest income for TL receivables with the rate of 17,14% and interest income for US Dollar receivables with the rate of 5.39% from SOCAR Turkey Enerji A.Ş. Of the income derived from STAR, TL 3.525 of foreign exchange gain and TL 4.993.237 of other income.

Income from STEAŞ composed of TL 26.555.588 of interest income and TL 19.536.900 of foreign exchange loss and TL 38.061 of other income. Income from SOCAR Power Enerji Yatırımları A.Ş. consists of foreign exchange gain of TL 4.238.338 and interest income of TL 3.983.413 and other income of TL 966.

b) Service and rent purchases from related parties:

STAR [2]	43.190.861	54.617.364
STEAŞ [1]	36.071.071	14.039.230
SOCAR Power Enerji Yatırımları A.Ş. [2]	66.792	1.323.074
	79.328.724	**69.979.668**

The rent and service purchases from STAR consist of rent for naphtha tank amounting to TL 12.878.087, labor cost charges amounting to TL 3.295.022 and engineering and other services purchases amounting to TL 27.017.752. The service purchases from STEAŞ consist of labor cost charges of STEAŞ personnel amounting to TL 9.533.156 and other services purchases amounting to TL 26.537.915.

[1] Shareholders of the Company

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NOTE 29 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

c) Product purchase from related parties:

	1 January - 31 December 2017	1 January - 31 December 2016
Petrokim [2]	333.600.897	154.803.369
SOCAR Turkey Petrokimya A.Ş. [1]	330.439.735	-
SOCAR Logistics DMCC[2]	52.972.645	-
SOCAR Turkey Petrol Enerji Dağıtım A.Ş.[2]	30.392.393	6.888.558
Azoil Petrolcülük A.Ş. [2]	1.949.192	1.318.812
SOCAR Gaz Ticareti A.Ş. [2]	-	270.118.217
	749.354.862	**433.128.956**

Purchases made by related parties during the period ended 31 December 2017 consist of commercial products, natural gas and fuel purchases.

d) Product and service sales to related parties:

STAR [2]	5.068.413	3.936.229
STEAŞ [1]	212.021	215.456
SOCAR Turkey Akaryakıt Depolama A.Ş. [2]	8.261	-
SOCAR Power Enerji Yatırımları A.Ş. [2]	-	2.134
Petrokim[2]	-	1.416.718
TANAP Doğalgaz İletişim A.Ş.	-	275
	5.288.695	**5.570.812**

e) Rent income from related parties:

STAR [2]	23.105.297	19.314.475
SOCAR Turkey Akaryakıt Depolama A.Ş. [2]	331.292	-
Socar Power Enerji Yatırımları A.Ş. [2]	8.521	21.296
Socar Teknolojik Çözümler A.Ş. [2]	-	848
	23.445.110	**19.336.619**

[1] Shareholders of the Company

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NOTE 29 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

f) Key management compensation:

i. Key management compensation - short term:

	1 January - 31 December 2017	1 January - 31 December 2016
Payments for salary and seniority incentives	13.656.632	9.832.237
ii. Key management compensation - long term:		
Provision for unused vacation	777.268	369.640
Provision for employment termination benefits	169.412	59.492
Provision for seniority incentives	91.674	-
	1.038.354	**429.132**
	14.694.986	**10.261.369**

The Group classifies the general manager, assistant general managers, and board of directors and audit committee members as executive management.

Key management compensation consist of salary and travel payments; employment termination benefits, seniority incentive bonus and vacation pays made to the key management and their provisions for the period in which they incurred.

NOTE 30 - COMMITMENTS

As of July 25, 2014, the Group has signed a contract with STAR Rafineri A.Ş. whose main shareholder is SOCAR Turkey Enerji A.Ş. which is main shareholder of Petkim in the direction of purchasing naphtha approximately amounting to 1.600.000 tons per year and xysilen amounting to 270.000 tons per year for 20 years from STAR Rafineri which will be landed at Petkim Peninsula in order to ensure supply security and reduce costs. In addition, the Group has signed a cooperation contract with STAR Rafineri A.Ş. at the mentioned date and accordance with that contract the Group is going to sell steam for 20 years and serve solid and hazardous waste disposal, supply of workers on temporary duty and security services to STAR Rafineri which will be established by STAR Rafineri A.Ş. at Petkim Peninsula.

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NOTE 31 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

	31 December 2017	31 December 2016
a) Short - term provisions:		
Provision for legal cases	3.202.348	1.383.579
Other	17.727.930	-
	20.930.278	**1.383.579**
b) Guaranties received:		
Bank guarantees within the context of DOCS	633.725.157	491.942.679
Letters of guarantee received from customers	439.350.252	288.961.642
Receivable insurance	184.813.942	84.503.722
Letters of guarantee received from suppliers	144.219.455	183.424.856
Letters of credit	134.134.333	96.013.037
Mortgages	2.000.000	2.000.000
Received insurance policies	-	1.502.374
	1.538.243.139	**1.148.348.310**
c) Guaranties given:		
Mortgages given to banks	1.204.129.437	585.141.407
Mortgage given to banks (*)	799.642.800	867.787.728
Custom offices	69.254.203	50.099.000
Other	91.310.429	123.458.142
	2.164.336.869	**1.626.486.277**

(*) Mortgage amounting to USD 350 million is related with the borrowing for port investment amounting to USD 212 million as of 31 December 2017.

d) Ongoing cases and investigations

The Customs Administration levied an additional VAT charge and fine on the Group in 2014, as the customs tariff statistical position of Pygas, which was imported by the group in 2014, requires SCT. The Group objected to the VAT charge and fine, then started legal proceedings when its objection was rejected the Customs Administration.

While these lawsuits were in process, the Turkish Ministry of Finance started a limited tax inspection for the 2014 SCT on the grounds the customs tariff statistical position of Pygas requires SCT. As a result of this inspection, the Group was notified on 25 August 2017 of the imposition of a tax charge amounting TRY 99 million and penalty and interest of TRY 66 million.

At the same time during 2017, two of the three ongoing lawsuits at local tax courts related to the imported Pygas were concluded in favour of the Group, with the conclusion that the product customs tariff statistical position does not require SCT. In the third lawsuit it was ruled that the product does require SCT but that the penalty amount was unfair. Subsequently on 28 September 2017 all the lawsuits which were heard at the Regional Administrative Court (the "Court of Appeals") were concluded in favour of the Group with rulings that the product's customs tariff statistical position does not require SCT, and a lawsuit was filed with the Council of State by the Customs Administration. Furthermore, as of 31 December 2017, tax inspection related with the same issue for the years 2013, 2015 and 2016 is still ongoing and the Group management has not received any notification for the related periods.

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NOTE 31 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

The Group expects the litigation process will conclude that the customs tariff statistical position of Pygas does not require SCT as the Customs Administration claimed.

Group management and Group legal consultants estimate that since the Court of Appeals has ruled that the customs tariff statistical position of Pygas does not require SCT, the tax principal and penalty communicated by the Turkish Ministry of Finance will then be concluded via a settlement and/or litigation in a way that does not constitute any material financial risk.

Collaterals, Pledges and Mortgages ("CPM") provided by the Group:

	31 December 2017	31 December 2016
A. Total amount of CPMs given for the Company's own legal personality	1.364.694.069	758.698.549
B. Total amount of CPMs given on behalf of fully consolidated companies	799.642.800	691.827.728
C. Total amount of CPMs given for continuation of its economic activities on behalf of third parties	-	175.960.000
D. Total amount of other CPMs		
i. Total amount of CPMs given on behalf of the majority shareholder	-	-
ii. Total amount of CPMs given to on behalf of other group companies which are not in scope of B and C	-	-
iii. Total amount of CPMs given to on behalf of third parties which are not in scope of C	-	-
	2.164.336.869	**1.626.486.277**

Petkim Limancılık Ticaret A.Ş., which the group owns its 70% shares, has signed a project finance credit agreement with AKBANK T.A.Ş. at an amount of USD 212 million which has 13 years maturity with the first 3 years no repayment period, for the external funding of the container port project. Petkim has guaranteed the loan repayment and its shares in Petlim Limancılık Ticaret A.Ş. amounting TL 105 million has been pledged. The project has financial ration liabilities that are valid during the operating period. On 20 November 2015, a mortgage amounting to USD 350 million was established on Petlim's land sold by Petkim at a price of TL 5.650.000.

e) Operational leases

Annual income plans and amounts (not discounted) regarding to the operational lease income, which are not recognized in the consolidated financial statements of the Group as of 31 December 2017 and 31 December 2016 are as follows:

0-5 year	260.789.367	309.748.398
5-10 year(s)	922.891.620	860.108.807
10 years and more	1.910.215.005	1.800.437.019
Total	**3.093.895.992**	**2.970.294.224**

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NOTE 32 - NATURE AND LEVEL OF RISK DERIVING FROM FINANCIAL INSTRUMENTS

a) Credit risk:

Holding of financial assets involves the risk that counterparties may be unable to meet the terms of the agreements. These risks are managed by collecting collaterals and by restricting the average risk range for counterparties (except intercompany) in every agreement. As part of its sales policy, the Group obtains collateral at on amount of 100% of total outstanding TL trade receivables from its customers. The use of credit limits is regularly monitored and financial position of the customers, past experiences, reputation in the market and other factors are considered by the Management in order to evaluate the quality of the credits.

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NOTE 32 - NATURE AND LEVEL OF RISK DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

The credit risk exposure in terms of financial instruments as of December 31, 2017 and 2016 were as follows:

	31 December 2017			31 December 2016		
	Receivables from related parties	**Trade Receivables [1]**	**Cash and cash equivalents**	**Receivables from related parties**	**Trade Receivables [1]**	**Cash and cash equivalents**
Maximum amount of credit risk exposed as of reporting date (A+B+C+D+E) [2]	**908.629.462**	**918.838.151**	**1.460.448.945**	**437.626.707**	**674.471.489**	**1.267.188.405**
- The part of maximum credit risk covered with guarantees etc	-	(812.144.582)	-	-	(543.663.924)	-
A. Net book value of financial assets neither past due nor impaired (3)	908.629.462	890.499.799	1.460.448.945	437.626.707	658.268.403	1.267.188.405
B. Net book value of financial assets whose conditions are renegotiated otherwise will be classified as past due or impaired [3]	-	-	-	-	-	-
C. Net book value of assets past due but not impaired but not impaired [4]	-	28.338.352	-	-	16.203.086	-
- The part covered by guarantees etc	-	(15.523.061)	-	-	(6.789.901)	-
D. Net book value of assets impaired	-		-	-	-	-
- Past due (gross book value)	-	22.265.543	-	-	15.819.607	-
- Impairment amount	-	(22.265.543)	-	-	(15.819.607)	-
- The part of net value covered with guarantees etc	-		-	-	-	-
E. Off-balance items exposed to credit risk	-	-	-	-	-	-

[1] Trade receivables of the Group are mainly composed of thermoplastic and fiber material sales.

[2] Unearned credit finance income and covered parts of due and overdue receivables are taken into consideration while determining aforementioned amounts.

[3] Considering the past experiences, the Group management believes that no additional credit risk for the collection of these receivables.

[4] Considering the past experience of the Group management, it is foreseen that no problem will be encountered in the collection of past financial assets and the aging of the related amounts is as follows.:

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NOTE 32 - NATURE AND LEVEL OF RISK DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2017	Receivables		
	Related parties	Third parties	Total
1-30 days overdue	-	9.212.903	9.212.903
1-3 months overdue	-	19.125.449	19.125.449
The part covered by the guarantees	-	(21.693.078)	(21.693.078)
		6.645.274	**6.645.274**

31 December 2016	Receivables		
	Related parties	Third parties	Total
1-30 days overdue	-	6.235.936	6.235.936
1-3 months overdue	-	1.013.659	1.013.659
Over 3 months overdue	-	8.953.491	8.953.491
The part covered by the guarantees	-	(6.789.901)	(6.789.901)
	-	**9.413.185**	**9.413.185**

b) Liquidity Risk

Prudent liquidity risk management comprises maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The ability to fund the existing and prospective debt requirements is managed by maintaining the availability of fund providers' lines from high-quality lenders. In order to maintain liquidity, the Group management closely monitors the collection of trade receivables on time in order to and to prevent any financial burden that may result from late collections and arranges cash and non-cash credit lines with banks for the use of the Group. The Group's financial liabilities and liquidity analysis into relevant maturity groupings based on the remaining period as of December 31, 2017 and 2016 are as follows:

	31 December 2017				
	Value carried	Total cash outflow (=I+II+III)	Less than 3 months (I)	3 months-1 year (II)	1 - 5 years (III)
Contract due date:					
Bank credits	2.154.174.439	2.511.497.112	264.062.267	608.167.403	1.639.267.442
Other financial liabilities	797.891.365	807.019.986	75.193.846	731.826.140	-
Trade liabilities	540.279.371	545.193.881	545.193.881	-	-
Due to related parties	59.093.072	59.093.072	59.093.072	-	-
	3.551.438.247	**3.922.804.051**	**943.543.066**	**1.339.993.543**	**1.639.267.442**

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NOTE 32 - NATURE AND LEVEL OF RISK DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

	31 December 2016				
	Value carried	Total cash outflow (=I+II+III)	Less than 3 months (I)	3 months- 1 year (II)	1 - 5 years (III)
Contract due date:					
Bank credits	1.689.668.988	2.015.677.276	236.811.004	332.457.426	1.446.408.846
Other financial liabilities	702.494.286	707.689.776	230.170.487	477.519.289	-
Trade liabilities	382.784.233	383.020.718	372.544.153	10.476.565	-
Due to related parties	56.035.238	56.200.024	56.200.024	-	-
	2.830.982.745	**3.162.587.794**	**895.725.668**	**820.453.280**	**1.446.408.846**

The following table analyzes the Group's derivative financial instruments as of balance sheet date. Amounts shown in the table are undiscounted cash movements related to the contract. Amounts that will arrive within 12 months. the amount that would have been discounted would have been insignificant.

	31 December 2017				
	Value carried	Total cash outflow (=I+II+III)	Less than 3 months (I)	3 months- 1 year (II)	1 - 5 years (III)
Contract due date:					
Derivative financial instruments	(6.739.314)	(6.162.805)	-	-	(6.162.805)

	31 December 2016				
	Value carried	Total cash outflow (=I+II+III)	Less than 3 months (I)	3 months- 1 year (II)	1 - 5 years (III)
Contract due date:					
Derivative financial instruments	(1.992.914)	241.677.232	156.918.557	95.822.267	(11.063.592)

c) Market risk

i) Foreign exchange risk

The Group is exposed to currency risk on assets or liabilities denominated in foreign currencies. Management has set up a policy to balance and manage their foreign exchange risk. Existing risks are followed in meetings held by the Group's Audit Committee and Board of Directors and foreign currencies, closely in terms of the Group's foreign exchange position.

Although the raw materials, which comprise the significant portion of production and import volume, are foreign exchange denominated cost items, such exposure is limited with the sales prices impacted by foreign currencies.

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NOTE 32 - NATURE AND LEVEL OF RISK DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

Foreign currency position

	31 December 2017				31 December 2016			
	TL Equivalent	**US Dollar**	**Euro**	**Other**	**TL Equivalent**	**US Dollar**	**Euro**	**Other**
1. Trade receivables	493.826.212	99.357.199	26.367.134	-	390.148.989	93.945.230	16.048.124	-
2a. Monetary financial assets (Cash, bank accounts included)	1.673.012.346	421.153.442	18.631.455	332.327	1.013.602.609	263.001.335	23.733.204	497
2b. Non-monetary financial assets	-	-	-	-	-	-	-	-
3. Current assets (1+2)	**2.166.838.558**	**520.510.641**	**44.998.589**	**332.327**	**1.403.751.598**	**356.946.565**	**39.781.328**	**497**
4. Trade receivables					-	-	-	-
5a. Monetary financial assets	385.306.755	102.151.901	-	-	365.195.175	103.772.214	-	-
5b. Non-monetary financial assets	-	-	-	-	-	-	-	-
6. Other	-	-	-	-	-	-	-	-
7. Non-current assets (4+5+6)	**385.306.755**	**102.151.901**	**-**	**-**	**365.195.175**	**103.772.214**	**-**	**-**
8. Total assets (3+7)	**2.552.145.313**	**622.662.542**	**44.998.589**	**332.327**	**1.768.946.773**	**460.718.779**	**39.781.328**	**497**
9. Trade payables	442.003.956	107.143.874	5.755.191	11.170.210	289.340.519	74.598.272	7.139.375	327.913
10. Financial liabilities	1.182.920.158	296.063.839	14.659.941	-	1.129.097.581	313.193.198	7.253.047	-
11a. Monetary other liabilities	-	-	-	-	-	-	-	-
11b. Non-monetary other liabilities	-	-	-	-	-	-	-	-
12. Short-term liabilities (9+10+11)	**1.624.924.114**	**403.207.713**	**20.415.132**	**11.170.210**	**1.418.438.101**	**387.791.470**	**14.392.422**	**327.913**
13. Trade payables					-	-	-	-
14. Financial liabilities	625.744.939	34.009.756	110.167.986	-	1.172.474.367	239.001.672	89.323.077	-
15a. Monetary other liabilities	-	-	-	-	-	-	-	-
15b. Non-monetary other liabilities	-	-	-	-	-	-	-	-
16. Long-term liabilities (13+14+15a+15b)	**625.744.939**	**34.009.756**	**110.167.986**	**-**	**1.172.474.367**	**239.001.672**	**89.323.077**	**-**
17. Total liabilities (12+16)	**2.250.669.053**	**437.217.469**	**130.583.118**	**11.170.210**	**2.590.912.467**	**626.793.142**	**103.715.499**	**327.913**
18. Net (liability)/asset contract value of derivative instruments (18a-18b)	**-**	**-**	**-**	**-**	**325.687.680**	**87.275.000**	**5.000.000**	**-**
18a. Amount of asset contract value of derivative instruments	**-**	**-**	**-**	**-**	**325.687.680**	**87.275.000**	**5.000.000**	**-**
18b. Amount of liability contract value of derivative instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
19. Net foreign (liability) / asset position (8-17+19)	**301.476.260**	**185.445.073**	**(85.584.529)**	**(10.837.883)**	**(496.278.015)**	**(78.799.363)**	**(58.934.171)**	**(327.416)**
20. Net foreign currency (liability) / asset position of monetary items (IFRS 7.B23) (=1+2a+4+5a-9-10-11a-13-14-15a)	**301.476.260**	**185.445.073**	**(85.584.529)**	**(10.837.883)**	**(821.965.695)**	**(166.074.363)**	**(63.934.171)**	**(327.416)**
21. Total fair value of financial instruments used for foreign currency hedging	**-**	**-**	**-**	**-**	**1.556.304**	**163.660**	**264.252**	**-**
22. Hedged amount for current assets	**-**	**-**	**-**	**-**	**325.687.680**	**87.275.000**	**5.000.000**	**-**
23. Hedged amount for current liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
24. Export	**2.659.399.600**	**393.774.713**	**291.272.764**	**19.132.371**	**1.350.245.112**	**239.964.703**	**182.543.988**	**9.893.867**
25. Import	**4.121.329.689**	**1.048.871.653**	**68.073.002**	**350.883.231**	**2.976.902.046**	**934.910.668**	**42.161.459**	**352.637.656**

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NOTE 32 - NATURE AND LEVEL OF RISK DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

Table of sensitivity analysis for foreign currency risk

31 December 2017

	Profit/(Loss)		Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Change of USD by 10% against TL:				
1- Asset/Liability denominated in USD - net	69.948.027	(69.948.027)	-	-
2- The part hedged for USD risk (-)	-	-	-	-
3- USD effect - net (1+2)	**69.948.027**	**(69.948.027)**	**-**	**-**
Change of EUR by 10% against TL:				
4- Asset/Liability denominated in EUR - net	(38.645.694)	38.645.694	-	-
5- The part hedged for EUR risk (-)	-	-	-	-
6- EUR effect - net (4+5)	**(38.645.694)**	**38.645.694**	**-**	**-**
Change of other currencies by 10% against TL:				
7- Assets/Liabilities denominated in other foreign currencies - net	(1.154.707)	1.154.707	-	-
8- The part hedged for other foreign currency risk (-)	-	-		
9- Other foreign currency effect - net (7+8)	**(1.154.707)**	**1.154.707**	**-**	**-**
Total (3+6+9)	**30.147.626**	**(30.147.626)**	**-**	**-**

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NOTE 32 - NATURE AND LEVEL OF RISK DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2016

	Profit/(Loss)		Equity	
	Appreciation of foreign currency	**Depreciation of foreign currency**	**Appreciation of foreign currency**	**Depreciation of foreign currency**
Change of USD by 10% against TL:				
1- Asset/Liability denominated in USD - net	(58.444.890)	58.444.890	-	-
2- The part hedged for USD risk (-)	30.713.818	(30.713.818)	-	-
3- USD effect - net (1+2)	**(27.731.072)**	**27.731.072**	-	-
Change of EUR by 10% against TL:				
4- Asset/Liability denominated in EUR - net	(23.718.938)	23.718.938	-	-
5- The part hedged for EUR risk (-)	1.854.950	(1.854.950)	-	-
6- EUR effect - net (4+5)	**(21.863.988)**	**21.863.988**	-	-
Change of other currencies by 10% against TL:				
7- Assets/Liabilities denominated in other foreign currencies - net	(137.457)	137.457	-	-
8- The part hedged for other foreign currency risk (-)	-	-	-	-
9- Other foreign currency effect - net (7+8)	**(137.457)**	**137.457**	-	-
Total (3+6+9)	**(49.732.517)**	**49.732.517**	**-**	**-**

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NOTE 32 - NATURE AND LEVEL OF RISK DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

The Group's interest rate position as of December 31, 2017 and 2016 is presented below:

	31 December 2017	31 December 2016
Financial instruments with fixed interest rate		
Financial liabilities		
USD Financial liabilities	164.220.726	150.804.153
EUR Financial liabilities	85.642.726	74.195.279
TL Financial liabilities	343.757.863	90.591.326
Financial instruments with variable interest rate		
USD Financial liabilities		
EUR Financial liabilities	1.082.535.301	1.089.659.334
	478.017.777	282.941.706

For the year round, if the interest rates increase/decrease by 100 base points ceteris paribus, the interest expense will change by +/(-) TL 5.344.545 (December 31, 2016 - TL 6.807.733).

ii) Price risk

The Group's operational profitability and cash inflows from its operations are exposed to risk arising from fluctuations in naphtha prices which are affected by competition in the petrochemical sector and raw material prices. The Group management manages the risk by regularly reviewing the amount of inventory held on hand and takes action for cost reduction to decrease the pressure of cost on the prices. Existing risks are monitored through regular meetings by the Group's Board of Directors.

The Group sets its sales prices considering certain indicators of petrochemical products in domestic and foreign markets. The changes in foreign markets are monitored through the worldwide publications comparing most attainable competitive market prices of Western Europe, Asia and US contract, spot and factory prices and computing actual import costs to Turkey. While the Group determines the domestic market prices, it considers the indicators such as price information obtained from the market players and sector publications and Group's production levels, stock levels and order amounts received.

The Group also uses some derivative financial instruments, mainly Naphtha, to hedge cash flow risk arising from raw material price risk.

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NOTE 32 - NATURE AND LEVEL OF RISK DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of debt/equity ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total liabilities (including short term financial liabilities, current portion of long term financial liabilities, long term financial liabilities, trade payables, other payables, deferred income, other current liabilities and short term liabilities for employee benefits, as shown in the balance sheet) less cash and cash equivalents:

	31 December 2017	31 December 2016
Total financial debt	3.723.397.493	3.045.454.256
Less: Cash and cash equivalents and similar values	(1.460.448.945)	(1.267.188.405)
Net debt	2.262.948.548	1.778.265.851
Total equity	3.854.078.899	3.069.440.026
Net debt / equity ratio	**59%**	**58%**

NOTE 33 - FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES)

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group can realize in a current market exchange.

The methods and assumptions stated below are used in the estimation of the fair values of the financial instruments of which fair values are measurable:

Financial assets

The fair values of balances denominated in foreign currencies, which are translated at year-end exchange rates, are considered to approximate to their carrying values. Cash and cash equivalents are carried at their fair values. The fair values of trade receivables and due from related parties are considered to approximate their respective carrying values due to their short-term nature. The cost of financial assets available for sale investments less, if any, impairments are considered to approximate their fair values.

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NOTE 33 - FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (Continued)

Financial liabilities

Trade payables, payables to related parties and other monetary liabilities are estimated to be presented with their discounted carrying amounts, they are considered to approximate to their fair values, and the fair values of balances denominated in foreign currencies, which are translated at year-end exchange rates, are considered to approximate carrying values.

Fair values of short-term bank borrowings and other financial liabilities are assumed to approximate their carrying values due to their short term. Long-term floating rate bank loans' interest rates are updated according to the changing market conditions, it is assumed to represent the value of the fair value is the carrying value of these loans. Long-term fixed-rate loan, when evaluated with a fixed interest rate as of the balance sheet date, it is observed its fair value is close to the carrying value.

Fair value estimation

The Group's financials classification of fair value of asset and liabilities were as follows:

Level 1: Depend on registered price (unadjusted) in the active market;

Level 2: Depend on data that are explicitly (via price in active market) or implicitly (derivate from price in active market) observable.

Level 3: Not depend on observable market data

December 31, 2017 and 2016, fair value and book value of financial statement were as follows:

31 December 2017	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-		-	
Total assets	**-**		**-**	
Derivative financial liabilities	-	6.739.314	-	6.739.314
Total liabilities	**-**	**6.739.314**	**-**	**6.739.314**

31 December 2016	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	7.466.471	-	7.466.471
Total assets	**-**	**7.466.471**	**-**	**7.466.471**
Derivative financial liabilities	-	9.459.385		9.459.385
Total liabilities	**-**	**9.459.385**	**-**	**9.459.385**

Petkim Petrokimya Holding Anonim Şirketi and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY- 31 DECEMBER 2017

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NOTE 34 - SUBSEQUENT EVENTS

As a result of correspondence between the Group and its main shareholder SOCAR Turkey Enerji A.Ş. (STEAŞ), a share sale and transfer agreement ("Agreement") has been signed on 9 January 2018 in order to acquire 30% shares of Rafineri Holding A.Ş. (Rafineri Holding) from STEAŞ with a purchase price of USD 720 million. Rafineri Holding A.Ş. holds 60% shares of SOCAR Turkey Yatırım A.Ş. which holds 100% shares of STAR Rafineri A.Ş (STAR), that has the ongoing STAR Refinery investment. With this agreement, the Group will have 18% indirect share of STAR. Rafineri Holding shares subject to Agreement will be transferred to the Group after obtaining the necessary approvals at a future time, that is defined as Closing Date in the agreement. Last date for the Closing Date is determined as 31.03.2019

The purchase price of USD 720 million for 30% shares of Rafineri Holding A.Ş. is to be paid in three equal installments. The first installment is to be paid by the signing of share purchase agreement. The second installment is due on the date on which testing at the STAR Refinery commences and the final installment will be done on the date of transfer of shares.

Upon obtaining the Tranche Issuance Certificate from the Capital Markets Board of Turkey on 25.01.2018, the issuance of the USD 500 million 5 year notes, with a maturity date of 26.01 2023 and a fixed coupon rate of 5,875% per annum and an issue price of 99,467%, issued to investors resident outside of Turkey, and listing of these notes on the Irish Stock Exchange have been completed. As of 26.01.2018, the proceeds have been transferred to the Group's accounts.

OTHER MATTERS

Events of special importance that took place after the end of the operation year

Indirect partnership at STAR

The sales and transfer contract of shares (the contract) was signed with SOCAR Türkiye Enerji A.Ş. (STEAŞ), which is our majority shareholder, in order to purchase 30% of the shares of Rafineri Holding A.Ş. (the Rafineri Holding) for a consideration of USD 720 million from STEAŞ. Rafineri Holding owns 59.99% of the SOCAR Turkey Investment, which owns 100% of the STAR Refinery (STAR), which carried out the STAR Refinery investment in our peninsula.

Shares in Rafineri Holding, which are subject to the Contract, shall be taken over by our Company at a future date which is defined as the Closing Date in the Contract after obtaining the necessary permits. The deadline determined for closing is 31 March 2019.

An amount of USD 720 million, which is the transfer price of 30% of the shares in Rafineri Holding, will be paid in three equal installments. The first payment will be carried out upon the signing of the share transfer contract, the second payment will be carried out once the tests get underway for the commissioning of the STAR Refinery, and the final payment will be completed on the date of transfer of the shares.

The USD 720 million price for buying the shares was determined by taking into account of the valuation report with regard to determination of the fair value of the Rafineri Holding prepared by DRT Corporate Finance Consultancy Services as of 31 December 2018.

International Bond issuance

As of 26 January 2018, bonds with a value of USD 500 million and with a 5 year maturity were issued to investors residing outside Turkey. The bonds, with a maturity date of 26 January 2023 and carrying a fixed coupon of 5.875%, had a sale price 99,467% of the nominal value. The listing of the bonds on the Irish Stock Exchange was completed.

ANNUAL REPORTS OF THE PARENT COMPANY WITHIN THE GROUP OF COMPANIES

Whether the Company holds an interest representing five percent, ten, twenty, twenty-five, thirty-three, fifty, sixty, seven or one hundred percent of the shares in the capital of an equity company or whether its interest falls below these percentages, and the reasons therefore.

In 2017 the Company did not hold an interest representing five percent, ten, twenty, twenty-five, thirty-three, fifty, sixty, seven or one hundred percent of the shares in the capital of an equity company nor its interest in the capital of an equity company fell below these percentages.

PETKİM PETROKİMYA HOLDİNG A.Ş. SHAREHOLDER STRUCTURE

		31.12.2017		31.12.2016	
Group:	**Shareholder:**	**Amount (TL)**	**%**	**Paid-in Capital (TL)**	**%**
A	Socar Turkey Petrokimya A.Ş.	765,000,000.00	51.00	765,000,000.00	51.00
C	Directorate of Privatization Administration	0.01	0.0001	0.01	0.0001
A	Traded on BİST (Publicly Held)	734,999,999.99	48.9999	734,999,999.99	48.9999
	Total	**1,500,000,000.00**	**100.00**	**1,500,000,000.00**	**100.00**

The conclusion part of the report stipulated in Article 199 (4) of the Law upon request of a member of the governing body

Provided under the heading Relations with the Controlling Company.

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