TOGETHER TOWARDS A BETTER FUTURE...

PETKİM 2016 ANNUAL REPORT

CONTENTS

General Information

Reporting Period	01 January - 31 December 2016
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PETKİM, AS TURKEY'S SOLE PETROCHEMICAL PRODUCER AND THE DRIVING FORCE OF THE INDUSTRY, REPRESENTS A FORMIDABLE PRODUCTION HUB BACKED BY MORE THAN 50 YEARS OF EXPERIENCE, R&D COMPETENCY, STATE-OF-THE-ART TECHNOLOGY, INTELLECTUAL CAPITAL AND A VISION WHICH GOES BEYOND THE AGE.

PETKİM TOOK IMPORTANT STEPS TOWARDS REACHING ITS TARGET OF ADVANCING ITS SUSTAINABLE SUCCESS FURTHER BY ATTAINING RECORD HIGH OPERATING AND FINANCIAL RESULTS IN 2016. THE COMPANY PROVED THAT IT CAN ALWAYS ACHIEVE BETTER RESULTS.

WE ARE NOW TAKING THE INITIATIVE TO CHANGE TOWARDS FURTHER ENHANCING PETKİM'S CAPABILITY OF CREATING INTEGRATED VALUE TO THE FUTURE. WITH THIS BREAKTHROUGH PROCESS WHICH FINDS ITS MEANING WITH, "PETKİM BENİM"(*) PROGRAM, A CORPORATE TRANSFORMATION PROGRAM THAT WE ARE ENHANCING THE NOTION OF "BEING PETKIMIAN" BACKED BY MOTIVATION AND EFFICIENCY WITH MORE EFFECTIVE ORGANIZATION AND MODERN HUMAN RESOURCES THAT ARE FOCUSED ON PROGRESS.

WE REPRESENT TURKEY'S FUTURE WITH OUR STRATEGIC GOALS AND INVESTMENT PLANS.

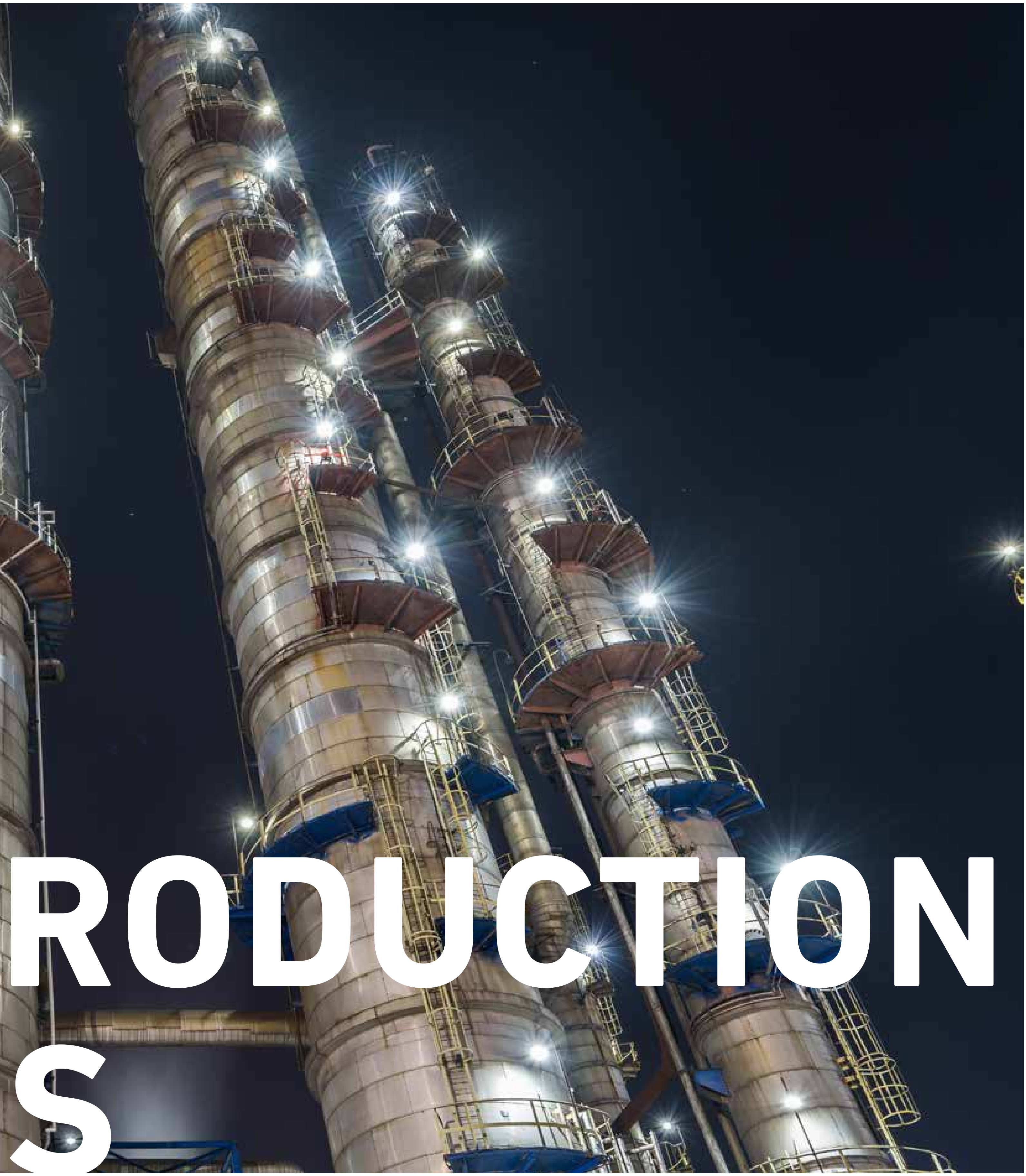
MOVING FORWARD WITH GREAT EXCITEMENT,
AS "ONE PETKİM"...

Petkim

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

WITH OUR P CAPABILITIE

PETKİM IS A GIANT COMPLEX OPERATING WITH UNINTERRUPTED PRODUCTION IN 21 FACILITIES. THE COMPANY PROVIDES RAW MATERIAL TO VARIOUS SECTORS WITH AN ANNUAL PRODUCTION CAPACITY OF 3.6 MILLION TONS. IN ADDITION TO THESE SECTORS, PETKİM SUPPORTS A WIDE ARRAY OF SUB-SECTORS. THE COMPANY IS CONTINUOUSLY INVESTING IN THE SUSTAINABILITY OF ITS PLANTS. PETKİM'S PRODUCTION TORCH IS ONE THAT IS NEVER EXTINGUISHED.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PETKİM INTEGRATES ITS DEEPLY ROOTED EXPERIENCE WITH BROAD KNOWLEDGE AND SPECIALIZED HUMAN RESOURCES AND WORKS WITH ITS UNIQUE INTELLECTUAL CAPITAL. THE COMPANY SHARES ITS TECHNICAL KNOW-HOW WITH PARTICIPANTS OF THE SECTOR. PETKİM HAS ITS FINGER ON THE PULSE OF ITS MARKET TO DEVELOP PRODUCTS THAT MEET ITS DEMANDS. IN SHORT, PETKİM DRIVES THE MARKET.

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PETKİM PROVIDES CONTINUITY OF ITS WORKFORCE AND INVESTMENTS IN ITS PLANTS IN ORDER TO MAINTAIN ITS WORLD STANDARD TECHNOLOGY. THE COMPANY OPTIMIZES, TRACKS AND CONTROLS ITS PROCESSES IN ITS FACILITIES THROUGH DEVELOPING SOFTWARE SPECIFICALLY FOR ITS OWN NEEDS. THE COMPANY STAYS AT THE FOREFRONT ENSURING SECURITY SYSTEMS WITH THE MOST UPDATED TECHNOLOGY IN THE AREA OF INFORMATION SECURITY.

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PETKİM'S R&D SETS A HIGHER STANDARD AND SUPPORTS THE TARGET OF CONTINUOUS HOME GROWN INNOVATION AND PRODUCTION WITH THE COMPANY'S R&D INVESTMENTS AND THE VISION OF ENTERING NEW STRATEGIC AREAS. PETKİM'S R&D CENTER MAINTAINS ITS OPERATIONS WITH STRONG INFRASTRUCTURE WITHIN THE SCOPE OF PRODUCT DEVELOPMENT, ENERGY SAVINGS, COST CUTTING AND ENVIRONMENTAL PROTECTION. PETKİM STRIVES TO ADVANCE THE DEVELOPMENT OF TECHNOLOGICAL PRODUCTS THAT OFFER A HIGH LEVEL OF ADDED VALUE. PETKİM'S CONTINUOUSLY INCREASING R&D EXPENDITURE STANDS AS TESTAMENT TO THIS AMBITION.

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WITH OUR VISION BEYO THE AGE

PROJECTS CONDUCTED IN THE PETKİM PENINSULA WITH SOCAR TURKEY'S VALUE-SITE 2023 INVESTMENT VISION ARE GIANT STEPS THAT PREPARE PETKİM FOR THE FUTURE BY INTEGRATING WITH ITS VISION OF SOUND SUSTAINABILITY. THE COMBINATION OF PRODUCT DEVELOPMENT, IN ADDITION TO FEEDSTOCK SUPPLY AND QUALITY THAT WILL BE CREATED WITH THE REFINERY; BEING A REGIONAL LOGISTIC POWER THANKS TO THE NEW CONTAINER TERMINAL; THE ENERGY SECURITY AND INCREASED EFFICIENCY THAT WILL COME WITH THE POWER PLANT, ALL HERALD A STRONGER PETKİM.

PETKİM PROVIDES INPUT TO A WIDE ARRAY OF SECTORS WITH ITS PRODUCT PORTFOLIO THAT OFFERS A HIGH LEVEL OF ADDED VALUE. THESE INCLUDE THERMOPLASTICS, FIBER, RAW MATERIALS WHICH HAVE APPLICATIONS IN PLASTICS, CHEMICALS, PACKAGING, PIPE, PAINT, CONSTRUCTION, AGRICULTURE, AUTOMOTIVE, ELECTRICITY, ELECTRONICS, TEXTILES, PHARMACEUTICALS, DETERGENTS AND COSMETICS. THE COMPANY MEETS THE NEEDS OF MILLIONS OF PEOPLE THROUGHOUT THEIR EVERYDAY LIFE. PETKİM ALWAYS STANDS WITH PEOPLE.

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RODUCTS
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VISION
MISSION

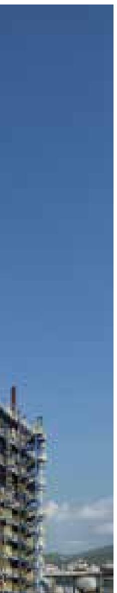
OUR VISION, OUR MISSION, OUR VALUES

OUR VISION

- To sustain our leadership in the Turkish market through continuous growth.
- To be a major regional player in the petrochemical industry.

OUR MISSION

- Petkim produces high quality petrochemical products in its integrated, high technology premises and imports high quality petrochemical products, compatible with international standards.
- Petkim sells its products in the domestic market and in international opportunity markets utilizing a strong customer focus.
- Petkim cares about innovation; it takes quality as its philosophy of life.
- Petkim grows with its partners by increasing Petkim's market value and profitability.
- Petkim maintains the competence, satisfaction and loyalty of its employees at a maximum level with innovative human resource applications.
- Petkim follows universal ethical values that protect the environment, ensures occupational health and safety, whilst supporting and adding value to society with a sustainability perspective.



VALUES

OUR VALUES

- Adding value to our customers
- Employee focused approach
- Creativity and innovation
- Product quality and continuity
- Adding value through partnerships
- Occupational health and safety
- Taking responsibility for a sustainable future

A GIANT PRODUCER

PETKİM IN BRIEF

PETKİM, WHICH IS TURKEY'S 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.

The petrochemical industry's giant production power

Operating for more than 50 years, Petkim represents a gigantic source of production power with strategic importance for our country's economy and industry. Petkim, which is Turkey's 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.

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.

As of the end of 2016, 49% of Petkim's shares were trading on the Borsa İstanbul.

49%

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.

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.

As of the end of 2016, 49% of Petkim's shares were trading on the Borsa İstanbul.

Focusing on developing advanced technology and higher value added products with its well-established R&D structure, Petkim is progressing towards becoming Europe's largest petrochemical complex and production base within the framework of the investment plan that it has determined for the Petkim Peninsula in line with the strategic objectives of SOCAR Group, with which it is affiliated. The investment program defined as "Value-Site 2023" targets a "Refinery-Petrochemical-Energy-Logistics-Distribution-Transmission Integration".

As the only indigenous petrochemical raw material producer and supplier of Turkish industry, Petkim will continue to grow and co-exist with Turkey with its strong social and cultural influence, with the contribution it provides to the country's economy and with its production technology that respects society while also being environmentally friendly.

SOCAR

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

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 biggest 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 widespread activity area in the oil and petrochemical industry as below in all regions of Azerbaijan, including land and sea fields.

- Investigation, exploration and processing of oil and gas deposits
- Production, processing, transport of petrol, gas and condensed gas
- Sales of petroleum and petrochemical products in domestic and foreign markets
- The supply of wholesale and retail natural gas in Azerbaijan

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

SOCAR VALUE CHAIN

EXPLORATION & PRODUCTION
- Onshore Oil Fields
- Oily Rocks
- ACG
- Shah Deniz
- Absheron
- Umid
- Other Oil Fields

PIPELINES & EXPORT
- Northern Route Export Pipeline (NREP)
- Western Route Export Pipeline (WREP)
- BTC
- SCP
- Caspian Fleet

REFINERY & PETROCHEMICALS
- Heydar Aliyev Refinery
- Azerikimya
- Petkim
- STAR Refinery
- SOCAR Polymer
- SOCAR Carbamide

LOGISTICS &TRADING
- Kulevi Terminal
- SOCAR Trading
- Fujairah Terminal
- Azeri Gas
- Georgian Gas Distribution Network
- Greek Gas Transmission System (pending for the approval process by the EU Directorate-General for Competition (DG-Competition)

OIL PRODUCT MARKETING
- Azerbaijan
- Georgia
- Ukraine
- Turkey
- Romania
- Switzerland

The Azerigaz Company, which carries out natural gas transportation, distribution and sales operations throughout Azerbaijan, and the Azerikimya Company, 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

The final objective of “Value-Site 2023” and “Refinery-Petrochemical-Energy-Logistics-Distribution-Transmission Integration” is for the Petkim Peninsula to become one of the largest chemical parks in Europe once the investments are completed, by implementing a value added chain that starts with crude oil and ends with the final product.

SOCAR Turkey: A strong reflection of Turkey-Azerbaijan co-operation on economic dimension

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

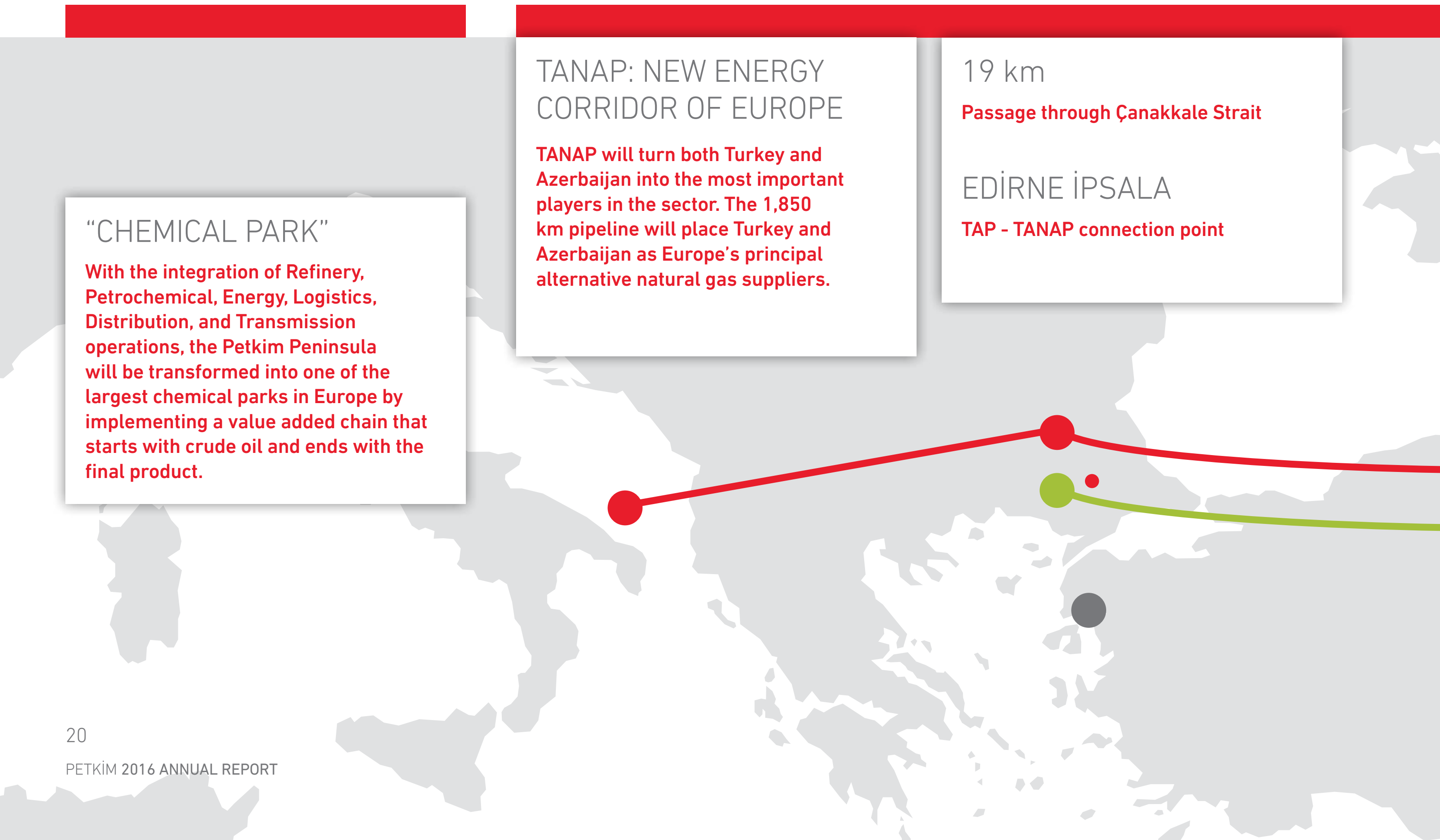
The Azerbaijan State Oil Company - SOCAR, one of the world’s most established oil companies, launched a far reaching strategic partnership through the acquisition of Petkim in 2008. SOCAR Turkey Enerji A.Ş. (SOCAR Turkey) was established on 30 December 2011 to carry out SOCAR’s operations in Turkey.

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 Turkey has embarked on a USD 18 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.

With the vision of the “Value-Site 2023” that directs SOCAR Turkey’s investments, and within the framework of “Refinery-Petrochemical-Energy-Logistics-Distribution-Transmission Integration”, 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.

The objective of SOCAR Turkey, which operates with the companies within its body, is to become one of the three largest holdings in Turkey with a consolidated turnover of USD 15 billion by 2018, while becoming one of the largest production centers by 2023.



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.

1,850 km

The TANAP Project

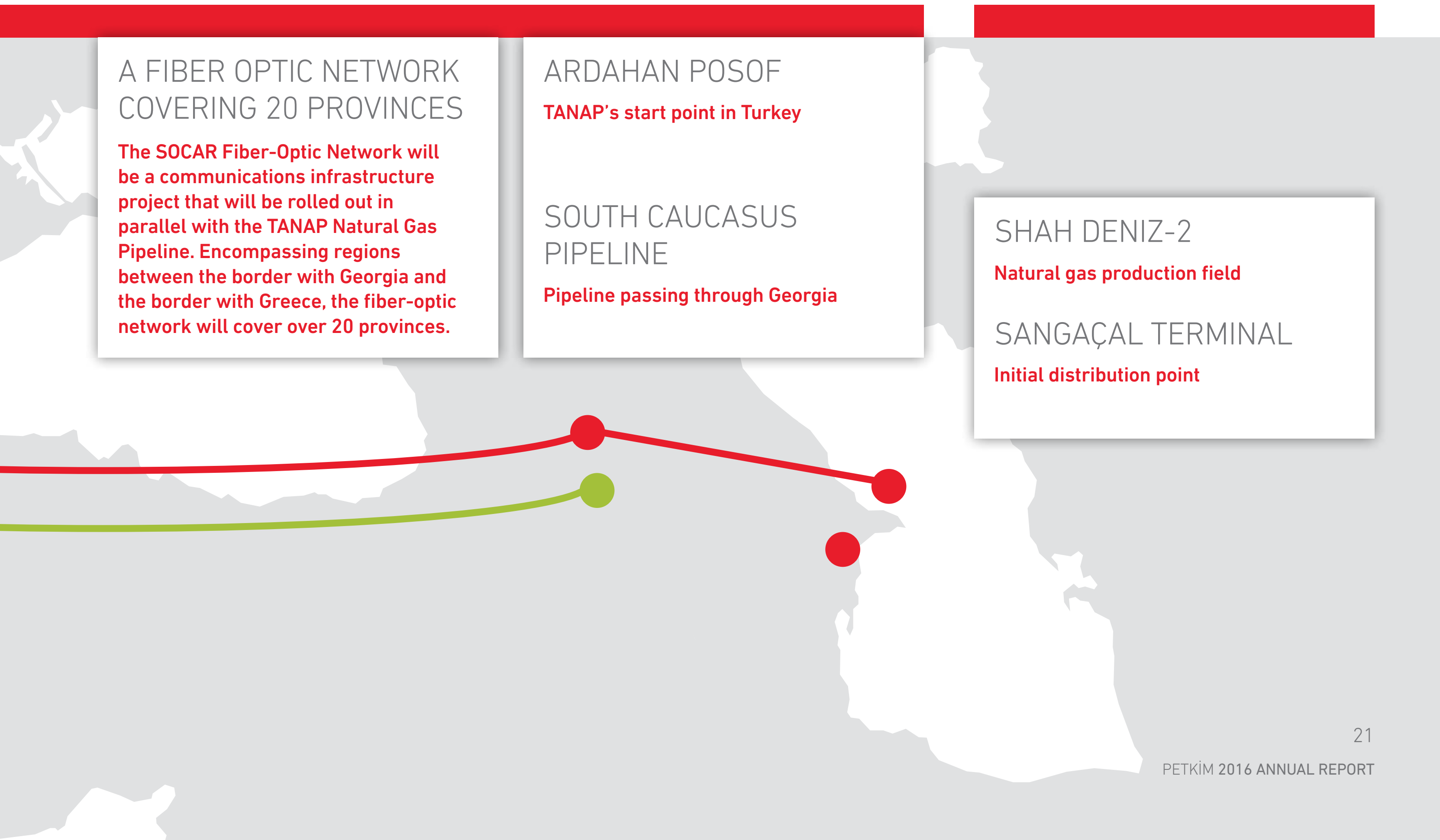
The most strategic step taken so far for Turkey to become an energy corridor

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 8.65 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.

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.

55% of the project, which is being constructed in four different stages, and the marine passage, had been completed as of the end of November 2016.

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.

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.

TANAP

THE SOCAR TURKEY "VALUE-SITE" 2023 VISION

SOCAR Turkey's "Value-Site 2023" vision covers some of the largest scale investments in Turkey's history. Refinery, port and power plant projects are being carried out in the Petkim Peninsula within the scope of the investment program launched in 2011.

USD 5.6 billion

STAR Refinery, which is the basic step in the integration chain, is one of the biggest energy operations in the region with an investment cost of USD 5.6 billion.

SOCAR Turkey's "Value-Site 2023" vision covers some of the largest scale investments in Turkey's history. Refinery, port and power plant projects are being carried out in the Petkim Peninsula within the scope of the investment program launched in 2011.

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 5.6 billion. The refinery investment, which will have a refining capacity of 10 million tons* of crude oil, is being realized by STAR Rafineri A.Ş.

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 SOCAR TURKEY "VALUE-SITE" 2023 VISION

As of the end of October 2016, around 78% of the work on the STAR Refinery was completed with 99.5% of the engineering work, 95.5% of the procurement work and 95% of the construction work.

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 the end of October 2016, around 78% of the work on the STAR Refinery was completed with 99.5% of the engineering work, 95.5% of the procurement work and 95% 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.

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".

VALUE-SITE 2023 INVESTMENTS AND BENEFITS TO PETKİM

STAR Refinery

FEATURES
- Turkey's second largest refinery
- A crude oil processing capacity of 10 million tons
- Compliance with current EU environmental norms
- Flexibility to process different crude oil types

BENEFITS
- 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

FEATURES
- The largest integrated port in the Aegean region
- Handling capacity of 1.5 million TEU
- 700 meters dock length
- 48 hectare port back service area

BENEFITS
- 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

FEATURES
- 51 MW
- 17 turbines

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

The Petlim Container Terminal will cost USD 400 million, including financing costs. The first phase of the Terminal, consisting of 800,000 TEU (was completed on 6 December 2016 and entered service.

USD 400 million

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 will cost USD 400 million, including financing costs.

The first phase of the Petlim Container Terminal, consisting of 800,000 TEU (Twenty Foot Equivalent Unit) was completed on 6 December 2016 and entered service. The terminal will be the largest in the Aegean and the third largest container terminal in Turkey with a dock length of 700 m and handling capacity of 1.5 million TEU. The 48 ha port back service area is planned to be completed in 2017 as part of the second phase investment. As Turkey's first port to accept vessels with capacities of over 11,000 TEU, Petlim will be an important logistics center in the region, which will rival the Piraeus and Alexandria ports with the advantage of having a water depth of 16 m.

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

Petkim RES carries out the wind farm project, which constitutes the first phase of the power plant that will be serving as the energy pillar of the investments being undertaken within the framework of the "Value-Site 2023" vision.

The mechanical installation of 14 of the 17 turbines, which were planned to be built within the scope of wind farm project, was completed in 2016. Launched in 2014 and which will have an installed power capacity of 51 MW when finished, the wind farm project aims to increase Petkim's energy security, reduce the energy costs included in production costs and additionally meet some of the electricity needs arising during production from environmentally friendly renewable energy resources. All turbines are slated to be commissioned in 2017.

The wind farm is being developed as part of a EUR 55 million investment and will increase Petkim's electricity production capacity by 22%. Once the wind farm is commissioned, atmospheric CO_2 emissions will be cut by 120,000 tons.

KEY PARAMETERS AND FINANCIAL HIGHLIGHTS

Five-Year Key Indicators (TL thousand)	2012	2013	2014	2015	2016
Total Assets	2,799,356	3,245,630	3,788,257	5,460,665	6,268,528
Net Sales	4,348,910	4,158,730	4,132,846	4,532,636	4,532,591
Net Profit	24,605	48,897	8,679	639,209	731,687
Exports (USD million)	1,041	816	564	503	447
Issued Capital	1,000,000	1,000,000	1,000,000	1,500,000	1,500,000
Number of Employees	2,401	2,457	2,425	2,471	2,395

Summary Balance Sheet (TL thousand)	2015	2016
Current Assets	2,767,573	2,659,946
Non-Current Assets	2,693,092	3,608,582
Total Assets	**5,460,665**	**6,268,528**
Short-term Liabilities	1,584,388	1,796,641
Long-term Liabilities	1,070,893	1,402,447
Shareholders' Equity	2,805,384	3,069,440
Total Equity and Liabilities	**5,460,665**	**6,268,528**

Summary Income Statement (TL thousand)	2015	2016
Net Sales	4,532,636	4,532,590
Gross Profit	718,270	957,819
Operating Profit	504,951	728,735
EBITDA	664,123	889,905
Net Profit for the Year	**639,209**	**731,687**

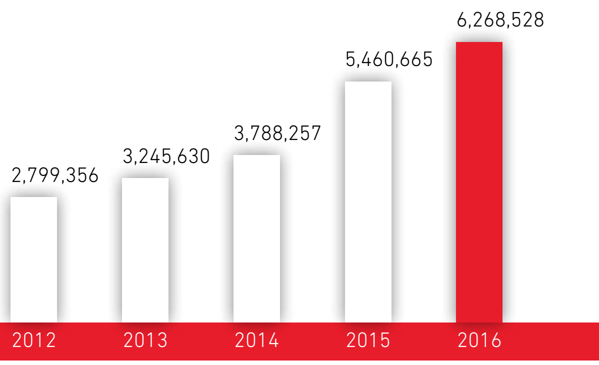
19.63%

EBITDA increased by 34% YoY in 2016 to reach TL 890 million, with the EBITDA margin rising by approximately 5 percentage points to 19.63%.

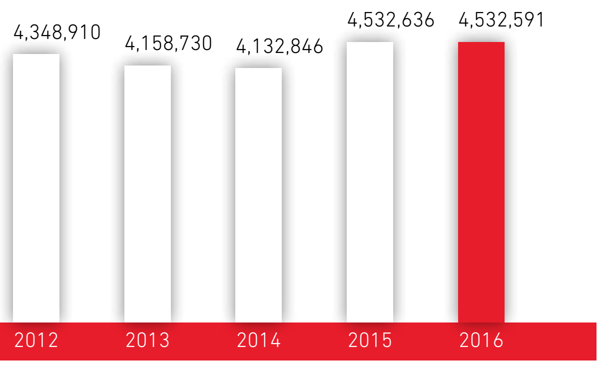
Key Ratios	2015	2016
Current Ratio	1.75x	1.48x
Liquidity Ratio	1.30x	1.08x
Financial Leverage Ratio	0.49x	0.51x
Debt Ratio (Total Debt/Equity)	0.95x	1.04x
Gross Profit Margin (%)	15.8	21.1
Operating Profit Margin (%)	11.38	16.37
EBITDA Margin (%)	14.65	19.63
Net Profit Margin (%)	14.1	16.14

Petkim achieved turnover of TL 4,533 million in 2016, meeting its high sales and profitability targets, while its gross profit margin stood at 21%.

TOTAL ASSETS (TL thousand)



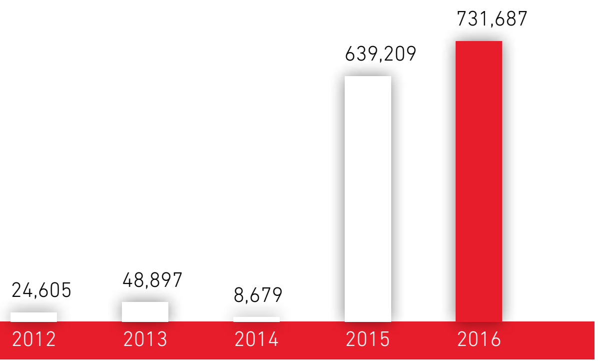
NET SALES (TL thousand)



TL 6.3 billion

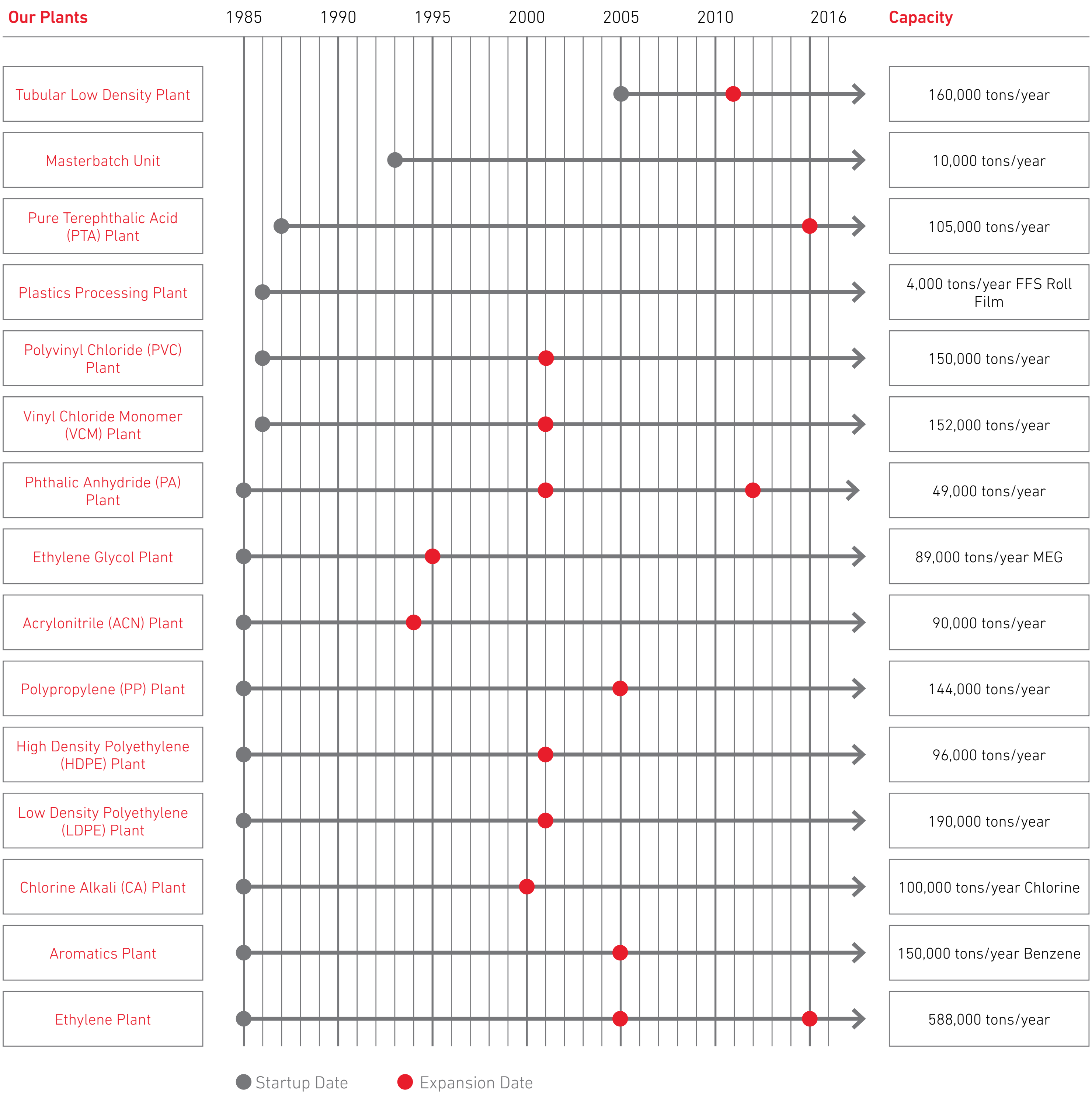
Petkim's asset size increased by 14.8% YoY to TL 6.3 billion.

NET PROFIT (TL thousand)

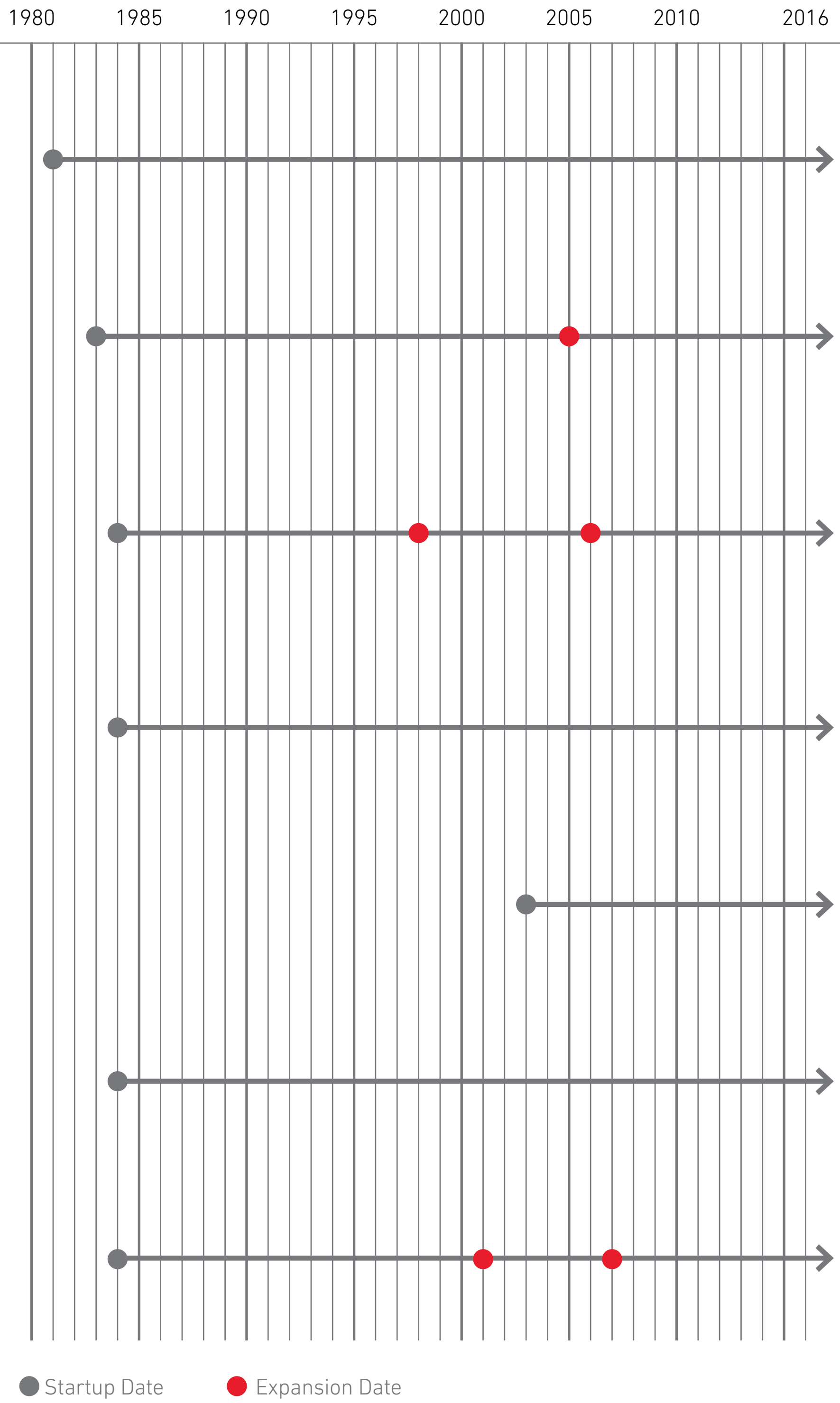


Petkim's gross profit increased by 33.4% YoY to TL 958 million while it recorded an operating profit of TL 729 million, an increase of 44.4% YoY. The company wrote a net profit of TL 732 million for the full year with a net profit margin of 16%.

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: 2.7 million tons

Energy Production

Electricity Production
Steam Production Unit
Capacity: 1,200 ton/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

- Investments to increase chlorine production capacity to 100,000 tons/year at the Chlorine Alkali Plant were completed and production began.
- 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.

100,000
tons/year

Investments to increase chlorine production capacity to 100,000 tons/year at the Chlorine Alkali Plant were completed and production began.

In order to boost the efficiency of port operations, Petlim Limancılık Ticaret A.Ş. was established in November 2010.

10 million ton

On 23 June 2010, STAR Rafineri A.Ş. received the license for a 10 million ton capacity refinery at the Petkim Complex.

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 Filmproducing 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 m^2 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

MILESTONES FROM PETKİM'S HISTORY

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.

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.

13%

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%.

Petkim Port received the "GreenPort Certificate" following an audit carried out by the Directorate General of Merchant Marine and TSI (Turkish Statistics Institute).

- 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, 400 m^2 pilot plants 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.
- Petkim Petrokimya Holding A.Ş. established Petkim Specialities Mühendislik Plastikleri Sanayi ve Ticaret A.Ş., which will produce advanced engineering plastics and high-tech chemicals. Petkim Specialities, a 100% owned subsidiary of Petkim, with a capacity of 24 tons/year, will specialize in high quality products (masterbatch, compound) for sectors such as packaging, plastics, automotive, defence, medical, information technology in Turkey. Most of these products are currently imported.

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.

800,000 TEU

On 6 December 2016 the first phase of the 800,000 TEU capacity Petkim Container Terminal was completed and it entered operation.

MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

SOCAR Turkey's investment program which is comprised of mega projects is a symbol of its trust in Turkey and the Turkish economy. With the "One Nation, Two States" principle, our presence in Turkey will increasingly continue in the future as it has until now.

Vagif ALİYEV
Chairman of the Board of Directors

Distinguished shareholders and business partners,

A year that does not meet global expectations

2016 was a year in where expectations were missed as global developments went against predictions: the UK's decision to leave the EU (Brexit), concerns over the European banking sector, geopolitical developments in the Middle East, the tendency of rising in oil prices, Trump's election as president of the USA, the Fed's interest rate hike and its expectations regarding 2017 and the overvalued US dollar - especially against emerging markets' currencies due to the last two developments.

Following the agreement between OPEC and non-OPEC countries, there was an increase in oil prices, as this was perceived as the reason behind the low inflation figures. The decision to cut oil production, which was taken in the last quarter of 2016, was the first decision to cut oil supply taken by OPEC since 2008. Subsequent to the disclosure of that decision to world public opinion, the price of Brent crude oil per barrel started to increase rapidly from USD 44/bbl to USD 50/bbl initially and then to USD 56/bbl (currently USD 55/bbl). Oil prices are expected to follow an increasing trend in the second half of 2017. This will undoubtedly also affect the petrochemical industry in which we operate. The growth in global trade has been very slow since mid-2011. The CPB index, which is an indicator of global trade volume, has not posted as much as 5% annual growth since May 2011, as demand in developed countries has failed to reach pre-crisis levels. The World Trade Organization (WTO) lowered its expectation for growth in world trade from 2.8% to 1.7%. Global trade is expected to record its lowest levels of growth in 2016 since the global crisis.

Turkey faced a number of tough tests in its economy and democracy in a year that can only be referred to as extraordinary in terms of economics and politics, but came through it with distinguished success.

Turkey faced a number of tough tests in its economy and democracy in a year that can only be referred to as extraordinary in terms of economics and politics, but came through it with distinguished success.

TL 401 million

With its strong sustainability vision, Petkim realizes various projects to maintain the continuity of its production facilities. The Company undertook TL 401 million of investments in 2016 in this context.

Thanks to the strength of financial systems and structural dynamics, economic growth was interrupted in only one quarter despite the challenging macroeconomic environment. On the other hand, the attitude of the Turkish state and its people in protecting democracy during coup attempt could be considered as a lesson in democracy to the whole world.

This picture was further enhanced by the pride of our main shareholder, SOCAR Turkey, in having operations in this country. SOCAR Turkey's investment program which is comprised of mega projects is a symbol of its trust in Turkey and the Turkish economy. With the "One Nation, Two States" principle, our presence in Turkey will increasingly continue in the future as it has until now.

We are making Petkim even stronger.

Petkim is a big source of value for Turkey with the Company's high production capacity, specialized human resources, modern technology and R&D competency. Petkim is the country's single local petrochemical manufacturer and one of the biggest suppliers of the industry. The Company enjoys a unique position as a motor for growth in the economy.

The Petkim Container Terminal and STAR Refinery investments were realized at a cost of USD 6 billion within the framework of SOCAR Turkey's strong integration plan in Petkim Peninsula. These investments represent important breakthroughs that prepare Petkim for the future and will further strengthen the Company.

With its strong sustainability vision, Petkim also realizes various projects such as renewal and modernization in its production facilities, energy and production efficiency improvement, technological infrastructure, environmental investments and general improvements. The Company undertook TL 401 million of investments in 2016 in these areas. In addition, Petkim attaches great importance to R&D investments to maintain its pioneering position. The Company undertook R&D expenditure of TL 8.5 million in 2016.

We are considering 2017 as a year of taking action.

Petkim enhanced its investment making competency in line with its growth strategy with a transformation process which started after the second half of 2016 in addition to other new strategies. The Company presses ahead on its way forward, getting stronger as it does so.

We are at the phase of having a more efficient structure with higher standards thanks to this change and the transformation movement. While we are creating a more effective and stronger organizational structure, we also took action to improve the health and morale of our human resources - our most valuable asset. By establishing a fully people-focused organization, we consider the "being Petkimian" notion as the guarantee for the future.

Our goal is to build a more modern and developed Petkim and to add new values when necessary, while protecting our core values.

I present my gratitude to all of our stakeholders, primarily to the members of the Petkim family with whom we advance Petkim further to better and bigger successes together with enthusiasm and determination.

With my deepest regards,

Vagif Aliyev

Chairman of the Board of Directors

MESSAGE FROM THE GENERAL MANAGER

In 2016, Petkim maintained the pace that it had achieved in 2015. Petkim recorded results which exceeded expectations with high capacity utilization rates, revenues, sustainable profitability and a sound financial structure.

Anar Mammadov
General Manager

A year of record high results

In 2016, Petkim maintained the pace that it had achieved in 2015. Petkim recorded results which exceeded expectations with high capacity utilization rates, revenues, sustainable profitability and a sound financial structure.

Petkim realized record high results whilst enjoying a high financial performance in 2016. Our Company's total revenues recorded as TL 4.5 billion during the year, its gross profit rose by 33.4% YoY to reach TL 958 million and operating income increased by 44.4% YoY to TL 729 million. The Company wrote a net profit of TL 732 million, with a 16% net profit margin.

Petkim's total assets rose by 14.8% to TL 6.3 billion when compared to previous year. Petkim, which moved the success line to higher levels, increased its production whilst capacity utilization rates also increased to 88%.

2016 was a positive year for our sector thanks to the low feedstock prices throughout most of the year. Following are the points which were achieved thanks to improving customer relations on the basis of trust and efficiency, and are important drivers behind our successful results: increasing sales trends, strong cash and balanced TL-foreign currency position, operational efficiency, effective and quick decision making processes.

Petkim's successful results, combined with the trust of its investors, were also reflected in its share price performance in 2016, despite the instability and volatility in financial markets. Petkim shares outperformed the BIST 100 index by 21%

Petkim rounded off 2016, a tough year, by gaining more power. The Company entered a period of restructuring by turning the negativities into opportunities.

“Petkim Benim”

“Petkim Benim” program has three main pillars: Organizational Culture, Value Creation and Steps on the Road to Growth. Our primary goal in Value Creation is to ensure efficiency in our current businesses and to create the most value in the fields of operations, commercial activities, procurement and advanced analytical applications.

Value-site 2023 vision investments and gains

The Petlim Container Terminal, which will further bolster the Company, started to accept vessels in 2016. The first phase of the terminal was completed. Once the second phase is completed in 2017, it will command a handling capacity of 1.5 million TEU.

Petlim is Turkey’s 3rd biggest integrated port and the biggest in the Aegean Region. Petlim will become an important logistic center for the region with its competitive position against the Piraeus and Alexandria ports thanks to its ability to accept vessels with capacities of over 11,000 TEU and its advantage of 16 meters water depth.

Construction work on the STAR Refinery, a subsidiary of our parent company SOCAR Turkey, has been ongoing. The refinery will have an annual oil processing capacity of 10 million tons. The STAR Refinery investment reached an 80% completion ratio as of the end of 2016. The refinery will pave the way for more efficient output thanks to the integration between refinery and petrochemical operations, similar to other examples in the world. The investment will bring the following benefits:

- Security and cost advantages in the logistics of naphtha procurement, sustainability in product specifications and quality of feedstock,
- Cost synergies such as common services, maintenance, water procurement, steam procurement, cogeneration, electricity and security with the common pipeline project,
- Increased efficiency for Petkim thanks to the synergy from integration, along with opportunities for the investments in refinery based feedstock and higher value added products.

We are in a breakthrough process that will shape the future of Petkim, which is growing hand in hand with Turkey.

Petkim rounded off 2016 by gaining more power. The Company entered a period of restructuring.

This structuring and change also covers a cultural shift, which includes our way of doing business. We are taking actions with the aim of forming a team that is focused on having different perspectives and struggling for better outcomes.

Changes in the managerial organization structure are an important step to prepare Petkim for the future. The Strategy and Business Development and Business Support functions have been positioned at the Assistant General Manager level. The Strategy and Business Development provided greater contributions to developing the right strategies and projects in line with Petkim’s growth vision. As part of the Business Support, technological progress, especially in information security, is of particular importance in today’s conditions.

Another breakthrough for us is our efforts to enhance human resources and the culture of Petkim. Under the notion of “everything starts and ends with people”, the culture at Petkim is shaped in a way that will establish more powerful trust on the basis of following points:

- Transparency
- Fairness
- Right to speak

Petkim is focused on sustaining its pace of development in 2017. Hedging is ensured with effective risk management applications to offset financial, operational and market risks. Market opportunities will be assessed in the most efficient manner with correct and timely decisions taken by a competent management mechanism.

Within this scope, we took the first steps in "Petkim Benim" program, a corporate transformation program that will move Petkim to the future. This program has three main pillars: Organizational Culture, Value Creation and Steps on the Road to Growth. Our primary goal in Value Creation is to ensure efficiency in our current businesses and to create the most value in the fields of operations, commercial activities, procurement and advanced analytical applications.

This was welcomed by our human resources who quickly became involved in the process. The whole team took actions with high expectations, motivation and team spirit to obtain the results of implementations realized to reach international standards.

The satisfaction and welfare of the employees are among our prioritized and indispensable targets. In line with this, we are striving to further improve the physical conditions of individuals working and living in the Petkim Peninsula.

Another step forward as "One Petkim"...

Petkim is focused on sustaining its pace of development in 2017. Hedging is ensured with effective risk management applications to offset financial, operational and market risks. Market opportunities will be assessed in the most efficient manner with correct and timely decisions taken by a competent management mechanism.

The market's and customers' expectations for 2017 lead Petkim to an action plan that will increase its efficiency and agility. Our core target within this scope is to increase our sales, gain market share and to sustain our presence as a profitable company by enhancing our stance which is close to customers and which covers all sectors.

We are ready as "One Petkim" to make Turkey better, to grow together and to put all efforts and devotion into Turkey's development and welfare with our continued and planned investments.

I would like to extend my profound gratitude to all of our stakeholders.

Anar Mammadov
General Manager

ORGANIZATION, CAPITAL AND SHAREHOLDING STRUCTURE OF THE COMPANY

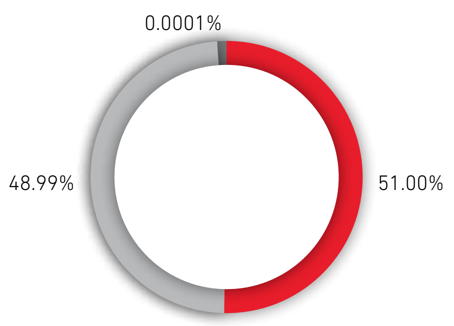
Organizational Structure

The executive management of the Company consists of one General Manager and seven 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)

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)



Shareholding Structure

Shareholders	Paid-in Capital (TL)
SOCAR Turkey Petrokimya A.Ş.	765,000,000.00
Privatization Administration	0.01
Publicly Traded on BIST	734,999,999.99
Total	**1,500,000,000.00**

Note: SOCAR Turkey Enerji A.Ş. sold 6.75% of its 8.07% interest (traded on the stock exchange) in Petkim during 2016 and now holds 1.32% share.

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.

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. He was appointed by the CMB as an independent board member of Turkcell on 15 August 2013, and General Manager and Chairman of the Board of Türkiye Wealth Fund Management Co. in November 2016.

* 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.

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. 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:

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.

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/Türkiye 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

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 2016 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

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 41 years of professional experience, speaks English. He is married and has two children.

Riza Bozoklar

Assistant General Manager

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 Programme. 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.

Bilal Guliyev

Assistant General Manager

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 Mirzayev

Assistant General Manager

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.

Levent Kocagül

Assistant General Manager

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

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 Personnel, 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

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.

Sadettin Korkut left his position as General Manager on 27 July 2016.

Anar Mammadov was appointed as General Manager on 28 July 2016.

Natig Damirov left his position as Assistant General Manager of Purchasing on 27 July 2016.

Ali Ekrem Aslan left his position as Assistant General Manager of Asset Management on 5 August 2016.

Muhammet Altay Özgür left his position as Assistant General Manager of Human Resources on 31 October 2016.

Bilal Guliyev was appointed as Assistant General Manager of Projects and Maintenance on 4 August 2016.

Kanan Mirzayev was appointed as Assistant General Manager of Strategy and Business Development on 14 October 2016.

Agshin Salimov was appointed as Assistant General Manager of Sales and Marketing on 21 November 2016.

Khalig Mustafayev was appointed as Assistant General Manager of Business Support on 10 November 2016.

Levent Kocagül was appointed as Assistant General Manager of Human Resources on 1 November 2016.

AVERAGE NUMBER OF EMPLOYEES BY CATEGORIES DURING THE REPORTING PERIOD

2,434 (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 32 of the financial statements and the notes thereto, and in Corporate Governance Principles Compliance Report.

RESEARCH AND DEVELOPMENT

Petkim gave weight to development of high value added technological products. As a result of these efforts, the Company also carries the acquisition of patents and commercialization processes.

Activities of the R&D Center

Backed by its strong team, developed infrastructure and laboratories, the Petkim R&D Center carries out product development and improvement, work to increase energy and feedstock efficiency, cut costs and support protection of the environment. Petkim gave weight to development of high value added technological products. As a result of these efforts, the Company also carries the acquisition of patents and commercialization processes.

High value added products with R&D that designs the future

Petkim R&D Center operates with 46-year R&D culture. It obtained R&D Center status by being licensed by Ministry of Science, Industry and Technology on 13 January 2015. Petkim R&D Center is established on an area of 1,200 m^2 in Petkim complex. It has 6 laboratories, 400 m^2 pilot plant and offices. Petkim R&D Center continues its efforts with suppliers, customers and universities on the fields of petro-chemistry, materials, metallurgy and chemistry, plastics and packaging. Petkim R&D Center operates with the vision of enhancing the cooperation between industry and university.

The Petkim R&D Center contains Rheology, Catalysts, Polymer Characterization, Environment and Biotechnology, Chemical Analysis and Chromatography laboratories. The R&D Center Pilot Plant has an extensive equipment infrastructure that has the technology to execute polymer processing, polymerization, and chemical processes.

In 2016, a total of 39 full time researchers worked at the Petkim R&D Center, including chemical engineers, chemists and biologists. Two of the researchers hold a Ph.D. while 6 have a Master's degree.

The Petkim R&D Center contains Rheology, Catalysts, Polymer Characterization, Environment and Biotechnology, Chemical Analysis and Chromatography laboratories.

Petkim met 70% of the budget for the projects carried out in 2016 through its own resources while the remaining 30% was met by funds provided by TÜBİTAK and the Ministry of Science, Industry and Technology.

In 2016, R&D Center conducted 17 projects, three of which were TÜBİTAK-TEYDEB projects with the other one being the SANTEZ project.

The Company undertook TL 8.5 million of expenditure, in a way that it enables R&D incentives, for the projects carried out in R&D Center in 2016. 17 projects were conducted, three of which were TÜBİTAK-TEYDEB projects with the other one being the SANTEZ project. Projects were focused on new product development, the creation of new usage areas for products, improvement of product characteristics, energy and feedstock efficiency in production processes and biological purification in waste water and drinking water. Petkim met 70% of the budget for these projects through its own resources while the remaining 30% was met by funds provided by TÜBİTAK and the Ministry of Science, Industry and Technology.

In 2016, two new TÜBİTAK-TEYDEB project applications were submitted with the aim of improving the characteristics of PVC products and the creation of new usage areas for PP products. The results of the applications are still pending.

Calls for projects within the scope of European Union's The Horizon 2020 Program are followed in line with international agreements. As part of the call for projects, applications for the following three projects were submitted, in connection with environmental protection and process improvement:

- "Development of Efficient Material for Carbon Dioxide Sorption"
- "Improvement of Maintenance Processes of Production Systems with Industry 4.0 Tools"
- "Development of New Systems for Corrosion Control on Metal Surfaces"

Assessment results for the project, which will be announced in April 2017, are pending.

Petkim continued partnerships with international suppliers such as Sumitomo, BSF, Songwon, Imerys, Aquaspersions regarding new product development and improvement of product characteristics.

For the automotive sector, the TÜBİTAK-TEYDEB project on the subject of "Development of High Impact Polypropylene Compound for the Use in Automobiles' Bumpers" was completed. Product development, with its features meeting the expectations of automotive companies, was completed.

The development of the UV supported High Density I860 (UV) coded type for the use in products exposed to sunlight and the High Density I860 (O) coded type for applications sensitive to smell and flavor was carried out.

The project on the "Use of Starch Based Flocculants in Purification of Drinking Water" was successfully completed. Petkim started to use herbal based flocculants material in the purification of drinking water within the Company. This application is important for the health of people and the environment. Petkim contributed to the proliferation of this application by pioneering the corporations and institutions having operations in purification of drinking water.

In relation to waste water, the SANTEZ project, conducted with Ege University, on the development of bacteria specific to waste was successfully completed. Commercialization of the products was carried out within a new SANTEZ project.

Petkim applied for the Europe patent for "Polyethylene Carbonate Production Method with Metal Salts". The results of the application are currently being awaited.

The Assessment of the "Cross Linked Polyethylene (XLPE) Production System and Method", "Polyethylene Carbonate Production Method" and "Polyethylene Carbonate Production Method with Metal Salts" patent applications by the Turkish Patent Institute is ongoing.

IN 2016...

The increase in the natural competitive power of naphtha producers, which started in the Petrochemical sector in the second half of 2014 with the free fall in oil prices, continued in 2016.

MAIN DEVELOPMENTS IN THE MARKET IN 2016

Volatility in commodity prices, geopolitical tensions, currency wars and contraction of international trade were all factors in the slowdown of global growth.

Naphtha-based integrated producers continue to gain a natural competitive edge in 2016.

The increase in the natural competitive power of naphtha producers, which started in the Petrochemical sector in the second half of 2014 with the free fall in oil prices, continued in 2016. Crude oil prices tumbled to USD 30/bbl in the first quarter but then started to increase in the second half of the year. Crude oil prices closed the year at USD 50/bbl. The stimulatory stance taken in Europe limited the decrease of prices, as it had in the previous year. However, as the increase in prices fell behind the increase in input prices of products in the second half of the year, margins were squeezed. The high growth rate in developing countries, which has driven the world economy, has recently shrunk significantly - especially in BRICH countries. Volatility in commodity prices, geopolitical tensions, currency wars and contraction of international trade were all factors in the slowdown of global growth.

USD 50/bbl

Crude oil prices closed the year at USD 50/bbl.

5%

In the domestic market, demand for polypropylene increased by 5%.

3%

In the domestic market, demand for polyethylene grew by 3%.

In contrast with the contraction in the world economy, the Turkish economy recorded a growth rate in excess of expectations in the first half of the year. This positive development in the economy was positively reflected to demand for petrochemical products. However, the increased terror attacks in the period following failed coup attempt on 15th July, especially in the last quarter of the year, along with the speculative exchange rate movements, also affected domestic demand negatively. In particular, the currencies of developing countries started to devalue against the USD as the presidential elections produced a result which was not in line with expectations, and also due to the Fed's interest rate hike at the year-end. Turkey was one of the hardest-hit countries by such developments, as well as the geopolitical risks. The TL suffered a precipitous fall against the USD. The slowdown in economy along excessive volatility in prices and foreign exchange rates saw the folding of a number of companies operating in the plastic sector. As importation became risky during this period, the attraction of domestic production increased.

In 2016, demand for thermoplastic products was positively affected by the increase in demand for consumer durables thanks to exporting sectors, such as the white goods and automotive sectors. In the domestic market, demand for polypropylene increased by 5% and demand for polyethylene grew by 3%. The PVC market, on the other hand, contracted by 10% in line with the decrease in exports of end products to neighboring countries. Growth in the domestic fiber market continued.

PETKİM IN 2016

PRODUCTION

2016 CAPACITY UTILIZATION RATES

94% Ethylene	95% Aromatics	88% Overall complex

Petkim operates on the basis of sustaining uninterrupted production in its facilities. Expansion and modernization investments and maintenance were performed in its 21 facilities to protect and improve its production power. Carrying a heavy responsibility, the Company fulfills the role that it undertakes as the backbone of the industry.

Increase in production and capacity utilization, with results exceeding expectations

The increase in Petkim's capacity through expansion investments and maintenance work reflected positively to Petkim's results in 2016. The company achieved results which exceeded expectations, whilst increased production and capacity utilization allowed the Company to achieve higher efficiency and meet customer demand to a higher extent.

Petkim achieved the following in 2016:

- Operations in the 15 main facilities and 6 auxiliary processing units continued in line with program targets;
- A 97% realization was achieved in production program;
- A total of 3,129 tons of production was achieved in final and intermediate products.

The increase in Petkim's capacity through expansion in investments and maintenance work reflected positively in Petkim's results in 2016. The Company achieved results which exceeded expectations, whilst increased production and capacity utilization allowed the Company to achieve higher efficiency and meet customer demand to a higher extent.

As a result of energy efficiency activities carried out in the plants, total energy savings of 1,948 TEP were achieved in 12 energy efficiency projects that were completed with USD 1.3 million of investments.

In 2016, 7 Efficiency Increasing Projects (VAP) were then approved following the on-site audit conducted by the Ministry of Energy YEGM. These projects qualified for grant support.

The capacity of complex increased by 60% thanks to the expansion and improvement investments carried out since its operations started in 1985. The capacity utilization rate stood at 88% in the overall complex, 94% in the Ethylene facility and 95% in the Aromatics facility. In the Aromatics and Ethylene Oxide-Ethylene Glycol facilities, where overall maintenance was carried out, reactor catalysts were changed. Production and efficiency increased accordingly. Fifth generation catalysts are utilized in the facilities in line with the most recent technology.

The maintenance of high pressure compressors in the Tubular Low Density Polyethylene Plant was carried out. The amount of powder polymer within final goods was minimized through a new powder removing system, which was embedded before product packaging.

Petkim sought to reflect feedback obtained from the market and customers through effective participation in fairs, regional and sectoral meetings and customer visits, to its decision making processes as rapidly as possible in 2016. With this aim, the Company started to produce nonwovens from its Polypropylene plant, and organoleptic lid types for the use of fizzy liquid bottle lid producers from its High Density Polyethylene plant.

The capacity increase and modernization of the Pure Teraphthalic Acid plant was completed at the end of 2015. The capacity was increased from 70,000 tons to 105,000 tons/year showing a 50% rise. Within this scope, the control system of the plant was transferred to DCS. The efficiency of the TA reactor was increased. Separation systems were changed in the TA and PTA fields. Improvement activities were completed in 2016 and the quality of the PTA product improved significantly. Product characterization specifications were renewed.

The ACN plant achieved its highest production level for 31 years as a result of working with different parameters, rather than the standard values defined by the licensor regarding reactors.

As a result of energy efficiency activities carried out in the plants, total energy savings of 1,948 TEP were achieved in 12 energy efficiency projects that were completed with USD 1.3 million of investments. Seven Efficiency Increasing Projects (VAP) were then approved following the on-site audit conducted by the Ministry of Energy YEGM in 2016. These projects qualified for grant support.

Work on 31 energy efficiency projects is still ongoing. VAP applications were submitted for two out of these 31 projects.

The supply of utilities required for Auxiliary Processing Units was met without interruption. Continuity of production in the plant was ensured through the disposal of waste, common pipeline and port loading and unloading activities.

The disposal of non-Petkim wastes is ongoing at the Disposal of Waste Unit. A total of 4,486 tons of hazardous waste was disposed of in the Disposal of Solid Waste Unit, in accordance with the license.

Petkim continued to support the activities of other SOCAR corporations in the Petkim Peninsula, within the site.

LOGISTICS

2016 SOLID PRODUCTS DELIVERY

700,041 tons
Domestic shipments

65,125 tons
International shipments

=

765,166 tons
Total

Projects have been developed to increase Petkim's logistics capacity in line with increased production and sales and to improve the services provided through sea, road and railway. In addition to the Petkim Port, the Petlim Container Terminal -which entered operation in 2016- represents a significant extension for Petkim as a logistics center in the Mediterranean basin with its capacity and technical features.

Delivery of 765,000 tons solid products handled in 2016.

Within the scope of logistic activities, the packaging of 764,800 tons of solid products was carried out in 2016. As part of the solid product packaging activities, a total of 2,742 tons of bagging packaging material (FFS Roll Bag, Shrink/Stretch hood Film) with 198,185 units (liner bags and big bags) of bulk filling packaging material was used.

Domestic shipments of 700,041 tons and international shipments of 65,125 tons, totaling 765,166 tons of solid products, were carried out in 2016, representing the delivery of 64,000 tons of solid products per month.

The Petlim Container Terminal -which entered operation in 2016- represents a significant extension for Petkim as a logistics center in the Mediterranean basin with its capacity and technical features.

The use of plastic pallets, which was initialized for PVC, LDPE and PA products in 2015, started for LDPE-T, PP, HDPE, PTA products in 2016.

The 225% increase in the volume of railway transportation which reached 15,500 tons, prevented market volatility and created value for customers.

Process efficiency increased by enhancement of logistics services.

- The Gross Weight License started to be given in Petkim Sales Channels on 27 June 2016 within the scope of International Convention for Safety of Life at Sea (SOLAS 74) and the Directive on the Detection and Notice of Gross Weight of Full Containers to be shipped by sea. Thanks to the development of the ERP system, this confirmed gross weight license will be provided automatically to those requiring it after the 2nd weighing.

- The development of alternative transport and supplier modes was aimed at reducing congestion in road transportation and preventing any increase in the market that would arise after any deterioration in the supply-demand balance. Within this scope, the volume of railway transportation increased by 225% to 15,500 tons, thus prevented market volatility and created value for customers.

- The Company started to use plastic pallets for PVC, LDPE and PA products in 2015 instead of the wood pallets that had been used in transportation packaging. Plastic pallets started to be used for LDPE-T, PP, HDPE, PTA products in 2016. Carbon emissions were cut as a result of a 2% decline in vehicles' weight thanks to the use of plastic pallets, which are lighter, more hygienic, easy to recycle and environmentally friendly.

- The FIFO (first in first out) application started to be applied in solid product loading. This paved the way for the delivery of old lots. Delivery according to FIFO was carried out in 2016 at a 99.9% rate in these deliveries.

- The lighting fixtures in packaging and sales warehouse areas were changed to new model LED fixtures. Energy consumption was reduced and increased lighting was achieved.

- Efficiency was ensured by decreasing energy and air consumption with renewal in big-bag machinery.

Full effectiveness achieved in inventory management.

The inventory strategy was formed for several material groups to manage material stocks in a more effective manner. Requests from maintenance groups were met more rapidly with minimum inventories by carrying out the procurement of materials in line with these strategies. Efforts to expand these strategies to all material groups are ongoing. A measurement methodology was developed to assess the satisfaction level of internal customers, with a target for a 95% of service meeting ratio to be maintained.

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 2016, the Port was continuing to serve Petkim over a 47,401 m^2 area.

LOGISTICS

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

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.

2.7 million tons handling carried through the Port.

Petkim Port provided services to 449 vessels in 2016 with 2,276,000 tons of loading/unloading in total.

449

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The Petkim Port was given the GreenPort Certificate for the second time following the inspections carried out by the Ministry of Transport, Maritime Affairs and Communications Directorate General of Merchant Marine and the Turkish Standards Institutions.

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

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.

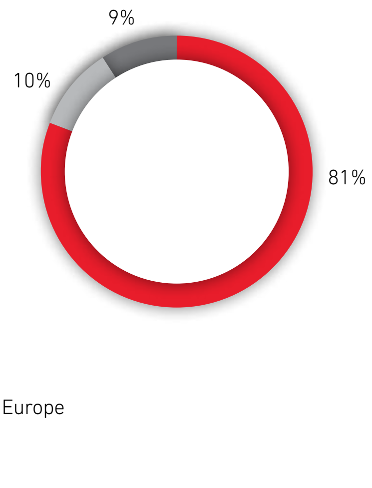
Petkim Port awarded GreenPort Certificate for the second time.

The Petkim Port was given the GreenPort Certificate for the second time following the inspections carried out by the Ministry of Transport, Maritime Affairs and Communications Directorate General of Merchant Marine and the Turkish Standards Institutions.

SALES AND MARKETING

Domestic sales volume of Petkim totaled 1,008 tons, remaining unchanged compared to the previous year. On the other hand, export volumes were realized at 753,000 tons, at the same level of the past year.

EXPORTS



With its finger on the pulse of the market with its reputation as a producer shaping the market and organizing its pricing policy and sales terms so as to meet expectations with its strong ability to understand the market, Petkim works closely with manufacturers, shares its technological know-how and works together with them in achieving growth targets, and exists with its customers.

Continuing to grow with its customers

In an effort to meet the domestic demand in 2016, Petkim concentrated on commercial operations based on the import of products which either do not exist in Petkim's product mix, or where Petkim cannot meet domestic demand. In this regard, Petkim increased its trade volume with a procurement source through annual agreements for Azeri LDPE (low density polyethylene), PTA (pure terephthalic acid) and MEG (mono-ethylene glycol).

Petkim paid great attention to new product development in 2016. Within this scope, Petkim initiated five new products, the most important being a product in the HDPE plant for organoleptic bottle caps, generating TL 4.6 million in sales revenues from 1,232 tons of production.

Domestic sales volume totaled 1,008 tons, remaining unchanged compared to the previous year. On the other hand, export volumes were realized at 753,000 tons, 81% of which were made to Western Europe, 10% to Asia and 9% to the US. Total sales revenues amounted to TL 4,533 million, marking an increase of 0.62% when compared to the previous year.

Petkim exports approximately 30-35% of its total sales, and exports mainly consist of liquid products. In addition to products such as C4 and benzene which are not consumed in Turkey, Petkim also focused on exporting

- A producer shaping the market with its finger on the pulse
- Organizing its pricing policy and sales terms so as to meet expectations with its strong ability to understand the market
- Working closely with manufacturers
- Sharing its technological know-how and
- Proceeding with its customers in achieving growth targets

PETKİM EXISTS WITH ITS CUSTOMERS.

A total of 935 customer visits took place for commercial purposes in 2016 -a new record- with more emphasis on technical customer visits.

the LDPE and PA (Phthalic Anhydride), where there is high production capacity, at times when domestic demand remained relatively low.

In both domestic and international sales, Petkim focused on ex-work sales to customers such as CIP and DAP instead of FOB and FCA (Ex-Wor). Thus, Petkim not only provided solutions for customers' logistic issues but also prevented the secondary market sales of the products.

Recent developments in the economy have added to cash strains in the market, causing an extension to payment terms. Petkim continued to develop new financing instruments to facilitate access to financing, especially for small and medium-sized clients. As far as the sales are concerned, alternative payment and credit instruments such as cheques, credit cards, export credits and receivable insurance, which also provide flexibility in payment terms, were extended in addition to the pre-payment, bank guarantee letters and letters of credit payment conditions that were predominantly applied.

As a company that is close to its customers, Petkim continued to meet its customers' demands in 2016, while sharing mutual technical know-how through technical customer visits.

A total of 935 customer visits took place for commercial purposes in 2016 -a new record- with more emphasis on technical customer visits. On the other hand, the number of technical customer visits increased from 65 in 2013 to 302 in 2015 and further to 314 in 2016, marking a gradual improvement each and every year.

Continuing to increase the technical support it extends to its customers as a domestic producer, Petkim focused on training activities under the roof of the Petkim Academy in line with customer demands within this scope.

TECHNOLOGY

Constantly advancing its extensive IT structure forward with its vision and pioneering position in technology, Petkim stands out with its superior position in the adaptation and development of SAP modules, as well as its initiative in using advanced software for process automation and adopting the latest cyber security measures.

Leading technologies, strong infrastructure

In the new organizational structure that Petkim started to work with in the second half of 2016, the Company approached to the concept of "Security" as a whole by introducing the post of "Business Support Executive Vice President", who will ensure the business endurance and security of company information in accordance with the principles of Information Security Management Systems whilst also raising employee awareness on these matters and supporting the physical prosperity of the Petkim Peninsula.

In 2016, servers and data storage areas were renewed with the deployment of state-of-the-art devices to replace devices which had completed their economic and technological lifespan. Within the context of this project, the servers have been updated, systems have been moved to the new servers, and database systems have been upgraded to the latest versions. Thus, the system has started to work on a more secure environment through increasing the performance of the systems.

Internet line capacity has been increased to ensure a more rapid response to increasing business needs. Furthermore, internet line backup was provided by obtaining a new internet line from a different operator.

Within the scope of IT studies, work on the existing network, hardware and improvement of the infrastructure continued while new technological developments were followed, to ensure Petkim possesses the latest systems.

Petkim plans to further increase the security of the internet and network by establishing the Security Information and Event Management (SIEM) application in order to protect the Company against any cyber-attacks. On the other hand, the end-user security project will allow

Superior position in the adaptation and development of SAP modules →

Using advanced software for process automation →

Latest cyber security measures →

Petkim constantly advances its extensive IT structure forward with its vision and pioneering position in technology.

Petkim plans to further increase the security of the internet and network by establishing the Security Information and Event Management (SIEM) application in order to protect the Company against any cyber-attacks.

The Dynamic Route project provides the upper management with the opportunity to take measures to increase the Company's profitability by illustrating the Company's important business results visually and rapidly in a big picture, in a standard format.

mobile devices to work more securely in the face of any external threats.

The active and passive devices present in the corporate network infrastructure will be improved so as to increase the security, service quality and speed of the system. The Company has carried out studies into the isolation of Industrial Control Systems from the outside world and joint studies have been carried out with the relevant units to ensure higher levels of security. On the other hand, the DCS (Distributed Control System) systems in the facilities will be upgraded to further increase the level of security.

Advanced software in process controls

The SAP system, which has been in use since 2010 as Enterprise Resource Planning, was revitalized with 12 modules. Three modules were further brought in to the system taking into consideration the business needs. Finally, the HSE (Health, Safety & Environment) module was put into use in 2016.

The Dynamic Route project provides the upper management with the opportunity to take measures to increase the Company's profitability by illustrating the Company's important business results visually and rapidly in a big picture, in a standard format.

Petkim uses e-billing and e-book systems while work on establishing an e-archive system continues.

Within the scope of the SuccessFactors project, Petkim became integrated into the SuccessFactors application established by SOCAR Turkey.

Operating systems and database versions were updated by moving the SAP system to virtual servers. All modules in the SAP system were supported on ABAP and Module Consulting. While providing maintenance and support services for NET projects, new projects were established in line with the requirements. New forms have been established and existing forms have been revised on the EBA system to comply with business processes, and have been offered to the users.

INVESTMENTS

Continuity in investments + efficiency in operations = EXCELLENCE

In addition to the "Value-Site 2023" investments that are being carried out in the peninsula to prepare for the future, Petkim also continues its investment activities in the Aliağa Complex for capacity increases, renewal, modernization and energy efficiency in line with its sustainability approach.

Continuous investments ensuring efficiency and excellence in operations

Petkim adopted a wide array of projects in 2016 under the scope of its continuous investment activities in order to ensure excellence in the operation of the facilities in its complex structure.

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

The engineering work of the investment initiated with the purpose of establishing an "Ethylene Recovery Unit" to prevent the loss of ethylene in the vent gas (process waste gas) through Membrane Technology was completed and the skid unit has been manufactured and shipped in 2016. The investment, which is expected to save 406 tons of ethylene per year, is planned to be installed and commissioned at the beginning of 2017.

Chlorine/Alkali (CA) Plant

A total of 44 monopolar electrolizers are used in the CA Plant for chlorine and caustic production. The EP contract on the conversion of these electrolyzers from monopolar

In the CA Plant, the EP contract on the conversion of the electrolyzers from monopolar technology to bipolar technology was signed in 2016, while engineering work is still in progress.

In 2016, Petkim spent TL 401 million on investments in capacity increases, the environment, technological development, completion of renovation, general improvement and efficiency improvements in energy operations and production.

R&D

A total of TL 8.5 million was spent in 2016 to benefit from the R&D incentives in the projects carried out within the R&D Center.

technology to bipolar technology was signed in 2016, while engineering work is still in progress. Bipolar technology leads to energy savings of 10% per ton of production, while reducing costs due to mounting downtime during the periodic anode, cathode and membrane changes, and eliminates production losses and improves process safety. The project, which has an investment amount of approximately USD 17 million, is expected to be completed in the first quarter of 2018.

The savings in production costs achieved by adopting this investment will also help reduce PVC (Polyvinyl Chloride) costs, which is a final product.

Petkim has initiated studies to replace the brine filtration system of the CA Plant. The tender process of the investment is currently ongoing, with the work expected to be completed in parallel with the bipolar investment.

Auxiliary units

Initially, two LPG/C3/C4 spools (Jetty-2 and Jetty-5), one ACN spool (Jetty-2) and one ammonia spool (Jetty-5) were procured within the scope of the investment for the replacement of 12 seaport filling spools that are located in Jetty number 2, Jetty number 3 and Jetty number 5, with new spools which have emergency release couplings. The investment aims to enable safer filling and discharging from vessels.

LDPE (Low Density Polyethylene) Plant

Work on the LDPE 1 and LDPE 2 Booster Primary compressor efficiency improvement project has been completed and the units will be commissioned in 2017.

Plastic Process Plant

The MB100 line extruder in the Plastic Processing Plant will be modernized and renewed in order to increase the variety of additive masterbatch.

STAR - Petkim Connection Lines Project

Engineering work on the steam, nitrogen, oxygen, caustic, raw water, process and drinking water lines from Petkim to the STAR Refinery -which is being established by SOCAR- has been completed and the transfer lines for products (hydrogen, LPG and mixed xylen) from STAR Refinery to Petkim has also been completed. The installation of lines and equipment was then started.

Investment spending of TL 401 million in 2016

In 2016, Petkim spent TL 401 million on investments in capacity increases, the environment, technological development, completion of renovation, general improvement and efficiency improvements in energy operations and production.

Since 13 January 2015, R&D activities have been performed in the "R&D Center". A total of TL 8.5 million was spent in 2016 to benefit from the R&D incentives in the projects carried out within the R&D Center.

The Company has carried out 2016 investments through two incentive certificates, regional and strategic.

SUSTAINABILITY

Petkim's Sustainability Vision

The petrochemicals sector is one of the most important sectors when it comes to 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.

Petkim 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 2016, continuing its success.

Human Resources in Petkim

Highly motivated, efficient Human Resources

Petkim has always stepped up to the plate to reflect the breakthrough it has made to become a more modern and powerful organization, and its Human Resources practices are no exception.

Cultural change in HR is embodied at 3 points:

- Interiorizing the "One Petkim" (Petkim Family) understanding
- Operation on the basis of fairness and development
- Developing a leadership approach at every level

Having been included in the Borsa İstanbul's Sustainability Index in 2014, Petkim maintained its position following the review conducted in 2016, continuing its success.

human-oriented

Within the framework of change and transformation, the Human Resources Policy was based on "human orientation", with the aim of working on this basis to achieve concrete results.

With respect to this;

- A simple, effective, efficient managerial organization was created.
- Necessary actions were taken to improve physical conditions (renewal of offices, the cafeteria and housing).
- To improve the understanding of cooperation, structures like the idea evaluation system, project management groups were set up.
- A fair performance system was established which was based on contribution. Opportunities are offered within this framework.

For improvement and training, a number of programs are planned, based on 3 axes:

1. Basic competencies - all employees
2. Managerial - upper management
3. Functional - technical personnel

On the other hand, preparations for collective bargaining contract in the new period were initiated, as a step towards the new industrial relations cult.

Our Human Resources is our most precious asset.

The main framework of Human Resources Policy is to create the intellectual capital of the future through constantly improving our human resources with the power of our know-how and experience.

Within this scope, Petkim boosts the high performance of its employees and offers them opportunities to support their career progress as it aims to be the center of attraction in the sector for young people while aiming to carry out training programs that will provide the necessary know-how, experience and skills to equip its employees to be more successful in the working environment.

The objective of Petkim's Human Resources Policy is to provide a flexible and efficient working environment that will help the Company reach its strategic targets where employees are highly motivated and skilled with a confident view of the future.

The Policy is shaped on the basis of establishing and sustaining human resources with an "occupational safety oriented professional discipline" that involves social and environmental responsibility as well as respect for our values.

The fundamental principles of the HR policy are spelled out as follows:

- To establish and implement the system for identifying the qualifications of the human resources that will enable efficient and productive execution of the Company's activities, and for selecting and recruiting them.
- To identify and implement the training programs intended to equip employees with the knowledge, skills, attitudes and behavior that will help them keep abreast of all developments and changes regarding the nature of their respective jobs, to boost their job satisfaction and to help them be more successful in business life, and to ensure the best outcomes for the Company.
- To set up and realize a career management system that ensures constant development of employees in the organization, which prepares them to meet the responsibilities required by higher positions and makes optimal use of our employees who are willing to take responsibility at all levels.
- To gather information on the scope of jobs performed in the organization, staffing needs and working conditions, and conduct work analyses to make use of this information and to develop job descriptions aligned with changing conditions.
- Develop the systems that will encourage success and creativity by providing working conditions conforming to the quality of the service rendered; in this context;

SUSTAINABILITY

- generate ideas that can be transformed into new products, services, processes, systems and social interaction so as to bring about renewal and to add value to the organization, employees and other stakeholders by making use of the creativity of all our stakeholders (employees, customers, suppliers, shareholders and society),
- catalyze people's inherent potential to achieve and to be useful and get them to think and question before every action, render their knowledge and experience usable to the benefit of the company and employees,
- motivate those who have creative ideas through recognition and rewarding, to increase the involvement of all employees in the Company's activities with their self-conceived creative and innovative ideas, and ensure that creative ideas are efficiently put into practice.

• Seek employees' opinions through various means including questionnaires and similar methods, which will then be used as an input for future or planned implementations.

• Ensure the creation of a "Corporate Culture and Awareness" by responding to the social and cultural needs of the personnel.

• Raise a notion of sustainability among employees in an effort to meet today's needs without depleting resources from future generations. Propagate a level of consciousness where they will also consider their goals in terms of their environmental and socio-economical dimensions to be able to create long-term value rather than focusing solely on short-term solutions when planning their strategies.

• Concentrate on ensuring occupational health and safety and on protecting the natural environment in the Company's operations; to develop systems to prevent workplace accidents; to increase cooperation with neighboring facilities, authorities and local administrations with the aim of improving health, security and environmental protection; to place priority on occupational health and safety and the environment in projects; organize activities in a way that allows emergency responses; and to be transparent to stakeholders in all Company implementations.

The PETKİM ACADEMY, serving its employees, as well as sectoral stakeholders, customers and all industrial organizations, successfully completed its 3rd year of operation.

2,395 personnel

As of the end of 2016, Petkim employed 516 white collar and 1,857 blue collar employees, totaling 2,395 personnel.

There are representatives for handling relations with employees.

Under "Article 27 - Appointment of a Workplace Trade Union Representative and Their Duties" of Law no. 6356 on Trade Unions and the Collective Bargaining Agreement, there is a Chief Workplace Representative and Representatives at the workplace.

No complaints have been received from any employees with respect to discrimination.

The Company does not discriminate, and no such complaints have been received from any employee to date.

Performance criteria have been announced and shared with the employees.

A new software package has been introduced to the Performance Management System as of 2016. Through the system, it was aimed to measure the individual performance of all white-collar employees more fairly and effectively. Thanks to this implementation, the employees came together with their managers and they mutually provided feedback and strengthened communication.

Progress in number of employees

Adopting the principle of investing in qualified human resources, Petkim hired 128 new employees in 2016 in line with its needs and growth targets. As of the end of 2016, Petkim employed 516 white collar and 1,857 blue collar employees, totaling 2,395 personnel.

THE PETKİM ACADEMY AND TRAINING ACTIVITIES

The Petkim Academy, founded with a strategy of presenting Petkim's power, leadership, richness of experience and extensive knowledge in the petrochemicals field to its employees, sectoral stakeholders, customers and all industrial organizations in the structure of an academy successfully completed its 3rd year of operation.

The Petkim Academy includes an on-site technical training school and a school of personal development, with competent, certificated internal trainers and training partners, providing training programs which are tailored to the management of industrial institutions, market strategies and the structures of techniques, quality, production and maintenance in order to meet training needs in the sector.

All newly recruited staff receives a two day "Orientation" program which includes an introduction of Petkim along with its environmental, Integrated Management System, its Administration, Security, Information Security and Management System, and technical and fire safety training.

Trainees start working by completing the employment guaranteed workforce training program in the production and maintenance departments. The training, which is provided to groups of 20 people on average over a period of 38 working days, is conducted in collaboration between Petkim, İSKUR and Katip Çelebi University. Trainees then receive On-the-job training lasting for 3-4 days, and trainees are supported in their preparation to start work.

Employees are offered 16 hours of HSE (Health-Security-Environment) training, in accordance with the legislation. Some of this training takes place through distance learning.

Of the 40 professions published by the Vocational Qualifications Authority, those employees working in the three professions (machine maintenance, welding and scaffolding) which gave the company concerns, were provided with the required training to obtain the necessary competencies.

The Petkim First Aid Training Center, which holds a certificate of eligibility from the Izmir Provincial Health Department, provides certification to employees, customers and suppliers through the Certified First Aid and Certified First Aid Update programs.

The Petkim Academy Fire Safety Center conducts fire safety training in the areas of practical education, predominantly to meet the needs of institutions in the region.

Defensive Driving training was provided to ensure that employees using in-house vehicles drive safely, SRC certificate training was provided for employees using

SUSTAINABILITY

work machines, and crane operator training, technical training and basic training for 7 different quality systems within the scope of the Integrated Management System were provided. Hands-on training was provided by demonstrating the aromatics on ACN, LDPE and PE plant models in the training center, which was converted to the "Petkim Academy Application Center" following a wide ranging restoration in 2015.

Technical visits to the facilities and internship programs, which are provided to vocational school and university students within the framework of Petkim's social responsibility approach, are managed by the Petkim Academy.

Students from the SOCAR Summer School come to Petkim for training purposes during the summer period.

2016 in brief;

- Petkim employees received an average of 45 hours of training within the Petkim Academy Technical Training School and Personal Development School.
- Technical Training School instructors continued to carry out training for 27 individual technical issues for manufacturing facilities at the Application Training Center.
- Employees who needed the Vocational Qualifications certificate were certified through gaining necessary competencies.
- Within the framework of collaboration with various universities and vocational schools, Petkim offered internship opportunities to 195 students in the summer term and a further 79 students in the winter term over a period of 8 months.

Within the scope of training activities, five training books were published within the Petkim Academy for the employees and customers. The technical safety handbooks for each facility were printed especially for the auxiliary industry personnel working in the units in order to increase technical safety information and awareness. Furthermore, "Critical events in enterprises" and "Question and answer training notes in business units" issued in the past years have been rearranged and developed and a 2nd edition has been published.

The Environment and Occupational Health and Safety

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 12 scenarios (environment-fire, sabotage-fire, gas leak-fire, rescue-fire) fire drills are carried out annually. Related factory managers and senior management representatives take part in the drills, and continuous improvement is provided.

The Fire Safety Unit provides training for third party firms with a fee within the context of the Petkim Academy.

In 2016;

- 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.
- 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.

HSE

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.

Continuously monitored environmental performance through environmental indicators increases the desire to go beyond legal obligations in Petkim.

28%

The incidence of accidents was reduced by 28% when compared to 2015 as a result of intense studies conducted within the framework of Occupational Health and Security.

- Contest organizations were held.
- Health Security Environment Boards were set up.
- Technique security videos were broadcast on the corporate TV channel.

- 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 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 in the culmination of about 2 years' work, without receiving any consultancy services.
- The incidence of accidents was reduced by 28% when compared to 2015 as a result of intense studies conducted within the framework of Occupational Health and Security.
- SAP HSE module was activated within the context of Corporate Resource Planning.

Environmental and Waste Management Activities

Petkim has been successful in integrating sustainability into its well-established production culture for over half a century. The optimum use of water, energy and feedstock, the minimization of environmental impacts through a total and preventive environmental strategy and the increase in projects and investments related to the environment played a key role in this success.

Petkim's operations which are carried out within the frame of its mission of "protects the environment with an awareness of sustainability, conforms to universal values, provides occupational health and safety, supports society and brings added value", are in compliance with its Integrated Management System combining ISO 9001 Quality Management System, OHSAS 18001 Occupational Health and Safety Management System and 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, increases the desire to go beyond legal obligations in Petkim.

The main activities in 2016 are highlighted as follows:

- The Petkim Port received Green Port certificate for a 2nd time.
- Internal audits were conducted in the Company within the context of ISO 14001. At the end of the year, an external audit was carried out by a third party.
- A combined audit was conducted by the Ministry of Environment and Urbanization in November, which encompassed all areas of environmental activity. The combined audit was successful, with no criminal action taken against the Company.
- In line with the Communiqué on Greenhouse Gas Emission Follow-up, the process for the preparation of greenhouse gas emission reports for the years 2015/2016 and verification of them by the relevant authorities for greenhouse gas emissions from the Company's operations was initiated.
- Necessary notifications were made through the BEKRA notification system for stored chemicals as per Communiqué for the Regulation on the Prevention and Mitigation of Major Industrial Accidents.

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- Odor measurements were conducted at all points that could emit odors in the process areas. These measurements were conducted as part of the identification and management of odor emissions that could result from the Company's operations. Based on these measurement reports, odor emissions from the Company's activities were found to be in line with legislative requirements, and the results of the measurements were shared with the Provincial Directorate 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 16,941 tons of waste were treated in the Petkim Waste Incineration Unit, which operated at a capacity utilization ratio of 97%.

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.

Over the last 10 years, the projects in power plants and factories have achieved a 19% saving in energy costs per unit, per product.

Within this context, in 2016;

- The Company invested USD 1,342,283 in the completed 12 energy efficiency projects, lowering energy costs by USD 1,120,722. These projects enabled savings of 1,948 TEP. Two of these projects are EIP (Efficiency Increasing Project) projects.
- Energy is one of Petkim's major cost inputs. Each and every improvement in energy costs directly helps lower product costs. Having succeeded in substantially reducing its energy costs per ton of production thanks

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.

31 projects

A total of 31 energy efficiency projects are underway. In 2016, EIP applications were lodged for two of these projects.

to the measures taken since its establishment, Petkim initiated four efficiency increasing projects in 2016, which are planned to be completed in the first half of 2017. Two of these projects involve the replacement of compressors in the LDPE 1 and LDPE 2 plants while the others involve the replacement of two "refrigeration" compressors in the PVC plant with new type energy efficient compressors. 7 EIP Efficiency Increasing Projects (EIP) which were completed in 2015 and 2016 were approved through on site examinations carried out by the Ministry of Energy and Natural Resources General Directorate of Renewable Energy in 2016, resulting in the disbursement of a total of TL 658,244 in grants.

- A total of 31 energy efficiency projects are underway. In 2016, EIP applications were lodged for two of these projects. These are the "Transformation of Existing Pumps with Efficient Pumps (EO / EG)" and "PA Plant Termocompressors" projects. In addition, 53 energy efficiency projects were identified for 2017 within the energy efficiency action plan.
- In addition, pre-engineering and feasibility studies for a new power plant, which is much more efficient and has lower production costs than the existing power plant, have been completed.

Petkim Integrated Management System

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.

Petkim's Integrated Management System consists of;

- The ISO 9001:2008 Quality Management System
- The ISO 14001:2004 Environmental Management System
- The OHSAS 18001:2008 Occupational Health and Safety Management System
- The TS/ISO 10002:2013 Customer Satisfaction Management System
- The ISO 50001:2011 Energy Management System
- The IEC/ISO 27001:2013 Information Security Management System
- The ISO 17025:2012 Laboratory Accreditation System
- The TS/ISO 31000 Risk Management Verification Certificate
- The GreenPort Certificate

The GreenPort, TS/ISO 10002 Customer Satisfaction Management System, OHSAS 18001 Occupational Health and Safety Management System and ISO 14001 Environmental Management System audits were successfully completed between 12-14 October 2016; the ISO 9001 Quality Management System, ISO 50001 Energy Management System audits were completed between 17-19 October 2016; and the IEC/ISO 27001 Information Security Management System audit was also completed between 18-20 October 2016. These audits were conducted by the Turkish Standards Institution.

Recertification was decided for the GreenPort and TS/ISO 10002 Customer Satisfaction System, whereas the ISO 9001 Quality, ISO 50001 Energy, OHSAS 18001 Occupational Health and Safety, ISO 14001 Environmental and IEC/ISO 27001 Information Security Management System certificates were issued permanently following the supervisions.

The ISO 17025:2012 Laboratory Accreditation System audit (carried out due to relocation), conducted by TÜRKAK (the Turkish Accreditation Agency) on 6 May 2016, was also completed successfully.

The TS ISO 31000 Risk Management Verification audit conducted by the Turkish Standards Institution on 27-28-29 December 2016 was completed successfully. Petkim was awarded the "TS ISO 31000 Risk Management Verification Certificate".

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The TS ISO 31000 Risk Management Verification audit conducted by the Turkish Standards Institution on 27-28-29 December 2016 was completed successfully. Petkim was awarded the "TS ISO 31000 Risk Management Verification Certificate".

Within the context of TS/ISO 31000 Risk Management Verification audit preparations;

- TS/ISO 31000 Risk Management Standards Training was held by the Turkish Standards Institution on 1-2 September 2016 for 20 participants.
- Risk management workshops were held in two separate sessions on 23 November 2016 with the participation of 33 employees.
- TS/ISO 31000 informative training was held by the Management Systems Department on 30 November 2016 for 99 participants, including the upper management and executives.
- As of 1 November 2016, the corporate risk management policy -approved by the General Manager- was published on the Company Website.

In 2017;

- The Company plans to shift to the 2015 version of the ISO 9001 Quality Management System and the ISO 14001 Environment Management System, and also plans to extend the scope of the ISO 17025: 2012 Laboratory Accreditation System.
- Feasibility studies will be held for the configuration of the ISO 55001 Asset Management System and the ISO 22301 Business Continuity Management System.
- Various information programs will be prepared for employees in order to ensure the effective sustainability of the Integrated Management System consisting of 9 systems.

Support for the Arts

In 2016, Petkim took part in a sound project as one of the sponsors of the İstanbul Design Biennial, as part of its art support activities.

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Petkim's sponsorship support for the İstanbul Design Biennial represents an important breakthrough in terms of the more accurate and stronger positioning of Petkim's perception in society, in addition to contributing to the progress of culture and art.

İstanbul Design Biennial

Organized under the leadership of the İstanbul Foundation for Culture and Arts (İKSV), which has hosted events in different disciplines that enrich cultural life and the arts in İstanbul since 1973, the İstanbul Design Biennial firstly aims to contribute to the development of public awareness on the subject of "design", to create a platform to support the development of design and innovation policies and to establish a design archive on a national and international scale. The Biennial covers the major design professions such as urban design (urban and regional planning), architecture, interior architecture, industrial design, graphic design, fashion and textile design and new media design, along with creative areas related to these professions.

Petkim's sponsorship support for the İstanbul Design Biennial represents an important breakthrough in terms of the more accurate and stronger positioning of Petkim's perception in society, in addition to contributing to the progress of culture and art.

Recognizing and taking into account the positive effects of design on production, economic development, social development, cultural interaction and the quality of individual lives, Petkim is well aware that its products are actually living in different ways.

Petkim believes in the idea that the composition of raw materials it produces and the "intellect", which is the raw material of design, can be converted into design, and the Company is located at the starting point of the design begins thanks to the "particles of intellect" that it produces. These "particles of intellect" sometimes turn into a painting to form an image; at other times, they may appear as an architectural object, while sometimes they may appear as an item of fashion with a textile product.

During the public relations and promotional events held within the framework of the Biennial, Petkim had the opportunity to convey how the raw materials it produces turn into countless forms and products, influencing the design world, while supporting the different sectors of the Turkish economy.

Petkim was heavily involved in the event in various different media such as cinema and outdoor advertising as well as the print and digital media.

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 2016.

Petkim maintained its position in the Borsa İstanbul's Sustainability Index, in which it was first included in 2014, following reviews conducted in 2016 which recognized its production approach based on efficiency which respects the environment and society.

Despite the instability and volatility in the financial markets in 2016, Petkim shares performed strongly with our high profitability, strong cash position and the confidence of our investors, and outperformed the BIST 100 by 21%.

The process initiated on 9 December 2015 to increase Petkim's paid-in capital, entirely from internal sources, from TL 1,000,000,000 to TL 1,500,000,000 was completed with its registration on 25 January 2016. A dividend payment of TL 472,500,000 from the 2015 net period profit was realized on 27 June 2016.

The Petkim Investor Relations Department is devoted to increasing 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 45 information requests by e-mail and telephone in 2016 and all requests were answered. In the same period, a total of 8 investor information meetings were organized including 4 analyst meetings and 4 teleconferences, and investors were informed of the Company's financial status, strategies and activities by the upper management.

In 2016, Petkim shares performed strongly and outperformed the BIST 100 by 21%.

Petkim's 2016 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 2016, the Company was included in the BIST 30 and BIST 100 indices. Petkim also maintained its place in the "BIST Sustainability Index" in 2016, which includes companies that are traded in İstanbul Stock Exchange and which currently have a high level of corporate sustainability performance.

In 2016, the Company share price fluctuated between a minimum of TL 2.72 and a maximum of TL 4.78. While the BIST 100 and BIST 30 indices gained 9% in value during 2016, Petkim's share price increased by 32% in the same period thanks to the strong financial results announced in 2015 and 2016 and the increase in investor confidence. Petkim's shares outperformed the BIST 100 Index by 21% and the BIST 30 Index by 20%.

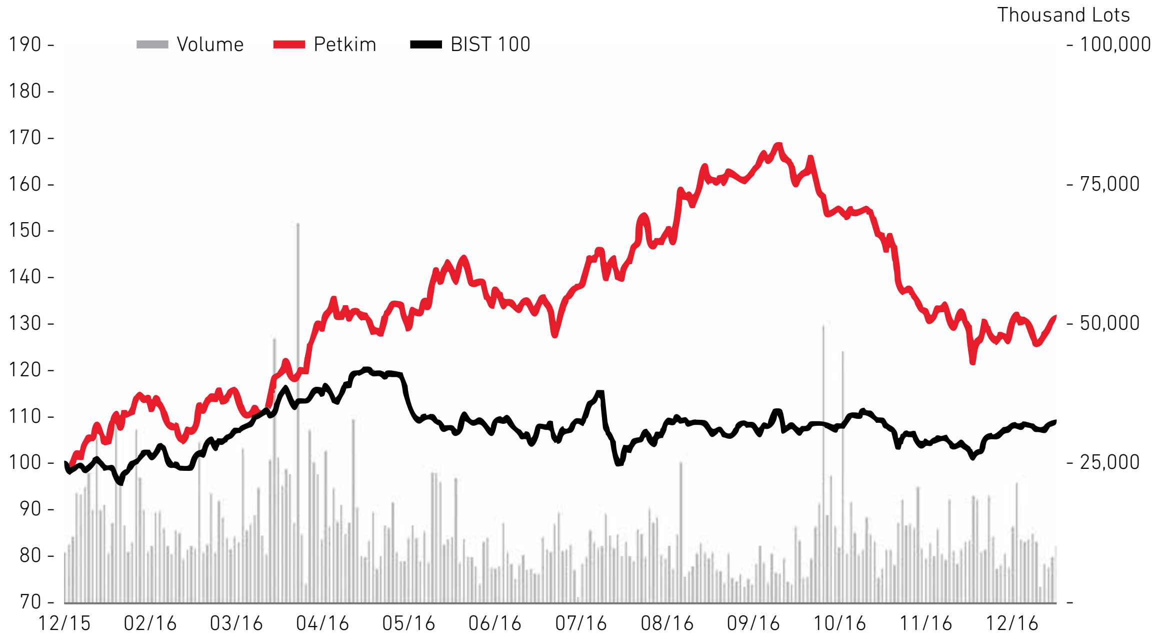
Reuters Code: PETKM.IS

Bloomberg Code: PETKM.IT

Date of Public Offering: 19.06.1990

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

PETKİM'S 2016 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 2016.

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 2016.

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 Güney Bağımsız Denetim ve SMMM A.Ş. (a member firm of Ernst & Young Global Limited), 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 2016.

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 2016. 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, high profitability was targeted for 2016 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 2016.

The actions as required by the decisions adopted in the Ordinary and Extraordinary General Assembly meetings convened during 2016 have been carried out. There are no unfulfilled decisions.

Information on Extraordinary General Assembly

During 2016, the Company convened one Extraordinary General Assembly. Detailed information is provided in the Corporate Governance Principles Compliance Report.

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

During 2016, Petkim made donations and grants in the amount of TL 2,000,000 to 15 July martyrs, TL 1,197,550 to students attending Heydar Aliyev Vocational High School, TL 10,000 to İKSEV-30th İzmir Festival Sponsorship, TL 10,000 to Aegean Association of Plastic Industrialists, TL 30,000 to our deceased worker's wife, and TL 7,177 to various places.

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 2016 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 2016 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 2016, 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 88%. Taking advantage of being a domestic producer in our national market where importers were less willing because of fluctuating exchange rates, the Company captured high sales and profitability targets. Our turnover was registered as TL 4,533 million and our gross profit margin was 21%. Despite the fluctuations in the world economy, and in turn, in the national economy, 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 Indicators

	2015	2016
TURNOVER (TL MILLION)	4,533	4,533
GROSS PROFIT MARGIN	15.8%	21.1%
EBITDA (TL MILLION)	664	890
NET PROFIT (TL MILLION)	639	732
DEBT/EQUITY	95%	104%
PRODUCTION (THOUSAND TONS)	3,118	3,129

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 2016, 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 Petkim Petrokimya Holding A.Ş. PK: 12 Aliağa 35800 İZMİR, 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. 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 2016, 48 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. In the period of time from the close of the fiscal year until the date of the general assembly meeting where related financial statements will be discussed, the Company's capital increase from TL 1,000,000,000 to TL 1,500,000,000 to be fully covered from internal funds based on the Board of Directors decision dated 8 December 2015, has been registered on 25 January 2016.

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.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

The contact information for the Investor Relations Department follows below:

Investor Relations Department

Phone: +90 232 - 616 12 40/3444

Mustafa Çağatay (Investor Relations Coordinator)

Phone: +90 232 - 616 12 40/2501

E-mail: mcagatay@petkim.com.tr

İlkay Çetin (Supervisor)

Phone: +90 232 - 616 12 40/4438

E-mail: icetin@petkim.com.tr

In 2016, our investors were informed through teleconferences, investor conferences and our web page. In the reporting period, a total of eight 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 2016, approximately 45 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 2016.

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 2016, the Company convened two General Assembly meetings, one extraordinary and one ordinary. Detailed disclosures related to the respective meeting and agenda items were posted on PDP prior to the General Assembly meetings.

The 2015 Ordinary General Assembly Meeting was held at the Company headquarters in Aliağa, İzmir on 28 March 2016 at 11:00 and was registered on 06 April 2016. 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. The Company's Extraordinary General Assembly Meeting convened on 06 September 2016 to address the agenda covering the changes in the Board of Directors' seats and was registered on 09 September 2016.

All shareholders/stakeholders and the media organs were invited to the 2015 Ordinary General Assembly meeting 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 by the Board of Directors during the meeting. No one took the floor in the petitions and requests session of 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.

A suggestion was electronically conveyed as a dissenting opinion relating to agenda item no: 7 in the 2015 General Assembly, which was entered into record as attachment to dissenting opinion. During the wishes and closing section, some shareholders asked questions about the course of the Company, projects and investments, which were responded to by the Board of Directors members and the General Manager.

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 and Extraordinary General Assembly meetings convened in 2016 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 2015 in the information document made available prior to 2015 Ordinary General Assembly meeting. Furthermore, the matter was included in the Ordinary General Assembly meeting agenda, and information was provided to shareholders during the General Assembly.

During 2016, the Company's donations and grants amounted to TL 3,254,727.

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.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

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 on the page 85 of the annual report and on the corporate web site (www.petkim.com.tr) under the link: Investor Relations/Corporate Governance/Profit Distribution Policy.

On 27 June 2016, The Company's Board of Directors distributed TL 472,500,000 in dividends out of the Net Profit for the Period of TL 639,208,658 that descended in the 2015 Consolidated Financial Statements, which were drawn up under the provisions of the Communiqué Serial: II-14.1 published by the Capital Markets Board of Turkey (CMB).

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.

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 2016.

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 2016 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 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. 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, visits and "Supplier Satisfaction Surveys" 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.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

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

Our Human Resources is our most precious asset.

The main framework of Human Resources policy is to create the intellectual capital of the future through constantly improving our human resources with the power of our know-how and experience.

Within this scope, Petkim aims to carry out training programs that will provide the necessary knowhow, experience and skills for its employees to be more successful in the working environment, to be the center of attraction in the sector for young people, while it boosts the high performance of its employees and offers them opportunities for their career progress.

On the other hand, the basis for our policy is to provide a flexible and efficient working environment where there are highly motivated, skilled employees who have confident view of the future and which will make the Company reach its strategic targets.

Our main principle is to act with an "occupational safety oriented professional discipline" that involves social and environmental responsibility as well as respect for our values.

The fundamental principles of our HR policy are spelled out as follows:

- Establish and implement the system for identifying the qualifications of the human resources that will enable efficient and productive execution of our Company's activities, and for selecting and recruiting them;
- Identify and implement the training programs intended to equip our people with the knowledge, skills, attitudes and behaviors that will help them keep abreast of all developments and changes regarding the nature of their respective jobs, to boost their job satisfaction, and to help them be more successful in business life; evaluate the outcomes with respect to the Company;
- Set up and realize a career management system that ensures constant development of our people in the organization, prepares them for responsibilities required by higher positions and makes optimum use of our employees at any level who are willing to take responsibility;
- Gather information on the scope of jobs performed in the organization, staffing needs and working conditions, and conduct work analyses to make use of this information, develop job descriptions aligned with changing conditions;
- Develop the systems that will encourage success and creativity by providing working conditions conforming to the quality of the service rendered; in this context, generate ideas that can be transformed into new products, services, processes, systems, social interaction so as to bring about renewal and to add value to the organization, employees and other stakeholders by making use of the creativity of all our stakeholders (employees, customers, suppliers, shareholders, society); catalyze the people's inherent potential to do and to be useful and get them to think and question before every action, render their knowledge and experience usable to the benefit of the Company and employees, motivate owners of creative ideas through recognition and rewarding so as to increase involvement of all employees in the Company's activities with their self-conceived creative and innovative ideas, and ensure that creative ideas are efficiently put into practice;
- Seek employees' opinions through various means including questionnaires and similar methods, which will then be used as input for future or planned implementations;

- Ensure creation of "Corporate Culture and Awareness" by responding to social and cultural needs of the personnel;
- Raise a sustainability notion in employees in an effort to meet today's needs without depleting future generations' resources. Propagate a level of consciousness that will get them to consider their goals also in terms of their environmental and socio-economical dimensions to be able to create long-term value rather than focusing solely on short-term solutions when planning their strategies;
- Occupational Health and Safety: Concentrate on ensuring occupational health and safety and on protecting the natural environment in our operations; develop systems to prevent workplace accidents; increase cooperation with neighboring facilities, authorities and local administrations for boosting the Health-Security-Environment performance; give the foreground to Occupational Health and Safety and the environment factor in our projects; organize in a manner to allow emergency response; be transparent to our stakeholders in our implementations.

Representative for handling relations with employees:

Under "Article 27- Appointment of a Workplace Trade Union Representative and His/Her Duties" of the Law no: 6356 on Trade Unions and Collective Bargaining Agreement, there is a Chief Workplace Representative and Representatives at the workplace.

Complaints, if any, received from employees with respect to discrimination; if received, steps taken for its resolution:

The Company does not make discriminations and no such complaints have been received from any employee to date.

Whether performance criteria have been announced to employees:

As of 2016, a new Performance Management System software began to be used. The system is intended to ensure a fairer and more efficient measurement of the individual performances of all white-collar employees. This initiative served to bring employees and their managers together, to receive feedback, and to strengthen the communication between them.

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 2016, 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.

Aliağa Interscholastic Chess Tournament

Petkim organized a chess tournament with contributions of Aliağa District Directorate of National Education - Culture, Arts, and Sports Projects Team, which involved participation by 101 students from all primary and secondary schools across the district. Students claiming the top three spots in the primary and secondary school categories were rewarded within the frame of the tournament held at Aliağa Municipality Social Facilities. It has been decided to hold the tournament annually in order to support the propagation of chess, which is an important sports discipline for improving fast decision-making and rational thinking skills of students.

The award ceremony of the tournament provided an opportunity for bringing together Aliağa District Governor, Aliağa District Director of National Education, Aliağa Mayor, Petkim General Manager, Chairman of Aliağa Chamber of Commerce, students and their parents.

Book Donation to Schools in Aliağa District

Our Company organized a book donation campaign within the scope of its social responsibility projects. Books comprising of the basic works identified by the Ministry of National Education for primary and secondary schools have been delivered to Aliağa District Directorate of National Education in a ceremony, for distribution to students.

Kindness Championship

As part of its corporate social responsibility projects, our Company organized a "Kindness Championship" in collaboration with Aliağa District Directorate of National Education. Within the scope of the championship, students

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

of Cumhuriyet, Petkim, Atatürk and Şakran Yunus Emre primary schools collected toys, which were sent to their peers attending the schools in Hizan district in Bitlis and Çatak district in Van with the logistic support of Petkim. The initiative has been instrumental in encouraging students who collected toys to perform acts of kindness and to share. Toys collected by students for their brothers and sisters going to schools in Hizan, Bitlis, and in Çatak, Van, have been packaged by students and teachers in boxes supplied by Petkim, and sent after being labeled with "Kindness Championship" stickers. The other leg of the "Kindness Championship" held in Aliağa was carried out in Hizan district in Bitlis and Çatak district in Van. Students posted the photos they have taken and the letters they have written to Aliağa. "Kindness Championship" built a bridge of love between the students in these different regions.

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. In its meeting held on 25 February 2016, the Corporate Governance Committee assessed whether Tevfik Bilgin, Metin Kilci and Mehmet Emin Birpınar satisfied the independence criteria. Stating that Tevfik Bilgin and Metin Kilci satisfied the independence criteria, but that clearance needs to be sought from the Capital Markets Board of Turkey, under Article 6(2) of the Corporate Governance Principles Communiqué, for nomination of Mehmet Emin Birpınar as an independent Board member as he works full-time at a public institution, the Corporate Governance Committee presented the list covering Tevfik Bilgin, Metin Kilci and Mehmet Emin Birpınar as nominees for independent Board members to the Board of Directors. The Corporate Governance Committee decision dated 25 February 2016 has been approved by the Board of Directors on 25 February 2016.

Independent Board member nominees have been approved at the 2015 Ordinary General Assembly Meeting and elected as Board of Directors members for a three-year term of office. However, in its meeting held on 05 May 2016, the Corporate Governance Committee assessed whether Mehmet Ceylan satisfied the independence criteria in relation to his nomination as an independent Board member, which seat has been vacated with the resignation of Mehmet Emin Birpınar. Stating that clearance needs to be sought from the Capital Markets Board of Turkey under Article 6(2) of the Corporate Governance Principles Communiqué for nomination of Mehmet Ceylan as an independent Board member as he works full-time at a public institution, the Corporate Governance Committee presented Mehmet Ceylan as independent Board member nominee to the Board of Directors. The Corporate Governance Committee decision dated 25 February 2016 has been approved by the Board of Directors on 05 May 2016.

For nomination to the independent Board member position vacated by the resignation of the other independent Board member Metin Kilci, the Corporate Governance Committee assessed whether Mehmet Bostan satisfied the independence criteria in its meeting held on 10 June 2016. Stating that clearance needs to be sought from the Capital Markets Board of Turkey, under Article 6(2) of the Corporate Governance Principles Communiqué, for nomination of Mehmet Bostan as an independent Board member as he works full-time at a public institution, the Corporate Governance Committee presented Mehmet Bostan as independent Board member nominee to the Board of Directors. The Corporate Governance Committee decision dated 25 February 2016 has been approved by the Board of Directors on 10 June 2016.

Declarations of independence of our independent Board members are presented on pages 44-46 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 2016, 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.

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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.

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 2016, there were no administrative and/or judicial sanctions of a material nature imposed against the Company or 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 12 times in 2016. 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 Corporate Secretariat was structured under the General Manager 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 meetings are coordinated by the Corporate Secretary. 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 Corporate Secretariat. 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 2016, there were no administrative and/or judicial sanctions of a material nature imposed against the Company or the members of the governing body on account of practices that are contradictory to the provisions of the legislation. Fines paid by the Company during the reporting period are provided under the heading Compensation and Penalty Charges in Notes to Consolidated Financial Statements, Other Operating Expenses.

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 2016 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

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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 2017, 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

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 2016, 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

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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.

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 2016, it was concluded as follows: "For us and according to the evident circumstances and conditions, in 2016, 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

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6-month periods by Güney Bağımsız Denetim ve SMMM A.Ş. (a member firm of Ernst & Young Global Limited), the independent audit firm appointed by the General Assembly.

5.5. Strategic Targets of the Company

The Management Systems Department set up in 2016 carried out individual and corporate performance system management in the first half of the year. From the second half of the year, the newly established position of Assistant General Manager of Strategy and Business Development defined the Company's strategies, and reviewed and managed corporate performance. Individuals' performances, on the other hand, were managed by the Organizational Development Department reporting to the Assistant General Manager of Human Resources, in accordance with the Company's strategies.

The Organizational Development Department operating under the Assistant General Manager of Human Resources took actions to improve the existing system and introduced a new Performance Appraisal System. Within the scope of performance management, all white-collar employees received "Performance Management Information", and annual review performance meetings were held between employees and their managers.

Through a series of dedicated diagnoses, analyses and meetings, including a workshop in which the Executive Management also participated, the office of the Assistant General Manager of Strategy and Business Development defined the Company's future strategies and targets in the second half of the year. Additionally, Petkim established its Strategic Plan through the studies of Current Situational Analyses (CSAs) and updated the Strategic Plan by revising CSAs in 2016.

In order to ensure the realization of its mission and vision, Petkim reviewed and redefined main and upper procedures and process owners in line with its Process Management System.

Within the scope of Process Management System approach;

Upon determination of Main Business Targets (MBT), the General Manager, together with the Assistant General Managers who are top process owners, identified the Key Performance Indicators (KPI) targets that are necessary to achieve MBTs. Then, department managers who are main process owners, together with Assistant General Managers, identified the Process Performance Indicators (PPI) that are necessary to attain KPIs.

Targets, identified in line with comparison activities, stakeholders' expectations and improvement opportunities were given to the owners of performance indicators. The main rule in determining the following year's performance indicators is to attain Main Business Targets, considering comparison results, to be above the previous performance achieved.

All processes designed to achieve MBRs are measured at certain intervals employing the relevant performance indicators, and improvement activities are planned for processes that present any variance from the targets. The Steering Committee formed of executive management and managers undertook a holistic review of the variances in performance indicators during Performance Indicator Evaluation and Revision Meetings held at certain intervals, evaluated variance analyses and improvement plans, and identified the processes to be improved as necessary.

The monitoring of corporate performance is also carried out at weekly budget meetings and Board of Directors meetings.

Current Situational Analysis (CSA) was also completed in 2012 to provide input to Strategic Plan studies. Current Situational Analysis comprises feedback from stakeholders; current and future market analysis; competitor and competition analysis; social, economic, political and technological analysis; assessment of supply chain and collaborations; analysis of comparative and educational information; analysis of creative ideas, performance criteria analysis; and internal and external audit analyses. The CSAs and improvement suggestions prepared by the departments and committees were consolidated at the Executive CSA Consolidation meeting in line with the principle of balancing stakeholder expectations. By assessing improvement plans in CSAs, Strategic Plan for 2017 was prepared. Realization of the strategies is monitored through holistic review of process performance indicators.

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 Board of Directors periodically compares the operating results and budget targets, looks into the reasons of variances, if any, and considers suggested improvements. The Company's general goals for 2016 have been identified as achieving maximum production and sales drawing on the relatively lower feedstock prices, a tendency that began in 2015 and persisted in 2016. Within the frame of this strategy, the targets were attained and high operating profitability was captured through increased operational efficiency and production, system and process improvements, and being closer to the market and acting faster in 2016.

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

Articles 6 and 8 of the Articles of Association have been amended as a result of the capital increase brought to completion on 25 January 2016.

Former Version	New Version
CAPITAL:	**CAPITAL:**
Article 6- The Company has adopted the registered capital system in conformity with the provisions of the Capital Market Law with number 2499 and has switched to this system as per the permission of the Capital Markets Board of Turkey (CMB) dated 07.12.1998 and numbered 11838. The Authorized Registered Capital permit issued by the CMB is valid from 2013 through 2017 (5 years). Even if the Authorized Capital so permitted is not reached by the end of 2017, in order for the Board of Directors to adopt a capital increase decision after 2017, it must obtain authorization from the General Assembly of Shareholders for a new period of time upon getting permission from the CMB for the previously permitted authorized capital or for a new amount. In the absence of the said authorization, the Company will be deemed to have exited the Registered Capital System.	**Article 6**- The Company has adopted the registered capital system in conformity with the provisions of the Capital Market Law with number 2499 and has switched to this system as per the permission of the Capital Markets Board of Turkey (CMB) dated 07.12.1998 and numbered 11838. The Authorized Registered Capital permit issued by the CMB is valid from 2013 through 2017 (5 years). Even if the Authorized Capital so permitted is not reached by the end of 2017, in order for the Board of Directors to adopt a capital increase decision after 2017, it must obtain authorization from the General Assembly of Shareholders for a new period of time upon getting permission from the CMB for the previously permitted authorized capital or for a new amount. In the absence of the said authorization, the Company will be deemed to have exited the Registered Capital System.
a) Registered capital: The Company's Registered Capital is TL 4,000,000,000.- (four billion Turkish liras), which is divided into 400,000,000,000 (four hundred billion) shares, each with a nominal value of Kr 1.- (one Kurush).	a) Registered capital: The Company's Registered Capital is TL 4,000,000,000.- (four billion Turkish liras), which is divided into 400,000,000,000 (four hundred billion) shares, each with a nominal value of Kr 1.- (one Kurush).
b) Issued Capital:	b) Issued Capital:
The Company's issued capital is TL 1,000,000,000.- (one billion Turkish liras) divided into 100,000,000,000 (one hundred billion) shares, each with a nominal value of Kr 1.- (one Kurush). The capital is paid-up in full.	The Company's issued capital is **TL 1,500,000,000.- (one and a half billion Turkish liras)** divided into **150,000,000,000 (one hundred and fifty billion)** shares, each with a nominal value of Kr 1.- (one Kurush). The capital is paid-up in full.
c) The Board of Directors shall be authorized to increase the issued capital for the years 2013-2017 when It deems necessary, providing that stay within the upper limit for registered share capital ceiling, in accordance with the provisions of the Capital Market Law, by way of issuing new shares.	c) The Board of Directors shall be authorized to increase the issued capital for the years 2013-2017 when It deems necessary, providing that stay within the upper limit for registered share capital ceiling, in accordance with the provisions of the Capital Market Law, by way of issuing new shares.
Shares representing the capital are followed-up in dematerialized form within the frame of dematerialization principles.	Shares representing the capital are followed-up in dematerialized form within the frame of dematerialization principles.

SHARE CERTIFICATES:

Article 8- The shares of the Company have been divided into two groups as Group A and C, and they have been distributed to the shareholders pro rata to their shareholdings as shown herein below:

SHARE GROUP	SHAREHOLDER	SHARE TYPE	SHARE AMOUNT	SHARE VALUE (TL)
A	Socar Turkey Petrokimya A.Ş.	Registered	51,000,000,000	510,000,000.00
A	OTHER	Registered	38,678,431,890	386,784,318.90
A	Socar Turkey Enerji A.Ş.	Registered	10,321,568,109	103,215,681.09
C	Privatization Administration	Registered	1	0.01
Total			100,000,000,000	1,000,000,000.00

Group C share belongs to the Privatization Administration. The privileges hereby granted to Group C share shall continue to exist as long as the Privatization Administration owns the Group C share. Upon conversion of the Group C share into Group A share, the "right to nominate member for the Board of Directors" granted to Group C as per Article 11 of these Articles of Association shall cease to exist.

In case it is decided to abolish the rights granted to the Group C share as per the last paragraph of Article 15 herein, such share shall be converted into a Group A share. In this case, Group C's right to nominate a candidate for Board of Directors shall cease to exist.

SHARE CERTIFICATES:

Article 8- The shares of the Company have been divided into two groups as Group A and C, and they have been distributed to the shareholders pro rata to their shareholdings as shown herein below:

SHARE GROUP	SHAREHOLDER	SHARE TYPE	SHARE AMOUNT	SHARE VALUE (TL)
A	Socar Turkey Petrokimya A.Ş.	Registered	**76,500,000,000.25**	**765,000,000.00**
A	OTHER	Registered	**65,517,647,835.22**	**655,176,478.35**
A	Socar Turkey Enerji A.Ş.	Registered	**7,982,352,163.53**	**79,823,521.64**
C	Privatization Administration	Registered	1	0.01
Total			**150,000,000,000**	**1,500,000,000.00**

Group C share belongs to the Privatization Administration. The privileges hereby granted to Group C share shall continue to exist as long as the Privatization Administration owns the Group C share. Upon conversion of the Group C share into Group A share, the "right to nominate member for the Board of Directors" granted to Group C as per Article 11 of these Articles of Association shall cease to exist.

In case it is decided to abolish the rights granted to the Group C share as per the last paragraph of Article 15 herein, such share shall be converted into a Group A share. In this case, Group C's right to nominate a candidate for Board of Directors shall cease to exist.

AGENDA

AGENDA OF PETKİM PETROKİMYA HOLDİNG A.Ş.

ORDINARY GENERAL ASSEMBLY MEETING FOR 2016 OPERATING YEAR

DATED 29 MARCH 2017

1. Opening and composition of the Meeting Presidency,

2. Reading, discussion and approval of the Activity Report of the Board of Directors for the 2016 operational year,

3. Reading the Auditor's report pertaining to the 2016 operational year.

4. Reading, discussion and approval of the financial statements pertaining to the 2016 operational year,

5. Release of the Chairman and members of the Board of Directors on account of their activities and account for the 2016 operational year,

6. Discussion of the proposal of the Board of Directors on the profit usage pertaining to the 2016 operational year; determination of the declared profit and dividend share ratio and taking a resolution thereon,

7. 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,

8. Determination of the monthly gross remunerations to be paid to the members of the Board of Directors,

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

10. In accordance with "Independent Auditing Standards in Capital Market" issued by Capital Markets Board, approving the Independent Auditing Firm selected by the Board upon proposal of the Committee responsible for Audit as to be charged for the audit of the activities and accounts of 2017,

11. Informing the Shareholders on the aid and donations granted by our Company within the 2016 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 2016 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 2016 TO BE SUBMITTED FOR THE APPROVAL OF THE ORDINARY GENERAL ASSEMBLY (TL)

	Per Capital Market Regulations	Per 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)	104,957,637.64	104,957,637.64
Information on privileges in profit distribution if any in the Articles of Association		
3) Current Period Profit	802,762,131.00	865,657,320.64
4) Taxes Payable	(76,975,853.00)	(162,836,352.92)
5) NET PROFIT	**725,786,278.00**	**702,820,967.72**
6) Previous Years Losses	-	-
7) First Legal Reserves	35,141,048.39	35,141,048.39
8) NET DISTRIBUTABLE PROFIT FOR THE PERIOD	**690,645,229.61**	**667,679,919.33**
9) Donations Made During The Year	3,254,727.44	3,254,727.44
10) NET DISTRIBUTABLE PROFIT ADDED DONATIONS	693,899,957.05	670,934,646.77
11) First Dividend to Shareholders	600,000,000.00	
- Cash	600,000,000.00	
- Bonus	-	
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	52,500,000.00	
17) Statutory Reserves	-	-
18) Special Reserves	-	-
19) EXTRAORDINARY RESERVES	38,145,229.61	15,179,919.33
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)	0.4839	
Earnings Per Share (krş) (Gross)	0.4000	

INFORMATION ABOUT DIVIDEND RATIO

Information About Dividend Ratio

	Group		Total Dividend Amount TL	Dividend to 1 Krş Nominal Shares Amount Krş	Rate %
GROSS	A	SOCAR Turkey Petrokimya A.Ş.	306,000,000.00	0.400000	40.000
		Others (Publicly Held Shares)	294,000,000.00	0.400000	40.000
	C	Directorate of Privatization Administration	0.00	0.400000	40.000
		Total:	600,000,000.00		
NET	A	SOCAR Turkey Petrokimya A.Ş.	306,000,000.00	0.400000	40.000
		Others (Publicly Held Shares)	249,900,000.00	0.340000	34.000
	C	Directorate of Privatization Administration	0.00	0.340000	34.000
		Total:	555,900,000.00		

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 (%)
600,000,000.00	89.43

(*) 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: 2 MARCH 2017

DECISION NO: 2017 - 7 - 14

2 MARCH 2017

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

a) We have reviewed the independently audited the Consolidated Balance Sheet, Income Statement, Cash Flow Statement and Statement of Changes in Equity for the year ended 31 December 2016, and the notes thereto covering the related explanations.

b) The consolidated financial statements do 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 financial statements drawn up pursuant to the CMB Communiqué Serial: II-14.1 present a fair view of the organization's assets, liabilities, financial position and profit and loss, 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
CEO	Chairman of the Audit Committee	Member of the Member of the

STATEMENT OF RESPONSIBILITY

BOARD OF DIRECTORS RESOLUTION ON THE APPROVAL OF THE ANNUAL REPORT

DECISION DATE: 6 MARCH 2017

DECISION NO.: 2017 - 8 - 16

6 MARCH 2017

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 2016;

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
CEO	Chairman of the Audit Committee	Chairman of the Audit Committee

AUDIT COMMITTEE REPORTS

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

01.01.2016-31.12.2016 Accounting Period Financial Statements

The independently audited comparative consolidated financial statements, (in comparison with previous period's financials) prepared for the accounting period of 01.01.2016-31.12.2016, 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

Mehmet CEYLAN

Chairman of the Audit Committee

Tevfik BİLGİN

Member of the Audit Committee

AUDIT COMMITTEE REPORTS

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

01.01.2016-31.12.2016 Accounting Period Annual Activity Report

The independently audited comparative consolidated annual activity report, (in comparison with previous period's financials) prepared for the accounting period of 01.01.2016-31.12.2016, 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 annual activity report.

Limited within the scope of the information we have and we have been given, our opinion relating to this annual activity report, was presented to the executives who have responsibility in the preparation of the annual activity report. Within the framework of this opinion, we have reached a conclusion that this annual activity report; 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

6 March 2017

Audit Committee

Mehmet CEYLAN	Tevfik BİLGİN
Chairman of the Audit Committee	Member of the Audit Committee

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

(Convenience translation of a report originally issued in Turkish)

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Güney Bağımsız Denetim ve SMMM A.Ş.
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Kat: 2-3-4 Sarıyer/İstanbul - Turkey

Tel: +90 212 315 3000
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ey.com
Ticaret Sicil No: 479920
Mersis No: 0-4350-3032-6000017

To the Board of Directors of Petkim Petrokimya Holding A.Ş. and Its Subsidiaries

Report on the Audit of the Annual Report of the Board of Directors in accordance with the Independent Auditing Standards

We have audited the annual report of Petkim Petrokimya Holding A.Ş. ("the Company") and its subsidiaries (together referred to as "the Group") for the year ended 31.12.2016.

The responsibility of the Board of Directors on the Annual Report

In accordance with Article 514 of the Turkish Commercial Code 6102 ("TCC") and the provisions of the Communiqué II-14.1 on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") of the Capital Market Board ("CMB"), the management of the Group is responsible for the preparation and fair presentation of the annual report consistent with the consolidated financial statements and for the internal controls considered for the preparation of a report of such quality.

Responsibility of the Independent Auditor

Our responsibility is to express and opinion, based on the independent audit we have performed on the Group's annual report in accordance with article 397 of the TCC and the Communiqué, on whether the financial information provided in this annual report is presented fairly and consistent with the Group's consolidated financial statements there on which auditor's report dated March 2, 2017 has been issued.

Our independent audit has been performed in accordance with the Independence Auditing Standards as endorsed by CMB and Independent Auditing Standards which are a part of Turkish Auditing Standards promulgated by the Public Oversight, Accounting and Auditing Standards Authority. These standards require compliance with ethical provisions and the independent audit to be planned and performed to obtain reasonable assurance on whether the financial information provided in the annual report is free from material misstatement and consistent with the consolidated financial statements. This independent audit involves the application of auditing procedures in order to obtain audit evidence on the historical financial information. The selection of these procedures is based in the professional judgment of the independent auditor. We believe that the audit evidence we have obtained during our independent audit is sufficient and appropriate to provide a basis for our opinion.

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Mersis No: 0-4350-3032-6000017

Opinion

In our opinion, the financial information provided in the annual report of the Board of Directors is presented fairly and consistent with the audited consolidated financial statements in all material respects.

Independent auditor's responsibilities arising from other regulatory requirements

In accordance with paragraph 3 of Article 402 of the Turkish Commercial Code ("TCC") 6102, within the framework of the Independent Auditing Standards 570 "Going Concern", no material uncertainty has come to our attention which causes us to believe that the Group will not be able to continue as a going concern in the foreseeable future.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Cem Uçarlar, SMMM
Partner

March 6, 2017
Istanbul, Turkey

Petkim Petrokimya Holding A.Ş. and its Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD BETWEEN JANUARY 1 - DECEMBER 31, 2016 AND INDEPENDENT AUDITORS' REPORT

(Convenience translation into English of the consolidated financial statements originally issued in Turkish - See Note 36)

INDEPENDENT AUDITORS' REPORT

(Convenience translation of the independent auditors' report into English originally issued in Turkish)

Building a better working world

Güney Bağımsız Denetim ve SMMM A.Ş.
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Ticaret Sicil No: 479920
Mersis No: 0-4350-3032-6000017

To the Board of Directories of

Petkim Petrokimya Holding Anonim Şirketi;

The report on financial statements

We have audited the accompanying consolidated financial statements of financial position of Petkim Petrokimya Holding Anonim Şirketi ("Petkim" or "the Company") and its subsidiaries (together referred as "the Group") which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statement of profit or loss and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and explanatory notes.

Management's responsibility for the consolidated financial statements

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

Independent auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our audit was conducted in accordance with Standards on Auditing as issued by the Capital Markets Board of Turkey and Auditing Standards which are part of the Turkish Auditing Standards as standards on auditing issued by Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that ethical requirements are complied with and that the independent audit is planned and performed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Independent audit involves performing independent audit procedures to obtain independent audit evidence about the amounts and disclosures in the financial statements. The independent audit procedures selected depend on our professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error and/or fraud. In making those risk assessments; the Company's internal control system is taken into consideration. Our purpose, however, is not to express an opinion on the effectiveness of internal control system, but to design independent audit procedures that are appropriate for the circumstances in order to identify the relation between the financial statements prepared by the Group and its internal control system. Our independent audit includes also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company's management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained during our audit is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT

(Convenience translation of the independent auditors' report into English originally issued in Turkish)

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Ticaret Sicil No: 479920
Mersis No: 0-4350-3032-6000017

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Petkim Petrokimya Holding A.Ş. and its subsidiaries as at December 31, 2016 and their financial performance and cash flows for the year then ended in accordance with the Turkish Accounting Standards.

Reports on other responsibilities arising from regulatory requirements

1) Auditors' report on Risk Management System and Committee prepared in accordance with paragraph 4 of Article 398 of Turkish Commercial Code ("TCC") 6102 is submitted to the Board of Directors of the Company on March 2, 2017.
2) In accordance with paragraph 4 of Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January - 31 December 2016 and financial statements are not in compliance with the code and provisions of the Company's articles of association in relation to financial reporting.
3) In accordance with paragraph 4 of Article 402 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Cem Uçarlar, SMMM
Partner

March 2, 2017
İstanbul, Turkey

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Petkim Petrokimya Holding A.Ş. and its Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2016

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)
(Convenience translation into English of the consolidated financial statements originally issued in Turkish - See Note 36)

		Current period	Previous period
		Audited	Audited
	Note	December 31, 2016	December 31, 2015
Assets			
Current assets			
Cash and cash equivalents	4	**1.267.188.405**	1.341.536.749
Financial investments	5	**-**	160.452.259
Trade receivables			
- Trade receivables from third parties	7	**674.471.489**	551.425.057
Other receivables			
- Other receivables from related parties	32	**14.321.046**	255.049.233
- Other receivables from third parties	8	**16.471.360**	6.510.328
Derivative financial assets	9	**7.466.471**	1.646.432
Inventories	10	**604.333.833**	363.508.864
Prepaid expenses			
- Prepaid expenses to third parties	19	**19.037.704**	39.469.618
- Prepaid expenses to related parties	32	**12.878.087**	12.878.087
Other current asset	21	**43.777.394**	35.096.475
Total current assets		**2.659.945.789**	2.767.573.102
Non-current assets:			
Financial investments	5	**8.910.000**	8.910.000
Other receivables			
- Other receivables from related parties	32	**423.305.661**	105.206.024
Investment property	11	**928.881.678**	1.469.935
Property, plant and equipment	12	**1.903.849.406**	2.276.634.074
Intangible assets	13	**22.398.670**	18.327.669
Prepaid expenses			
- Prepaid expenses to third parties	19	**59.747.547**	92.704.917
- Prepaid expenses to related parties	32	**4.292.696**	17.170.782
Deferred tax assets	30	**244.963.987**	133.346.497
Other non-current assets	21	**12.232.354**	39.322.328
Total non-current assets		**3.608.581.999**	2.693.092.226
Total assets		**6.268.527.788**	5.460.665.328

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

Petkim Petrokimya Holding A.Ş. and its Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2016

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)
(Convenience translation into English of the consolidated financial statements originally issued in Turkish - See Note 36)

		Current period	Previous period
		Audited	Audited
	Note	**December 31, 2016**	December 31, 2015
Liabilities			
Current liabilities			
Short-term financial liabilities	6	**461.698.893**	319.638.074
Current portion of long-term financial liabilities	6	**55.495.727**	41.912.519
Derivative financial liabilities	9	**432.006**	11.008.960
Trade payables			
- Trade payables to related parties	32	**29.584.837**	31.306.140
- Trade payables to third parties	7	**1.085.278.519**	1.105.668.986
Short-term liabilities for employee benefits	20	**25.429.492**	12.842.787
Other payables			
- Other payables to related parties	32	**26.450.401**	1.750.437
- Other payables to third parties	8	**12.283.546**	4.017.208
Deferred income			
- Deferred income from related parties	32	**4.198.100**	4.168.083
- Deferred income from third parties	18	**34.946.751**	21.925.077
Short term provisions			
- Provision for employee benefits	17	**2.617.402**	13.027.856
- Other short-term provisions	15	**1.383.579**	942.746
Current tax liabilities	30	**48.864.818**	9.684.055
Other current liabilities	21	**7.976.519**	6.495.411
Total current liabilities		**1.796.640.590**	1.584.388.339
Non-current liabilities			
Long-term financial liabilities	6	**1.172.474.368**	914.267.416
Derivative financial liabilities	9	**9.027.379**	-
Deferred income			
- Deferred income from related parties	32	**8.829.511**	12.705.027
- Deferred income from third parties	18	**120.807.592**	54.794.114
Long term provisions			
- Provision for employee benefits	17	**91.308.322**	89.126.935
Total non- current liabilities		**1.402.447.172**	1.070.893.492
Total liabilities		**3.199.087.762**	2.655.281.831
Equity			
Share capital	22	**1.500.000.000**	1.500.000.000
Adjustment to share capital	22	**238.988.496**	238.988.496
Share premium	22	**214.187.872**	214.187.872
Other comprehensive income/(expense) not to be reclassified to profit or loss			
- Remeasurement gain/(loss) arising from defined benefit plan		**(24.694.546)**	(23.668.037)
Other comprehensive income/(expense) to be reclassified to profit or loss			
- Cash flow hedge gain/(loss) reserve		**572.240**	(7.490.023)
Restricted reserves		**104.957.638**	36.548.777
Retained earnings		**241.912.168**	156.442.236
Net profit for the year		**725.786.278**	626.378.793
Equity holders of the parent		**3.001.710.146**	2.741.388.114
Non-controlling interest		**67.729.880**	63.995.383
Total equity		**3.069.440.026**	2.805.383.497
Total liabilities and equity		**6.268.527.788**	5.460.665.328

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

Petkim Petrokimya Holding A.Ş. and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)
(Convenience translation into English of the consolidated financial statements originally issued in Turkish - See Note 36)

				Other comprehensive income/(expense) not to be reclassified to profit or loss	Other comprehensive income/(expense) to be reclassified to profit or loss
	Share capital	**Adjustment to share capital**	**Share premium**	**Remeasurement gain/(loss) arising from defined benefit plan**	**Cash flow hedge gain/(loss) reserve**
January 1, 2015	1.000.000.000	486.852.283	466.324.085	(15.228.165)	1.156.133
Transfers	-	-	-	-	-
Total comprehensive income	-	-	-	(8.439.872)	(8.646.156)
Net profit for the period	-	-	-	-	-
Other comprehensive income/ (loss)	-	-	-	(8.439.872)	(8.646.156)
Capital increase	500.000.000	(247.863.787)	(252.136.213)	-	-
December 31, 2015	1.500.000.000	238.988.496	214.187.872	(23.668.037)	(7.490.023)
January 1, 2016	**1.500.000.000**	**238.988.496**	**214.187.872**	**(23.668.037)**	**(7.490.023)**
Transfers	**-**	**-**	**-**	**-**	**-**
Total comprehensive income	**-**	**-**	**-**	**(1.026.509)**	**8.062.263**
Net profit for the period	**-**	**-**	**-**	**-**	**-**
Other comprehensive income/ (loss)	**-**	**-**	**-**	**(1.026.509)**	**8.062.263**
Dividends paid (Note 22)	**-**	**-**	**-**	**-**	**-**
December 31, 2016	**1.500.000.000**	**238.988.496**	**214.187.872**	**(24.694.546)**	**572.240**

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

	Retained earnings				
Restricted reserves	**Retained Earnings**	**Net profit for the year**	**Equity holders of the parent**	**Non-controlling Interest**	**Total equity**
8.356.700	178.181.398	6.452.915	2.132.095.349	51.165.518	2.183.260.867
28.192.077	(21.739.162)	(6.452.915)	-	-	-
-	-	626.378.793	609.292.765	12.829.865	622.122.630
-	-	626.378.793	626.378.793	12.829.865	639.208.658
-	-	-	(17.086.028)	-	(17.086.028)
-	-	-	-	-	-
36.548.777	156.442.236	626.378.793	2.741.388.114	63.995.383	2.805.383.497
36.548.777	**156.442.236**	**626.378.793**	**2.741.388.114**	**63.995.383**	**2.805.383.497**
68.408.861	**557.969.932**	**(626.378.793)**	**-**	**-**	**-**
-	**-**	**725.786.278**	**732.822.032**	**3.734.497**	**736.556.529**
-	**-**	**725.786.278**	**725.786.278**	**5.901.068**	**731.687.346**
-	**-**	**-**	**7.035.754**	**(2.166.571)**	**4.869.183**
-	**(472.500.000)**	**-**	**(472.500.000)**	**-**	**(472.500.000)**
104.957.638	**241.912.168**	**725.786.278**	**3.001.710.146**	**67.729.880**	**3.069.440.026**

Petkim Petrokimya Holding A.Ş. and its Subsidiaries

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)
(Convenience translation into English of the consolidated financial statements originally issued in Turkish - See Note 36)

		Current period	Previous period
		Audited	Audited
Profit or loss section	**Note**	**January 1 - December 31, 2016**	January 1 - December 31, 2015
Revenue	23	**4.532.590.622**	4.532.635.969
Cost of sales	23	**(3.574.771.797)**	(3.814.365.797)
Gross profit		**957.818.825**	718.270.172
General administrative expenses	24	**(138.143.303)**	(117.751.852)
Selling, marketing and distribution expenses	24	**(42.276.221)**	(32.297.691)
Research and development expenses	24	**(12.782.619)**	(11.742.738)
Other operating income	26	**204.162.679**	128.100.309
Other operating expense	26	**(240.044.758)**	(179.627.572)
Operating profit		**728.734.603**	504.950.628
Income from investment activities	27	**17.322.323**	10.981.956
Expense from investment activities	27	**(4.212.586)**	-
Operating profit before financial income/(expense)		**741.844.340**	515.932.584
Financial income	28	**379.028.470**	421.668.110
Financial expenses	29	**(338.989.566)**	(363.773.458)
Profit before taxation		**781.883.244**	573.827.236
Tax income/(expenses)			
Current year tax expense	30	**(163.030.686)**	(19.213.253)
Deferred tax income/(expense)	30	**112.834.788**	84.594.675
Net profit for the period		**731.687.346**	639.208.658
Distribution of net profit for the period:			
Non-controlling interest		**5.901.068**	12.829.865
Equity holders of the parent		**725.786.278**	626.378.793
Earnings per share	31	**0,484**	0,418
Other comprehensive income/(loss) section			
Not to be reclassified to profit or loss			
- Remeasurement gain/(loss) arising from defined benefit plan	17	**(1.283.136)**	(10.549.840)
- Deferred tax effect of remeasurement gain/(loss) arising from defined benefit plan	30	**256.627**	2.109.968
To be reclassified to profit or loss			
- Cash flow hedging gain/(loss)		**7.369.615**	(10.807.695)
- Deferred tax effect of cash flow hedging gains/(losses)	30	**(1.473.923)**	2.161.539
Other comprehensive income/(expense) (after tax)		**4.869.183**	(17.086.028)
Total comprehensive income		**736.556.529**	622.122.630
Distribution of total comprehensive income:			
Non-controlling interest		**3.734.497**	12.829.865
Equity holders of the parent		**732.822.032**	609.292.765

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

Petkim Petrokimya Holding A.Ş. and its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)
(Convenience translation into English of the consolidated financial statements originally issued in Turkish - See Note 36)

	Note	Current period Audited January 1- December 31, 2016	Previous period Audited January 1- December 31, 2015
A. Cash flows from operating activities:		**461.405.154**	860.308.289
Net profit for the period (I)		**731.687.346**	639.208.658
Adjustments to reconcile net profit (II)		**167.637.955**	50.219.874
Adjustments related with depreciation and amortization expenses	25,27	**116.598.304**	108.579.612
Provision for impairments			
- Provision for impairment of inventories	23	**(11.047.336)**	(15.333.603)
- Provision for impairment of property, plant and equipment	27	**2.667.127**	-
Adjustments related with provisions			
- Adjustments related with employee benefits	17	**16.255.132**	21.649.459
- Provision/(reversal) for legal cases	15	**492.319**	10.537
- Other provision/(reversal)	26	**34.216.040**	1.341.985
Adjustments related with interest (income) and expenses			
- Interest income	28	**(54.088.875)**	(33.403.052)
- Interest expense	29	**19.120.786**	21.268.003
- Deferred interest expense due to on credit purchases		**(370.037)**	2.060.731
- Unearned interest income due to on credit sales	26	**9.094.381**	8.388.176
Adjustments related with unrealized currency translation differences		**(14.709.088)**	1.213.098
Adjustments related with tax (income)/expense	30	**50.195.898**	(65.381.422)
Adjustments related with (gain)/loss on sale of property, plant and equipment	27	**(566.058)**	(13.030)
Adjustments related with incentive income related to government grants	8	**(220.638)**	(160.620)
Changes in working capital		**(288.251.403)**	197.036.440
Adjustments related with (increase)/decrease in trade receivables		**(118.577.973)**	(30.491.395)
Adjustments related with (increase)/decrease in other receivables		**(17.849.840)**	(301.896.906)
Inventories		**(219.828.939)**	88.951.019
(Increase)/decrease in prepaid expenses		**52.707.537**	(8.487.649)
Adjustments related with increase/(decrease) in trade payables		**(106.925.957)**	461.536.866
Adjustments related with increase/(decrease) in other payables		**34.447.411**	(8.059.906)
Liabilities for employee benefits		**12.586.705**	(14.660.988)
Increase/(decrease) in deferred income		**75.189.653**	10.145.399
Cash flows provided by operating activities (I+II+III)		**611.073.898**	886.464.972
Employee termination benefits paid	17	**(25.767.335)**	(12.151.867)
Taxes refunded (paid)	30	**(123.849.923)**	(9.529.198)
Other cash inflows/(outflows)		**(51.486)**	(4.475.618)
B. Cash flows from investing activities		**(404.617.342)**	(734.791.412)
Purchase of property, plant and equipment and intangible assets	12	**(567.261.634)**	(519.232.239)
Proceeds from sales of property, plant and equipment and intangible assets		**1.129.142**	201.299
Other cash advances given and liabilities		**1.062.891**	(55.308.213)
Other cash inflows/(outflows)	5	**160.452.259**	(160.452.259)
C. Cash flow from financing activities		**(310.285.064)**	319.453.365
Proceeds from borrowings		**617.137.859**	1.244.687.445
Repayment of borrowings		**(443.003.374)**	(940.756.896)
Interest received		**53.187.872**	29.877.952
Interest payments		**(65.107.421)**	(14.355.136)
Dividend payments	22	**(472.500.000)**	-
D. Net increase/(decrease) in cash and cash equivalents before currency translation differences (A+B+C)		**(253.497.252)**	444.970.242
E. Currency translation differences effect related to cash and cash equivalents		**179.148.908**	194.408.379
Net (decrease)/increase in cash and cash equivalents (D+E)		**(74.348.344)**	639.378.621
Cash and cash equivalents at the beginning of the period	4	**1.341.536.749**	702.158.128
Cash and cash equivalents at the end of the period	4	**1.267.188.405**	1.341.536.749

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

Petkim Petrokimya Holding A.Ş. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(Currency - Turkish Lira (TL) unless otherwise indicated)
(Convenience translation into English of the consolidated financial statements originally issued in Turkish - See Note 36)

1. Organization and nature of operations

Petkim Petrokimya Holding A.Ş. ("Petkim" or "the Company") was established on April 3, 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. During the course of the Company, construction of other plants continued. In 1985, Aliağa Petrochemical Complex was established. 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 Company is mainly engaged in the following fields:

- To establish and to operate factories, plants either at 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 home 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 3rd 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,
- To support and to donate to the foundations, associations, educational institutions, which have been established for social purposes, and to such other persons, institutions and organizations in accordance with the principles prescribed by the Capital Market Board.

The "Share Sales Agreement", with respect to the sales 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 May 30, 2008.

On June 22, 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")

SOCAR Turkey Enerji A.Ş. and SOCAR İzmir Petrokimya A.Ş., which is the 100% subsidiary of SOCAR Turkey Enerji A.Ş and owns 10,32% shares of the Group, have merged as of September 22, 2014.

As of December 31, 2016 and December 31, 2015 the ultimate shareholder of the Company is State Oil Company of Azerbaijan Republic ("SOCAR") main shareholder is STPAŞ.

The Group is registered at the Capital Markets Board ("CMB") and its shares have been quoted in Istanbul Stock Exchange ("ISE") since July 9, 1990.

Petkim Petrokimya Holding A.Ş. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (Continued)

(Currency - Turkish Lira (TL) unless otherwise indicated)
(Convenience translation into English of the consolidated financial statements originally issued in Turkish - See Note 36)

1. Organization and nature of operations (continued)

Subsidiaries

The Company has participated to Petlim Limancılık Ticaret A.Ş. ("Petlim") with the capital of TL 100.000 and the share of 99,99%, according to the decision of Board of Director dated April 28, 2010 and numbered 64/132, to implement port activities. With the general assembly resolution dated, November 13, 2012, the share capital of Petlim has been increased to TL 8.000.000. With the general assembly resolution dated, September 30, 2013, the share capital of Petkim has been increased from TL 8.000.000 to TL 83.000.000 and the share of 100% transferred to Petkim. With the general assembly resolution dated, November 17, 2014, the share capital of Petlim has been increased from TL 83.000.000 to TL 150.000.000.

The company has founded a company with the name of the Petkim Specialities Mühendislik Plastikleri Sanayi ve Ticaret A.Ş. with the capital of TL 100.000 and the share of 100%, to carry out its production activities in high value-added advanced engineering plastics (masterbach, compound) and high-tech chemicals on October 28, 2015. Petkim and its subsidiaries are referred together as "the Group".

45 million shares, representing 30% of share capital of Petlim Limancılık Ticaret A.Ş., which is subsidiary of the Company, has been purchased by Goldman Sachs International ("GSI", together with its subsidiaries "GS") as of December 18, 2014 in exchange for 250 million USD Dollars.

At the same date, in the consequence of put option contract signed by STEAŞ with GSI, it has undertaken guarantor liability regarding of liabilities of Petkim due to share transfer agreement, if required and in the event of contract conditions the right of selling shares of Petlim by GSİ to STEAŞ has been originated ("Put option Contract"). Within the mentioned put option contract, no later than 7 years following the signed share transfer agreement, it has been agreed on public offering of shares of Petlim (public offering), in accordance with those regulations agreed by the parties and in consequence of option relation, loss of GSI shall be compensated by STEAŞ.

The number of personnel in the Group is 2.395 as of December 31, 2016 and the number of average personnel in the Group is 2.434 (December 31, 2015 - 2.471 and on average 2.430).

	December 31, 2016	December 31, 2015
Union (*)	**1.857**	1.918
Non-union (**)	**538**	553
	2.395	2.471

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

(**) Indicates the white collar personnel who are not members of Petrol Iş Union

The registered address of the Group as of the date of these consolidated financial statements is as follows:

PK. 12, 35800

Aliağa, İzmir

2. Basis of presentation of consolidated financial statements

2.1 Basis of presentation

The consolidated financial statements and disclosures have been prepared in accordance with the communiqué numbered II-14.1 "Communiqué on the Principles of Financial Reporting in Capital Markets" ("the Communiqué") announced by the Capital Markets Board ("CMB") (hereinafter will be referred to as "the CMB Reporting Standards") on June 13, 2013 which is published on Official Gazette numbered 28676. Companies should apply Turkish Accounting Standards/Turkish Financial Reporting Standards and interpretations regarding these standards as adopted by Public Oversight Accounting and Auditing Standards Authority of Turkey ("POA").

In accordance with article 5th of the CMB Reporting Standards, companies should apply Turkish Accounting Standards/Turkish Financial Reporting Standards and its interpretations issued by the Public Oversight Accounting and Auditing Standards Authority of Turkey ("POA").

Petkim Petrokimya Holding A.Ş. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (Continued)

(Currency - Turkish Lira (TL) unless otherwise indicated)
(Convenience translation into English of the consolidated financial statements originally issued in Turkish - See Note 36)

2. Basis of presentation of consolidated financial statements (continued)

2.1 Basis of presentation (continued)

The financial statements are prepared on cost basis, except the derivative financial instruments and tangible assets used for silicon steel and iron ore carried on fair value.

Functional and reporting currency

The functional currency of the Company and its subsidiaries' Petlim and Petkim Specialities Mühendislik Plastikleri Sanayi ve Ticaret A.Ş. are TRY

Going concern

The Group prepared its consolidated financial statements under going concern assumption.

Approval of the consolidated financial statements

Consolidated financial statements were approved to be issued by the Board of Directors March 2, 2017 and signed by Mr. Anar Mammadov, General Manager and Mr. Rıza Bozoklar, Vice President of Finance, on behalf of the Board of Directors. General Assembly and relevant regulators has the right to modify legal financial statements and the consolidated financial statements.

2.2 New and amendments in Financial Reporting Standards

The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2016 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of 1 January 2016. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

The new standards, amendments and interpretations which are effective as at 1 January 2016 are as follows:

- TFRS 11 Acquisition of an Interest in a Joint Operation (Amendment)

  TFRS 11 is amended to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in TFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in TFRS 3 and other TFRSs except for those principles that conflict with the guidance in this TFRS. In addition, the acquirer shall disclose the information required by TFRS 3 and other TFRSs for business combinations. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

- TAS 16 and TAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to TAS 16 and TAS 38)

  The amendments to TAS 16 and TAS 38, have prohibited the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for intangible assets. The amendments did not have an impact on the financial position or performance of the Group.

- TAS 16 Property, Plant and Equipment and TAS 41 Agriculture - Bearer Plants (Amendment)

  TAS 16 is amended to provide guidance that bearer plants, such as grape vines, rubber trees and oil palms should be accounted for in the same way as property, plant and equipment in TAS 16. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates. Because their operation is similar to that of manufacturing, either the cost model or revaluation model should be applied. The produce growing on bearer plants will remain within the scope of TAS 41, measured at fair value less costs to sell. The amendment did not have an impact on the financial position or performance of the Group.

Petkim Petrokimya Holding A.Ş. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (Continued)

(Currency - Turkish Lira (TL) unless otherwise indicated)
(Convenience translation into English of the consolidated financial statements originally issued in Turkish - See Note 36)

2. Basis of presentation of consolidated financial statements (continued)

- TAS 27 Equity Method in Separate Financial Statements (Amendments to TAS 27)

  Public Oversight Accounting and Auditing Standards Authority (POA) of Turkey issued an amendment to TAS 27 to restore the option to use the equity method to account for investments in subsidiaries and associates in an entity's separate financial statements. Therefore, an entity must account for these investments either:

  - At cost
  - In accordance with IFRS 9, Or
  - Using the equity method defined in TAS 28

  The entity must apply the same accounting for each category of investments. The amendment is not applicable for the Group and did not have an impact on the financial position or performance of the Group.

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

  Amendments issued to TFRS 10 and TAS 28, to address the acknowledged inconsistency between the requirements in TFRS 10 and TAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in TFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors' interests in that former subsidiary. The amendment did not have an impact on the financial position or performance of the Group.

- TFRS 10, TFRS 12 and TAS 28: Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 and IAS 28)

  In February 2015, Amendments issued to TFRS 10, TFRS 12 and TAS 28, to address the following issues that have arisen in applying the investment entities exception under TFRS 10 Consolidated Financial Statements; i) the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value, ii) only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value, iii) the amendments to TAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendment did not have an impact on the financial position or performance of the Group.

- TAS 1: Disclosure Initiative (Amendments to TAS 1)

  The amendments issued to TAS 1. Those amendments include narrow-focus improvements in the following five areas: Materiality, Disaggregation and subtotals, Notes structure, Disclosure of accounting policies, Presentation of items of other comprehensive income (OCI) arising from equity accounted investments. The amendment did not have an impact on the financial position or performance of the Group.

Annual Improvements to TFRSs - 2012-2014 Cycle

POA issued, Annual Improvements to TFRSs 2012-2014 Cycle. The document sets out five amendments to four standards, excluding those standards that are consequentially amended, and the related Basis for Conclusions. The standards affected and the subjects of the amendments are:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations - clarifies that changes in methods of disposal (through sale or distribution to owners) would not be considered a new plan of disposal, rather it is a continuation of the original plan
- IFRS 7 Financial Instruments: Disclosures - clarifies that the assessment of servicing contracts that includes a fee for the continuing involvement of financial assets in accordance with IFRS 7; the offsetting disclosure requirements do not apply to condensed interim financial statements,
- IAS 19 Employee Benefits - clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located.

Petkim Petrokimya Holding A.Ş. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (Continued)

(Currency - Turkish Lira (TL) unless otherwise indicated)
(Convenience translation into English of the consolidated financial statements originally issued in Turkish - See Note 36)

2. Basis of presentation of consolidated financial statements (continued)

Annual Improvements to TFRSs - 2012-2014 Cycle (cont'd)

- IAS 34 Interim Financial Reporting -clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report.

  Standards issued but not yet effective and not early adopted:

  Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

- TFRS 15 Revenue from Contracts with Customers

  In September 2016, POA issued TFRS 15 Revenue from Contracts with Customers. The new standard issued includes the clarifying amendments to IFRS 15 made by IASB in April 2016. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). TFRS 15 effective date is January 1, 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

- TFRS 9 Financial Instruments

  In January 2017, POA issued the final version of TFRS 9 Financial Instruments. The final version of TFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. TFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, TFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. TFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted by applying all requirements of the standard.

- TFRS 9 Financial Instruments (cont'd)

  Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard. The Group has performed a high-level impact assessment of TFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional supportable information being made available to the Group in the future. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

  The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by Public Oversight Authority (POA):

  The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued by the POA, thus they do not constitute part of TFRS. The Group will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

- IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

  In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted.

Petkim Petrokimya Holding A.Ş. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (Continued)

(Currency - Turkish Lira (TL) unless otherwise indicated)
(Convenience translation into English of the consolidated financial statements originally issued in Turkish - See Note 36)

2. Basis of presentation of consolidated financial statements (continued)

Annual Improvements - 2010-2012 Cycle

- IFRS 13 Fair Value Measurement

  As clarified in the Basis for Conclusions short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment is effective immediately.

Annual Improvements - 2011-2013 Cycle

- IFRS 16 Leases

  The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

- IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)

  The IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are to be retrospectively applied for annual periods beginning on or after January 1, 2017 with earlier application permitted. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If the Group applies this relief, it shall disclose that fact. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

- IAS 7 Statement of Cash Flows (Amendments)

  The IASB issued amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. These amendments are to be applied for annual periods beginning on or after January 1, 2017 with earlier application permitted. When the Group first applies those amendments, it is not required to provide comparative information for preceding periods. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

- IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)

  The IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions.

  The amendments, provide requirements on the accounting for:

  a) The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments,

  b) Share-based payment transactions with a net settlement feature for withholding tax obligations, and

  c) A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

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2. Basis of presentation of consolidated financial statements (continued)

Annual Improvements to TFRSs - 2011-2013 Cycle (cont'd)

- IFRS 4 Insurance Contracts (Amendments)

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

  a) Give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 Financial instruments is applied before the new insurance contracts Standard is issued; and

  b) Give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 Financial instruments until 2021. The entities that defer the application of IFRS 9 Financial instruments will continue to apply the existing financial instruments Standard—IAS 39.

  These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

- IAS 40 Investment Property: Transfers of Investment Property (Amendments)

  The IASB issued amendments to IAS 40 'Investment Property '. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration

  The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

  The Interpretation states that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. An entity is not required to apply this Interpretation to income taxes; or insurance contracts (including reinsurance contracts) it issues or reinsurance contracts that it holds.

  The interpretation is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted.

Annual Improvements to IFRSs - 2014-2016 Cycle

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

- IFRS 1 First-time Adoption of International Financial Reporting Standards: This amendment deletes the short-term exemptions about some IFRS 7 disclosures, IAS 19 transition provisions and IFRS 10 Investment Entities. These amendments are to be applied for annual periods beginning on or after 1 January 2018.
- IFRS 12 Disclosure of Interests in Other Entities: This amendment clarifies that an entity is not required to disclose summarised financial information for interests in subsidiaries, associates or joint ventures that is classified, or included in a disposal group that is classified, as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. These amendments are to be applied for annual periods beginning on or after 1 January 2017.
- IAS 28 Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying IFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

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

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2. Basis of presentation of consolidated financial statements (continued)

2.3 Comparative information and restatement of previous year financial statements

In order to allow for the determination of financial situation and performance trends, the Group's consolidated financial statements have been presented comparatively with the previous year. In order to comply with the presentation of the financial statements in the current period, comparative information is reclassified when necessary and significant differences are disclosed.

The reclassification adjustments made to the consolidated statement of profit or loss and other comprehensive income statement of the Group for the year ended December 31, 2015 are as follows:

- Trade receivable rediscount income amounting to TL 8.033.938 netted off under other operating expense were classified to other operating income (Note 26).
- Deferred finance cost related to trade payables amounting to TL 2.060.731 netted off under cost of sales were classified to other operating loss (Note 26).
- Rent income amounting to TL 10.968.926 shown in other operating income were classified to Income from investment activities.
- The reclassification adjustments made to the consolidated statement of financial position of the Group dated December 31, 2015 are as follows:
- Social Security Institution ("SSI") premium payables to employees amounting to TL 4.581.734 shown in trade payables to third parties were classified to short-term liabilities for employee benefits (Note 20).
- Payable to EMRA amounting to TL 1.763.480 shown in short term provisions were classified to other payables to third parties (Note 8).
- The reclassification adjustment made to the consolidated statement of cash flows of the Group for the year ended December 31, 2015 are as follows:
- There is a reclassification due to the capitalized borrowing costs of amounting to TL 55.676.557 between cash flows from investing activities and cash flows from financing activities.
- The reclassification adjustments made to the consolidated statement of cash flows for the year ended on December 31, 2015 in accordance with the Turkish Accounting Standards taxonomy published on June 6, 2016 are as follows:
- There is a classification at an amount of TL 194.408.379 sourcing from "adjustments related to unrealized foreign exchange translation differences" between cash flow generated from operating activities and impact of foreign currency translation differences on cash and cash equivalents, and at an amount of TL 55.308.213 sourcing from advances given for fixed assets between cash flow sourcing from operating activities and cash flow sourcing from investing activities is made on statement of cash flows.

2.4 Summary of significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are summarized below:

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 consolidation have been prepared as of the date of the consolidated financial statements and are based on the statutory records with adjustments and reclassifications for the purpose of presentation in conformity TAS/TFRS promulgated by the POA as set out in the communiqué numbered II-14.1, and Group accounting and disclosure policies.

Subsidiaries are the Companies controlled by Petkim when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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2. Basis of presentation of consolidated financial statements (continued)

2.4 Summary of significant accounting policies (continued)

Basis of consolidation (continued)

The table below sets out all Subsidiaries included in the scope of consolidation and discloses their ownership, and voting power as of 31 December 2016 and 31 December 2015.

		Voting power		Ownership interest	
Entity name	**Consolidation method**	**December 31, 2016**	December 31, 2015	**December 31, 2016**	December 31, 2015
Petlim	Full consolidation	**73%**	73%	**70%**	70%
Petkim Specialities Mühendislik Plastikleri Sanayi ve Ticaret A.Ş.	Full consolidation	**100%**	100%	**100%**	100%

The statement of financial position and statements profit or loss of the Subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by Petkim and its Subsidiaries is eliminated against the related shareholders' equity. Intercompany transactions and balances between Petkim and its Subsidiaries are eliminated on consolidation. The cost of, and the dividends arising from, shares held by Petkim in its Subsidiaries are eliminated from shareholders' equity and income for the year, respectively.

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 10).

Spare parts in the forms of operating supplies are presented in the other stocks. These stocks are valued at the lower of cost and net realizable value Spare parts and material stocks are valued at the lower of cost and net recoverable value. The cost of spare parts and material stocks 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 10).

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.

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2. Basis of presentation of consolidated financial statements (continued)

Property, plant and equipment (continued)

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 cost of 3 years and lease term

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.

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2. Basis of presentation of consolidated financial statements (continued)

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 13).

The estimated useful lives of intangible assets are as follows:

	Useful life
Rights and software	3-15 years

Research and development expenses

Research expenditures are recognized in the consolidated statement of comprehensive income when they are incurred.

Intangible assets arising from in-house development activities (or the improvement phase of an intergroup project) are recognized when all of the following conditions are met:

- existence of the technical feasibility of completing the intangible asset so that it will be available for use or sale,
- existence of the intention to complete the intangible asset and use or sell it,
- existence of the ability to use or sell the intangible asset,
- reliability of how the intangible asset will generate probable future economic benefits,
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset,
- existence of the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalized development expenses are amortized in 5 years by straight-line method effective from the start of the production. Annual impairment test is made in each reporting period during the period in which the on-going capitalized development costs are realized.

Investment properties

Land and buildings held for rental yields or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business are classified as "investment property and accounted for at their acquisition cost in the consolidated statement of financial position. Depreciation is provided using the straight-line method based on the estimated useful lives of the net assets and the useful lives of investment properties are as follows

	Useful life
Land improvements	20-32 years
Buildings	32 years
Machinery and equipment	20-25 years

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Gains or losses on disposals of investment properties are included in the other operating income and expense accounts, as appropriate (Note 11).

Any gains or losses on the retirement or disposal, any maintenance and repair expenses of an investment property are recognized in the consolidated statement of income under income and expense from investment activities

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2. Basis of presentation of consolidated financial statements (continued)

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.

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 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.

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.

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2. Basis of presentation of consolidated financial statements (continued)

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.

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.

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. 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.

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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2. Basis of presentation of consolidated financial statements (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 6).

Trade payables

Trade payables are recognized initially at fair value of and subsequently measured at amortized cost using the effective interest method (Note 7).

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 future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount.

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.

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 (Note 14).

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2. Basis of presentation of consolidated financial statements (continued)

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.

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).

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 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.

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2. Basis of presentation of consolidated financial statements (continued)

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.

(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 32).

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.

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.

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2. Basis of presentation of consolidated financial statements (continued)

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.

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 (Note 30).

Employee benefits

a) 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 (Note 17).

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.

(b) Defined contribution plans:

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.

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2. Basis of presentation of consolidated financial statements (continued)

c) Unused vacation

Liabilities due to unused vacations classified as provisions due to employee benefits are accrued and discounted if the discount effect is material.

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.

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 15).

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.

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.

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.

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. 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.

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2. Basis of presentation of consolidated financial statements (continued)

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 into New Turkish Liras 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 into TRY 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).

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.

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.

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.

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 35). Post period end events that are not adjusting events are disclosed in the notes when material.

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2. Basis of presentation of consolidated financial statements (continued)

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.

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.

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.

2.5 Changes in accounting policies, accounting estimates and errors

Material changes in accounting policies or material errors are corrected, retrospectively; by restating the prior period financial statements. The effect of changes in accounting estimates affecting the current period is recognized in the current period; the effect of changes in accounting estimates affecting current and future periods is recognized in the current and future periods.

There exist no change in significant accounting policies or accounting estimates during the preparation of consolidated financial statements of the period ending as of December 31, 2016 compared to previous period. There is no accounting or management error which is determined in current period.

2.6 Significant accounting estimates, judgments and assumptions

Preparation of consolidated financial statements requires the use of estimates and assumptions that may affect the amount of assets and liabilities recognized as of the balance sheet date, disclosures of contingent assets and liabilities and the amount of revenue and expenses reported. Although, these estimates and assumptions rely on the management's best knowledge about current events and transactions, actual outcomes may vary from those estimates and assumptions. Significant estimates of the Group management are as follows:

Useful lives of tangible and intangible assets and investment properties

The Group determines useful economic lives of tangible and intangible assets and investment properties in capitalization periods in line with opinions of technical experts and recognizes depreciation and redemption during aforementioned economic lives. Economic lives anticipated by Group Management are disclosed in notes (Notes 11, 12 and 13). Useful lives of land improvements related to port project included in investment properties are anticipated through considering leasing period obtained by Petkim in scope of use of right contract. The Group reviews economic lives of assets subject to aforementioned depreciation in each reporting period and it is anticipated that there exist no situation requiring any adjustment in economic lives as of December 31, 2016.

Phase 1 part, which is related to port investments of Petkim tracked under construction in progress in tangible fixed assets accounts in 2016, is transferred to investment properties as a result of put into use in December 2016.

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2. Basis of presentation of consolidated financial statements (continued)

Deferred tax assets

The Group recognizes deferred tax on the temporary timing differences between the carrying amounts of assets and liabilities in the financial statements prepared in accordance with TFRS and statutory financial statements which is used in the computation of taxable profit. The related differences are generally due to the timing difference of the tax base of some income and expense items between statutory and TFRS financial statements.

The Group has deferred tax assets resulting from tax loss carry-forwards and deductible temporary differences, which could reduce taxable income in the future periods. All or partial amounts of the realizable deferred tax assets are estimated in current circumstances. As a result of the projections made by the Group management by using its best estimates deferred income tax asset regarding to the unused investment incentives was recognized in the consolidated financial statements (Note 30).

Provisions 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. The details related with the defined benefit plans are stated in Note 17.

Fair values of derivative financial instruments

The Group values its derivative financial instruments by using the foreign exchange and interest rate estimations and based on the valuation estimates of the market values as of the balance sheet date (Note 9).

Impairments on Assets

The Group, performs impairment tests for assets that are subject to depreciation and amortization in case of being not possible to prevent recovery of the assets at each reporting period.

As of December 31, 2016, the Group has booked a provision for impairment in the current period amounting to TL 31.807.000 and TL 1.133.514 for advances given and other receivables (Note 8 and 19). In addition, the Group has accounted for impairment loss amounting to TL 2.667.127 as of 31 December 2016 in the scope of the impairment analysis for the ongoing investment projects and no additional impairment is provided for in the consolidated financial statements except for the related reserves (Note 12).

Provision for inventories

As a result of this, the provision for inventories with the net realizable values below the costs and the slow moving inventories are presented in Note 10.

Provision for doubtful receivables

Allowance for doubtful receivables reflect the future loss that the Group anticipates to incur from the trade receivables as of the balance sheet date which is subject to collection risk considering the current economic conditions. During the impairment test for the receivables, the debtors are assessed with their prior year performances, their credit risk in the current market, their performance after the reporting date up to the issuing date of the financial statements; and also the renegotiation conditions with these debtors are considered. As of reporting date the provision for doubtful receivables is presented in Note 7 and Note 8.

Trade payables with letter of credits

Discounted letter of credits for the raw material purchases has been assessed as trade payable by the group management (Note 7)

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 15.

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3. Segment reporting

Including petrochemical and port services, the Group has two main fields of activity:

a) Net sales

	January 1 - December 31, 2016	January 1 - December 31, 2015
Petrochemical	**4.532.691.950**	4.533.431.442
Port services	**-**	-
Total before elimination	**4.532.691.950**	4.533.431.442
Eliminations and adjustments of consolidation	**(101.328)**	(795.473)
	4.532.590.622	4.532.635.969

b) Operating Profit

	January 1 - December 31, 2016	January 1 - December 31, 2015
Petrochemical	**790.332.324**	534.604.407
Port services	**(17.620.311)**	(36.242.038)
Total before elimination	**772.712.013**	498.362.369
Eliminations and adjustments of consolidation	**(43.977.410)**	6.588.259
	728.734.603	504.950.628

c) Depreciation and amortization

	January 1 - December 31, 2016	January 1 - December 31, 2015
Petrochemical	**(114.922.435)**	(113.598.533)
Port services	**(65.451.264)**	(25.886.955)
Total before elimination	**(180.373.699)**	(139.485.488)
Eliminations and adjustments of consolidation	**63.775.395**	25.752.786
	(116.598.304)	(113.732.702)

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3. Segment reporting (continued)

d) Profit before taxation

	January 1 - December 31, 2016	January 1 - December 31, 2015
Petrochemical	**894.667.144**	625.075.416
Port services	**(69.596.287)**	(30.759.953)
Total before elimination	**825.070.857**	594.315.463
Eliminations and adjustments of consolidation	**(43.187.613)**	(20.488.227)
	781.883.244	573.827.236

e) Net profit for the year

	January 1 - December 31, 2016	January 1 - December 31, 2015
Petrochemical	**755.204.731**	616.871.622
Port services	**19.670.227**	42.825.263
Total before elimination	**774.874.958**	659.696.885
Eliminations and adjustments of consolidation	**(43.187.612)**	(20.488.227)
	731.687.346	639.208.658

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3. Segment reporting (continued)

f) Investment expense

	January 1 - December 31, 2016	January 1 - December 31, 2015
Petrochemical	**436.861.489**	158.240.038
Port services	**358.576.053**	462.906.710
Total before elimination	**795.437.542**	621.146.748
Eliminations and adjustments of consolidation	**(106.962.258)**	(46.237.952)
	688.475.284	574.908.796

g) Total asset

	January 1 - December 31, 2016	January 1 - December 31, 2015
Petrochemical	**5.474.315.400**	4.845.019.577
Port services	**1.449.507.641**	977.224.062
Total before elimination	**6.923.823.041**	5.822.243.639
Eliminations and adjustments of consolidation	**(655.295.253)**	(361.578.311)
	6.268.527.788	5.460.665.328

h) Total liabilities

	January 1 - December 31, 2016	January 1 - December 31, 2015
Petrochemical	**2.334.125.024**	1.989.391.513
Port services	**1.233.117.523**	783.591.534
Total before elimination	**3.567.242.547**	2.772.983.047
Eliminations and adjustments of consolidation	**(368.154.785)**	(117.701.216)
	3.199.087.762	2.655.281.831

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4. Cash and cash equivalents

	December 31, 2016	December 31, 2015
Banks	**1.267.188.405**	1.341.536.749
- Foreign currency demand deposits	**10.024.050**	6.477.785
- Foreign currency time deposits	**988.870.046**	1.106.344.117
- TL demand deposits	**3.620.195**	11.158.398
- TL time deposits	**264.674.114**	217.556.449
	1.267.188.405	1.341.536.749

As of December 31, 2016, foreign currency time deposits consist of overnight and monthly deposits. The effective weighted average interest rates for USD and EUR 2,45% and 1,17%, respectively (December 31, 2015 - USD 2,75%, EUR 1,24%.). The monthly effective weighted average interest for the USD time deposit is 3,62% (December 31, 2015: USD 2,52%.)

As of December 31, 2016, TL time deposits consist of overnight and monthly deposits and bear the effective interest rate of 10,45% and 11,6% (December 31, 2015 - overnight 12,55%).

As of December 31, 2016, the Group has no blockage on its bank deposits (December 31, 2015 - None).

Based on the independent data with respect to the credit risk assessment of the banks at which the Group has deposits, are sufficient in terms of credit quality of the banks. Cash and cash equivalents are estimated to approximate carrying values including the accrued interest income at the reporting date.

5. Financial investments

a) Short-term financial investments

	December 31 2016	December 31, 2015
Time deposits longer than 3 months (*)	**-**	160.452.259
	-	160.452.259

(*) As of December 31, 2015, the Group has EUR 50.000.000 time deposit, TL 158.880.000 due in June 3, 2016, bear the effective interest of 1,72%. The related amount has been classified under the financial investments.

b) Long-term financial investments

The details of financial assets available for sale and percentage of shares are below.

	December 31, 2016		December 31, 2015	
	Shareholding rate (%)	**Amount - TL**	Shareholding rate (%)	Amount - TL
SOCAR Power Enerji Yatırımları A.Ş.	**9,90**	**8.910.000**	9,90	8.910.000
		8.910.000		8.910.000

TL 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.

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6. Financial liabilities

a) Short term liabilities

	December 31, 2016	December 31, 2015
Short-term bank borrowings [*]	**461.554.886**	308.155.137
Short-term installment of long term borrowings	**54.162.544**	40.001.436
Interest accrual	**1.477.190**	13.394.020
	517.194.620	361.550.593

[*] Bank borrowings amounting to TL 591.326 as of December 31, 2016 (December 31, 2015 - TL 9.744.159) are overnight loans without bearing any interest and used for the month-end Social Security Institution ("SSI") payments and Custom transactions.

As of December 31, 2016 and 2015, the amounts of short term bank borrowings and interest rates are as follows:

				December 31,2016
	Interest type	**Effective interest rate (%)**	**Original currency**	**Amount**
Short-term bank borrowings				
USD borrowings	Floating	LIBOR + 0,75 - 1,25	**105.411.332**	**370.963.560**
TL borrowings	Fixed	10,20	**90.000.000**	**90.000.000**
TL borrowings	Floating	-	**591.326**	**591.326**
Interest accruals				**144.007**
				461.698.893

				December 31,2015
	Interest type	Effective interest rate (%)	Original currency	Amount
Short-term bank borrowings				
USD borrowings	Floating	Libor + 1,10	51.042.433	148.410.978
TL borrowings	Fixed	11,00 - 10,90	150.000.000	150.000.000
TL borrowings	No interest	-	9.744.159	9.744.159
Interest accruals				11.482.937
				319.638.074

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6. Financial liabilities (continued)

				December 31,2016
	Interest type	**Effective interest rate (%)**	**Original currency**	**Amount**
Short-term instalment of long-term bank borrowings				
USD borrowings	Fixed	4,26	**436.803**	**1.537.197**
USD borrowings	Floating	Libor + 1,70	**7.634.702**	**26.868.046**
EUR borrowings	Fixed	1,64	**1.537.728**	**5.704.817**
EUR borrowings	Floating	Libor + 0,87 - 3,00	**5.405.128**	**20.052.484**
Interest accruals				**1.333.183**
				55.495.727

				December 31, 2015
	Interest type	Effective interest rate (%)	Original currency	Amount
Short-term instalment of long-term bank borrowings				
USD borrowings	Floating	Libor + 1,70 - 3,75	9.533.457	27.719.479
EUR borrowings	Floating	Libor + 3,00	3.865.168	12.281.957
Interest accruals				1.911.083
				41.912.519

As of 31 December 2016, the collaterals given by the Group against US Dollar and Euro loans held are explained in Note 15. The fair values of bank borrowings are disclosed in Note 32.

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6. Financial liabilities (continued)

b) Long-term bank borrowings

				December 31, 2016
	Interest type	**Effective interest rate (%)**	**Original currency**	**Amount**
Long-term bank borrowings				
USD borrowings	**Fixed**	**4,26**	**42.415.025**	**149.266.956**
USD borrowings	**Floating**	**LIBOR + 4,67**	**196.586.647**	**691.827.728**
EUR borrowings	**Fixed**	**1,64**	**18.461.538**	**68.490.462**
EUR borrowings	**Floating**	**LIBOR + 0,73 - 3,00**	**70.861.538**	**262.889.222**
				1.172.474.368

				December 31, 2015
	Interest type	Effective interest rate (%)	Original currency	Amount
Long-term bank borrowings				
USD borrowings	Floating	Libor + 1,70 - 4,67	204.221.348	593.793.993
USD borrowings	Fixed	4,26	43.263.332	125.792.463
EUR borrowings	Floating	Libor + 0,87 - 3,00	41.266.667	131.128.960
EUR borrowings	Fixed	1,64	20.000.000	63.552.000
				914.267.416

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6. Financial liabilities (continued)

As of December 31, 2016 and 2015 the principal repayment schedule of the borrowing is as follows:

	December 31 2016		December 31 2015	
	Original currency (USD)	**Equivalent in TL**	Original currency (USD)	Equivalent in TL
1-2 years	**27.139.078**	**95.507.843**	8.483.008	24.665.194
2-3 years	**10.448.871**	**36.771.667**	27.139.078	78.909.583
3-4 years	**11.431.805**	**40.230.808**	10.448.871	30.381.137
4-5 years	**16.149.884**	**56.834.672**	11.431.805	33.239.116
5 years and over	**173.832.034**	**611.749.694**	189.981.918	552.391.426
Total	**239.001.672**	**841.094.684**	247.484.680	719.586.456

	December 31 2016		December 31 2015	
	Original currency (Euro)	**Equivalent in TL**	Original currency (Euro)	Equivalent in TL
1-2 years	**14.395.513**	**53.405.914**	6.943.590	22.063.952
2-3 years	**14.395.513**	**53.405.914**	10.020.513	31.841.182
3-4 years	**14.395.513**	**53.405.914**	10.020.513	31.841.182
4-5 years	**14.395.513**	**53.405.914**	10.020.513	31.841.182
5 years and over	**31.741.024**	**117.756.028**	24.261.538	77.093.462
Total	**89.323.076**	**331.379.684**	61.266.667	194.680.960

As of December 31, 2016 and 2015, the Group is not subject to any financial covenant related to financial borrowings.

7. Trade receivables and payables

a) Short-term trade receivables

	December 31, 2016	December 31, 2015
Trade receivables	**690.291.096**	565.969.138
Allowance for doubtful receivables (-)	**(15.819.607)**	(14.544.081)
	674.471.489	551.425.057

As of December 31, 2016, weighted average yearly effective interest rates for the calculated not accrued income arising from short term trade receivables in TL, USD and EUR are 16,17%, 5,39% and 4,88%, respectively (December 31, 2015- TL, USD and EUR - 11,91%, 5,21% and 5,04%)

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7. Trade receivables and payables (continued)

The aging analysis of trade receivables including doubtful receivables as of December 31, 2016 and 2015 is as follows:

	December 31, 2016	December 31, 2015
Overdue receivables	**16.203.086**	9.198.511
0 - 30 days	**326.609.470**	236.226.997
31 - 60 days	**137.770.278**	115.299.387
61 - 90 days	**97.536.981**	98.795.660
91 days and over	**96.351.674**	91.904.502
	674.471.489	551.425.057

Other information related with the Group's credit risk is explained in Note 33. 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 for. The average maturity dates of trade receivables are 47 days (December 31, 2015 - 44)

Letters of guarantee received for trade receivables

The Group's receivables mainly arise from sales of thermoplastics and fiber materials. As of December 31, 2016, 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 964.923.454 (December 31, 2015 - TL 1.024.533.662) (Note 15)

The movement of the allowance for doubtful receivables during the year is as follows:

	2016	2015
January 1	**(14.544.081)**	(13.532.966)
Additions during the year (Note 26)	**(1.275.526)**	(1.341.985)
Provisions no longer required	**-**	330.870
December 31	**(15.819.607)**	(14.544.081)

b) Other short-term trade payables

	December 31 2016	December 31,2015
Trade payables, net	**1.080.083.029**	1.099.415.327
Expense accruals (*)	**5.195.490**	6.253.659
	1.085.278.519	1.105.668.986

(*) Letter of credits amounting to TL 702.494.286 of total short-term trade payable were due to the banks to finance the purchases of Naphtha. The average maturity for the letter of credit transactions is 108 days and consists of the commission expenses accrued in accordance with the effective interest method for the mentioned letter of credits as of the reporting (December 31, 2016 - TL 837.790.691 and the average maturity is 296 days).

Average maturity for short-term trade payables other than letter of credits is 17 days as of December 31, 2016 (December 31, 2015 - 29 days). The effective weighted average interest rates used in the calculation of finance costs of short-term trade payables are 13,68%, 5,25% and 4,13% for TL, USD and EUR denominated trade payables, respectively (December 31, 2015 - The effective weighted average interest rates of short-term trade payables for TL, USD and EUR denominated trade payables are 13,93% and 3,38% respectively)

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8. Other receivables and payables

	December 31, 2016	December 31, 2015
a) Other short-term receivables		
Receivables from contract of port services	**7.270.342**	3.764.943
Loan interest incentive accrual	**1.868.259**	1.647.621
Other	**9.399.881**	2.031.372
	18.538.482	7.443.936
Provision for other doubtful receivables	**(2.067.122)**	(933.608)
	16.471.360	6.510.328

The movement of the provision for other doubtful receivables during the year is as follows:

	2016	2015
January 1	**(933.608)**	(933.608)
Additions in the year (Note 26)	**(1.133.514)**	-
December 31	**(2.067.122)**	(933.608)

	December 31 2016	December 31 2015
b) Other short-term payables		
Deposits and guarantees received	**10.447.190**	2.193.874
Other	**1.836.356**	1.823.334
	12.283.546	4.017.208

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9. Derivative financial instruments

The amounts of derivative financial instruments as of December 31, 2016 and 2015 are as follows:

	December 31 2016		December 31 2015	
	Asset	**Liability**	Asset	Liability
Cash flow hedge	**7.466.471**	**(9.459.385)**	1.646.432	(11.008.960)
	7.466.471	**(9.459.385)**	1.646.432	(11.008.960)

	December 31, 2016			December 31, 2015		
	Nominal value (TL)	**Fair value (TL)**		Nominal value (TL)	Fair value (TL)	
		Asset	**(Liability)**		Asset	(Liability)
Foreign currency forward transactions	**18.549.500**	**928.319**	**-**	257.067.840	1.646.432	(659.638)
Foreign currency option transactions	**285.055.203**	**28.505**	**(432.006)**	-	-	-
Futures commodity trading operations	**23.376.286**	**3.364.044**	**-**	149.529.817	-	(10.349.322)
Commodity swap contracts	**17.332.907**	**3.145.603**	**-**	-	-	-
Interest rate swap contracts	**12.672.105**	**-**	**(9.027.379)**	-	-	-
	356.986.001	**7.466.471**	**(9.459.385)**	406.597.657	1.646.432	(11.008.960)

The Group's hedging transactions that fulfil the conditions of hedge accounting from financial risk are classified as derivatives for hedging purposes.

As of December 31, 2016, the future commodity trading operations are related to Naphtha commodity that is subject to price risk of the Company and traded for the purchase of 9,500 tons of Naphtha. The fair value of these operations with maturities due to March 2017 with a nominal contract amount of TL 23.376.286 is TL 3.145.603 excluding deferred tax effect and is recognized in the cash flow hedge reserve in the other comprehensive income (31 December 2015: TL 10.349.322).

Group has fixing contracts for future interest and principle payments of floating interest rate borrowings. The fair values of these contracts match the floating rate borrowings and was included in other comprehensive income

Depending on the Group's sales prices per customer contracts are set in TL, in US Dollar or in Euro, which is based on prices for raw material purchases in US Dollars, it is reflected in the sales price in US Dollar exchange rate. The Group has signed a contract that related to the amount of EUR 5.000.000 to foreign currency forward transactions to hedge against currency exchange risks in 2016. The fair value as of December 31, 2016 amounting to TL 928.319 is shown in the balance sheet as derivative instruments; the gain is recognized in the statement of comprehensive income under hedge funds. (December 31, 2015 - TL 986.794) The terms and conditions of those contracts match the terms and conditions of the floating rate borrowings. As a result, no hedge ineffectiveness arises requiring recognition through profit or loss.

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10. Inventories

	December 31, 2016	December 31, 2015
Raw materials	**131.205.558**	112.685.870
Work-in-progress	**151.387.512**	94.789.137
Finished goods	**155.419.561**	90.622.291
Trade goods	**16.287.036**	19.207.550
Goods-in-transit	**107.705.559**	33.907.481
Other inventories	**43.327.421**	24.342.685
	605.332.647	375.555.014
Less: Allowance for impairment on inventories	**(998.814)**	(12.046.150)
	604.333.833	363.508.864

Movements of allowance for impairment on inventories for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
January 1	**(12.046.150)**	(27.379.753)
Charge for the year	**(998.814)**	(12.046.150)
Allowance no longer required	**12.046.150**	27.379.753
December 31	**(998.814)**	(12.046.150)

Allocation of the provision for allowance on inventories in terms of inventory type is as follows:

	December 31, 2016	December 31, 2015
Work-in-progress	**(555.245)**	(10.041.552)
Finished goods	**-**	(1.150.298)
Trade goods	**(173.195)**	(583.877)
Other inventories	**(270.374)**	(270.423)
	(998.814)	(12.046.150)

Allowance for impairment mainly consists of the net realizable value measurements of inventories. The reason of the impairment of inventories is the difference between sales and cost price, as product sales price decreased due to the decrease in naphtha price.

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11. Investment properties

	December 31, 2016	December 31, 2015
Investment properties	**928.881.678**	1.469.935
	928.881.678	1.469.935

The movement of investment properties for the year ended December 31, 2016 are as follows:

	December 31, 2015	**Additions**	**Transfers [*]**	**December 31, 2016**
Cost:				
Land [**]	**1.469.935**	**-**	**-**	**1.469.935**
Land improvements	**-**	**-**	**468.609.013**	**468.609.013**
Buildings	**-**	**-**	**41.129.754**	**41.129.754**
Machinery and equipment	**-**	**-**	**26.927.312**	**26.927.312**
Construction in progress	**-**	**-**	**392.278.311**	**392.278.311**
	1.469.935	**-**	**928.944.390**	**930.414.325**
Accumulated depreciation:				
Land improvements	**-**	**(1.334.308)**	**-**	**(1.334.308)**
Buildings	**-**	**(107.109)**	**-**	**(107.109)**
Machinery and equipment	**-**	**(91.230)**	**-**	**(91.230)**
	-	**(1.532.647)**	**-**	**(1.532.647)**
Net book value	**1.469.935**			**928.881.678**

[*] In 2016, investment property amounting to TL 928.944.390 has been transferred from property, plant and equipment (Note 12) (31 December 2015 - 8.177). For a container port to be established inside Petkim facilities to be operated by APM Terminalleri Liman İşletmeciliği A.Ş. (APM Terminalleri), an operation agreement was signed between the Group and APMT BV. and APM Terminalleri on February 22, 2013. Phase 1, which is related to port investments of Petkim accounted under construction in progress in tangible assets accounts in the current period is transferred to investment properties as a result of put into operation in December 2016.

[**] 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 4.630.057,88 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 - major valuation report which was prepared by shareholder of the Group, for the mentioned land in January 2013, the market value of the land has been determined as TL 378.125.000. 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 invest.

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12. Property, plant and equipment

The movements of tangible assets and related accumulated depreciation for the years ended December 31, 2016 and 2015 are as follows:

	December 31, 2015	Additions	Transfers	Disposals	December 31 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
Construction in progress	987.285.985	688.475.284	(1.098.804.600)	(2.667.127)	574.289.542
	7.811.239.436	688.475.284	(935.876.396)	(22.130.602)	7.541.707.722
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)
	(5.534.605.362)	(122.153.345)	-	18.900.391	(5.637.858.316)
Net book value	2.276.634.074				1.903.849.406

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12. Property, plant and equipment (continued)

	December 31, 2014	Additions	Transfers	Disposals	December 31 2015
Cost:					
Land	13.208.763	321.464	(8.177)	-	13.522.050
Land improvements	108.396.415	-	5.561.156	-	113.957.571
Buildings	169.032.795	-	2.585.248	-	171.618.043
Machinery and equipment	6.381.145.390	-	55.110.339	-	6.436.255.729
Motor vehicles	10.576.693	-	1.771.691	(29.115)	12.319.269
Furniture and fixtures	67.789.913	-	6.939.741	(26.848)	74.702.806
Other fixed assets	996.152	-	-	-	996.152
Leasehold improvements	581.831	-	-	-	581.831
Construction in progress	488.649.086	574.587.332	(75.762.598)	(187.835)	987.285.985
	7.240.377.038	574.908.796	(3.802.600)	-243.798	7.811.239.436
Accumulated depreciation:					
Land improvements	(82.575.675)	(2.513.804)	-	-	(85.089.479)
Buildings	(95.524.377)	(3.656.754)	-	(295)	(99.181.426)
Machinery and equipment	(5.179.977.175)	(101.293.438)	-	-	(5.281.270.613)
Motor vehicles	(9.276.064)	(662.797)	-	29.115	(9.909.746)
Furniture and fixtures	(54.532.020)	(3.247.840)	-	26.709	(57.753.151)
Other fixed assets	(996.152)	-	-	-	(996.152)
Leasehold improvements	(210.852)	(193.943)	-	-	(404.795)
	(5.423.092.315)	(111.568.576)	-	55.529	(5.534.605.362)
Net book value	1.817.284.723				2.276.634.074

As of December 31, 2016, transfers amounting to TL 935.876.396 is transferred to intangible asset (December 31, 2015 - TL 3.802.600), TL 928.944.390 is transferred to investment properties (December 31, 2015 - TL 8.177) (Note 11 and 13).

The Group compared the investment loans in foreign currency to the TL market loan interest and capitalized the borrowing cost amounting to TL 121.213.650 (December 31 2015 - TL 55.676.557). The rate that group has used to determine the capitalized finance cost is 16,579% (December 31, 2015 - 15,41%) which is weighted average effective interest rate of the investment loans.

Depreciation charges amounting to TL 122.153.345 for the year ended December 31, 2016 (December 31, 2015 - TL - 111.568.576) were allocated to cost of sales by TL 97.320.770 (December 31, 2015 - TL - 90.846.512), to idle capacity expenses by TL 6.992.975 (December 31, 2015 - TL - 8.554.895), to inventories by TL 9.948.694 (December 31, 2015 - TL 5.153.090), to general administrative expenses by TL 6.371.129 (December 31, 2015 - TL 6.276.974), to marketing, selling and distribution expenses by TL 772.786 (December 31, 2015 - TL 492.489), and to research and development expenses by TL 746.992 (December 31, 2015 - TL 244.616).

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12. Property, plant and equipment (continued)

The major part of the additions to machinery and equipment as of December 31, 2016 related to the modernization of production facilities and machineries which are classified under construction in progress as of December 31, 2015 and completed in year 2016. The Group's management plans to increase the efficiency and environmental compliance with these investments. Construction in progress as of December 31, 2016 has similar characteristics with previous year's construction in progress.

As of December 31, 2016, 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, 2015 - USD 350 million). A mortgage on the land of Petkim was established for Socar Turkey Enerji A.Ş. amounting to USD 50 million (December 31, 2015: USD 50 million).

13. Intangible assets

The movements of intangible assets and related accumulated amortization for the years ended December 31, 2016 and 2015 are as follows:

	December 31, 2015	**Additions**	**Transfers**	**Disposals**	**December 31, 2016**
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**

	December 31, 2014	Additions	Transfers	Disposals	December 31, 2015
Cost:					
Rights and software	26.476.207	-	2.227.103	-	28.703.310
Capitalized development costs	-	-	1.567.320	-	1.567.320
	26.476.207	-	3.794.423	-	30.270.630
Accumulated amortization:					
Rights and software	(9.778.835)	(2.046.923)	-	-	(11.825.758)
Capitalized development costs	-	(117.203)	-	-	(117.203)
	(9.778.835)	(2.164.126)	-	-	(11.942.961)
Net book value	16.697.372				18.327.669

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13. Intangible assets (continued)

There is no mortgage on intangible assets as of December 31, 2016 (31 December, 2015 - None).

Amortization charges amounting to TL 2.861.005 (31 December 2015 - TL 2.164.126) for the year ended December 31, 2016 were allocated to cost of sales by TL 1.149.033 (31 December 2015 - TL 568.567), to research and development expenses by TL 139.854 (31 December 2015 - TL 59.177), and to general administrative expenses by TL 1.572.118 (31 December 2015 - TL 1.536.382).

14. Government grants

As of December 31, 2016, government grants consist of research and development incentives granted from TÜBİTAK amounting to TL 1.732.189 (31 December 2015: TL 1.539.637) and TL 192.552 (31 December 2015: TL 132.275) of that incentives grant has been presented in income statement.

15. Provisions, contingent assets and liabilities

	December 31, 2016	December 31, 2015
a) Short-term provisions:		
Provision for litigation	**1.383.579**	942.746
	1.383.579	942.746

The movement of the provision for litigation is as follows:

	2016	2015
January 1	**942.746**	1.986.226
Change in the period	**492.319**	10.537
Paid in the period	**(51.486)**	(1.054.017)
December 31	**1.383.579**	942.746

The details of guarantees received as of December 31, 2016 and December 31, 2015 are as follows Allocation of the letters of guarantee received in terms of currency type is as follows:

	December 31, 2016	December 31, 2015
b) Guarantees received:		
Bank guarantees within the context of DOCS	**491.942.679**	599.275.848
Letters of guarantee received from customers	**288.961.642**	310.208.811
Letters of guarantee received from suppliers	**183.424.856**	167.392.899
Letters of credit received	**96.013.037**	34.957.071
Receivable insurance	**84.503.722**	76.290.860
Mortgages	**2.000.000**	2.000.000
Policies received	**1.502.374**	1.000.000
Cheques received	**-**	801.072
	1.148.348.310	1.191.926.561

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15. Provisions, contingent assets and liabilities (continued)

Allocation of the letters of guarantee received in terms of currency type is as follows:

	December 31, 2016		December 31, 2015	
	Original currency	**TL Amount**	Original currency	TL Amount
Turkish Lira	**-**	**632.430.106**	-	739.630.915
US Dollar	**90.936.709**	**320.024.466**	97.758.658	284.243.074
Euro	**52.802.970**	**195.893.738**	52.860.611	167.969.878
Japanese Yen	**-**	**-**	1.737.553	41.837
British Pound	**-**	**-**	9.500	40.857
		1.148.348.310		1.191.926.561

	December 31, 2016	December 31, 2015
c) Guarantees given:		
Letters of guarantee given	**758.698.549**	438.767.502
	758.698.549	438.767.502

Collaterals, Pledges and Mortgages ("CPM") provided by the Company:

	December 31, 2016	December 31, 2015
A. Total amount of CPMs given for the Company's own legal personality	**758.698.549**	438.767.502
B. Total amount of CPMs given on behalf of fully consolidated companies (*)	**691.827.728**	571.595.334
C. Total amount of CPMs given for continuation of its economic activities on behalf of third parties	**175.960.000**	120.665.400
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 on behalf of third parties which are not in scope of C.	-	-
	1.626.486.277	1.131.028.236

(*) Petlim 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 also amounting to 105 M TL which is its shares in Petlim Limancılık Ticaret A.Ş 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 by Petkim on Petlim's land sold at a price of TL 5.650.000.

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15. Provisions, contingent assets and liabilities (continued)

The details of guarantees given as of December 31, 2016 and December 31, 2015 are as follows.

	December 31, 2016	December 31, 2015
Mortgages given to banks	**867.787.728**	692.260.734
Guarantees given to banks	**585.141.407**	277.805.781
Customs offices	**50.099.000**	46.664.800
Türkiye Elektrik Ticaret ve Taahhüt A.Ş.	**8.478.465**	8.478.465
EMRA	**5.600.000**	5.600.000
Other	**109.379.677**	100.218.456
	1.626.486.277	1.131.028.236

Allocation of the letters of guarantee given in terms of currency type as of December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016		December 31, 2015	
	Original currency	**TL Amount**	Original currency	TL Amount
US Dollar	**395.755.252**	**1.392.741.883**	318.093.104	924.887.510
Euro	**50.000.000**	**185.495.000**	50.627.045	160.872.500
Turkish Lira	**-**	**48.249.394**	-	45.268.226
		1.626.486.277		1.131.028.236

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 December 31, 2016 as follows:

Operational leases income	**2016**	2015
First 5 years	**313.956.394**	199.203.971
5-10 years	**905.531.484**	607.145.186
10 years and more	**1.926.964.074**	1.739.653.261
Total	**3.146.451.952**	2.546.002.418

Operational leases expense	**2016**	2015
0-1 year	**12.878.087**	12.878.087
1-5 years	**4.292.695**	17.170.782
Total	**17.170.782**	30.048.869

The group has signed an operational leasing contract for naphtha tank to be effective between December 1, 2014 and April 30, 2018 at the date of December 30, 2014. STAR has rented out tanks, owned by it, and discounted amounting TL 44.000.129 + VAT for over entire duration within the context of that contract. STAR has obtained a valuation report regarding usage right value of tank within period of rent from an independent firm so as to determine fair value of related rent process. Net book value of the net rent income from tanks between December 1, 2014 and April 20, 2018, is in the range of TL 40.0000.000 TL 45.000.000.

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15. Provisions, contingent assets and liabilities (continued)

The Group signed a construction contract with a real estate company for the construction of new headquarter building which is planned to be built on its own land. In 2016, an advance payment amounting to USD 11 million has been made to real estate development company in scope of aforementioned contract and other supplementary protocols, however; the construction has not been completed with respect to decision taken on Board of Directors meeting held on December 15, 2016. It is decided to terminate aforementioned contract since the real estate company has not fulfilled its commitments mentioned in the contract in due time and an allowance related to given advances amounting to USD 11 million presented under long term prepaid expenses is recognized as of December 31, 2016 (Note 19).

As of the approval of consolidated financial statements, there is an uncertainty about how the above mentioned head office construction will be completed and recognized in the Company's accounts, and it will be determined based on the assessments of alternative completion plans of the construction.

16. 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. This contract has disclosed on PDP (Public Disclosure Platform) at the same date with contract. 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.

17. Employee benefits

	December 31, 2016	December 31, 2015
i) Short-term employee benefits:		
Provision for seniority incentive bonus	**2.617.402**	3.027.856
Performance management bonus (*)	**-**	10.000.000
	2.617.402	13.027.856
ii) Long-term employee benefits:		
Provision for employment termination benefits	**79.216.848**	78.796.553
Provision for unused vacation rights	**8.867.379**	7.686.675
Provision for seniority incentive bonus	**3.224.095**	2.643.707
	91.308.322	89.126.935

(*) Provision for performance premium of personnel is presented under short term provisions account group in scope of employee benefits at the end of 2015 and it has been paid in 2016. Performance premium, which shall be paid to personnel, amounting to TL 9.524.380 as of December 31, 2016 is accrued under payables account in scope of employee benefits since the actual payment was made in February 2017 (Note 20).

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17. Employee benefits (continued)

Unused vacation rights

Movements of the provision for unused vacation rights are as follows:

	2016	2015
January 1	**7.686.675**	6.547.365
Charge for the period, net	**1.180.704**	1.139.310
December 31	**8.867.379**	7.686.675

Performance management bonus

Movements of the provision for performance management bonus are as follows:

	2016	2015
January 1	**10.000.000**	-
Payments in the period	**(7.331.766)**	-
Additions/(no longer required), net	**(2.668.234)**	10.000.000
	-	10.000.000

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 4.297,21 for each year of service as of December 31, 2016 (December 31, 2015 - TL 3.828,37).

The liability is not funded, as there is no funding requirement.

The provision is calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees.

IAS 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:

	December 31, 2016	December 31, 2015
Discount rate (%)	**3,61**	3,80
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 4.426,16, which is effective from January 1, 2017, has been taken into consideration in the calculation of employment termination benefits of the Group (January 1, 2016 - TL 4.092,53)

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17. Employee benefits (continued)

The movements of the provision for seniority incentive bonus are as follows:

	2016	2015
January 1	**78.796.553**	69.911.457
Interest cost	**7.091.690**	2.656.636
Actuarial loss	**1.283.136**	10.549.840
Service cost	**5.965.556**	3.146.581
Payments during the year	**(13.920.087)**	(7.467.961)
December 31	**79.216.848**	78.796.553

Sensitivity analysis of the assumptions, that are used in order to calculate the provision of the employment termination benefit as December 31, 2016 and 2015, are follows:

	December 31, 2016		December 31, 2015	
	Net discount rate		Net discount rate	
Sensitivity analysis	**100 basis point increase**	**100 basis point decrease**	100 basis point increase	100 basis point decrease
Rate	**4,61%**	**2,61%**	4,80%	2,80%
Change in liability of employment termination benefit	**(4.641.699)**	**5.818.827**	(2.941.096)	3.583.922

Provision for seniority incentive bonus:

The Group has an employee benefit plan, namely "Seniority Incentive Bonus", which is paid to employees with a certain level of seniority.

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 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 6 month are not considered. Periods which are more than 6 month are considered as 1 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 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 6 month are not considered. Periods which are more than 6 month are considered as 1 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.

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17. Employee benefits (continued)

The movements of the provision for seniority incentive bonus are as follows:

	2016	2015
January 1	**5.671.563**	5.648.537
Interest cost	**510.441**	214.644
Service cost	**4.174.975**	4.492.288
Payments during the year	**(4.515.482)**	(4.683.906)
December 31	**5.841.497**	5.671.563

18. Deferred Income

a) Short-term deferred income:

	December 31, 2016	December 31, 2015
Order advances received	**28.820.322**	18.740.926
Deferred income (*)	**6.126.429**	3.184.151
	34.946.751	21.925.077

b) Long-term deferred income:

	December 31, 2016	December 31, 2015
Long-term deferred income (*)	**120.807.592**	54.794.114
	120.807.592	54.794.114

(*) For a container port to be established inside Petkim facilities to be operated by APM Terminalleri Liman İşletmeciliği A.Ş. (APM Terminalleri), an operation agreement was signed between the Group and APMT BV. and APM Terminalleri on February 22, 2013. Under the agreement, the operations of the project developed by the Petlim will be performed by APM Terminals. The amount paid by the Group APM Terminals TL 5.095.741 in short-term deferred revenue TL 119.749.903 is followed till date to start operating in long-term deferred revenues. Deferred income shall be recorded as income on a straight line basis over the operating period.

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19. Prepaid expenses

a) Short-term prepaid expenses

	December 31, 2016	December 31, 2015
Advances given for inventories	**587.442**	20.311.017
Advances given for customs affairs	**3.599.354**	10.201.986
Prepaid rent, insurance and other expenses	**14.850.908**	8.956.615
	19.037.704	39.469.618

b) Long-term prepaid expenses

	December 31, 2016	December 31, 2015
Advances given for fixed assets (*)	**76.651.061**	77.713.952
Advances given for custom works	**12.772.125**	12.772.125
Prepaid rent, insurance and other expenses	**2.131.361**	2.218.840
	91.554.547	92.704.917
Provision for doubtful advances given (**)	**(31.807.000)**	-
	59.747.547	92.704.917

(*) A large part of the amount constituting the advance has been given tangible assets under the Wind Power Plant Project.

(**) As disclosed in Note 15, there is an advance payment amounting to TL 31.807.000 made by the Group in scope of head office building construction. The legal follow up is ongoing against to the entity which, the impairment provision is recognized for the advances given in 2016.

20. Liabilities for employee benefits

	December 31, 2016	December 31, 2015
Due to personnel	**10.873.080**	8.220.279
Personnel performance bonus accrual (Note 17)	**9.524.380**	-
Social security contribution	**5.032.032**	4.622.508
	25.429.492	12.842.787

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21. Other assets and liabilities

i) Other assets

	December 31, 2016	December 31, 2015
a) Other current assets:		
Value added tax ("VAT") receivable	**42.714.395**	33.899.334
Other	**1.062.999**	1.197.141
	43.777.394	35.096.475

	December 31, 2016	December 31, 2015
b) Other non-current assets:		
Value added tax ("VAT") receivable	**-**	26.660.801
Spare parts	**12.110.315**	12.539.243
Other	**122.039**	122.284
	12.232.354	39.322.328

ii) Other liabilities

	December 31, 2016	December 31, 2015
a) Other short-term liabilities:		
Taxes and funds payable and other deductions	**7.277.511**	6.136.077
Other	**699.008**	359.334
	7.976.519	6.495.411

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22. Equity

The shareholders of the Company and their shareholdings as of December 31, 2016 and 2015 were as follows:

		December 31, 2016		December 31, 2015	
Group:	**Shareholder:**	**Amount**	**Share (%)**	Amount	Share (%)
A	Socar Turkey Petrokimya A.Ş.	**765.000.000**	**51,00**	765.000.000	51,00
A	Public owned [*]	**735.000.000**	**49,00**	655.176.478	43,68
A	SOCAR Turkey Enerji A.Ş.	**-**	**-**	79.823.522	5,32
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	

[*] SOCAR Turkey Enerji A.Ş. traded on a public BIST part; it has a rate of 1.32% per share 19.823.521,64 (December 31, 2015: rate 2,75% per share 41.278.401,47).

Adjustment to share capital represents the difference between the amounts of cash and cash equivalents contributions, restated for inflation, to share capital and the amounts before the restatement.

As the board of directories meeting decision taken at the December 8, 2015 in the registered capital ceiling of TL 4.000.000.000, increased 50% of the issued share capital and reached from TL 1.000.000.000 to TL 1.500.000.000. Capital increase consists from adjustments to share capital amounting to TL 247.863.787 and special fund amounting to TL 252.136.213. Group A registered shares, issued per procuration of the capital increased at an amount of TL 500.000.000, are distributed to shareholders in due form. 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 1Kr, 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 1Kr, and 1 Group C preferred stock belonging to Management).

Capital of the Company is composed of all registered shares (December 31, 2015 - All registered).

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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22. 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 interim 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.

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.

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22. Equity (continued)

Composition of the equity items subject to the profit distribution as per statutory financial statements of the Company is as follows:

	December 31, 2016	December 31, 2015
Legal reserves and special funds	**462.881.373**	362.011.604
Net profit for the year	**702.820.967**	573.177.217
	1.165.702.340	935.188.821

In the Ordinary General Meeting dated on March 28, 2016, it is decided that profit of the year 2015 amounting to TL 472.500.000 (2015: dividend is not paid) to be distributed by cash dividends (each with a nominal value of 1 kuruş 100 (the krş 1 amount) gross per share dividend: TL 0,315) After withholding of dividend payment amounting to TL 445.409.278 has been completed as of December 31, 2016.

23. Sales and cost of sales

	January 1 - December 31, 2016	January 1 - December 31, 2015
Domestic sales	**3.206.977.195**	3.179.567.385
Export sales	**1.367.236.573**	1.387.171.847
Other	**30.995.483**	52.395.088
	4.605.209.251	4.619.134.320
Less: Other discounts	**(58.242.332)**	(70.957.757)
Less: Sales discounts	**(10.423.739)**	(11.465.978)
Less: Sales returns	**(3.952.558)**	(4.074.616)
Sales	**4.532.590.622**	4.532.635.969
Raw material usage	**(2.551.956.008)**	(2.576.139.932)
Cost of sold trade goods	**(383.046.853)**	(312.021.757)
Energy	**(320.841.953)**	(373.394.042)
Labour	**(198.593.556)**	(186.797.331)
Depreciation	**(105.462.778)**	(99.969.974)
Idle capacity expense	**(24.340.712)**	(30.456.850)
Packaging costs	**(16.811.355)**	(24.154.226)
Change in work in process	**56.598.375**	(96.039.610)
Change in finished goods	**64.797.270**	(41.784.479)
Provision for impairment of inventories (Note 10)	**11.047.336**	15.333.603
Other	**(106.161.563)**	(88.941.199)
Cost of sales	**(3.574.771.797)**	(3.814.365.797)
Gross profit	**957.818.825**	718.270.172

Other sales and other discounts classified under sales are composed of sales price differences between the sales order and sales transaction date. The sales prices differences for and against the benefit of the Group have been classified in other sales and other discounts, respectively.

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24. Research and development expenses, marketing, selling and distribution expenses, general administrative expenses

	January 1 - December 31, 2016	January 1 - December 31, 2015
a) General administrative expenses:		
Personnel expenses	**53.020.777**	51.451.579
Outsourced services	**40.362.019**	28.611.550
Energy expenses	**11.574.115**	11.901.743
Depreciation and amortization	**7.943.247**	7.813.356
Taxes, funds and fees	**6.573.965**	5.546.511
EMRA contribution share	**1.837.284**	1.781.592
Other	**16.831.896**	10.645.521
	138.143.303	117.751.852

	January 1 - December 31, 2016	January 1 - December 31, 2015
b) Marketing, selling and distribution expenses:		
Outsourced services	**23.782.074**	15.499.682
Personnel expenses	**11.952.846**	12.057.731
Depreciation and amortization	**772.786**	492.489
Other	**5.768.515**	4.247.789
	42.276.221	32.297.691
c) Research and development expenses:		
Personnel expenses	**9.478.000**	9.610.605
Outsourced services	**1.060.937**	549.265
Depreciation and amortization	**886.846**	303.793
Other	**1.356.836**	1.279.075
	12.782.619	11.742.738
Total operating expenses	**193.202.143**	161.792.281

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25. Expenses by nature

	January 1 - December 31, 2016	January 1 - December 31, 2015
Raw materials usage, changes in work-in-process and finished goods	**2.430.560.363**	2.713.964.021
Cost of commercial goods sold	**383.046.853**	312.021.757
Energy	**332.416.067**	385.295.785
Personnel expenses	**273.045.179**	259.917.246
Depreciation and amortization	**115.065.657**	108.579.612
Outsourced services	**65.205.030**	44.660.497
Idle capacity expense	**24.340.712**	30.456.850
Employment termination benefits - net	**998.814**	12.046.150
Provision for impairment of inventories (Note 10)	**143.295.265**	109.216.160
	3.767.973.940	3.976.158.078

26. Other operating income and expense

	January 1 - December 31, 2016	January 1 - December 31, 2015
Other operating income:		
Foreign exchange gains on trade payables	**84.381.243**	32.129.952
Interest income on trade receivables	**64.525.610**	51.380.063
Foreign exchange gains on trade receivables	**33.109.934**	28.307.903
Rent income	**11.841.318**	9.820.013
Energy maintenance income	**4.255.660**	1.646.829
Infrastructure income	**1.268.386**	1.105.968
Income from insurance recoveries	**51.486**	1.054.017
Rediscount income on trade payables	**370.037**	-
Other	**4.359.005**	2.655.564
	204.162.679	128.100.309

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26. Other operating income and expense (continued)

	January 1 - December 31, 2016	January 1 - December 31, 2015
Other operating expense:		
Foreign exchange losses on trade payable	**(170.522.339)**	(131.177.532)
Allowance for advances given (Note 19)	**(31.807.000)**	-
Interest expense on trade payables	**(13.979.647)**	(23.303.675)
Rediscount expense on trade receivables	**(9.094.381)**	(8.388.176)
Provision for doubtful receivables (Note 7 and 8)	**(2.409.040)**	(1.341.985)
Foreign exchange losses on trade receivables	**(2.112.670)**	(9.012.236)
Compensation and penalty charges	**(1.336.981)**	(1.697.115)
Litigation allowance (Note 15)	**(492.319)**	(10.537)
Other	**(8.290.381)**	(4.696.316)
	(240.044.758)	(179.627.572)

27. Investment activities income and expense

	January 1 - December 31, 2016	January 1 - December 31, 2015
Income from investment activities:		
Rent income	**16.756.265**	10.968.926
Proceeds from sales of property, plant and equipment	**566.058**	13.030
	17.322.323	10.981.956

	January 1 - December 31, 2016	January 1 - December 31, 2015
Expense from investment activities		
Impairment on non-current assets	**(2.667.127)**	-
Depreciation and amortization	**(1.532.647)**	-
Other	**(12.812)**	-
	(4.212.586)	-

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28. Finance income

	January 1 - December 31, 2016	January 1 - December 31, 2015
Foreign exchange gain (*)	**320.054.453**	385.667.891
Interest income	**54.088.875**	33.403.052
Other	**4.885.142**	2.597.167
	379.028.470	421.668.110

(*) Foreign exchange gain related to cash and cash equivalents, financial liabilities and other liabilities.

29. Finance costs

	January 1 - December 31, 2016	January 1 - December 31, 2015
Foreign exchange loss (*)	**(310.644.385)**	(338.723.003)
Interest expense	**(19.120.786)**	(21.268.003)
Interest expense related to employee benefits	**(7.602.130)**	(2.871.280)
Bank commission expense	**(1.622.265)**	(911.172)
	(338.989.566)	(363.773.458)

(*) Foreign exchange gain related to cash and cash equivalents, financial liabilities and other liabilities

30. Tax assets and liabilities

i) Corporation tax:

	December 31, 2016	December 31, 2015
Current income tax expense	**163.030.686**	19.213.253
Prepaid taxes and funds	**(114.165.868)**	(9.529.198)
Income tax payable	**48.864.818**	9.684.055

As of December 31 Tax expense for the year ended are detailed below:

	January 1 - December 31, 2016	January 1 - December 31, 2015
Current income tax expense	**(163.030.686)**	(19.213.253)
Deferred tax income/(expense)	**112.834.788**	84.594.675
Total tax income (expense)	**(50.195.898)**	65.381.422

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30. Tax assets and liabilities (continued)

The corporation tax rate of the fiscal year 2016 is 20% (December 31, 2015 - 20%). Corporation tax is payable at a rate of 20% on the total income of the companies after adjusting for certain disallowable expenses, exempt income (exemption for participation in subsidiaries, exemption for investment incentive allowance etc.) and allowances (such as research and development expenditure allowances).

Tax returns are open for five years from the beginning of the year that follows the date of filling during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings. Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods.

Transfer pricing

The Law No: 5520 Article 13, which made new arrangements to transfer pricing, was effective from January 1 2007. With the aforementioned law, considerable amendments have been made to transfer pricing regulations by taking EU and OECD transfer pricing guidelines as a basis. In this respect, corporations should set the prices in accordance with the arm's length principle while entering into transactions regarding the sale or purchase of goods and services with related parties. Under the arm's length principle within the new legislation related parties must set the transfer prices for purchase and sale of goods and services as if they would have been agreed between third parties. Depending on the circumstances, a choice of accepted methods in aforementioned law of arm's length transaction has to be made by corporations for transactions with related parties. Corporations should keep the documentary evidence within the company representing how arm's length price has been determined and the methodology that has been chosen by use of any fiscal records and calculations in case of any request by tax authorities. Besides, corporations must report transactions with related parties in a fiscal period.

If a taxpayer enters into transactions regarding the sale or purchase of goods and services with related parties, where the prices are not set in accordance with the arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. The profit distributed in a disguised manner through transfer pricing completely or partially in the last day of the fiscal period when the circumstances defined in the 13th article occurred, will be assessed as distributed profit share or transferred amount to headquarter for limited taxpayers. After the distributed profit share is considered as net profit share and complemented to gross amount, deemed profit will be subject to corporate tax. Previous taxation processes will be revised accordingly by taxpayer who distributes disguised profit. In order to make adjustments in this respect, the taxes assessed in the name of the company distributing dividends in a disguised manner must be finalized and paid. The Company has prepared a transfer pricing report for fiscal year 2015 within the scope of transfer pricing legislation and is preparing a report for fiscal year 2016.

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30. Tax assets and liabilities (continued)

The reconciliations of the taxation on income for the years ended December 31, 2016 and 2015 were as follows:

	January 1 - December 31, 2016	January 1 - December 31, 2015
Profit before tax	**781.883.244**	573.827.236
Statutory tax rate	**20%**	20%
Calculated tax expense based on effective tax rate	**(156.376.649)**	(114.765.447)
Reconciliation between the tax provision and calculated tax:		
Unrecognized deferred tax on current year tax loses	**-**	(5.652.557)
Unrecognized deferred tax on current year tax loses, used in current year	**6.662.907**	-
Deferred tax asset related to investment incentives	**98.231.086**	185.921.936
Income exempt from tax	**1.898.119**	1.316.288
Non-deductible expense	**(3.400.477)**	(3.480.426)
The effect of permanent adjustments	**2.515.064**	2.357.105
Other	**274.052**	(315.477)
Total tax income (expense) reported in the profit or loss statement	**(50.195.898)**	65.381.422

ii) Deferred taxes

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

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% (December 31, 2015 - 20%).

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30. Tax assets and liabilities (continued)

Details of cumulative temporary differences and the resulting deferred income tax assets and liabilities provided as of December 31, 2016 and 2015 were as follows:

	Taxable temporary differences		Deferred income tax assets/(liabilities)	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
Difference between the carrying values and tax bases of property, plant, equipment and intangible	**(234.712.829)**	(314.955.950)	**(46.942.565)**	(62.991.190)
Income accrual of hedging reserve	**(7.466.471)**	(1.646.432)	**(1.493.294)**	(329.286)
Price difference correction	**(1.578.140)**	-	**(315.628)**	-
Adjustment to internal rate of return	**(1.450.884)**	(1.202.203)	**(290.177)**	(240.441)
Incurred finance cost	**(1.004.159)**	(633.967)	**(200.832)**	(126.794)
Other	**-**	(1.474.473)	**-**	(294.895)
Deferred income tax liabilities	**(246.212.483)**	(319.913.025)	**(49.242.496)**	(63.982.606)
Unused investment incentives	**947.460.922**	691.151.826	**250.612.314**	166.103.900
Employment termination benefits and seniority incentive bonus provision	**85.053.223**	84.468.116	**17.010.645**	16.893.623
Deferred income related to the acquisition of the right to operate	**74.386.834**	4.455.528	**14.877.367**	891.106
Accrued expense of personnel bonus	**9.524.380**	10.000.000	**1.904.876**	2.000.000
Income/(expense) accrual of hedging reserve	**9.459.385**	11.008.960	**1.891.877**	2.201.792
Provision for receivable rediscounts	**9.094.536**	8.388.021	**1.818.907**	1.677.604
Provision for unused vacation rights	**8.867.379**	7.686.675	**1.773.476**	1.537.335
Letter of credit interest accrual and IRR adjustment	**5.195.490**	5.689.407	**1.039.098**	1.137.883
Advances given foreign exchange rate correction	**5.040.411**	-	**1.008.083**	-
Rent allowance fee	**4.643.350**	4.810.680	**928.670**	962.136
Impairment on non-current assets	**2.667.127**	-	**533.425**	-
Provision for legal cases	**1.383.579**	891.260	**276.716**	178.252
Provision for doubtful receivables	**1.128.024**	5.141.764	**225.605**	1.028.353
Inventory impairment	**998.814**	12.158.681	**199.763**	2.431.736
Other	**528.306**	1.426.916	**105.661**	285.383
Deferred income tax assets	**1.165.431.760**	847.277.834	**294.206.483**	197.329.103
Deferred tax assets/(liabilities) - net			**244.963.987**	133.346.497

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30. Tax assets and liabilities (continued)

The movement of deferred income tax is as follows:

	2016	2015
January 1	**133.346.497**	44.480.315
Recognized in the profit or loss statement	**112.834.788**	84.594.675
Recognized in other comprehensive income	**(1.217.298)**	4.271.507
December 31	**244.963.987**	133.346.497

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 subject of 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 subject of deduction from corporate tax. The group has TL 141.442.290 unused investment incentive within the scope of strategic investment incentive certificate as of December 31, 2016. 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 54.941.563.

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% as subject of deduction from corporate tax. The group has TL 58.339.019 unused investment incentive within the scope of strategic investment incentive certificate as of December 31, 2016. 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 8.750.853.

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 subject of deduction from corporate tax. The Group has TL 747.679.613 unused investment incentives within the scope of the port project investment certificate. 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 186.919.903

As a result of projections made as of December 31, 2016, 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 947.460.922 (December 31, 2015 - TL 691.151.826).

31. Earnings per share

Companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. For the purpose of earnings/(loss) per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issues without a corresponding change in resources, by giving them retroactive effect for the year in which they were issued and for each earlier year.

Earnings per share is calculated by dividing net profit for the period to weighted average number of shares in issue during that period.

	January 1 - December 31, 2016	January 1 - December 31, 2015
Net profit for the year attributable to equity holders of the parent	**725.786.278**	626.378.793
Weighted average number of shares with nominal value of Kr 1 each (thousand)	**150.000.000**	150.000.000
Earnings per share (per TL 1 equivalent to 100 units of share)	**0,4839**	0,418

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32. Transactions and balances with related parties

Summary of the intercompany balances as of December 31, 2016 and 2015 and significant intercompany transactions were as follows:

i) Balances with related parties:

	December 31, 2016	December 31, 2015
a) Other receivables from related parties:		
STEAŞ [(1)] [(*)]	**13.169.638**	255.041.322
STAR [(2)]	**1.149.900**	-
TANAP Doğalgaz İletişim A.Ş. [(2)]	**1.508**	7.911
	14.321.046	255.049.233
b) Long term other receivables from related parties:		
STEAŞ [(1)] [(*)]	**356.875.812**	50.705.413
SOCAR Power Enerji Yatırımları A.Ş. [(2)] [(**)]	**66.429.849**	54.500.611
	423.305.661	105.206.024

[(*)] Related with the advances given to STEAŞ. Amounting to TL 13.169.638 consist of interest and other receivables.
[(**)] Revenue from Socar Power Enerji Yatırımları A.Ş. consist from land sale and rent receivable amounting to TL 58.935.053, interest and other receivables amounting to TL 7.494.796.

	December 31, 2016	December 31, 2015
c) Short term trade payable to related parties:		
SOCAR Gaz Ticareti A.Ş. [(2)]	**25.217.360**	30.958.921
Petrokim Trading Ltd. ("Petrokim") [(2)]	**3.675.964**	-
STEAŞ [(1)]	**404.943**	-
Azoil Petrolcülük A.Ş. [(2)]	**284.141**	347.219
STAR [(2)]	**955**	**-**
SOCAR Power Enerji Yatırımları A.Ş. [(2)]	**1.474**	**-**
	29.584.837	31.306.140

Short term trade payables to related parties mainly arise from merchandise and LPG purchases. Average maturity for short term trade payables to related parties is 15 days. (December 31, 2015 - 17 days.)

	December 31, 2016	December 31, 2015
d) Other payables to related parties:		
STAR [(2)]	**26.363.285**	1.257.480
STEAŞ [(1)]	**-**	405.652
Due to shareholders [(1)]	**87.116**	87.305
	26.450.401	1.750.437

[(1)] Shareholders of the Company

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[2] The related party entities controlled by the Parent

32. Transactions and balances with related parties (continued)

	December 31, 2016	December 31, 2015
e) Short term deferred income from related parties		
STAR [2] [*]	**4.188.726**	4.156.932
SOCAR Power Enerji Yatırımları A.Ş. [2]	**9.374**	10.305
SOCAR Teknolojik Çözümler A.Ş. [2]	**-**	846
	4.198.100	4.168.083
f) Long term deferred income from related parties		
STAR [2] [*]	**8.829.511**	12.705.027
	8.829.511	12.705.027

[*] Short term and long term deferred income from STAR, consists of rent income that arise from one shot cash collections of the Group at the beginning of rent agreement.

	December 31, 2016	December 31, 2015
g) Short term prepaid expense to related party		
STAR [2] [*]	**12.878.087**	12.878.087
	12.878.087	12.878.087

	December 31, 2016	December 31, 2015
h) Long term prepaid expense to related party		
STAR [2] [*]	**4.292.696**	17.170.782
	4.292.696	17.170.782

[*] The group has signed an operational leasing contract for 3 naphtha tanks to be effective between December 1, 2014 and April 30, 2018 at the date of December 30, 2014. STAR has rented out tanks, owned by it, and discounted amounting TL 44.00.129 + VAT for over entire duration within the context of that contract. STAR has invoiced to the Group about the rents in 2015 and the Group has paid the entire amount. STAR has worked with an independent firm to valuation that fair value of tank using and they've sent report to the Group. In this valuation report, the present value of net rental income has identified the range of TL 40.000.000 and TL 45.000.000 between the dates of December 1, 2014 and April 30, 2018.

[1] Shareholders of the Company

[2] The related party entities controlled by the Parent

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32. Transactions and balances with related parties (continued)

ii) Transactions with related parties:

	January 1 - December 31, 2016	January 1 - December 31, 2015
a) Finance costs/(income) from related party transactions - net:		
STEAŞ [1] [*]	**72.913.287**	21.001.000
SOCAR Power Enerji Yatırımları A.Ş. [2] [*]	**12.980.191**	12.048.247
STAR [2] [*]	**3.688.064**	237.183
Petrokim [2]	**(1.557.210)**	312.581
Socar Gaz Ticareti A.Ş. [2]	**(40.372)**	23.147
SOCAR Azerikimya Production Union [2]	**(466)**	16.820
Azoil Petrolcülük A.Ş. [2]	**(768)**	(39)
	87.982.726	33.638.939

[*] Revenue from STAR consist from foreign exchange income from receivable amounting to TL 71.497, other income amounting to TL 3.619.562, revenue from STEAŞ consists interest income from receivable amounting to TL 19.656.133, foreign exchange income amounting to TL 53.209.200 and TL 47.954 from other income. Amounting to TL 10.257.886 receivable from Socar Power consist foreign exchange gain, amounting to TL 2.720.170 from interest income and other income amounting to TL 2.135.

	January 1 - December 31, 2016	January 1 - December 31, 2015
b) Service and rent purchases from related parties:		
STAR [2]	**54.617.364**	20.247.893
STEAŞ [1]	**14.039.230**	12.254.380
SOCAR Power Enerji Yatırımları A.Ş. [2]	**1.323.074**	642.891
	69.979.668	33.145.164

Service and rent purchases from STAR consist from naphtha rent expense amounting to TL 12.878.087, other rental expenses amounting to TL 30.688.859, labour purchase amounting to TL 9.569.901 and other service purchases amounting to 1.480.517. All of service purchases from STEAŞ consist of invoices and expenses of STEAŞ staff, works on behalf of Petkim amounting to TL 13.454.526, and other purchases amounting to TL 584.702.

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32. Transactions and balances with related parties (continued)

	January 1 - December 31, 2016	January 1 - December 31, 2015
c) Product purchase from related parties:		
SOCAR Gaz Ticareti A.Ş. [2]	**270.118.217**	335.940.076
Petrokim [2]	**154.803.369**	76.675.484
SOCAR Turkey Petrol Enerji Dağıtım A.Ş.[2]	**6.888.558**	793.187
Azoil Petrolcülük A.Ş. [2]	**1.318.812**	1.406.934
	433.128.956	414.815.681

[1] Shareholders of the Company

[2] The related party entities controlled by the Parent

d) Goods and service provided to related parties:

	January 1 - December 31, 2016	January 1 - December 31, 2015
STAR [2]	**3.936.229**	1.272.025
Petrokim [2]	**1.416.718**	-
STEAŞ [1]	**215.456**	153.983
SOCAR Power Enerji Yatırımları A.Ş. [2]	**2.134**	2.192
SOCAR Azerikimya Production Union [2]	**-**	1.013.489
TANAP Doğalgaz İletişim A.Ş. [2]	**275**	-
	5.570.812	2.441.689

e) Rent income from related parties:

STAR [2][*]	**19.314.475**	15.789.543
Socar Power Enerji Yatırımları A.Ş. [2]	**21.296**	21.893
Socar Teknolojik Çözümler A.Ş. [2]	**848**	170
	19.336.619	15.811.606

[*] Annual rent and other income which is related to the usufruct right given to the Star

[1] Shareholders of the Company

[2] Shareholders of the Company or Socar's subsidiaries

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32. Transactions and balances with related parties (continued)

	January 1 - December 31, 2016	January 1 - December 31, 2015
f) Key management remuneration:		
i. Key management remuneration - short term:		
Payments for salary and seniority incentives	**9.832.237**	7.319.469
	9.832.237	7.319.469
ii. Key management emoluments - long term:		
Provision for employment termination benefits	**59.492**	91.398
Provision for seniority incentives	**-**	49.980
Provision for unused vacation rights	**369.640**	540.237
	429.132	681.615
	10.261.369	8.001.084

The Group classifies the general manager, assistant general managers, and board of directors and audit committee members as executive management.

Key management emoluments 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.

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33. Financial instruments and financial risk management

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.

The credit risk exposure in terms of financial instruments as of December 31, 2016 and 2015 were as follows:

December 31, 2016

	Receivables					
	Trade receivables [1]		Other receivables			
	Related parties	Third parties	Related parties	Third parties	Bank deposits	Total
Maximum amount of credit risk exposed as of reporting date (A+B+C+D+E) [2]	**-**	**674.471.489**	**14.321.046**	**16.471.360**	**1.267.188.405**	**1.972.452.300**
- The part of maximum credit risk covered with guarantees etc.	**-**	**543.663.924**	**-**	**-**	**-**	**543.663.924**
A. Net book value of financial assets neither past due nor impaired [3]	**-**	**658.268.403**	**14.321.046**	**16.471.360**	**1.267.188.405**	**1.956.249.214**
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 [4]	**-**	**16.203.086**	**-**	**-**	**-**	**16.203.086**
- The part covered by guarantees etc.	**-**	**(6.789.901)**	**-**	**-**	**-**	**(6.789.901)**
D. Net book value of assets impaired	**-**	**-**	**-**	**-**	**-**	**-**
- Past due (gross book value)	**-**	**15.819.607**	**-**	**2.067.122**	**-**	**17.886.729**
- Impairment amount (-)	**-**	**(15.819.607)**	-	**(2.067.122)**	-	**(17.886.729)**
- The part of net value covered with guarantees etc.	-	-	-	-	-	-
- Not due (gross book value)	-	-	-	-	-	-
- Impairment amount (-)	-	-	-	-	-	-
- 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.

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33. Financial instruments and financial risk management (continued)

December 31, 2015

	Receivables					
	Trade receivables [1]		Other receivables			
	Related parties	Third parties	Related parties	Third Parties	Bank deposits	Total
Maximum amount of credit risk exposed as of reporting date (A+B+C+D+E) [2]	-	551.425.057	360.255.257	6.510.328	1.501.989.008	2.420.179.650
- The part of maximum credit risk covered with guarantees etc.	-	489.584.768	-	-	-	489.584.768
A. Net book value of financial assets neither past due nor impaired [3]	-	542.226.546	360.255.257	6.510.328	1.501.989.008	2.410.981.139
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 [4]	-	9.198.511	-	-	-	9.198.511
- The part covered by guarantees etc.	-	8.571.037	-	-	-	8.571.037
D. Net book value of assets impaired	-	-	-	-	-	-
- Past due (gross book value)	-	14.544.081	-	933.608	-	15.477.689
- Impairment amount (-)	-	(14.544.081)	-	(933.608)	-	(15.477.689)
- The part of net value covered with guarantees etc.	-	-	-	-	-	-
- Not due (gross book value)	-	-	-	-	-	-
- Impairment amount (-)	-	-	-	-	-	-
- 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] Group management; predict that there will not be any problems with the collection of overdue financial assets based on its past experiences. The aging of related amounts is as follows:

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33. Financial instruments and financial risk management (continued)

December 31, 2016

	Trade receivables	
	Total	**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**
Total overdue receivables	**16.203.086**	**16.203.086**
The part covered by the guarantees	**(6.789.901)**	**(6.789.901)**
	9.413.185	**9.413.185**

December 31, 2015

	Trade receivables	
	Third parties	Total
1-30 days overdue	6.895.763	6.895.763
1-3 months overdue	337.254	337.254
Over 3 months overdue	1.965.494	1.965.494
Total overdue receivables	9.198.511	9.198.511
The part covered by the guarantees	(8.571.037)	(8.571.037)
	627.474	627.474

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, 2016 and 2015 are as follows:

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33. Financial instruments and financial risk management (continued)

December 31, 2016:

Agreement terms	Book value	Total cash outflows per agreement (=I+II+III)	Less than 3 months (I)	3 - 12 months (II)	1 - 5 years (III)
Non-derivative financials liabilities					
Bank borrowings-short term	461.698.893	467.711.799	219.038.585	248.673.214	-
Bank borrowings-current maturity of long term loans	55.495.727	101.556.631	17.772.419	83.784.212	-
Bank borrowings-long term	1.172.474.368	1.446.408.846	-	-	1.446.408.846
Trade payables	1.085.278.519	1.090.710.494	602.714.640	487.995.854	-
Trade payables to related parties	29.584.837	29.749.623	29.749.623	-	-
Other payables to related parties	26.450.401	26.450.401	26.450.401	-	-
Other payables	12.283.546	12.283.546	12.283.546	-	-
Short term liabilities for employee benefits	25.429.492	25.429.492	25.429.492	-	-
Total	2.868.695.783	3.200.300.832	933.438.706	820.453.280	1.446.408.846
Derivative financial liabilities					
Derivative cash inflows	7.466.471	285.055.204	170.681.204	114.374.000	-
Derivative cash outflows	(9.459.385)	(43.377.972)	(13.762.647)	(18.551.733)	(11.063.592)
Derivative financials liabilities (net)	(1.992.914)	241.677.232	156.918.557	95.822.267	(11.063.592)

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33. Financial instruments and financial risk management (continued)

December 31, 2015:

Agreement terms	Book value	Total cash outflows per agreement (=I+II+III)	Less than 3 months (I)	3 - 12 months (II)	1 - 5 years (III)
Non-derivative financials liabilities					
Bank borrowings-short term	319.638.074	327.561.178	21.227.096	306.334.082	-
Bank borrowings-current maturity of long term loans	41.912.519	82.613.437	18.072.847	64.540.590	-
Bank borrowings-long term	914.267.416	1.195.800.443	-	-	1.195.800.443
Trade payables	1.110.250.720	1.116.746.133	544.372.056	572.374.077	-
Trade payables to related parties	31.306.140	31.512.067	31.512.067	-	-
Other payables to related parties	1.750.437	1.750.437	1.750.437	-	-
Other payables	2.253.728	2.253.728	2.253.728	-	-
Short term liabilities for employee benefits	18.261.053	18.261.053	18.261.053	-	-
Total	2.439.640.087	2.776.498.476	637.449.284	943.248.749	1.195.800.443
Derivative financial liabilities					
Derivative cash inflows	1.646.432	214.737.835	48.487.835	166.250.000	-
Derivative cash outflows	(11.008.960)	(101.173.412)	(54.952.677)	(28.137.649)	(18.083.086)
Derivative financials liabilities (net)	(11.008.960)	113.564.423	(6.464.842)	138.112.351	(18.083.086)

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, the determination of sales prices by the Group in foreign exchange terms is a factor that decreases the foreign exchange risk in the cash flows.

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33. Financial instruments and financial risk management (continued)

Foreign currency position

	December 31, 2016				December 31, 2015			
	TL equivalent	**USD**	**EUR**	**Other**	TL Equivalent	USD	EUR	Other
1. Trade receivables	**390.148.989**	**93.945.230**	**16.048.124**	**-**	276.604.032	59.998.638	32.147.530	-
2a. Monetary financial assets (Cash, bank accounts included)	**1.013.603.237**	**263.001.335**	**23.733.204**	**497**	1.531.746.732	457.905.431	63.046.891	1.023
2b. Non-monetary financial assets	**-**	**-**	**-**	**-**	-	-	-	-
3. Current assets (1+2)	**1.403.752.226**	**356.946.565**	**39.781.328**	**497**	1.808.350.764	517.904.069	95.194.421	1.023
4. Trade receivables	**-**	**-**	**-**	**-**	-	-	-	-
5a. Monetary financial assets	**365.195.175**	**103.772.214**	**-**	**-**	48.766.889	16.772.214	-	-
5b. Non-monetary financial assets	**-**	**-**	**-**	**-**	-	-	-	-
6. Other	**-**	**-**	**-**	**-**	-	-	-	-
7. Non-current assets (4+5+6)	**365.195.175**	**103.772.214**	**-**	**-**	48.766.889	16.772.214	-	-
8. Total assets (3+7)	**1.768.947.401**	**460.718.779**	**39.781.328**	**497**	1.857.117.653	534.676.283	95.194.421	1.023
9. Trade payables	**992.882.588**	**274.215.880**	**7.139.375**	**327.913**	1.032.825.508	353.667.096	1.417.126	-
10. Financial liabilities	**426.603.295**	**113.575.590**	**7.253.047**	**-**	192.210.599	61.512.953	4.203.026	-
11a. Monetary other liabilities	**-**	**-**	**-**	**-**	372.767	128.204	-	-
11b. Non-monetary other liabilities	**-**	**-**	**-**	**-**	-	-	-	-
12. Short-term liabilities (9+10+11)	**1.419.485.883**	**387.791.470**	**14.392.422**	**327.913**	1.225.408.874	415.308.253	5.620.152	-
13. Trade payables	**-**	**-**	**-**	**-**	-	-	-	-
14. Financial liabilities	**1.172.474.367**	**239.001.672**	**89.323.077**	**-**	914.267.416	247.484.680	61.266.667	-
15a. Monetary other liabilities	**-**	**-**	**-**	**-**	-	-	-	-
15b. Non-monetary other liabilities	**-**	**-**	**-**	**-**	-	-	-	-
16. Long-term liabilities (13+14+15a+15b)	**1.172.474.367**	**239.001.672**	**89.323.077**	**-**	914.267.416	247.484.680	61.266.667	-
17. Total liabilities (12+16)	**2.591.960.250**	**626.793.142**	**103.715.499**	**327.913**	2.139.676.290	662.792.933	66.886.819	-
18. Net (liability)/asset position of off-balance sheet derivative instruments (18a-18b)	**325.687.680**	**87.275.000**	**5.000.000**	**-**	257.067.840	-	80.900.000	-
18a. Amount of asset nature off-balance sheet derivative instruments	**325.687.680**	**87.275.000**	**5.000.000**	**-**	257.067.840	-	80.900.000	-
18b. Amount of liability nature off-balance sheet derivative Instruments	**-**	**-**	**-**	**-**	-	-	-	-
19. Net foreign (liability)/asset position (8-17+18)	**(497.325.169)**	**(78.799.363)**	**(58.934.171)**	**(327.416)**	(25.490.797)	(128.116.650)	109.207.602	1.023
20. Net foreign currency (liability)/asset position of monetary items (UFRS7.B23) (=1+2a+4+5a-9-10-11a-13-14-15a)	**(823.012.849)**	**(166.074.363)**	**(63.934.171)**	**(327.416)**	(282.558.637)	(128.116.650)	28.307.602	1.023
21. Total fair value of financial instruments used for foreign currency hedging	**1.556.304**	**163.660**	**264.252**	**-**	986.794	-	310.547	-
22. Hedged amount for current assets	**325.687.680**	**87.275.000**	**5.000.000**	**-**	257.067.840	-	80.900.000	-
23. Hedged amount for current liabilities	**-**	**-**	**-**	**-**	-	-	-	-

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33. Financial instruments and financial risk management (continued)

Table of sensitivity analysis for foreign currency risk:

December 31, 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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33. Financial instruments and financial risk management (continued)

December 31, 2015	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	(37.251.197)	37.251.197	-	-
2- The part hedged for USD risk (-)	-	-	-	-
3- USD effect - net (1+2)	(37.251.197)	37.251.197	-	-
Change of EUR by 10% against TL:				
4- Asset/Liability denominated in EUR - net	8.995.024	(8.995.024)	-	-
5- The part hedged for EUR risk (-)	25.706.784	(25.706.784)	-	-
6- EUR effect - net (4+5)	34.701.808	(34.701.808)	-	-
Change of other currencies by 10% against TL:				
7- Assets/liabilities denominated in other foreign currencies - net	309	(309)	-	-
8- The part hedged for other foreign currency risk (-)	-	-	-	-
9- Other foreign currency effect - net (7+8)	309	(309)	-	-
Total (3+6+9)	(2.549.080)	2.549.080	-	-

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33. Financial instruments and financial risk management (continued)

The total export and import amounts from Turkey for the years ended December 31 are as follows:

	2016		2015	
	Original amount	**TL**	Original amount	TL
USD	**239.964.703**	**736.735.103**	276.737.097	760.997.731
EUR	**182.543.988**	**613.510.009**	199.984.546	613.411.516
Total export		**1.350.245.112**		1.374.409.247
USD	**934.910.668**	**2.818.264.560**	772.743.974	2.089.975.758
EUR	**42.161.459**	**141.096.281**	26.847.943	80.082.894
British Sterling	**960.874**	**3.907.898**	815.364	3.311.364
Japanese Yen	**350.586.584**	**10.302.785**	155.575.210	3.712.495
Swiss Frank	**1.090.198**	**3.330.522**	77.111	227.838
Total import		**2.976.902.046**		2.177.310.349

ii) Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing assets and liabilities. These exposures are managed by balancing interest rate sensitive assets and liabilities.

The Group's interest rate position as of December 31, 2016 and 2015 is presented below:

	2016	2015
Financial instruments with fixed interest rate		
Financial liabilities		
- USD financial liabilities	**150.804.153**	125.792.463
- EUR financial liabilities	**74.195.279**	63.552.000
- TL financial liabilities	**90.591.326**	159.744.159
Financial instruments with variable interest rate		
- USD financial liabilities	**1.089.659.334**	769.924.450
- EUR financial liabilities	**282.941.706**	143.410.917

For the year round, if the interest rates increase/decrease by 100 base points ceteris paribus, the interest expense will change by +/(-) TL 6.807.733 (December 31, 2015 - TL 3.417.400).

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33. Financial instruments and financial risk management (continued)

iii) 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.

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:

	December 31, 2016	December 31, 2015
Total debt	**3.045.454.256**	2.531.491.279
Less: Cash and cash equivalents and short term financial investments (Note 4 and 5)	**(1.267.188.405)**	(1.501.989.008)
Net debt	**1.778.265.851**	1.029.502.271
Total equity	**3.069.440.026**	2.805.383.497
Debt/equity ratio	**58%**	37%

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34. 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.

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

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34. Financial instruments (fair value and financial risk management disclosures) (continued)

December 31, 2016 and 2015, fair value and book value of financial statement were as follows:

December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial instruments	**-**	**7.466.471**	**-**	**7.466.471**
Total asset	**-**	**7.466.471**	**-**	**7.466.471**
Derivative financial instruments	**-**	**9.459.385**		**9.459.385**
Total liabilities	**-**	**9.459.385**	**-**	**9.459.385**

December 31, 2015, fair value and book value of financial statement were as follows:

December 31, 2015	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	1.646.432	-	1.646.432
Total asset	-	1.646.432	-	1.646.432
Derivative financial instruments	-	11.008.960	-	11.008.960
Total liabilities	-	11.008.960	-	11.008.960

35. Subsequent events

None.

36. Disclosure of other matters

Convenience translation to English:

As at December 31, 2016, the accounting principles described in Note 2.4 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying financial statements differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting, certain reclassifications and also for certain disclosures requirement of the POA/CMB. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with IFRS.

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.

The shareholders of the Company and their shareholdings as of 31 December 2016 and 2015 were as follows:

		31 December 2016		31 December 2015	
Group:	Shareholder:	Amount	Share (%)	Amount	Share (%)
A	Socar Turkey Petrokimya A.Ş.	**765,000,000**	**51.00**	765,000,000	51.00
A	Public owned (*)	**735,000,000**	**49.00**	655,176,478	43.68
A	SOCAR Turkey Enerji A.Ş.	**-**	**-**	79,823,522	5.32
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	

(*) SOCAR Turkey Enerji A.Ş. traded on a public BIST part; it has a rate of 1.32% per share 19.823.521,64 (December 31, 2015: rate 2,75% per share 41.278.401,47).

Adjustment to share capital represents the difference between the amounts of cash and cash equivalents contributions, restated for inflation, to share capital and the amounts before the restatement.

As the board of directories meeting decision taken at 8 December 2015 in the registered capital ceiling of TL 4,000,000,000, increased 50% of the issued share capital and reached from TL 1,000,000,000 to TL 1,500,000,000. Capital increase consists from adjustments to share capital amounting to TL 247,863,787 and special fund amounting to TL 252,136,213. Group A registered shares, issued per procuration of the capital increased at an amount of TL 500,000,000, are distributed to shareholders in due form. 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 1Kr, and 1 Group C preferred stock belonging to Management (31 December 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 1Kr, and 1 Group C preferred stock belonging to Management).

Capital of the Company is composed of all registered shares (December 31, 2015 – All registered).

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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