CONVENIENCE TRANSLATION OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

TÜRKİYE PETROL RAFİNERİLERİ A.Ş.

1 JANUARY - 31 DECEMBER 2017 CONSOLIDATED FINANCIAL STATEMENTS

CONVENIENCE TRANSLATION INTO ENGLISH OF INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Türkiye Petrol Rafinerileri A.Ş.

A. Audit of the Consolidated Financial Statements

1. Opinion

We have audited the accompanying consolidated financial statements of Türkiye Petrol Rafinerileri A.Ş. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements and a summary of significant accounting policies and consolidated financial statement notes.

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

2. Basis for Opinion

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

3. Key Audit Matters

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

Key audit matters	***How the subject was handled during the audit***
Cash flow hedge transactions The Group is exposed to foreign exchange risk due to its industry dynamics. As explained in Note 32, the Group uses its investment loans amounting to USD1,254,421 thousand as hedging instruments against USD/TL spot exchange rate exposure resulting from highly probable future export sales and applies cash flow hedge accounting as a result of the effectiveness tests. Therefore the Group has accounted for TL1,477,564 thousand of foreign exchange losses resulted from related investment loans under the "cash flow hedge gains/losses" account in its consolidated equity as of 31 December 2017. We focused on this matter in our audit due to the following reasons: - Fluctuations in foreign exchange rates due to the macroeconomic conditions may have a material impact on cash flow hedge transactions and the exchange rate risk in the Group's consolidated financial statements. - The calculations in the effectiveness testing of cash flow hedge transactions include key management judgements and estimates, such as future exchange rates, crude oil/product prices and export sales tonnages. - Since realisation of such key management judgements and estimates in the future include inherent uncertainties and the related effectiveness tests require specialist involvement, we determined 'cash flow hedge transactions' as a key audit matter.	In summary, the audit procedures we carried out for cash flow hedge transactions include; (i) understanding the accounting process for such transactions, (ii) confirming the related investment loans with financial institutions, (iii) evaluating the effectiveness tests performed by management, including detail testing on its completeness and accuracy and (iv) evaluating key management estimates and assumptions used in the related calculations with the support of our specialists. We evaluated the effectiveness tests through analysing past performances and review of sensitivity analysis. We evaluated the appropriateness of cash flow hedge accounting documentation and the reasonableness of the key management assumptions used in the effectiveness tests with the support of our specialists. We compared the key management assumptions (such as crude oil/product prices, export sales tonnages and exchange rate estimations) used in the effectiveness tests against prior period performance and independent data sources. We confirmed the related investment loans with the financial institutions, recalculated the year end interest expense accruals and foreign exchange valuations in line with the loan agreements and tested them for mathematical accuracy. We evaluated the cash flow hedge transactions disclosures' compliance with TAS. Based on the above procedures performed we had no material finding on the cash flow hedge transactions.

Key audit matters	*How the subject was handled during the audit*
Recoverability of deferred tax assets As of 31 December 2017 the Group's consolidated financial statements include net deferred tax assets amounting to TRY3,067,871 thousand. The Group's accounting policies and other related disclosures on deferred tax assets and liabilities are disclosed in Note 2.3.13 and Note 29 to the accompanying consolidated financial statements. The business model and future taxable profit projections used in assessing the recoverability of deferred tax assets are based on critical management estimates. Considering the inherent uncertainties as to the realisation of such management estimates in the future, the necessity for specialist involvement in the assessment of the recoverability of deferred tax assets on investment incentives, as well as the materiality of such assets in the Group's consolidated financial statements, 'recoverability deferred tax assets' is determined as a key audit matter.	The audit procedures are designed; (i) to assess the compliance of deferred tax assets' recognition to TAS and the related tax legislations, (ii) to assess its recoverability and (iii) to test its mathematical accuracy. In that context the following summarised audit procedures are performed: - We held meetings with the Group management in order to understand the nature of related temporary differences and the investment incentives which form the basis to the deferred tax assets. - We evaluated the corporate tax calculation and investment incentive practices with the support of our tax specialists. - We reviewed the business model used in assessing the recoverability of deferred tax assets from such investment incentives and the critical management estimates through following procedures: o We tested the mathematical accuracy of the business model. o We compared the sales tonnage and price estimations used in the model against prior periods' actuals and other independent data sources. o We compared the future foreign exchange rate estimations used in the business model against the exchange rate estimations in the approved Group's budget/long term plans and independent data sources. o We tested the management's sensitivity analysis for key assumptions for the future utilisation of investment incentives. - We evaluated the deferred tax assets and liabilities disclosures' compliance with TAS. Based on the above procedures performed we had no material finding on the recoverability of deferred tax assets.

4. Other Matter

The consolidated financial statements of the Group as of 31 December 2016 and for the year then ended were audited by another audit firm, whose audit report dated 2 August 2017 expressed an unqualified opinion.

5. Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Assess the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

B. Other Responsibilities Arising From Regulatory Requirements

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

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

3. In accordance with subparagraph 4 of Article 398 of the TCC, the auditor's report on the early risk identification system and committee was submitted to the Company's Board of Directors on 14 February 2018.

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

Ediz Günsel, SMMM
Partner

İstanbul, 14 February 2018

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

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

	Notes	**Audited 31 December 2017**	Audited 31 December 2016
ASSETS			
Current assets		**20,366,024**	13,667,060
Cash and cash equivalents	4	**8,802,069**	6,050,721
Trade receivables	6	**5,027,033**	3,180,282
Due from related parties	6, 31	**1,399,601**	751,824
Trade receivables from third parties		**3,627,432**	2,428,458
Other receivables	7	**84,267**	25,626
Other receivables from third parties		**84,267**	25,626
Derivative instruments	20	**346,909**	34,731
Inventories	8	**5,291,090**	3,608,439
Prepaid expenses	14	**62,397**	97,903
Current income tax assets	29	**-**	95,928
Other current assets	15	**752,259**	573,430
Non-current assets		**17,796,955**	17,551,120
Financial investments	9	**9,000**	4,000
Investments accounted for using the equity method	10	**1,134,364**	923,994
Investment properties	11	**4,621**	4,621
Property, plant and equipment	12	**12,303,437**	11,741,476
Intangible assets	13	**65,187**	55,106
Other intangible assets		**65,187**	55,106
Derivative instruments	20	**100,560**	368,882
Prepaid expenses	14	**99,276**	238,352
Deferred tax assets	29	**3,067,871**	3,227,031
Other non-current assets	15	**1,012,639**	987,658
Total assets		**38,162,979**	31,218,180

These consolidated financial statements as of and for the year ended 31 December 2017 has been approved for issue by the Board of Directors ("BOD") on 14 February 2017. These consolidated financial statements will be finalised following their approval in the General Assembly.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

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

	Notes	**Audited 31 December 2017**	Audited 31 December 2016
LIABILITIES			
Current liabilities		**17,675,669**	12,660,262
Short-term financial liabilities	5	**340,875**	385,524
Current portion of long term financial liabilities	5	**4,932,839**	1,572,434
Trade payables	6	**8,213,166**	6,987,843
Due to related parties	6, 31	**115,456**	88,017
Trade payables, third parties		**8,097,710**	6,899,826
Liabilities for employee benefits	18	**119,833**	92,442
Other payables	19	**36,797**	27,953
Due to related parties	19, 31	**23,463**	18,546
Other payables to third parties		**13,334**	9,407
Derivative instruments	20	**177,137**	29,454
Deferred income	16	**20,428**	15,417
Current income tax liabilities	29	**21,296**	141,217
Provisions	17	**89,924**	65,056
Provisions for employee benefits		**12,629**	13,571
Other provisions		**77,295**	51,485
Other current liabilities	15	**3,723,374**	3,342,922
Non-current liabilities		**10,009,649**	10,390,885
Long-term financial liabilities	5	**9,777,270**	10,176,307
Provisions	17	**223,734**	207,415
Provisions for employee benefits		**223,734**	207,415
Deferred income	16	**4,112**	3,992
Derivative Instruments	20	**3,364**	1,782
Other non-current liabilities	15	**1,169**	1,389
Non-current liabilities		**27,685,318**	23,051,147
Equity		**10,477,661**	8,167,033
Share capital	23	**250,419**	250,419
Adjustment to share capital	23	**1,344,243**	1,344,243
Share premiums/discounts		-	172
Accumulated other comprehensive income/(expense) not to be reclassified to profit or loss		**(3,361)**	(7,986)
Gains/ losses on revaluation and remeasurement		**(2,211)**	(6,124)
Actuarial gain/(loss) arising from defined benefit plans		**(2,211)**	(6,124)
Share of other comprehensive income of investments accounted for using equity method that will not be reclassified to profit or loss		**(1,150)**	(1,862)
Accumulated other comprehensive income/(expense) to be reclassified to profit or loss		**(960,973)**	(986,870)
Hedging gains/(losses)		**(1,141,847)**	(1,132,725)
Cash flow hedge gains/(losses)		**(1,141,847)**	(1,132,725)
Share of other comprehensive income of investments accounted for using equity method that will be reclassified to profit or loss		**180,874**	145,855
Restricted reserves	23	**279,668**	331,337
Retained earnings		**5,651,805**	5,363,804
Net income		**3,811,546**	1,793,267
Total equity attributable to equity holders of the parent		**10,373,347**	8,088,386
Non-controlling interests		**104,314**	78,647
Total equity and liabilities		**38,162,979**	31,218,180

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

TÜRKİYE PETROL RAFİNERİLERİ A.Ş.

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

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

	Notes	**Audited 1 January - 31 December 2017**	Audited 1 January - 31 December 2016
Revenue	24	**53,948,110**	34,854,851
Cost of sales	24	**(47,734,212)**	(31,205,624)
Gross profit		**6,213,898**	3,649,227
General administrative expenses	25	**(865,401)**	(748,280)
Marketingexpenses	25	**(268,889)**	(221,602)
Research and development expenses	25	**(15,950)**	(25,565)
Other operating income	26	**261,261**	184,751
Other operating expenses	26	**(467,460)**	(481,242)
Operating profit/(loss)		**4,857,459**	2,357,289
Income from investment activities	27	**-**	161
Expense from investment activities	27	**(10,199)**	-
Income/(loss) from investments accounted by equity method	10	**244,639**	158,750
Operating profit before financial income/(expense)		**5,091,899**	2,516,200
Financial income	28	**1,162,799**	1,173,872
Financial expense	28	**(1,780,660)**	(1,746,050)
Profit before tax from continued operations		**4,474,038**	1,944,022
Tax income/(expense)		**(633,482)**	(131,232)
Taxes on income		**(464,902)**	(91,633)
Deferred tax income/ (expense)	29	**(168,580)**	(39,599)
Net income from continued operations		**3,840,556**	1,812,790
Other comprehensive income:			
Items not to be reclassified to profit or loss		**4,668**	(4,433)
Actuarial gain/(loss) arising from defined benefit plans		**4,941**	(4,249)
Share of other comprehensive income accounted for investment using equity method that will be not reclassified to profit or loss		**712**	(1,011)
Actuarial gain/(loss) arising from defined benefit plans accounted for investment using equity method		**712**	(1,011)
Tax effect of other comprehensive income/(loss) not to be reclassified to profit or loss		**(985)**	827
Deferred tax income/(expense)		**(985)**	827
Items to be reclassified to profit or loss		**22,511**	(580,386)
Share of other comprehensive income accounted for investment using equity method that will be reclassified to profit or loss		**35,019**	46,038
Actuarial gain/(loss) of revaluation or classification of investments using equity method		**32,218**	40,402
Gain/(loss) from translation of foreign currency of investments using equity method		**2,801**	5,636
Income/(expense) relating to avoidance of risk of cash flow		**(22,913)**	(777,964)
Income/(loss) of avoidance of risk cash flow		**(22,913)**	(777,964)
Tax effect of other comprehensive income/(loss) to be reclassified to profit or loss		**10,405**	151,540
Deferred tax income/(expense)		**10,405**	151,540
Other comprehensive income/(expense)		**27,179**	(584,819)
Total comprehensive income		**3,867,735**	1,227,971

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

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

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

	Notes	**Audited 1 January - 31 December 2017**	Audited 1 January - 31 December 2016
Distribution of income for the period:			
Non-controlling interests		**29,010**	19,523
Attributable to equity holders of the parent		**3,811,546**	1,793,267
Distribution of total comprehensive income			
Non-controlling interests		**25,667**	15,307
Attributable to equity holders of the parent		**3,842,068**	1,212,664
Earnings (loss) per share from continued operations			
Earnings per share with nominal value Kr1 each (Kr)		**15.22**	7.16

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

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

				Accumulated other Comprehensive income/(expense)not to be reclassified to profit or loss	Accumulated other comprehensive income/(expense) to be reclassified to profit or loss				Retained earnings				
				Gains/(losses) on revaluation and remeasurement	Hedge gains/ (losses)								
	Share capital	**Adjustment to share capital**	**Share premiums (discounts)**	**Actuarial gains/ (losses) arising from defined benefit plans**	**Cash flow hedge gains/(losses)**	**Currency translation differences**	**Share of other comprehensive income of investments accounted using equity method which will be to profit loss**	**Restricted reserves**	**Retained earnings**	**Net Income/ expense**	**Equity holders of the parent**	**Non-controlling interest**	**Total equity**
1 January 2016	250,419	1,344,243	172	(2,771)	(851)	(510,448)	99,817	163,401	4,410,959	2,550,168	8,305,109	63,340	8,368,449
Adjustments to previous period effects	-	-	-	-	-	-	-	-	198,338	-	198,338	-	198,338
Transfers	-	-	-	-	-	-	-	167,936	2,382,232	(2,550,168)	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	(1,627,725)	-	(1,627,725)	-	(1,627,725)
- Net profit for period	-	-	-	-	-	-	-	-	-	1,793,267	1,793,267	19,523	1,812,790
- Other comprehensive income	-	-	-	(3,353)	(1,011)	(622,277)	46,038	-	-	-	(580,603)	(4,216)	(584,819)
Total comprehensive income	-	-	-	(3,353)	(1,011)	(622,277)	46,038	-	-	1,793,267	1,212,664	15,307	1,227,971
31 December 2016	250,419	1,344,243	172	(6,124)	(1,862)	(1,132,725)	145,855	331,337	5,363,804	1,793,267	8,088,386	78,647	8,167,033
1 January 2017	**250,419**	**1,344,243**	**172**	**(6,124)**	**(1,862)**	**(1,132,725)**	**145,855**	**331,337**	**5,363,804**	**1,793,267**	**8,088,386**	**78,647**	**8,167,033**
Transfers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,793,267**	**(1,793,267)**	**-**	**-**	**-**
Dividends paid	**-**	**-**	**(172)**	**-**	**-**	**-**	**-**	**(51,669)**	**(1,505,266)**	**-**	**(1,557,107)**	**-**	**(1,557,107)**
- Net profit for period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,811,546**	**3,811,546**	**29,010**	**3,840,556**
- Other comprehensive income	**-**	**-**	**-**	**3,913**	**712**	**(9,122)**	**35,019**	**-**	**-**	**-**	**30,522**	**(3,343)**	**27,179**
Total comprehensive income	**-**	**-**	**-**	**3,913**	**712**	**(9,122)**	**35,019**	**-**	**-**	**3,811,546**	**3,842,068**	**25,667**	**3,867,735**
31 December 2017	**250,419**	**1,344,243**	**-**	**(2,211)**	**(1,150)**	**(1,141,847)**	**180,874**	**279,668**	**5,651,805**	**3,811,546**	**10,373,347**	**104,314**	**10,477,661**

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

TÜRKİYE PETROL RAFİNERİLERİ A.Ş.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(Amounts expressed in thousands of Turkish Lira ("TRY"), unless otherwise indicated)

	Notes	Audited 1 January - 31 December 2017	Audited 1 January - 31 December 2016
Cash flows from operating activities		**2.917.438**	4.705.447
Profit/(loss)		**3,840,556**	1,812,790
Adjustment for reconciliation of profit/(loss)		**1,782,086**	1,114,178
Adjustment for depreciation and amortisation expense	12, 13	**573,640**	541,003
Adjustments for stock impairment(cancelation)		**1,246**	(102,114)
- Adjustments for stock impairment	8	**1,246**	(102,114)
- Adjustment for provisions	17	**110,197**	57,558
- Adjustment for interest (income) and expense	28	**160,195**	388.846
- Adjustment for unrealized foreign currency translation differences	28	**(461,105)**	(709,477)
- Adjustment for fair value (gain) or loss		**(92.662)**	(2.179)
- Adjustment for income of investments accounted by equity method	10	**(244,639)**	(158,750)
- Adjustment for tax expenses(income)		**633,482**	131,232
- Adjustment for (gain)/loss on sales of property, plant and equipment	27	**10,199**	(161)
- Adjustment for other items related with cash flow of investment or financial activities	28	**1,033,591**	976.068
- Other adjustments for reconciliation of profit/(loss)		**57,942**	(7.848)
Changes in working capital		**(2,152,135)**	1.723.058
Adjustment for decrease/(increase) in trade receivables		**(1,873,499)**	(638,101)
Adjustment for decrease/(increase) in other receivables related with operations		**(148,602)**	177,405
Adjustment for decrease/(increase) derivative assets		**(43,856)**	-
Adjustment for decrease/(increase) in inventories		**(1,683,897)**	(1,404,164)
Adjustment for increase/(decrease) in trade payables		**1,222,948**	3,136,433
Adjustment for increase/(decrease) in other payables related with operations		**225,506**	451,485
Adjustment for decrease/(increase) derivative liabilities		**149,265**	-
Cash flows from operating activities		**3,470,507**	4.650.026
Tax returns/(payments)		**(488,895)**	(136,717)
Other cash inflow/(outflow)		**(64,175)**	192,138
Cash flows from investing activities		**(1,030,148)**	(841.751)
Cash outflows in subsidiaries regarding additional share purchases	9	**(5,000)**	-
Cash inflows from the sales of property, plant and equipment and intangible assets		**4,802**	1,650
Cash outflows from the purchase of property, plant and equipment and intangible assets		**(1,099,950)**	(885,401)
Dividends received	10	**70,000**	42,000
Cash flows from financing activities		**221.938**	(1.749.939)
Cash inflows from financial liabilities	5	**43,859,854**	36,558,822
Cash outflows from financial liabilities	5	**(42,051,025)**	(36.280.598)
Cash inflows from derivative instruments		**180,446**	-
Cash outflows from derivative instruments		**(93.501)**	-
Dividends paid		**(1,557,107)**	(1,627,725)
Interest paid		**(673,139)**	(698.377)
Interest received		**556,410**	297,939
Net increase/(decrease) in cash and cash equivalents before the effect of foreign currency translation differences		**2,109,228**	2,113,757
Impact of foreign currency translation differences on cash and cash equivalents		**461,105**	709,477
Net increase/(decrease) in cash and cash equivalents		**2,570,333**	2,823,234
Cash and cash equivalents at beginning of period		**5,022,402**	2,199,168
Cash and cash equivalents at end of period	4	**7,592,735**	5,022,402

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

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

1. Organization and nature of operations of the group

Türkiye Petrol Rafinerileri A.Ş. ("Tüpraş" or the "Company") was established on 16 November 1983. The Company is mainly engaged in the following fields:

- To provide and refine crude oil, to import and export petroleum products when necessary, and to establish and operate domestic and foreign refineries for this purpose,
- To establish and operate factories and facilities in petrochemical and other related industries,
- To provide the necessary raw and supplementary materials and process, produce or trade these materials in order to obtain petrochemical and other related products,
- To package the products produced during various phases of production and to establish a packaging industry for this purpose, to evaluate and/or to sell waste, by products and substandard products, to establish and operate the necessary facilities for the destruction of the waste products,
- To establish and operate facilities and plants related with all kinds of energy and energy related industries within the framework of the laws and regulations. To obtain, use and trade all kinds of equipment, materials and chemical substances for this purpose,
- To purchase, sell, import, export, store, market all kinds of petroleum products, LPG and natural gas, to establish marketing and distributing companies or similar partnerships with legal entities or real persons or to acquire, transfer or sell the shares of partnerships, when necessary.

The main operations of Tüpraş and its subsidiaries (collectively referred as "the Group") are in Turkey and the Group's business segment has been identified as refining.

The Company is registered at the Capital Markets Board ("CMB") of Turkey and its shares have been quoted at Borsa İstanbul A.Ş. ("BIST") (previously known as Istanbul Stock Exchange ("ISE")) since 1991. As at 31 December 2017, the shares quoted on the BIST are 49% of the total shares. As of 31 December 2017, the principal shareholders and their respective shareholdings in the Company are as follows (Note 23):

	%
Enerji Yatırımları A.Ş.	51.00
Publicly held	49.00
	100.00

Parent of the Company is controlled by Koç Holding A.Ş., Koç Family and the companies owned by Koç Family.

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

1. Organization and nature of operations of the Group (Continued)

The nature of the business of the subsidiaries and joint ventures of the Group is as follows:

Subsidiaries	**Country of incorporation**	**Nature of business**
Ditaş Deniz İşletmeciliği ve Tankerciliği A.Ş. ("Ditaş")	Turkey	Crude oil and petroleum products transportation
Üsküdar Tankercilik A.Ş. ("Üsküdar")	Turkey	Crude oil and petroleum products transportation
T Damla Denizcilik A.Ş. ("Damla")	Turkey	Crude oil and petroleum products transportation
Kadıköy Tankercilik A.Ş. ("Kadıköy")	Turkey	Crude oil and petroleum products transportation
Beykoz Tankercilik A.Ş. ("Beykoz")	Turkey	Crude oil and petroleum products transportation
Sarıyer Tankercilik A.Ş. ("Sarıyer")	Turkey	Crude oil and petroleum products transportation
Kartal Tankercilik A.Ş. ("Kartal")	Turkey	Crude oil and petroleum products transportation
Maltepe Tankercilik A.Ş. ("Maltepe")	Turkey	Crude oil and petroleum products transportation
Salacak Tankercilik A.Ş. ("Salacak")	Turkey	Crude oil and petroleum products transportation
Karşıyaka Tankercilik A.Ş. ("Karşıyaka")	Turkey	Crude oil and petroleum products transportation
Bakırköy Tankercilik A.Ş. ("Bakırköy")	Turkey	Crude oil and petroleum products transportation
Karaköy Tankercilik A.Ş. ("Karaköy")	Turkey	Crude oil and petroleum products transportation
Çengelköy Tankercilik A.Ş. ("Çengelköy")	Turkey	Crude oil and petroleum products transportation
Pendik Tankercilik A.Ş. ("Pendik")	Turkey	Crude oil and petroleum products transportation
Tuzla Tankercilik A.Ş. ("Tuzla")	Turkey	Crude oil and petroleum products transportation
Körfez Ulaştırma A.Ş. ("Körfez") (*)	Turkey	Air carriage and transportation

(*) Körfez, a subsidiary of the Group, has not been included in the scope of consolidation in the consolidated financial statements for the period ended 31 December 2017 on the grounds of materiality of its stand-alone and total financial statements as to amount and composition, and accounted for as financial asset available-for-sale. As of 31 December 2017 total assets of Körfez is TRY11,921 thousand and net period loss of Körfez is TRY4,743 thousand.

Joint ventures	**Country of incorporation**	**Nature of business**
OPET Petrolcülük A.Ş. ("Opet")	Turkey	Petroleum products retail distribution
THY Opet Havacılık Yakıtları A.Ş.	Turkey	Jet fuel supply services
Opet International Limited	United Kingdom	Petroleum products trading
Opet Trade B.V.	Netherlands	Petroleum products trading
Opet Trade Singapore (In liquidation)(*)	Singapore	Petroleum products trading
Opet Fuchs Madeni Yağ San. ve Tic. A.Ş.	Turkey	Lube oil trading
Op Ay Akaryakıt Ticaret Ltd. Şti.	Turkey	Petroleum products trading
Akdeniz Akaryakıt Depolama Nakliyat ve Tic. A.Ş.	Turkey	Petroleum products trading
Nemrut Liman ve Boru İşl. Nak. İç ve Dış Tic. Ltd. Şti.	Turkey	Marine services
Opet Aygaz Gayrimenkul A.Ş.	Turkey	Real estate

(*) The company discontinued its activities as of 15 July 2015.

The total number of employees of the Group as at 31 December 2017 is 5,499 (31 December 2016: 5,296).

The address of the registered office of the Company is as follows:

Türkiye Petrol Rafinerileri A.Ş.
Güney Mahallesi
Petrol Caddesi No:25 41790
Körfez, Kocaeli

2. Basis of presentation of consolidated financial statements

2.1. Basis of presentation

2.1.1 Financial reporting standards

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") on 13 June 2013 which is published on Official Gazette numbered 28676. In accordance with article 5th of the Communique, companies should apply Turkish Accounting Standards/Turkish Financial Reporting Standards and interpretations regarding these standards as published by the Public Oversight Accounting and Auditing Standards Authority of Turkey ("POA").

With the decision taken on 17 March 2005, the CMB announced that, effective from 1 January 2005, the application of inflation accounting is no longer required for listed companies in Turkey. The Group's financial statements have been prepared in accordance with this decision.

The Group and the group companies established in Turkey maintain their books of account and prepare their statutory financial statements ("Statutory Financial Statements") in accordance with rules and principles published by POA, the Turkish Commercial Code ("TCC"), tax legislation and the Uniform Chart of Accounts issued by the Ministry of Finance. These consolidated financial statements have been prepared under the historical cost convention except for derivative instruments that are carried at fair value. These consolidated financial statements are based on the statutory records with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with the Turkish Financial Reporting Standards.

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in TRY, which is the functional currency of Tüpraş and the presentation currency of the Group.

2.1.2 Amendments in Turkish Financial Reporting Standards (TFRS)

The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2017 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and IFRIC interpretations effective as of 1 January 2018. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

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

- **Amendments to TAS 7, 'Statement of cash flows';** on disclosure initiative effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

- **Amendments TAS 12, 'Income Taxes';** effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets.

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

2.1. Basis of presentation (Continued)

- **Annual improvements 2014-2016,** effective from annual periods beginning on or after 1 January 2017:

  - **TFRS 12, 'Disclosure of interests in other entities';** regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017. This amendment clarifies that the disclosures requirement of TFRS 12 are applicable to interest in entities classified as held for sale except for summarized financial information.

b) Standards, amendments and interpretations effective after 1 January 2018:

- **TFRS 9, 'Financial instruments';** effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in TAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

- **TFRS 15, 'Revenue from contracts with customers';** effective from annual periods beginning on or after 1 January 2018. TFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.

- **Amendment to TFRS 15, 'Revenue from contracts with customers'**, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

- **Amendment to TAS 40, 'Investment property' relating to transfers of investment property;** effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

- **Amendments to TFRS 2, 'Share based payments'** on clarifying how to account for certain types of share-based payment transactions; effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in TFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

- **Annual improvements 2014-2016;** effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:

  - TFRS 1, 'First time adoption of TFRS', regarding the deletion of short-term exemptions for first-time adopters regarding TFRS 7, TAS 19 and TFRS 10,

  - TAS 28, 'Investments in associates and joint venture' regarding measuring an associate or joint venture at fair value.

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

2.1. Basis of presentation (Continued)

- **IFRIC 22, 'Foreign currency transactions and advance consideration';** effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

- **Amendment to TFRS 9, 'Financial instruments';** effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from TAS 39.

- **Amendment to TAS 28, 'Investments in associates and joint venture';** effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using TFRS 9.

- **TFRS 16, 'Leases';** effective from annual periods beginning on or after 1 January 2019, this standard replaces the current guidance in TAS 17 and is a farreaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

- **IFRIC 23, 'Uncertainty over income tax treatments';** effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of TAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The TFRS IC had clarified previously that TAS 12, not TAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

- **TFRS 17, 'Insurance contracts';** effective from annual periods beginning on or after 1 January 2021. This standard replaces TFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. TFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

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

2.1. Basis of presentation (Continued)

- The possible effects regarding the amendments in TFRS 15, TFRS 9, TFRS 16 on the consolidated financial statements has been evaluated by the Group management. According to the evaluations made throughout the period, considering agreements made with customers and related costs, it is anticipated that subjects such as sales guarantees, combined goods and services sales to be assessed under TFRS 15, will not have a significant impact on the consolidated financial statements of the Group. The Group management will reevaluate the effects of TFRS 15 considering possible future developments. According to TFRS 16, total amount of leased assets under operational lease is determined as of the balance sheet date and the evaluation of assets planned to be acquired in the future by operational lease has been performed.Group. Evaluations of the Group management are ongoing regarding the possible effects of these respective alteriation.TFRS 9 includes requirements for measurement and classification of financial assets and liabilities, and also involves expected credit risk model, which will replace impairment loss model. As of 31 December 2017, considering the insignificant amount of doubtful receivables in the total amount of trade receivables, it is predicted that the expected credit risk model will not have any significant effect on the consolidated financial statements of the Group. Evaluations of the Group management are ongoing regarding the possible effects of these new standards.

2.1.3 Financial statements of joint ventures operating in foreign countries

Financial statements of joint ventures operating in foreign countries are prepared according to the legislation of the country in which they operate, and adjusted to the Turkish Financial Reporting Standards to reflect the proper presentation and content. Foreign joint ventures’ assets and liabilities are translated into TRY with the foreign exchange rate at the balance sheet date. Exchange differences arising from the retranslation of the opening net assets of foreign undertakings and differences between the average and balance sheet date rates are included in the “Income/(loss) from translation of foreign currency of investments using equity method” under the other comprehensive income statement and shareholders’ equity.

2.1.4 Principles of consolidation

a) The consolidated financial statements for the year ended 31 December 2017 have been prepared in accordance with principles stated on the consolidated financial statements for the year ended 31 December 2016 and include financial statements of Tüpraş, and its Subsidiaries.

b) At 31 December 2017, there are no changes in voting rights or proportion of effective interest on subsidiaries and joint ventures that are subject to consolidation from the information stated on consolidated financial statements for the year ended 31 December 2016.

	31 December 2017		31 December 2016	
	Direct and indirect voting rights possessed by the Company (%)	**Proportion of effective interest (%)**	Direct and indirect voting rights possessed by the Company (%)	Proportion of effective interest (%)
Subsidiary				
Ditaş	**79.98**	**79.98**	79.98	79.98
Üsküdar	**79.98**	**79.98**	79.98	79.98
Damla	**79.98**	**79.98**	79.98	79.98
Beykoz	**79.98**	**79.98**	79.98	79.98
Kadıköy	**79.98**	**79.98**	79.98	79.98
Sarıyer	**79.98**	**79.98**	79.98	79.98
Kartal	**79.98**	**79.98**	79.98	79.98
Maltepe	**79.98**	**79.98**	79.98	79.98
Salacak	**79.98**	**79.98**	79.98	79.98
Karşıyaka	**79.98**	**79.98**	79.98	79.98
Bakırköy	**79.98**	**79.98**	79.98	79.98
Karaköy	**79.98**	**79.98**	79.98	79.98
Çengelköy	**79.98**	**79.98**	79.98	79.98
Pendik	**79.98**	**79.98**	79.98	79.98
Tuzla	**79.98**	**79.98**	79.98	79.98

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

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

2.1. Basis of presentation (Continued)

The statement of financial position and statement of comprehensive income of the subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by the Company is eliminated against the related equity. Intercompany transactions and balances between the Company and its subsidiary are eliminated on consolidation. The cost of and the dividends arising from, shares held by the Company in its subsidiary are eliminated from equity and income for the year, respectively.

c) Joint ventures are companies in which the Group has joint control. Joint control is the contractually agreed sharing of control. The control, exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group's interest in joint ventures is accounted for with equity method. Investments accounted by equity method are presented in consolidated statement of financial position with additions or deductions of changes on share of the Group on net assets of the affiliate and with deduction of provisions for the decline in the value. The changes of the amount, not reflected on income or loss of the joint venture, on the equity of the joint venture can requisite an adjustment on the net book value of the joint venture in proportion of the Group's share.

The table below shows the total interest of the Group in its joint ventures accounted by equity method as at 31 December 2017 and 31 December 2016:

	31 December 2017		31 December 2016	
	Direct and indirect voting rights possessed by the Company (%)	**Proportion of effective interest (%)**	Direct and indirect voting rights possessed by the Company (%)	Proportion of effective interest (%)
Joint ventures accounted by equity method				
Opet	**50.00**	**40.00**	50.00	40.00
Opet International Limited (*)	**50.00**	**40.00**	50.00	40.00
Opet Trade B.V.(*)	**50.00**	**40.00**	50.00	40.00
Opet Trade Singapore (In liquidation) (*) (**)	**50.00**	**40.00**	50.00	40.00
THY Opet Havacılık Yakıtları A.Ş.(*)	**25.00**	**20.00**	25.00	20.00
Opet Fuchs Madeni Yağ San. ve Tic. A.Ş.(*)	**25.00**	**20.00**	25.00	20.00
Op Ay Akaryakıt Ticaret Ltd. Şti.(*)	**25.00**	**20.00**	25.00	20.00
Akdeniz Akaryakıt Depolama Nakliyat ve Tic. A.Ş.(*)	**16.65**	**13.32**	16.65	13.32
Nemrut Liman ve Boru İşl. Nak. İç ve Dış Tic. Ltd. Şti.(*)	**12.50**	**10.00**	12.50	10.00
Opet Aygaz Gayrimenkul A.Ş.(*)	**25.00**	**20.00**	25.00	20.00

(*) Related companies are consolidated or accounted by equity method in Opet's financial statements.

(**) The company discontinued its activities as of 15 July 2015.

d) Other investments in which the Group has interest below 20%, or over which the Group does not exercise a significant influence, or which are immaterial, are classified as available-for-sale. Available-for-sale investments that do not have a quoted market price in active markets and whose fair value cannot be measured reliably are carried at cost less any provision for diminution in value (Note 9).

e) The non-controlling shareholders' share of the net assets and results for the period for the subsidiaries are classified separately in the consolidated statement of financial position and statements of comprehensive income as non-controlling interest.

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

2.2. Changes in accounting policies

2.2.1 Comparative information

In order to allow for the determination of the financial situation and performance trends, the Group's consolidated financial statements have been presented comparatively with the previous year.

The Group presented the consolidated statement of financial position as of 31 December 2017 comparatively with the consolidated statement of financial position as of 31 December 2016. Also the consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year ended 31 December 2017 are presented comparatively with the consolidated financial statements for the yearended 31 December 2016.

2.2.2 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.2.3 Seasonality of operations

There is no seasonality effect depending on the dynamics of petroleum sector that the Group operates in which could affect the financial statements.

2.3. Summary of significant accounting policies

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

2.3.1 Cash and cash equivalents

The cash and cash equivalents are carried at cost in the consolidated balance sheet at cost. Cash and cash equivalents consist of cash on hand, deposits at banks and highly liquid investments with maturity periods of three months or less (Note 4).

2.3.2 Trade receivables and provision for impairment

Trade receivables that are created by the Group by way of providing goods or services directly to a debtor are carried at amortised cost.

A credit risk provision for trade receivables is established when there is objective evidence that the Group is not able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to other income (Note 6).

2.3.3 Related parties

For the purpose of these consolidated financial statements, shareholders, key management personnel, Board of Directors members and Koç Group companies including their family members and companies controlled by or affiliated with them are considered and referred to as related parties (Note 31).

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

2.3. Summary of significant accounting policies (Continued)

2.3.4 Inventories

Inventories are valued at the lower of acquisition cost or net realisable value. The cost components of inventories include materials, conversion costs and other costs that are necessary to bring the inventories to their present location and condition. The cost of inventories is determined on the weighted average cost basis. As during the production process more than one product is produced from single raw material inputted, the costs of conversion of each product are not separately identifiable. In order to allocate the costs of conversion between the products on a rational and consistent basis, the approach used by the Company for the allocation is based on the relative sales prices of each product.

Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses (Note 8).

2.3.5 Spare parts and material stocks

Spare parts and material stocks are valued at the lower of cost or net realisable value. The cost elements of spare parts and material stocks include materials and other costs that are necessary to bring them to their present location and condition. The cost of spare parts and material stocks is determined on the weighted average cost basis. The Group has provided provision for the slow-moving spare parts (Note 15).

2.3.6 Financial investments

All investment securities are recognized at cost including acquisition charges associated with the investment. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in macro-economic environment are classified as "available-for-sale investments". These investments are included in non-current assets unless management has not indented to realize gain from asset in short term or unless they will need to be sold to raise operating capital, in which case they are included in current assets. The Group management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such classification on a regular basis.

At every balance sheet date, the Group assesses whether there is objective evidence that a financial asset on a group of financial assets is impaired. For financial instruments classified as available for sale a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator of impairment. If such evidence exists for an available for sale financial asset, cumulative net loss recorded by decreasing the fair value gain on the financial asset previously recorded as "financial asset fair value reserve" within equity. The amount of impairment exceeding the fair value reserve is recorded as expense in the statement of comprehensive income for the year.

The unrealised gains and losses arising from changes in the fair value of available-for-sale securities are deferred in the equity under "financial assets fair value reserve" until the financial asset is sold, collected or otherwise disposed of. When available-for-sale securities are sold, collected or otherwise disposed of, related deferred gains and losses in equity are released to the statement of comprehensive income.

When the financial asset is not traded in an active market and fair value of the asset cannot be measured reliably, the fair value of the financial asset is identified by using valuation techniques. These valuation techniques include the use of recent transactions under market conditions or by considering other similar investment instruments and discounted cash flows performed by considering the specific conditions of the company invested in.

Other financial assets in which the Group has an interest below 20%, that do not have a quoted market price in active markets and whose fair value cannot be measured reliably, are carried at cost, if applicable, less any provision for diminution in value. Available-for-sale investments that have a quoted market price in active markets and whose fair values can be measured reliably are carried at fair value (Note 9).

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

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

2.3. Summary of significant accounting policies (Continued)

2.3.7 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Historical costs include the costs directly related to the acquisition of property plant and equipment. Costs incurred after the acquisition can be added to the net book value of the assets or can be booked as another asset if and only if it is probable that the future economic benefits will flow to the Group and cost of the asset can be measured reliably. All other repair and maintenance costs are expensed in the consolidated statement of comprehensive income for the period. Depreciation is provided using the straight line method based on the estimated useful lives of gross book value of assets (Note 12).

The depreciation periods for property, plant and equipment, which approximate the economic useful lives of such assets, are as follows:

	Useful life
Land and land improvements	3-50 years
Buildings	5-50 years
Machinery and equipment	3-50 years
Motor vehicles	4-25 years
Furniture and fixtures	2-50 years

Land is not depreciated as it is deemed to have an indefinite useful life.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount is the higher of asset net selling price or value in use. Net selling price is calculated by deducting the selling costs from the fair value of the asset. Value in use is calculated as the discounted value of the estimated future cash flows the entity expects to derive from the asset. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount.

Gains or losses on disposals of property, plant and equipment are determined by comparing proceeds with their restated carrying amounts and are included in the related income and expense accounts, as appropriate.

2.3.8 Intangible assets

Intangible assets include rights and software and development costs (Note 13).

a) Rights and software

Rights and software are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the estimated useful lives of such assets not exceeding 5 years.

b) Development costs

The accounting policy of development costs are explained in Note 2.3.24.

2.3.9 Investment property

Lands held for the purposes of long-term rental yields, for capital appreciation or both rather than land held in the production or supply of goods or services, for administrative purposes and for sale in the ordinary course of business, are classified as "investment property". Investment properties are carried at cost and any accumulated impairment losses. Investment properties are depreciated with the straight-line depreciation method over their useful lives.

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

2.3. Summary of significant accounting policies (Continued)

Investment properties are reviewed for possible impairment losses and where the carrying amount of the investment property is greater than the estimated recoverable amount, it is written down to its recoverable amount. The recoverable amount of the investment property is the higher of future net cash flows from the utilisation of this investment property or fair value less costs to sell (Note 11).

2.3.10 Impairment of assets

The Group reviews all tangible and intangible assets except goodwill for indicators of impairment at every balance sheet date. If any indication of impairment exists, carrying value of the asset is compared with its recoverable amount which is the higher of value in use or fair value less costs to sell. Impairment exists when carrying value of the asset or cash generating unit that the asset belongs to is higher than the recoverable amount. An impairment loss is recognised immediately in the consolidated statement of comprehensive income.

An impairment loss recognised 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 recognised. Such a reversal amount cannot be higher than the previously recognised impairment and is recognized as income in the consolidated financial statements. The reversal of the impairment is recognized in the comprehensive income statement. Net book value of goodwill is evaluated annually and impairment is recorded when necessary considering a significant on prolonged decline.

2.3.11 Borrowing costs

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings.

Borrowing costs, which can be related to its purchase, construction or production when it comes to assets requiring a significant period of time to be ready for use and sales, are included in cost of asset until the related asset is made available for use or sales.

Other borrowing costs are charged to the consolidated statement of comprehensive income when they are incurred.

2.3.12 Operating leases

The Group as the lessee

Operational leases

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

Operational leases

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.

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

2.3. Summary of significant accounting policies (Continued)

2.3.13 Deferred taxes

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to consolidated statement of income, except when it relates to items charged or credited directly to the equity in which case the deferred tax is also dealt within the equity.

Deferred tax liabilities are recognised for all taxable temporary differences, where deferred tax assets resulting from deductible temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised.

Government incentives enabling reduced corporate tax payments are considered within the scope TAS-12 "Income Taxes" and the deferred tax asset is recognized at the rate of the earned tax benefit under the condition that benefitting from this advantage by earning taxable income in the future is highly probable.

Provided that deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority and it is legally eligible, they may be offset against one another. Deferred tax assets and liabilities are classified as noncurrent assets and liabilities in the consolidated financial statements (Note 29).

2.3.14 Employment termination benefits

a) Provision for employment termination benefits

The provision for employment termination benefits, as required by Turkish Labour Law represents the present value of the future probable obligation of the Group arising from the retirement of its employees based on the actuarial projections.

TAS 19 "Employee Benefits" requires actuarial assumptions (net discount rate, turnover rate to estimate the probability of retirement etc.) to estimate the entity's obligation for employment termination benefits. The effects of differences between the actuarial assumptions and the actual outcome together with the effects of changes in actuarial assumptions compose the actuarial gains / losses.

In accordance with TAS 19 "Employee Benefits" effective before 1 January 2013, the actuarial gains / losses were recognised in the statement of income whereas the amendment, effective as of 1 January 2013, requires the actuarial gains / losses to be recognised under other comprehensive income.

b) Defined benefit plans

The Group has to pay contributions to the Social Security Institution on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. These contributions are recognised as an employee benefit expense when they are accrued.

c) Unused vacation rights

Liabilities arising from unused vacations of the employees are accrued in the period when the unused vacations are qualified.

d) Seniority incentive bonus provision

The Group has an employee benefit plan called "Seniority Incentive Bonus" ("Bonus") which is paid to employees with a certain level of seniority. Seniority incentive bonus provision represents the present value at the date of the consolidated balance sheet of the estimated total reserve of the probable future obligations (Note 17).

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

2.3. Summary of significant accounting policies (Continued)

2.3.15 Transactions in foreign currency

Transactions in foreign currencies during the year have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Turkish Lira at the exchange rates prevailing at the balance sheet dates. Foreign exchange gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities are recognised in the consolidated statement of comprehensive income except the ones that are capitalised (Note 2.3.11).

2.3.16 Revenue recognition

Revenue is based on the invoiced amount of products sold and services given. Revenues are recognised on an accrual basis at the time deliveries or acceptances are made, when the amount of revenue can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group, at the fair value of consideration received or receivable. Risks and rewards are transferred to customers, when the transfer of ownership has realised. Net sales represent the invoiced value of goods sold less sales returns and commission and exclude related taxes. Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

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 recognised as interest income on a time proportion basis that takes into account the effective yield on the asset.

2.3.17 Provisions

Provisions are recognised 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 statements.

2.3.18 Commitments, contingent assets and liabilities

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in the consolidated financial statements and are disclosed as contingent assets or liabilities (Note 22).

2.3.19 Dividends

Dividend income is recognised by the Group at the date the right to collect the dividend is realised. Dividend payables are recognised as liability in the consolidated financial statements in the period they are declared as a part of profit distribution.

2.3.20 Earnings per share

Earnings per share for each class of shares disclosed in the consolidated statement of comprehensive income is determined by dividing the consolidated net income for the year attributable to that class of shares by the weighted average number of shares of that class that have been outstanding during the year concerned.

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

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

2.3. Summary of significant accounting policies (Continued)

2.3.21 Segment reporting

According to TFRS 11 '' Joint Arrangements'' standard, accounting for joint ventures in the consolidated financial statements by the equity method is mandatory. The amendment has been implemented retrospectively by the Group. Opet Petrolcülük A.Ş. is accounted by the equity method and petroleum distribution division is excluded from segment reporting scope. Since only refining segment remained within the consolidation scope, segment reporting is not presented effective 1 January 2013.

2.3.22 Statement of cash flow

Cash flows during the period are classified and reported by operating, investing and financing activities in the cash flow statements.

Cash flows from operating activities represent the cash flows generated from the Group's activities.

Cash flows related to investing activities represent the cash flows that are used in or provided from the investing activities of the Group (tangible and intangible assets and financial assets).

Cash flows arising from financing activities represent the cash proceeds from the financing activities of the Group and the repayments of these funds.

2.3.23 Research and development costs

Research expenditures are recognized as an expense 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.

Other development expenditures are recognized as an expense as incurred. Development costs previously recognized as an expense are not capitalized as an asset in a subsequent period.

2.3.24 Government grants

Government grants, Investment and research and development incentives are accounted at the fair values on accrual basis when the Group's incentive applications are approved by related authorities.

Government incentives enabling reduced corporate tax payments are considered within the scope TAS-12 "Income Taxes" (Not 2.3.13).

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

2.3. Summary of significant accounting policies (Continued)

2.3.25 Business combinations and goodwill

Business combinations are accounted for using the acquisition method in accordance with TFRS 3. The cost of a business combination, before 1 January 2011, is allocated by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition. Any excess of the acquirer's interest over the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the business combination cost is accounted for as goodwill. In business combinations, the acquirer recognizes identifiable assets, intangible assets (such as trademarks) and/or contingent liabilities which are not included in the acquiree's financial statements and which can be separated from goodwill, at their fair values in the consolidated financial statements. Goodwill recognised in business combinations is tested for impairment annually or more often under when circumstances indicating impairment risk.

The excess of the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the business combination is accounted for as income in the related period.

Revised TFRS 3 "Business Combinations" effective as at 1 January 2011 has been applied to Business combinations occurring after 1 January 2011. The main difference of revised TFRS 3 is to account for transaction costs of a purchase in comprehensive income statement. There has been no business combination in 2016 which requires the application of revised TFRS 3.

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of combination. The Group considered the significant position of Opet in the domestic market and the synergy expected from its cooperation with Tüpraş as the main reason leading to generation of goodwill related to the Opet acquisition dated 28 December 2006. Therefore, the Group management evaluated Opet, its subsidiaries and its joint ventures as one cash-generating unit.

2.3.26 Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognised at the acquisition cost reflecting the fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. The derivative instruments of the Group mainly consist of foreign exchange forward contracts, commodity derivate and interest rate swap and cross currency swap instruments. These derivative transactions, even though providing effective economic hedges under the Group risk management position, do not generally qualify for hedge accounting under the specific rules and are therefore treated as derivatives held for trading in the consolidated financial statements. The fair value changes for these derivatives are recognised in the consolidated income statement.

Fair value of forward exchange contracts evaluated by fair value and correlated with income statement is determined by compare of original forward rate calculation with market interest rate which is prevalent for remainder part of contract and prevalent forward rate at period ends. Derivative financial instruments are booked according to their fair value is positive or negative, respectively asset and liability (Note 20).

Classified as asset/liability correlated with income statement and evaluating by fair value of financial derivative instruments' differences are reflected to income statement.

The hedging transactions of the Group that qualify for hedge accounting are accounted for as follows:

Cash flow hedge

Hedges of exposures to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit and loss are designated as cash flow hedges by the Group.

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

2.3. Summary of significant accounting policies (Continued)

Changes in the fair value of derivatives, designated as cash flow hedges and qualified as effective, are recognised in equity as "hedge reserves". Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously recognised under equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts recognised under equity are transferred to the consolidated income statement in the period in which the hedged firm commitment or forecasted transaction affects the consolidated income statement.

Fair value of interest rate swap contracts evaluated by fair value and correlated with equity is determined by compare of original interest rate calculation with market interest rate which is prevalent for remainder part of contract and prevalent forward interest rate at period ends. Derivative financial instruments are booked according to their fair value is positive or negative, respectively asset and liability (Note 20).

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or losses previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

2.4. Changes in accounting policies, accounting estimates and errors

Significant changes in accounting policies based on new application of TAS/TFRS are applied retrospectively or prospectively based on the transition clauses. If there are no transition clauses, the changes in accounting policies, optional changes in accounting policies and correction of significant accounting errors are applied retrospectively and prior period financial statements are restated.

2.5. Significant accounting evaluations, assumptions and estimates

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are outlined below:

a) Deferred tax asset:

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available. If it is probable that future taxable profit will be available, deferred tax assets are accounted for over the deductible temporary differences and tax advantages resulted from investment incentives that enables the Company pay lower corporate tax.

The Company assess the recoverability of deferred tax assets based on business models that contain management estimations related to taxable profit for future periods. The models include key management estimations such as sales quantities, sales prices and foreign exchange rates. Based on the sensitivity analysis performed, it is concluded that 10% increase/decrease in related estimations does not have any effect on the assessment of recoverability of deferred tax assets (Note 29).

b) Cash flow hedge

As explained in Note 32 the Company uses investment credit amounting to USD1.254.421 as a hedging instrument against the usd spot exchange rate risk the Company is exposed to due to highly probable export sales income, and applies cash flow hedge accounting as a result of the effectiveness tests performed. The estimations in budgets for export income used for effectiveness test include estimations such as sales quantities, sales prices and foreign exchange rates. Based on the sensivitiy analysis performed for the estimations used in effectiveness tests, the Company concluded that 10% increase/decrease in estimations do not have any significant effect on the assessment of effectiveness tests.

c) Provision for employment termination benefits:

To calculate the employee benefit provision actuarial assumptions relating to turnover ratio, discount rate and salary increase are used. Calculation details are given in Employee benefits disclosure (Note 17).

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

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

2.5. Significant accounting evaluations, assumptions and estimates (Continued)

d) Economic useful lives:

Tangible assets, investment property and intangible assets, except for goodwill, have been depreciated and amortized by using estimated useful lives. Estimated useful lives determined by management have been disclosed in Note 2.3.7 and Note 2.3.8.

e) Goodwill impairment tests:

As explained in Note 2.3.10, the Group performs impairment tests on goodwill annually, or more often under circumstances indicating impairment risk. The recoverable amount of the cash generating unit has been determined based on the fair value less costs to sell calculations. Those calculations are based on specific expectations and assumptions. The Group has not identified any impairment on the goodwill amount as at 31 December 2017 and 2016, as a result of these tests. The goodwill arising from the purchase of Opet shares were classified on the investment account in the financial statements (Note 10).

3. Business combinations

No business combinations occurred during the period 31 December 2017.

4. Cash and cash equıvalents

	31 December 2017	31 December 2016
Cash at banks		
Revenue share (blocked)	**1,198,211**	1,002,012
Time deposits	**7,568,764**	5,016,257
Demand deposits	**23,971**	6,145
Time deposit interest accruals	**11,123**	26,307
Total	**8,802,069**	6,050,721

<u>Revenue Share (blocked)</u>

As required by the Petroleum Market License Regulation, the revenue share collected from the customers by the Group is held at banks and considered as blocked deposit in the Company's books. The revenue share was invested as demand deposits with government debt securities interest rate and overnight interest rate as at 31 December 2017 and 31 December 2016 (Note 15).

<u>Time deposits and other cash and cash equivalents</u>

As at 31 December 2017 and 31 December 2016, the maturity and the currency information of the time deposits, is as follows:

31 December 2017	**Effective rate of interest (%)**	**Less than 1 month**	**1-3 months**	**Total**
TRY	**13.94**	**74,655**	**1,917**	**76,572**
USD	**4.37**	**6,944,727**	**17,917**	**6,962,644**
EUR	**2.13**	**499,531**	**29,463**	**528,994**
GBP	**1.40**	**554**	**-**	**554**
Time deposit		**7,519,467**	**49,297**	**7,568,764**

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

4. Cash and cash equivalents (Continued)

31 December 2016	Effective rate of interest (%)	Less than 1 month	1-3 months	Total
TRY	11.40	945,212	-	945,212
USD	3.63	2,884,335	181,826	3,066,161
EUR	1.98	1,003,834	557	1,004,391
GBP	1.30	493	-	493
Time deposit		4,833,874	182,383	5,016,257

Cash and cash equivalents included in the consolidated statements of cash flows for the periods ended 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
Cash and cash equivalents	**8,802,069**	6,050,721
Less: Blocked deposits (Revenue share)	**(1,198,211)**	(1,002,012)
Less: Time deposit interest accruals	**(11,123)**	(26,307)
Cash and cash equivalents	**7,592,735**	5,022,402

5. Financial liabilities

	31 December 2017	31 December 2016
Short-term financial liabilities		
Short-term bank borrowings	**340,875**	385,162
Interest accruals of bank borrowings	**-**	362
Total	**340,875**	385,524
Short-term portion of long-term bank borrowings:		
Short-term portion of long-term bank borrowings	**2,156,144**	1,265,535
Bonds issued	**2,640,330**	200,000
Interest accruals of bank borrowings	**93,429**	81,435
Interest accruals of bonds issued	**42,936**	25,464
Total	**4,932,839**	1,572,434
Long-term financial liabilities:		
Long-term bank borrowings	**7,136,940**	7,712,045
Bonds issued	**2,640,330**	2,463,440
Interest accruals of bank borrowings	**-**	822
Total	**9,777,270**	10,176,307
Total financial liabilities	**15,050,984**	12,134,265

5. Financial liabilities (Continued)

Tüpraş issued bonds to listed on London stock exchange and release of these bonds were realized on 12 Octoberber 2012.Total amount of these issued bonds 700 million USD, with a maturity of 5.5 years, coupon payment every 6 months and paying principal and coupon at the end of the maturity, with an annual interest rate of 4,125%

Tüpraş signed a long term loan facility agreement with a group of lenders, consisting of HSBC (Coordinator), ING (Facility Agent), The Bank of Tokyo-Mitsubishi UFJ, Ltd., Citibank N.A, Intesa Sanpaolo and JPMorgan Chase Bank, N.A. London Branch, to meet the working capital requirements for forthcoming period and extent the weighted-average of debt maturities. The loans amounting to USD157.5 million and EUR261.5 million were utilized on 29 March 2016 and the loans have semi-annual interest payments, 5 year maturity with 3 years grace period.

Tüpraş issued bonds to investors and a nominal amount of TRY200 million with 728 days maturity and a fixed coupon paid per six months, respectively, was completed on 19 January 2015. The related bond was amortized as of 16 January 2017.

Tüpraş issued bonds to foreign investors and release of these bonds were realized on 2 November 2012. Total amount of these issued bonds is USD700 million with an interest rate of 4,125% and maturity of 5.5 years.

In 2011, Tüpraş has signed three loan agreements in order to finance Residuum Upgrading Project ("RUP") and further to the agreements the loans amounting to USD1,998 million were utilized between 2011 and 2015 for credit insurance payments and capital expenditures. According to financing package loan was insured by SACE and CESCE have 12 years to maturity also there will be no principal and interest payment in first 4 years. The third loan has 7 years to maturity and there will be no principal payment in the first four years. The repayment of the loans has started in 2015 and as at 31 December 2017 the outstanding amount of the loans is USD1,239 million (31 December 2016: USD1,555 million).

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

5. Financial liabilities (Continued)

Foreign currency balances and effective interest rates for the short and long-term financial liabilities as at 31 December 2017 and 31 December 2016 are as follows:

31 December 2017	Efffective interest	Original	Thousand
Short-term financial liabilities:			
USD borrowing	1.45	3,500,000	13,202
TRY borrowings (*)	-	327,673,483	327,673
Interest accruals			-
Total short-term financial liabilities			340,875
Short-term portion of long-term financial liabilities:			
USD borrowings	3.58	316,227,073	1,192,776
USD bonds issued	4.17	700,000,000	2,640,330
EUR borrowings	3.26	9,220,636	41,636
TRY borrowings	12.48	921,732,026	921,732
			4,796,474
Interest accruals			136,365
Total short-term portion of long-term financial liabilities			4,932,839
Long-term financial liabilities:			
USD borrowings	3.38	1,460,677,340	5,509,529
USD bonds issued	4.55	700,000,000	2,640,330
EUR borrowings	2.06	291,146,521	1,314,672
TRY borrowings	13.43	312,738,562	312,739
			9,777,270
Interest accruals			-
Total long-term financial liabilities			9,777,270

(*) Banks provide interest-free loans to the Group for the payment of SCT, Customs and Social Security debts amounting to TRY327,673 thousand as of 31 December 2017 (31 December 2016: TRY190,645 thousand).

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

5. Financial liabilities (Continued)

31 December 2016	Efffective interest	Original	Thousand
Short-term financial liabilities:			
EUR borrowing	2.89	7,000,000	25,970
TRY borrowings	8.80	359,191,765	359,192
Interest accruals			362
Total short-term financial liabilities			385,524
Short-term portion of long-term financial liabilities:			
USD borrowings	3.34	314,914,269	1,108,246
EUR borrowings	3.21	9,584,273	35,557
TRY borrowings	12.65	121,732,026	121,732
TRY bonds issued	8.97	200,000,000	200,000
			1,465,535
Interest accruals			106,899
Total short-term portion of long-term financial liabilities			1,572,434
Long-term financial liabilities:			
USD borrowings	3.11	1,613,833,466	5,679,403
USD bonds issued	4.17	700,000,000	2,463,440
EUR borrowings	2.08	296,011,204	1,098,171
TRY borrowings	12.58	934,470,588	934,471
			10,175,485
Interest accruals			822
Total long-term financial liabilities			10,176,307

As at 31 December 2017 and 31 December 2016, the redemption schedule of long-term bank borrowings is as follows:

	31 December 2017	31 December 2016
2018	**-**	4,544,096
2019	**1,867,259**	1,358,333
2020	**1,683,158**	1,443,351
2021	**1,373,304**	1,092,287
2022 and after	**4,853,549**	1,738,240
Total	**9,777,270**	10,176,307

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

5. Financial liabilities (Continued)

The movement of borrowings as of 31 December 2017 and 31 December 2016 is as follows:

	2017	2016
1 January	**12,134,265**	9,919,420
New financial borrowings	**43,859,854**	36,558,822
Principal payments	**(42,051,025)**	(36,280,598)
Changes in interest accruals	**28,282**	14,807
Changes in foreign exchange rates	**1,079,608**	1,921,814
31 December	**15,050,984**	12,134,265

The redemption schedule of borrowings according to their contractual repricing dates is as follows:

	31 December 2017	31 December 2016
1-90 days	**3,294,726**	2,779,361
91-365 days	**7,784,235**	4,780,459
1-5 years	**1,162,249**	4,264,306
Over 5 years	**2,809,774**	310,139
Total	**15,050,984**	12,134,265

6. Trade receivables and payables

Short-term trade receivables:

	31 December 2017	31 December 2016
Trade receivables	**3,658,736**	2,433,602
Due from related parties (Note 31)	**1,399,601**	751,824
Doubtful trade receivables	**3,184**	2,676
Other trade receivables	**16**	9
Less: Unearned credit finance income	**(31,320)**	(5,153)
Less: Provision for doubtful receivables	**(3,184)**	(2,676)
Total short-term trade receivables (net)	**5,027,033**	3,180,282

Tüpraş discounts the domestic receivables by using domestic government bonds and foreign receivables by using six months libor rates.

As at 31 December 2017, Tüpraş has offsetted TRY860,788 thousand (31 December 2016: TRY1,625,766 thousand) from trade receivables that are collected from factoring companies as part of the irrevocable factoring.

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

6. Trade receivables and payables (Continued)

The credit quality of trade receivables that are neither past due nor impaired

The Group categorizes the details of credit quality of trade receivables that are neither past due nor impaired or receivables whose conditions are renegotiated under four groups. The details of credit quality of such trade receivables as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
Group 1	**8,505**	1,783
Group 2	**762,329**	3,063
Group 3	**4,152,610**	2,070,505
Group 4	**65,184**	1,040,014
Total	**4,988,628**	3,115,365

Group 1 - New customers (less than three months)
Group 2 - State owned enterprises
Group 3 - Existing customers with no payment defaults in previous periods (have been customers by more than three months)
Group 4 - Customers with previous record of collection delays but from which all receivables due are collected (Excluding Group 1 and 2)

Aging analysis for trade receivables that are past due but not impaired

Aging of overdue receivables that are past due but not impaired as at 31 December 2017 and 31 December 2016 is as follows:

	31 December 2017	31 December 2016
Up to 3 months	**37,224**	62,386
3 to 12 months	**1,181**	2,531
Total	**38,405**	64,917

The Group has guarantees received amounting to TRY28,587 (31 December 2016: TRY51,479) for trade receivables overdue but not impaired. Major part of receivables without guarantees are from government entities which regularly made sales, any collection risk is not projected.

Movement of the provision for doubtful receivables for the years ended 31 December 2016 and 2017 is as follows:

	2017	2016
1 January	**2,676**	2,593
Charge for the period	**581**	98
Payments during the period	**(73)**	(15)
31 December	**3,184**	2,676

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

6. Trade receivables and payables (Continued)

Short-term trade payables:

	31 December 2017	31 December 2016
Trade payables	**8,106,081**	6,910,572
Due to related parties (Note 31)	**115,456**	88,017
Less: Unrealised credit finance charges trade payables	**(8,371)**	(10,746)
Total short-term trade payables (net)	**8,213,166**	6,987,843

Tüpraş discounts short-term trade payables by using six-month libor rates.

7. Other receıvables and payables

Other short-term receivables:

	31 December 2017	31 December 2016
Advances and guarantees given	**66,887**	10,280
Receivable from personnel	**9,141**	7,723
Receivable from insurance recoveries	**8,239**	7,623
Other doubtful receivables	**360**	304
Less: Provision for other doubtful receivables	**(360)**	(304)
Total	**84,267**	25,626

8. Inventorıes

	31 December 2017	31 December 2016
Raw materials and supplies	**1,901,787**	1,084,842
Work-in-progress	**1,278,257**	795,792
Finished goods	**1,401,057**	919,756
Trade goods	**195,767**	50,669
Goods in transit	**487,155**	743,851
Other	**28,313**	13,529
	5,292,336	3,608,439
Provision for doubtful receivables	**(1,246)**	-
Total	**5,291,090**	3,608,439

Movement of the provision for inventories for the years ended 31 December 2017 and 2016 is as follows:

	2017	2016
1 January	**-**	102,114
Charge for the period	**1,246**	-
Cancellations within the period	**-**	(102,114)
31 December	**1,246**	-

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

9. Financial ınvestments

Financial investments available-for-sale

	31 December 2017		31 December 2016	
	Participation share (%)	**Amount**	Participation share (%)	Amount Amount
Körfez Ulaştırma A.Ş.	**100.00**	**9,000**	100.00	4,000
		9,000		4,000

At the General Assembly dated 29 March 2017 of Körfez Transportation A.Ş, has been decided to increase the capital from TRY4.000 thousand to TRY10.000 thousand and has been paid TRY5.000 thousand as of 31 December 2017.

10. Investments accounted for using the equity method

	31 December 2017		31 December 2016	
	Participation share (%)	**Amount**	Participation share (%)	Amount Amount
OPET Petrolcülük A.Ş.	**40.00**	**1,134,364**	40.00	923,994
		1,134,364		923,994

The goodwill amounting to TRY189,073 thousand arising from the purchase of Opet shares on 28 December 2006 were classified on the investments accounted for using the equity method in the financial statements.

The movement in the investments accounted for using the equity method during the period ended 31 December 2017 and 2016 is as follows:

	2017	2016
1 January	**923,994**	762,217
Investments accounted for using the equity method;		
Shares in current year profit	**244,639**	158,750
Dividend payment	**(70,000)**	(42,000)
Defined benefit plans remeasurement gains/(losses)	**712**	(1,011)
Other comprehensive income accounted for investment using equity method that will be reclassified to profit or loss	**32,218**	40,402
Currency translation differences	**2,801**	5,636
31 December	**1,134,364**	923,994

Consolidated summary financial statements of investments accounted for using the equity method (before Group's effective interest) are as follows:

	31 December 2017	31 December 2016
Current assets	**3,783,607**	3,039,266
Non-current assets	**2,662,261**	2,301,201
Total assets	**6,445,868**	5,340,467
Short term liabilities	**2,724,380**	2,399,461
Long term liabilities	**1,358,260**	1,103,703
Equity	**2,363,228**	1,837,303
Total liabilities	**6,445,868**	5,340,467

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

10. Investments accounted for using the equity method (Continued)

	1 January - 31 December 2017	1 January - 31 December 2016
Sales (net)	**28,391,084**	20,533,669
Gross profit	**1,499,111**	1,274,948
Operating profit	**702,728**	611,266
Net income for period	**611,597**	396,874

Goodwill impairment test

The Group considers the significant position of Opet in the domestic market and the synergy expected from its cooperation with Tüpraş and Opet as the main source of generation of goodwill. Therefore, the Group management evaluated Opet, its subsidiaries and its joint ventures as a single cash generating unit and goodwill is allocated on Opet.

The cash-generating unit's fair value calculations include post-tax cash flow projections, which are based on US dollars and are based on ten-year plans approved by Opet management. The Group considers analysis covering a period longer than five years is more appropriate as to evaluation of operating results and prospective assumptions in the sector and therefore impairment test is based on ten years budget. As of 31 December 2017, fair value of Opet is above 46% of the value carried in including goodwill.

Other key assumptions used in the fair value calculation model are stated below:

Gross margin	4,3% - 4,9%
Discount rate	11,2%

The budgeted gross margin has been determined by Opet management based on past performance of the company and expected market growth rate. The discount rate used is the post-tax discount rate and includes company specific risks. An increase/decrease of 1% on the post-tax discount rate used in the discounted cash flow calculations, Opet's carrying value of goodwill is over 27% and 68%, respectively.as at 31 December 2017.

As a result of the tests performed by using the assumptions above, no impairment on goodwill has been identified as at 31 December 2017. Since the asset's fair value less cost to sell is higher than its carrying amount, the Group management did not calculate the asset's value-in-use.

11. Investment Property

As of 31 December 2017, investment property represents the land amounting to TRY4,621 thousand (31 December 2016: TRY 4,621 thousand). The fair value of the investment property has been determined as TRY38,117 thousand as a result of fair value assessments (31 December 2016: TRY38,117 thousand).

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

12. Property, plant and equipment

The movements of property, plant and equipment and related accumulated amortisation for the period ended 31 December 2017 and 2016 is as follows:

	1 January 2017	**Additions**	**Transfers**	**Disposals**	**31 December 2017**
Cost:					
Land	**48,844**	**-**	**-**	**(30)**	**48,814**
Land improvements	**3,687,757**	**-**	**78,694**	**(121,372)**	**3,645,079**
Buildings	**744,592**	**-**	**37,325**	**(10,770)**	**771,147**
Machinery and equipment	**11,420,284**	**353**	**666,623**	**(85,937)**	**12,001,323**
Motor vehicles	**749,479**	**470,979**	**2,208**	**(997)**	**1,221,669**
Furniture and fixtures	**114,397**	**1,046**	**22,356**	**(3,669)**	**134,130**
Construction in progress	**649,948**	**686,922**	**(836,068)**	**-**	**500,802**
Other tangible assets	**1,488**	**1,126**	**-**	**-**	**2,614**
	17,416,789	**1,160,426**	**(28,862)**	**(222,775)**	**18,325,578**
Accumulated depreciation:					
Land improvements	**(1,272,244)**	**(150,700)**	**-**	**118,778**	**(1,304,166)**
Buildings	**(188,970)**	**(15,723)**	**-**	**10,749**	**(193,944)**
Machinery and equipment	**(3,972,568)**	**(336,629)**	**-**	**74,109**	**(4,235,088)**
Motor vehicles	**(171,865)**	**(35,403)**	**-**	**637**	**(206,631)**
Furniture and fixtures	**(68,301)**	**(16,069)**	**-**	**3,501**	**(80,869)**
Other tangible assets	**(1,365)**	**(78)**	**-**	**-**	**(1,443)**
	(5,675,313)	**(554,602)**	**-**	**207,774**	**(6,022,141)**
Net book value	**11,741,476**				**12,303,437**

	1 January 2016	Additions	Transfers	Disposals	31 December 2016
Cost:					
Land	48,844	-	-	-	48,844
Land improvements	3,525,298	-	162,946	(487)	3,687,757
Buildings	695,372	-	49,222	(2)	744,592
Machinery and equipment	11,149,479	84	280,086	(9,365)	11,420,284
Motor vehicles	619,383	129,499	1,432	(835)	749,479
Furniture and fixtures	105,955	1,350	11,336	(4,244)	114,397
Construction in progress	499,904	668,988	(518,944)	-	649,948
Other tangible assets	1,488	-	-	-	1,488
	16,645,723	799,921	(13,922)	(14,933)	17,416,789
Accumulated depreciation:					
Land improvements	(1,129,120)	(143,589)	-	465	(1,272,244)
Buildings	(174,083)	(14,889)	-	2	(188,970)
Machinery and equipment	(3,664,377)	(316,517)	-	8,326	(3,972,568)
Motor vehicles	(139,883)	(32,580)	-	598	(171,865)
Furniture and fixtures	(57,230)	(15,124)	-	4,053	(68,301)
Other tangible assets	(1,286)	(79)	-	-	(1,365)
	(5,165,979)	(522,778)	-	13,444	(5,675,313)
Net book value	11,479,744				11,741,476

Total depreciation expense amounting to TRY554,602 thousand (31 December 2016: TRY522,778 thousand) in the consolidated statement of comprehensive income for the period ended 31 December 2017 has been allocated to cost of goods sold amounting to TRY527,359 thousand (31 December 2016: TRY483,776 thousand), to marketing, sales and distribution expenses amounting to TRY3 thousand (31 December 2016: TRY3 thousand), to general administration expenses amounting to TRY27,240 thousand (31 December 2016 : TRY38,999 thousand).

As of 31 December 2017, there are no mortgage on property, plant and equipment (31 December 2016 - None).

As of 31 December 2017, Tüpraş has capitalized the borrowing cost of TRY69,535 thousand on its financial statements (31 December 2016 – TRY 53,042 thousand).

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

13. Intangible assets

Other intangible assets:

The movements of intangible assets and related accumulated amortisation for the period ended 31 December 2017 and 2016 is as follows:

	1 January 2017	**Additions**	**Transfers**	**Disposals**	**31 December 2017**
Cost:					
Rights and software	**64,330**	**257**	**17,226**	**(349)**	**81,464**
Development expenses	**68,403**	**-**	**11,636**	**-**	**80,039**
	132,733	**257**	**28,862**	**(349)**	**161,503**
Accumulated amortisation:					
Rights and software	**(36,449)**	**(6,960)**	**-**	**349**	**(43,060)**
Development expenses	**(41,178)**	**(12,078)**	**-**	**-**	**(53,256)**
	(77,627)	**(19,038)**	**-**	**349**	**(96,316)**
Net book value	**55,106**				**65,187**

	1 January 2016	Additions	Transfers	Disposals	31 December 2016
Cost:					
Rights and software	57,087	-	7,500	(257)	64,330
Development expenses	61,981	-	6,422	-	68,403
	119,068	-	13,922	(257)	132,733
Accumulated amortisation:					
Rights and software	(30,418)	(6,288)	-	257	(36,449)
Development expenses	(29,241)	(11,937)	-	-	(41,178)
	(59,659)	(18,225)	-	257	(77,627)
Net book value	59,409				55,106

Total amortisation expenses amounting to TRY19,038 thousand (31 December 2016: TRY18,225 thousand) in the consolidated statement of comprehensive income for the period ended 31 December 2017 have been allocated to the cost of goods sold amounting to TRY8 thousand (31 December 2016: TRY13 thousand), and to general administration expenses amounting to TRY19,030 thousand (31 December 2016: TRY18,212 thousand).

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

14. Prepaid expenses

Short term prepaid expenses:

	31 December 2017	31 December 2016
Insurance and other expenses	**49,102**	41,680
Investment loan insurance expenses	**-**	27,811
Advances given	**13,295**	28,412
Total	**62,397**	97,903

Long term prepaid expenses:

	31 December 2017	31 December 2016
Advances given to third parties for property, plant and equipment	**28,413**	120,883
Prepaid investment loan insurance expenses	**-**	77,589
Advances given to related parties for property, plant and equipment (Note 31)	**69,191**	37,454
Prepaid other expenses	**1,672**	2,426
Total	**99,276**	238,352

15. Other assets and liabilities

Other current assets:

	31 December 2017	31 December 2016
Deferred Value Added Tax ("VAT")	**423,200**	357,063
Deferred Special Consumption Tax ("SCT")	**91,647**	79,863
Spare parts and material stocks	**57,566**	69,591
Taxes and funds to be offsetted	**85,251**	44,302
Income accruals	**37,675**	19,348
Other current assets	**56,920**	3,263
Total	**752,259**	573,430

Other non-current assets:

Spare parts and materials	1,030,649	1,008,993
Other	1,146	1,120
Provision for spare parts and materials	(19,156)	(22,455)
Total	**1,012,639**	**987,658**

The movements in the provision for impairment of spare parts during the years ended 31 December 2017 and 2016 are as follows:

	2017	2016
1 January	**22,455**	27,506
Charges for the period, net	**(3,299)**	(5,051)
Total	**19,156**	22,455

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

15. Other assets and liabilities (Continued)

Other non-current assets:

	31 December 2017	31 December 2016
SCT payable	**1,397,584**	1,371,333
Revenue share	**1,202,668**	1,006,511
VAT payable	**145,109**	226,314
Deferred VAT	**423,200**	357,063
Deferred SCT	**91,647**	79,863
Other taxes and liabilities	**53,741**	43,475
Expense accrual on commodity hedge	**383,058**	246,536
Other	**26,367**	11,827
Total	**3,723,374**	3,342,922

As of 31 December, 2017, expense accruals consists of commodity derivatives transactions for inventory of Tüpraş which are exposed to commodity price risk (swap transactions and zero-cost transactions). Weighted average price of outstanding commodity derivatives transactions is USD54.53/barrel (31 December 2016 - USD47.47/barrel) for 5,700 thousand crude oil barrel (31 December 2016: 7,050 thousand barrels). Weighted average buying price of zero cost derivatives transactions is USD50.60 /barrel for 5,700 thousand crude oil barrel inventory (31 December 2016: 6,950 thousand barrels), weighted average selling price of zero cost derivatives transactions is USD55.78 /barrel (31 December 2016 - USD53.56/barrel). The expense accruals recognition made as of 31 December 2017 is recognized under cost of goods sold and paid as of 8 January 2018 (31 December 2016: 9 January 2017).

Deferred VAT and SCT include VAT and SCT amounts related to export committed sales and are classified within "Other current assets" under assets and within "Other current liabilities" under liabilities. Such SCT and VAT amounts are offset when the export transaction is certified and the related taxes are cancelled by the tax office.

According to the Petroleum Market Law, financing needs of refinery owners to maintain the National Petroleum Stock are supplied by the revenue share, which is a surplus added to the sales price, limited to a ceiling of USD 10/ton as determined by Energy Market Regulatory Authority ("EMRA"). In the case of importation of petroleum products, the revenue share is to be paid to the refinery owner by the importer.

The Group has been collecting the revenue share over the sales of petroleum products and non-refinery imports of petroleum products since 1 January 2005, the date the relevant article of the regulation came into force.

The Group has been collecting revenue share for LPG sales since 16 September 2005 in addition to the revenue share collected for petroleum products, in accordance with the Liquefied Petroleum Gas ("LPG") Market Regulation.

It has been decided by the National Petroleum Reserves Commission that the investment management of the revenue share collected will be conducted by the General Directorate of Tüpraş, and the collected amount will be invested in overnight reverse repurchase agreements.

As a result of these regulations, the revenue share amounting to TRY1,202,668 thousand accumulated as at 31 December 2017 (31 December 2016: TRY1,006,511 thousand) which is not recognized in the comprehensive income statement, has been classified as "Revenue Share" within "Other short-term liabilities". TRY1,198,211 thousand that is (31 December 2016: TRY1,002,012 thousand) blocked in banks as demand deposits with government debt securities interest rate and overnight interest rate related to the calculated revenue share has been classified as Revenue share "Blocked" within "Cash and cash equivalents"(Note 4).

Other long-term liabilities:

	31 December 2017	31 December 2016
Participation share	**1,169**	1,389
Total	**1,169**	1,389

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

16. Deferred income

Short-term deferred income

	31 December 2017	31 December 2016
Advances taken	**18,479**	13,591
Deferred income	**1,949**	1,826
Total	**20,428**	15,417

Long-term deferred income

	31 December 2017	31 December 2016
Deferred income	**4,112**	3,992
Total	**4,112**	3,992

17. Provisions

Provision for employee benefits:

Short term provision for employee benefits:

	31 December 2017	31 December 2016
Seniority incentive bonus provision	**8,024**	9,073
Personnel bonus accruals	**4,605**	4,498
Total	**12,629**	13,571

Long term employee benefits:

	31 December 2017	31 December 2016
Provision for employment termination benefits	**167,907**	159,190
Provision for unused vacation	**50,655**	44,137
Seniority incentive bonus provision	**5,172**	4,088
Total	**223,734**	207,415

Seniority incentive bonus provision:

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

Seniority incentive bonus is paid to personnel together with their monthly salary when certain seniority levels are reached. The bonus amounts to 45 days of salary for 5 years of seniority level, 55 days of salary for 10 years of seniority level, 70 days of salary for 15 years of seniority level, 80 days of salary for 20 years of seniority level, 90 days of salary for 25 years of seniority level and 100 days of salary for 30 years of seniority level, paid once for each seniority level.

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

17. Provisions (Continued)

The movements in the provision for seniority incentive bonus during the period are as follows:

	2017	2016
1 January	**13,161**	12,847
Charge for the period	**11,399**	7,185
Payments during the period	**(11,364)**	(6,871)
31 December	**13,196**	13,161

Provision for employment termination benefits:

Under the 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, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 23 May 2002, there are certain transitional provisions relating to length of service prior to retirement.

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

The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees.

TAS 19 requires that actuarial valuation methods to be developed to estimate the Group's employment termination benefit provision. The following actuarial assumptions have been used in the calculation of the total provision:

	31 December 2017	31 December 2016
Discount rate (%)	**4.95%**	4.50%
Turnover rate to estimate probability of retirement (%)	**99.46%**	99.51%

The principal assumption is that maximum liability of employment termination benefits 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 TRY5,001.76 which is effective as at 1 January 2017, has been taken into consideration in calculating the provision for employment termination benefits of the joint ventures of the Group, which are registered In Turkey (31 December 2016: TRY4,297.21).

The movement in the provision for employment termination benefits during the period is as follows:

	2017	2016
1 January	**159,190**	144,547
Interest expense	**18,737**	14,961
Actuarial (gain)/losses	**(4,941)**	4,249
Increase during the period	**20,795**	18,922
Payments during the period	**(25,874)**	(23,489)
31 December	**167,907**	159,190

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

17. Provisions (Continued)

Sensitivity level	**31 December 2017** 100 Base Increase	**31 December 2017** 100 Base Decrease	31 December 2016 100 Base Increase	31 December 2016 100 Base Decrease
Rate	**5.95%**	**3.95%**	5.50%	3.50%
Provision for employee termination benefit adjustment	**10,590**	**(12,728)**	8,245	(10,013)

Provision for unused vacation:

The movement in the provision for unused vacation during the period is as follows:

	2017	2016
1 January	**44,137**	41,904
Increase during the period	**12,938**	7,785
Payments during the period	**(6,420)**	(5,552)
31 December	**50,655**	44,137

Other short term provisions:

	31 December 2017	31 December 2016
Provisions for pending claims and law suits	**16,209**	12,523
EMRA participation share	**23,823**	20,159
Provision for demurrage	**11,484**	13,787
Other	**25,779**	5,016
Total	**77,295**	51,485

Movement of the short-term provisions for the period ended 31 December 2017 and 2016 are as follow:

	Provision for pending claims and lawsuits	**EMRA participation share**	**Provision for demurrage**	**Other**	**Total**
1 January 2017	**12,523**	**20,159**	**13,787**	**5,016**	**51,485**
Charges for the period, net	**4,045**	**23,823**	**(2,303)**	**20,763**	**46,328**
Payments during the period	**(359)**	**(20,159)**	**-**	**-**	**(20,518)**
31 December 2017	**16,209**	**23,823**	**11,484**	**25,779**	**77,295**
1 January 2016	13,405	17,883	11,032	20,332	62,652
Charges for the period, net	(882)	22,148	2,755	(15,316)	8,705
Payments during the period	-	(19,872)	-	-	(19,872)
31 December 2016	12,523	20,159	13,787	5,016	51,485

EMRA participation share is the participation fee that is paid by the refinery license owners in accordance with the Petroleum Market License Regulation, calculated by multiplying net sales with the participation share rate determined by EMRA.

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

18. Liabilities for employee benefits

	31 December 2017	31 December 2016
Due to the personnel	**80,315**	59,016
Social security withholdings payment	**39,518**	33,426
Total	**119,833**	92,442

19. Other payables

	31 December 2017	31 December 2016
Deposits and guarantees received	**13,334**	9,407
Other payables to related parties (Note 31)	**23,463**	18,546
Total	**36,797**	27,953

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

20. Derivative instruments

	31 December 2017				31 December 2016			
	Fair values				Fair values			
	Purchase contract amount	**Sale contract amount**	**Assets**	**Liabilities**	Purchase contract amount	Sale contract amount	Assets	Liabilities
Cash flow hedge								
Interest rate swap	**328,432**	**328,432**	**2,660**	**690**	301,972	301,972	1,841	3,791
Cross currency swap	**835,180**	**525,210**	**339,982**	**2,206**	41,402	27,294	30,797	21,234
Derivatives held for trading								
Currency forwards	**3,264,742**	**3,330,804**	**1,137**	**39,295**	316,728	316,861	2,093	-
Commodity derivative	**1,229,941**	**1,361,757**	**3,130**	**134,946**	82,708	87,174	-	4,429
Total			**346,909**	**177,137**			34,731	29,454
Short term derivative financial instruments								
Cash flow hedge								
Interest rate swap	**1,562,179**	**1,562,179**	**9,421**	**777**	1,746,128	1,746,128	4,745	1,782
Cross currency swap	**331,155**	**238,586**	**91,139**	**2,587**	952,255	627,640	364,137	-
			100,560	**3,364**			368,882	1,782
Long term derivative financial instruments								
Total			**447,469**	**180,501**			403,613	31,236

As of 31 December 2017, forward foreign exchange transactions consist of forward transactions signed between Tüpraş and various finance institutions which generate a sales obligation of TRY2,600,333 thousand in exchange of USD 674,000 thousand and will expire on January 2018. As of 31 December 2016, forward foreign exchange transactions consist of forward transactions signed between Tüpraş and various finance institutions which generate a sales obligation of TRY 316,861 thousand in exchange of USD 90,000 thousand and which has expired on 3 January 2017.

As of 31 December 2017, interest rate swap consists of exchange of floating rate instalment payments of Tüpraş's long term borrowings amounting to USD458,824 thousand (31 December 2016: USD 535,294 thousand) and Ditaş's long term borrowings amounting to EUR 35,428 thousand (31 December 2016: EUR 44,285) with fixed rate instalment payments for cash flow hedging.

20. Derivative instruments (Continued)

As of 31 December 2017, cross currency swap transactions consist of swap transaction of foreign currency indexed, fixed interest rate long-term bonds amounting to USD200,000 thousand belonging to Tüpraş with TRY currency indexed, fixed interest payments amounting to TRY463,875 thousand (31 December 2016: USD200,000 thousand), swap transaction of long-term borrowings with floating interest rate amounting to USD70,588 thousand (31 December 2016 USD82,353 thousand) belonging to Tüpraş with payments of fixed interest rate amounting to TRY163,765 thousand, swap transactions of foreign currency indexed long term borrowings belonging to Ditaş amounting to EUR17,714 thousand with TRY currency indexed, fixed interest payments amounting to TRY65,717 thousand and swap transaction of TRY65,717 thousand fixed interest payments with total of USD18,674 thousand with foreign currency indexed fixed interest payments (31 December 2016: None).

Commodity purchase and sales transactions consist of product crack fixing transactions, swap transactions and zero cost collar transactions as of 31 December 2017. Product crack fixing transactions have been made for gasoline stocks of 1,635 thousand barrels, jet stocks of 10,395 thousand barrel and 13,572 thousand barrel and weighted average fixation margin of these transactions are USD10,995, 11,095 and 11,728 per barrel, respectively. Swap transactions have been made for 1,029 thousand barrels of crude oil and weighted average fixation margin of these transactions in USD is 54.13 per barrel. Zero cost collar transaction is made for total of 1,050 thousand barrels of crude oil where weighted average purchase price is 48,7 USD/barrel and weighted average sales price is 55.25 USD/barrel. Commodity purchase and sales transactions consist of product crack fixing transactions as of 31 December 2016. Commodity crack fixing transactions have been made for 1,500 thousand barrels of gasoline stocks and 900 thousand barrels of jet stocks with weighted average fixation margin of 10,704 and USD9,683 per barrel, respectively.

21. Government grants

On 2 August 2010, the Company has obtained the Certificate of Research and Development Center. As a result of the implementation of Technology and Innovation Support Programs Administration Project ("TEYDEB") and the existence of the Certificate of Research and Development Center, the Company has benefited from a number of government incentives including research and development expense deduction, income tax stoppage incentive, social security premium support and stamp tax exemption in accordance with Law, no 5746, Supporting Research and Development Activities. . In this context, as of 31 December 2017, the Company's total R & D expenditures amounting to TRY7,152 thousand (31 December 2016: TRY8,085 thousand) were recorded as incentive income.

In the first quarter of 2011, within the scope of the decree of the Council of Ministers dated 14 July 2009 and numbered 2009/15199, the Company was granted a Large-Scaled Investment Incentive Certificate for Residuum Upgrading Project (RUP). Investment expenditures made within the scope of this certificate are subject to 30% contribution from the government, where the contribution is provided as a reduction in corporate tax payable by 50%. As of 7 October 2013, Residuum Upgrading Project was granted Strategic Investment Incentive by Incentive Implementation and Foreign Investment Department of Ministry of Economy of Republic of Turkey which became applicable after 19 October 2012. Expenditures made within the scope of Strategic Investment Incentive Certificate are subject to 50% contribution from the government, where the contribution is provided as a reduction in corporate tax payable by 90%.

On May 29, 2012, the Company received investment incentive from Incentive Implementation and Foreign Investment Department of Ministry of Economy of Republic of Turkey for storage and warehouse services of Kırıkkale Refinery project. Support elements of this investment is to benefit from are, VAT exemption and customs tax exemption.

The Company received investment incentive on July 24, 2015 from Incentive Implementation and Foreign Investment Department of Ministry of Economy of Republic of Turkey for Modernization of Izmir Refinery Project. Support elements of this investment is to benefit from are, VAT exemption, tax discount rate (50%), rate of contribution to investment (15%) and customs tax exemption.

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

21. Government grants (Continued)

The Company received investment incentive on October 27, 2015 from Incentive Implementation and Foreign Investment Department of Ministry of Economy of Republic of Turkey for Modernization of Kırıkkale Refinery Project. Support elements of this investment is to benefit from are, VAT exemption, tax discount rate (70%), rate of contribution to investment (30%), customs tax exemption and interest incentive.

On June 13, 2014, the Company received investment incentive from Incentive Implementation and Foreign Investment Department of Ministry of Economy of Republic of Turkey for Modernization of Batman Refinery project. Support elements of this investment is to benefit from are, VAT exemption, tax discount rate (90%), rate of contribution to investment (50%), interest incentive and customs tax exemption.

On December 14, 2016, the Company received investment incentive from Incentive Implementation and Foreign Investment Department of Ministry of Economy of Republic of Turkey for Modernization of Izmir Refinery project. Support elements of this investment is to benefit from are, VAT exemption, tax discount rate (50%), rate of contribution to investment (15%) and customs tax exemption.

On June 26, 2013, the Company received investment incentive from Incentive Implementation and Foreign Investment Department of Ministry of Economy of Republic of Turkey for the purchase of wagons to be used for intercity freight transport by railway. Support elements of this investment is to benefit from are, VAT exemption, interest incentive, customs tax exemption, tax discount rate (80%), rate of contribution to investment (40%), insurance premium employer support (7 years).

The Group has benefited from SGK support for insurance premium employer sentiment.

The company has benefited from the support provided under the regulation on increasing the efficiency of energy sources and the use of energy.

As of 31 December 2017 and 2016, the revenues (totally recognized in consolidated statements of profit or loss) of the Group from government incentives and grants are as follows:

	31 December 2017	31 December 2016
Social security withholdings incentives	**37,609**	30,527
Research and development incentives	**7,152**	8,085
Interest incentive	**288**	8,100
Total	**45,049**	46,712

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

22. Commitments and contıngent assets and liabilities

		31 December 2017		31 December 2016
Guarantees received:	**Original Currency:**	**TRY Amount:**	Original Currency:	TRY Amount:
Letter of guarantees received		**1,143,144**		1,679,662
-Letter of guarantees in TRY	***744,646***	***744,646***	*1,003,107*	*1,003,107*
- Letter of guarantees in USD	***80,221***	***302,585***	*160,721*	*565,608*
- Letter of guarantees in EUR	***20,368***	***91,973***	*27,113*	*100,585*
- Letter of guarantees in other currencies	***-***	***3,940***	*-*	*10,362*
Guarantee notes received		**2,205**		14,485
- Guarantee notes in TRY	***2,205***	***2,205***	*14,485*	*14,485*
Guarantee letters received		***238,595***		225,960
- Guarantee letters received in TRY	***50,000***	***50,000***	*50,000*	*50,000*
- Guarantee letters received in USD	***50,000***	***188,595***	*50,000*	*175,960*
Direct debiting limits		**266,748**		*20,000*
- TRY direct debiting limits	***266,748***	***266,748***	*20,000*	*20,000*
Total guarantees received		**1,650,692**		1,940,107
Guarantees given:				
Letter of credits given		**313,153**		672,163
- Letter of credits in USD	***78,125***	***294,679***	*184,253*	*648,422*
- Letter of credits in EUR	***4,165***	***18,807***	*3,921*	*14,545*
- Letter of credits in other currencies	***-***	***367***	*-*	*9,196*
Letter of guarantees given		**757,673**		796,468
- Letter of guarantees in TRY	***681,480***	***681,480***	*607,798*	*607,798*
- Letter of guarantees in USD	***20,200***	***76,193***	*53,612*	*188,670*
Letters of guarantee given to customs offices		**1,644,077**		1,000,185
- Letter of guarantees in TRY	***1,635,046***	***1,635,046***	*955,666*	*955,666*
- Letter of guarantees in EUR	***2,000***	***9,031***	*12,000*	*44,519*
Letters of guarantee given to banks		**667,986**		338,033
- Letter of guarantees in USD	***119,120***	***449,309***	*47,577*	*167,433*
- Letter of guarantees in EUR	***48,428***	***218,677***	*45,985*	*170,600*
Total guarantees given		**3,383,589**		2,806,849

As at 31 December 2017 and 31 December 2016, letter of guarantees received are composed of guarantees from customers and suppliers. Guarantees given are mainly composed of guarantees given to government entities and customs offices. As at 31 December 2017, letters of guarantee given to banks are given for loans which were used by Companies within scope of consolidation amounting to TRY626,443 thousand (31 December 2016: TRY331,726 thousand) and for derivative financial instruments amounting to TRY41,543 thousand (31 December 2016: TRY6,307 thousand).

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

22. Commitments and contıngent assets and liabilities (Continued)

Collaterals, pledges, mortgages given by the Group as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
A. CPMs given for companies in the name of its own legal personality	**2,715,603**	2,468,816
- TRY	***2,316,526***	*1,563,464*
- USD	***370,872***	*837,092*
- EUR	***27,838***	*59,064*
- Other	***367***	*9,196*
B. CPMs given on behalf of the fully consolidated companies	**667,986**	338,033
- USD	***449,309***	*167,433*
- EUR	***218,677***	*170,600*
C. CPMs given for continuation of its economic activities on behalf of third parties	**-**	-
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.	-	-
Total	**3,383,589**	2,806,849

(*) A commission at an amount of TRY1.535 thousand is recognized as of 31 December 2017 related to letter of guarantees given in favor of partnerships included in full consolidation (31 December 2016- TRY 1.117 thousand).

Environmental pollution liability:

The Group is responsible for cleaning environmental pollution that could be caused as a result of its operations. There are no lawsuits against the Group regarding environmental matters as of date of 31 December 2017.

The environmental impact of the storage of chemical materials, environmental air quality and emission, collection and quality of waste water, garbage dump, surface and underground water and overall refinery operations have been analyzed by an expert advisor company of the Group. As a result of the evaluation regarding the expenditures to be made the Group management is of the opinion that necessary expenditures have been completed as at 31 December 2017 and 2016.

Requirement to keep the national petroleum stocks:

The storage of the national petroleum stocks is the responsibility of petroleum products and LPG distributor license owners should hold a minimum of twenty days' average reserves at their own or other licensed storages, either together or separately. According to Petroleum Market Law, for continuous supply and prevention of risks in extraordinary circumstances, fulfilment of the liabilities related with petroleum reserves during extraordinary situations according to international agreements, the national petroleum reserves are stored with the amount defined as the net imported amount included in the prior year's average daily usage, with minimum duration of 90 days. Refineries are held responsible for holding the supplementary portion of the national petroleum reserves.

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

23. Equity

The Company's shareholders and their shareholding percentages as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	**Share (%)**	31 December 2016	Share (%)
Enerji Yatırımları A.Ş	**127,714**	**51**	127,714	51
Publicly owned	**122,705**	**49**	122,705	49
Total	**250,419**	**100**	250,419	100
Adjustment to share capital	**1,344,243**		1,344,243	
Total paid-in capital	**1,594,662**		1,594,662	

Adjustment to share capital represents the restatement effect of cash and cash equivalent contributions to share capital measured in accordance with the Turkish Financial Reporting Standards.

Registered capital ceiling of the Company is TRY500,000 thousand and is divided into 50,000,000,000 shares with a registered nominal value of 1 Kuruş ("Kr") (31 December 2016: Kr1) each. The authorised and paid-in share capital of the Company comprises 25,041,919,999 Group A shares with a registered nominal value of Kr1 and one Group C share with privileges belonging to the Privatisation Administration.

As per the articles of association of the Company, one member of the Board of Directors should be nominated by the Group C shareholders. Board of Directors' decisions on the supply needs of petroleum products of the Turkish military forces requires the consent of the member representing the Group C shareholders.

Retained earnings, as per the statutory financial statements other than legal reserves, are available for distribution, subject to the legal reserve requirement referred to below.

Restricted reserves

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum until the total reserve reaches 20% of the Company's paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset loss and are not available for any other usage unless the reserve exceeds 50% of paid-in share capital.

In accordance with Turkish Financial Reporting Standards the aforementioned amounts should be classified under "Restricted Reserves". At 31 December 2017, the restricted reserves of the Company amount to TRY279,668 thousand (31 December 2016: TRY331,337 thousand).

Dividend distribution

Listed companies distribute dividend in accordance with the Communiqué No. II-19.1 issued by the CMB which is effective from 1 February 2014.

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of incorporation. In addition, dividend can be distributed by fixed or variable installments and advance dividend can be paid in accordance with profit on consolidated financial statements of the Company.

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

23. Equity (Continued)

In accordance with the Turkish Commercial Code (TCC), unless the required reserves and the dividend for shareholders as determined in the article of association or in the dividend distribution policy of the company are set aside, 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 usufruct right certificates, to the members of the board of directors or to the employees; and no dividend can be distributed to these persons unless the determined dividend for shareholders is paid in cash.

The total amount of net income of the Company in the statutory records and other equity accounts subject to dividend distribution amount to TRY5,591,315 thousand as at 31 December 2017. This amount includes inflation adjustment differences of the equity accounts amounting to TRY1,698,998 thousand and other reserves amounting to TRY12,932 thousand which are subject to corporate taxation when distributed as dividends.

In the period ended as of 31 December 2017, the Company committed to make dividend payment in cash amounting to TRY1,557,107 thousand which is the total amount remained after first and second composition legal reserves deducted from 2016 distributable net profit of the period and a portion of second composition legal reserves. The Company paid a cash dividend at the rate of 621.8% which corresponds to TRY6,218 gross and TRY6,218 net cash dividend for the shares with a nominal value of TRY1.00 to institutional shareholders who are full taxpayers or limited liable taxpayers and obtain dividends through a business or permanent representative in Turkey. The Company paid also a cash dividend at the rate of 621.8%, which corresponds to TRY6,218 gross and TRY5,2853 net cash dividend for the shares with a nominal value of TRY1.00 to other shareholders.

As of 31 December 2016, it is committed to distribute total balance remaining following the allocation of primary and secondary statutory reserves of distributable net profit of period related to 2015 and TRY1,627,725 thousand from secondary reserves as cash dividend and it has been fully paid off. TRY6.5 of net dividend payment and TRY6.5 of gross dividend payment have been made to a stock at a nominal value of TRY 1.00 and at 650% ratio to resident institutions and non-resident partners obtaining premium through a registered office in Turkey or permanent representative and TRY6.5 gross dividend payment and TRY5.5250 net cash dividend payment to a stock at 650% ratio and having a nominal value of TRY1.00 to other shareholders.

24. Revenue and cost of sales

	1 January - 31 December 2017	1 January - 31 December 2016
Sales from production	**41,393,603**	25,817,026
Export revenue	**10,205,556**	6,374,481
Trade sales	**2,965,268**	2,965,268
Service revenue	**268,410**	212,994
Gross revenue	**54,832,837**	35,369,769
Less: Sales discounts	**(808,235)**	(496,938)
Less: Sales returns	**(76,492)**	(17,980)
Sales (net)	**53,948,110**	34,854,851
Cost of goods sold	**(44,735,818)**	(28,873,766)
Cost of trade goods sold	**(2,921,535)**	(2,261,176)
Cost of services	**(76,859)**	(70,682)
Gross profit	**6,213,898**	3,649,227

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

24. Revenue and cost of sales (Continued)

Cost of sales:

	1 January - 31 December 2017	1 January - 31 December 2016
Raw materials	**41,568,749**	26,369,554
Cost of trade goods sold	**2,921,535**	2,261,176
Energy expenses	**1,123,691**	991,541
Personnel expenses	**615,401**	521,845
Depreciation and amortization (Note 12-13)	**527,367**	483,789
Other production expenses	**977,469**	577,719
Cost of sales	**47,734,212**	31,205,624

25. General administrative expenses, marketing expenses and research and development expenses

General administrative expenses:

	1 January - 31 December 2017	1 January - 31 December 2016
Personnel expenses	**334,889**	294,988
Taxes and duties	**98,274**	82,985
Outsourced services	**87,161**	83,951
Insurance expenses	**84,848**	79,203
Depreciation and amortization (Note 12-13)	**46,270**	57,211
Office expenses	**38,104**	35,230
Lawsuit and consultancy expenses	**34,861**	23,353
Donation	**27,410**	20,321
Subscription fees	**26,950**	22,958
Rent expenses	**15,638**	7,835
Transportation and travel expenses	**4,444**	2,702
Other	**66,552**	37,543
Total general administrative expenses	**865,401**	748,280

Marketing expenses:

	1 January - 31 December 2017	1 January - 31 December 2016
Personnel expenses	**97,041**	78,815
Outsourced services	**64,695**	51,675
Carriage, storage and insurance expenses	**42,671**	43,414
Rent expenses	**11,560**	11,897
Energy expenses	**11,454**	8,157
Advertising expenses	**3,220**	3,441
Depreciation and amortization (Note 12-13)	**3**	3
Other	**38,245**	24,200
Total marketing expenses	**268,889**	221,602

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

25. General administrative expenses, marketing expenses and research and development expenses (Continued)

Research and development expenses:

	1 January - 31 December 2017	1 January - 31 December 2016
Personnel expenses	**9,789**	19,267
Lawsuit and consultancy expenses	**1,036**	1,340
Outsourced services	**580**	140
Other	**4,545**	4,818
Total research and development expenses	**15,950**	25,565

26. Other operating income/(expenses)

Other operating income:	**1 January - 31 December 2017**	1 January - 31 December 2016
Credit finance gains	**228,525**	123,632
Rent expenses	**4,101**	3,497
Foreign exchange gain from trade receivables	**-**	9,147
Provision no longer required	**-**	16,209
Other	**28,635**	32,266
Total other operating income	**261,261**	184,751

Other operating expense:	**1 January - 31 December 2017**	1 January - 31 December 2016
Credit finance loss	**(90,859)**	(13,398)
Foreign exchange loss from trade payables	**(340,898)**	(458,668)
Foreign exchange loss from trade receivables	**(2,727)**	-
Other	**(32,976)**	(9,176)
Total other operating expense	**(467,460)**	(481,242)

27. Income/(expense) from investment activities

Other operating expense:	**1 January - 31 December 2017**	1 January - 31 December 2016
Gain/(loss) on sales of property plant and equipment and intangible assets	**(10,199)**	161
Total income/(expense) from investment activities	**(10,199)**	**161**

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

28. Financial income/(expenses)

	1 January - 31 December 2017	1 January - 31 December 2016
Financial income:		
Interest income on deposits	**541,226**	319,513
Foreign exchange gains on deposits	**461,105**	709,477
Foreign exchange gains on derivative instruments	**160,468**	144,882
Total financial income	**1,162,799**	1,173,872
Financial expense:		
Interest expenses	**(701,421)**	(708,359)
Foreign exchange losses on borrowings	**(1,033,591)**	(976,068)
Foreign exchange losses on derivative instruments	**(41,820)**	(55,555)
Other	**(3,828)**	(6,068)
Total financial expense	**(1,780,660)**	(1,746,050)

29. Tax assets and liabilities

i) Corporation tax:

	31 December 2017	31 December 2016
Current period corporate tax provision	**464,902**	141,217
Prepaid taxes	**(443,606)**	(95,928)
Current income tax liabilities	**21,296**	45,289

Turkish tax legislation does not permit a parent company, its subsidiaries and its joint ventures to file a consolidated tax return. Therefore, provisions for taxes, as reflected in these consolidated financial statements, have been calculated on an individual-entity basis.

The corporation tax rate for the fiscal year 2017 is 20% (2016: 20%). Corporation tax is payable at a rate of 20% on the total income of the companies after adjusting for certain disallowable expenses, corporate income tax exemptions (participation exemption, investment allowance, etc.) and allowances (as research and development expenditures deduction).

The Law regarding amendments on Certain Tax Laws was approved in the Parliament on 28 November 2017 and the Law was published in the Official Gazette on 5 December 2017. Accordingly, the corporate income tax rate for all companies will be increased from 20% to 22% for the years 2018, 2019 and 2020. Therefore, deferred tax assets and liabilities measured at the tax rate of 22% that are expected to apply to these periods when the assets is realised or the liability is settled, based on the Law that have been enacted. For the periods 2021 and after, the reversals of temporary differences measured by 20% (31 December 2016: 20%).

Reconciliation of the income before tax with the calculated corporate tax is as follows:

	2017	2016
Profit before taxation	**4,474,038**	1,944,022
Expected tax expense (20%)	**(894,808)**	(388,804)
Investment incentive income	**214,184**	198,864
Deductions and exemptions	**48,173**	59,044
Disallowable expenses and differences not subject to taxation	**(1,031)**	(336)
Taxation on income	**(633,482)**	(131,232)

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

29. Tax assets and liabilities (Continued)

The analysis of cumulative temporary differences and the related deferred tax assets and liabilities in respect of items for which deferred income tax has been provided as at 31 December 2017 and 31 December 2016 using the enacted tax rates are as follows:

	Cumulative temporary differences		Deferred tax	
	2017	2016	**2017**	2016
Fair value difference of derivative instruments	**257,527**	383,690	**(56,656)**	(76,738)
Difference between the carrying values and tax base of property, plant, equipment and intangible assets	**57,569**	-	**(12,665)**	-
Prepaid expenses	**72,886**	105,400	**(16,035)**	(21,080)
Deferred financial income, (net)	**-**	5,594	**-**	(1,119)
Deferred tax liability			**(85,356)**	(98,937)
Investment incentive income	**8,598,952**	8,242,254	**3,096,940**	3,262,646
Difference between the carrying values and tax base of property, plant, equipment and intangible assets	**-**	52,144	**-**	10,429
Employment termination benefits and seniority incentive bonus provision	**166,459**	168,845	**36,621**	33,769
Provision for unused vacation liability	**43,425**	42,188	**9,554**	8,438
Provision for impairment on spare parts	**-**	22,455	**-**	4,491
Provisions for pending claims and lawsuits	**15,227**	12,523	**3,350**	2,505
Financial losses	**-**	9,271	**-**	1,854
Deferred financial income, (net)	**22,949**	-	**5,049**	-
Provisions for inventories	**1,246**	-	**274**	
Other	**6,543**	9,178	**1,439**	1,836
Deferred tax assets			**3,153,227**	3,325,968
Deferred tax asset, net			**3,067,871**	3,227,031

In the first quarter of 2011, within the scope of the decree of the Council of Ministers dated 14 July 2009 and numbered 2009/15199, the Company was granted a Large-Scaled Investment Incentive Certificate for Residuum Upgrading Project (RUP). Investment expenditures made within the scope of this certificate are subject to 30% contribution from the government, where the contribution is provided as a reduction in corporate tax payable by 50%. As of 7 October 2013, Residuum Upgrading Project was granted Strategic Investment Incentive by Incentive Implementation and Foreign Investment Department of Ministry of Economy of Republic of Turkey which became applicable after19 October 2012. Expenditures made within the scope of Strategic Investment Incentive Certificate are subject to 50% contribution from the government, where the contribution is provided as a reduction in corporate tax payable by 90%. The company has performed the revaluation of the unutilized investment incentives for both certificates by using the 14.47% revaluation rate, which was announced for the second provisional tax period of 2017 by the Ministry of Finance. In addition to the government contribution within the scope of Strategic Investment Incentive, the Company benefits from VAT exemption, VAT refund, customs duty exemption, incentive for employer share of insurance premium and interest incentive from this certificate.

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

29. Tax assets and liabilities (Continued)

The movement of deferred taxes is as follows:

	2017	2016
1 January	**3,227,031**	3,202,503
Charge for the period	**(168,580)**	(39,599)
Charge to equity:		
- Hedging cash flow gains/(losses)	**10,405**	151,540
- Actuarial gains/(losses) arising from defined benefit plans	**(985)**	827
Investment incentive income	-	(88,240)
31 December	3,067,871	3,227,031

30. Earnings per share

	1 January - 31 December 2017	1 January - 31 December 2016
Profit for the year attributable to shareholders of the Company	**3,811,546**	1,793,267
Weighted average number of shares with nominal value of Kr1 each	**25,041,920,000**	25,041,920,000
Basic and diluted earnings per share in Kr	**15.22**	7.16

31. Related party transactions

Related party transactions were classified according to the following groups and contain all descriptions in this footnote.

(1) Joint ventures
(2) Koç Holding group companies
(3) Parent, ultimate parent

a) Deposits:

	31 December 2017	31 December 2016
Yapı ve Kredi Bankası A.Ş. (2)	**4,899,946**	3,118,492
Total	**4,899,946**	3,118,492

b) Due from related parties:

Opet Petrolcülük A.Ş. (1)	**899,946**	382,580
THY OPET Havacılık Yakıtları A.Ş. (1)	**404,959**	299,357
Aygaz A.Ş. (2)	**88,381**	65,483
Opet Fuchs Madeni Yağ San. ve Tic. A.Ş. (1)	**6,305**	4,396
Other (2)	**10**	8
Total	**1,399,601**	751,824

As of 31 December 2017, Tüpraş has offset TRY100,000 thousand (31 December 2016: TRY250,000 thousand) from its trade receivables due from related parties that are collected from factoring companies as a part of irrevocable factoring agreements.

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

31. Related party transactions (Continued)

c) Trade payables

	31 December 2017	31 December 2016
Opet International Limited (1)	**39,259**	-
Zer Merkezi Hizmetler ve Ticaret A.Ş. (2)	**14,066**	12,800
Koç Sistem Bilgi ve İletişim A.Ş. (2)	**13,881**	10,260
Aygaz A.Ş. (2)	**12,785**	21,635
Ark İnşaat A.Ş. (2)	**9,023**	9,393
Opet Petrolcülük A.Ş. (1)	**8,630**	7,275
THY OPET Havacılık Yakıtları A.Ş. (1)	**4,923**	3,091
RAM Sigorta Aracılık Hizmetleri A.Ş. (2)	**3,635**	11,901
Setur Servis Turistik A.Ş. (2)	**1,614**	276
Otokoç Otomotiv Tic. ve San. A.Ş. (2)	**1,150**	850
Eltek Elektrik Enerjisi İthalat, İhracat ve Toptan Tic. A.Ş. (2)	**835**	2,510
Other (2)	**5,655**	8,026
Total	**115,456**	88,017

d) Other payables:

	31 December 2017	31 December 2016
Koç Holding A.Ş. (3)	**23,463**	18,546
Total	**23,463**	18,546

e) Advances given for property, plant and equipment:

	31 December 2017	31 December 2016
RMK Marine Gemi Yapım Sanayii ve Deniz Taşımacılığı İşl. A.Ş. (2)	**67,076**	32,441
Ark İnşaat A.Ş. (2)	**2,115**	5,013
Total	**69,191**	37,454

f) Product and service sales:

	1 January - 31 December 2017	1 January - 31 December 2016
Opet Petrolcülük A.Ş. (1)	**6,758,985**	3,766,503
THY OPET Havacılık Yakıtları A.Ş. (1)	**5,468,078**	3,774,871
Aygaz A.Ş. (2)	**541,284**	314,557
Opet Fuchs Madeni Yağ San. ve Tic. A.Ş. (1)	**31,703**	24,532
Other (2)	**4**	4
Total	**12,800,054**	7,880,467

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

31. Related party transactions (Continued)

g) Product and service purchases:

	1 January - 31 December 2017	1 January - 31 December 2016
Aygaz A.Ş. (2)	**438,566**	434,665
Ram Sigorta Aracılık Hizmetleri A.Ş. (2) (**)	**82,734**	80,837
Opet Petrolcülük A.Ş. (1)	**81,498**	69,815
Zer Merkezi Hizmetler ve Ticaret A.Ş. (2)	**69,770**	60,927
Opet International Limited (2)	**58,388**	-
Koç Holding A.Ş. (3) (*)	**46,047**	44,683
Koç Sistem Bilgi ve İletişim A.Ş. (2)	**36,461**	30,779
THY OPET Havacılık Yakıtları A.Ş. (1)	**28,513**	25,748
Eltek Elektrik Enerjisi İthalat, İhracat ve Toptan Tic. A.Ş. (2)	**23,713**	24,560
Otokoç Otomotiv Tic. ve San. A.Ş. (2)	**10,377**	8,458
Other (2)	**36,177**	20,484
Total	**912,244**	800,956

(*) Consists of the Group's share of invoices issued by Koç Holding, the ultimate parent of Tüpraş in accordance with the "11-Intra-group Services" of General Communique numbered 1 on Distribution of Hidden Income through Transfer Pricing which represents the services provided for financing, legal, tax and remuneration of senior management by the ultimate parent to its group companies.

(**) Includes paid and accrued insurance premiums in the periods ended 31 December 2017 and 2016 in connection with insurance policies signed with insurance companies through RAM Sigorta Aracılık Hizmetleri A.Ş acting as an intermediary insurance agent.

h) Fixed asset purchases:

	1 January - 31 December 2017	1 January - 31 December 2016
Ark İnşaat A.Ş. (2)	**50,986**	83,396
Koç Sistem Bilgi ve İletişim A.Ş. (2)	**7,695**	1,837
RMK Marine Gemi Yapım Sanayii ve Deniz Taşımacılığı İşl. A.Ş. (2)	**-**	18,000
Other (2)	**1,391**	2,410
Total	**60,072**	105,643

i) Remuneration of board of directors and executive management:

The senior management of the Company is determined as members and chair of the Board of Directors and General Manager and General Manager Deputies. The total amount of benefits provided to senior management is TRY53,843 thousand as of period ending on 31 December 2017. (31 December 2016: TRY61,239 thousand) and there are no payments made due to redundancy from the work in 2017 (31 December 2016: TRY17,200 thousand).

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

31. Related party transactions (Continued)

j) Financial expenses paid to related parties:

	1 January - 31 December 2017	1 January - 31 December 2016
Yapı Kredi Faktoring A.Ş. (2)	**3,366**	1,361
Yapı ve Kredi Bankası A.Ş. (2)	**761**	-
Yapı Kredi Nederland N.V. (2)	**116**	-
Total	**4,243**	1,361

k) Time deposit interest income:

	1 January - 31 December 2017	1 January - 31 December 2016
Yapı ve Kredi Bankası A.Ş. (2)	**203,941**	143,456
Total	**203,941**	143,456

l) Donations:

As of 31 December 2017, total donation is amounting to TRY24,520 thousand (31 December 2016: TRY15,793 thousand).

32. Financial instruments and financial risk management

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Liquidity risk:

The ability to fund the existing and prospective debt requirements is managed by maintaining the availability of adequate fund providers from high quality lenders.

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 open positions.

The table below demonstrates the Group's future cash outflows due to financial liabilities as at 31 December 2017 and 2016. The amounts demonstrated are undiscounted cash flows on agreements and the Group manages its liquidity risk by taking into account its expected undiscounted cash flows.

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

32. Financial instruments and financial risk management (Continued)

31 December 2017

Contractual maturities	**Carrying value**	**Contractual cash flows**	**Up to 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
Total liabilities (non derivative)	27,145,323	29,029,942	12,554,044	5,264,019	7,014,846	4,197,033
Financial liabilities	9,727,388	10,760,411	452,503	2,450,417	6,538,418	1,319,073
Bonds & notes issued	5,323,596	6,166,821	-	2,813,602	475,259	2,877,960
Trade payables	8,213,166	8,221,537	8,221,537	-	-	-
Other liabilities	419,855	419,855	419,855	-	-	-

Contractual maturities	**Carrying value**	**Contractual cash flows**	**Up to 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
Derivative instruments (net)	266,968	177,508	(38,838)	162,164	39,051	15,131
Derivative cash inflows	444,469	6,001,922	3,563,116	1,995,823	390,325	52,658
Derivative cash outflows	180,501	5,824,414	3,601,954	1,833,659	351,274	37,527

31 December 2016

Contractual maturities	Carrying value	Contractual cash flows	Up to 3 months	3-12 months	1-5 years	More than 5 years
Total liabilities (non derivative)	22,586,814	23,727,085	11,052,961	1,716,245	9,192,715	1,765,164
Financial liabilities	9,445,361	10,439,150	382,280	1,614,628	6,677,078	1,765,164
Bonds & notes issued	2,688,904	2,824,640	208,775	101,617	2,514,248	-
Trade payables	6,987,843	6,998,589	6,998,589	-	-	-
Other liabilities	274,489	274,489	274,489	-	-	-

Contractual maturities	Carrying value	Contractual cash flows	Up to 3 months	3-12 months	1-5 years	More than 5 years
Derivative instruments (net)	372,377	235,948	402	(28,178)	240,950	22,774
Derivative cash inflows	403,613	1,707,376	353,698	192,153	1,054,956	106,569
Derivative cash outflows	31,236	1,471,428	353,296	220,331	814,006	83,795

Cash outflows will be financed through cash inflows generated from sales or through funding.

32. Financial instruments and financial risk management (Continued)

Credit risk:

The Group is subject to credit risk arising from trade receivables related to credit sales, deposits at banks. These risks are managed by limiting the aggregate risk from any individual counterparty and obtaining sufficient collateral where necessary and making only cash based sales to customers considered as having a higher risk. Collectability of trade receivables are evaluated by management depending on their past experiences and current economic condition, and are presented in the consolidated financial statements net of adequate doubtful provision.

Major portion of Tüpraş's customers are composed of financially strong companies or government entities. As at 31 December 2017 and 2016, trade receivables from the top 5 customers of the Group constitute 63% and 71% of total receivables, respectively. When these factors are considered together with the insignificant historical default experience for the Group's receivables, the Group management considers the credit risk as low. The Group uses the same risk management principles for the management of financial assets. Investments are made to highly liquid instruments and the banks that the Group deposits its cash and cash equivalents in are selected among the financially strong institutions. As the Group did not have any uncollected, past due, impaired or renegotiated bank deposits, the Group believes that it does not have any impairment risk related to bank deposits.

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

32. Financial instruments and financial risk management (Continued)

Credit risks of the Group for each financial instrument type as at 31 December 2017 and 2016 are as follows:

	Receivables						
	Trade Receivables		Other Receivables				
31 December 2017	Related parties	Third parties	Related parties	Third parties	Bank deposits	Derivative instruments	Other
Maximum exposed credit risk as of reporting date	**1,399,601**	**3,627,432**	**-**	**84,267**	**8,802,069**	**447,469**	**-**
- Secured portion of the maximum credit risk by guarantees, etc.	**-**	**378,280**	**-**	**-**	**-**	**-**	**-**
A. Net book value of financial asset either are not due or not impaired	**1,399,601**	**3,589,027**	**-**	**84,267**	**8,802,069**	**447,469**	**-**
B. Net book value of overdue but not impaired financial assets	**-**	**38,405**	**-**	**-**	**-**	**-**	**-**
C. Net book value of the impaired assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Overdue(gross book value)	**-**	**3,184**	**-**	**360**	**-**	**-**	**-**
- Impairment (-)	**-**	**(3,184)**	**-**	**(360)**	**-**	**-**	**-**
- Secured portion of the net value by guarantees, etc.	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Not due yet (gross book value)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Impairment (-)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Secured portion of the net value by guarantees, etc.	**-**	**-**	**-**	**-**	**-**	**-**	**-**
D. Components which are including credit risk except financial statement	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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

32. Financial instruments and financial risk management (Continued)

	Receivables						
	Trade Receivables		Other Receivables				
31 December 2016	Related parties	Third parties	Related parties	Third parties	Bank deposits	Derivative instruments	Other
Maximum exposed credit risk as of reporting date	751,824	2,428,458	-	25,626	6,050,721	403,613	-
- Secured portion of the maximum credit risk by guarantees, etc.	-	651,954	-	-	-	-	-
A. Net book value of financial asset either are not due or not impaired	751,854	2,363,541	-	25,626	6,050,721	403,613	-
B. Net book value of overdue but not impaired financial assets	-	64,917	-	-	-	-	-
C. Net book value of the impaired assets	-	-	-	-	-	-	-
- Overdue(gross book value)	-	2,676	-	304	-	-	-
- Impairment (-)	-	(2,676)	-	(304)	-	-	-
- Secured portion of the net value by guarantees, etc.	-	-	-	-	-	-	-
- Not due yet (gross book value)	-	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-	-
- Secured portion of the net value by guarantees, etc.	-	-	-	-	-	-	-
D. Components which are including credit risk except financial statement	-	-	-	-	-	-	-

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

32. Financial instruments and financial risk management (Continued)

31 December 2017	**Receivables**				
	Trade receivables	**Other receivables**	**Bank deposits**	**Derivative instruments**	**Other**
Overdue (1-30 days)	**22,920**	**-**	**-**	**-**	**-**
Overdue (1-3 months)	**14,304**	**-**	**-**	**-**	**-**
Overdue (3-12 months)	**1,181**	**-**	**-**	**-**	**-**
Overdue (1-5 years)	**-**	**-**	**-**	**-**	**-**
Overdue (5+ years)	**-**	**-**	**-**	**-**	**-**

31 December 2016	Receivables				
	Trade receivables	Other receivables	Bank deposits	Derivative instruments	Other
Overdue (1-30 days)	36,308	-	-	-	-
Overdue (1-3 months)	26,078	-	-	-	-
Overdue (3-12 months)	2,531	-	-	-	-
Overdue (1-5 years)	-	-	-	-	-
Overdue (5+ years)	-	-	-	-	-

During the impairment test of financial assets, the Group has considered the indicators regarding uncollectibility of receivables that are due.

Market risk:

Tüpraş identifies commodity price, interest rate and currency risk as major components of market risk. Foreign exchange and interest risk are evaluated separately based on portfolio and product.

Commodity price risk

The Company is exposed to effects of fluctuation in oil prices related to its crude oil inventory held for production. For the elimination of commodity price risk, the management regularly reviews the amount of stocks.

Sales prices' of Tüpraş's products, are determined based on Mediterranean product prices, which is described as the "closest accessible free market formation in the world" by the Turkish Petroleum Market Law N. 5015, and USD selling rates. Within the framework of legal definitions, changes of prices in Mediterranean petroleum products market and changes in USD exchange rate are assessed daily by the management and the new selling price based on these two factors is updated when it differs significantly upwards or downwards from the current sales price.

Since instability in crude oil prices may cause unwanted and unexpected fluctuations in net profit and cash flows, the Company has consituted hedging policy in order to eliminate this risk. Within this framework, short and long term hedging transactions are made by using various derivative instruments (Note 20).

Product crack risk

Besides the fluctuations in crude oil prices, in order to eliminate fluctuation risk in product prices profit margins of the products (crack) can be fixed by using various derivative instruments (hedging). Therefore, a hedging policy has been created by comparing historical price levels and by hedging a certain percentage of the total sales volume at certain crack levels (Note 20).

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

32. Financial instruments and financial risk management (Continued)

Foreign exchange risk

The Group is exposed to foreign exchange risk due to operations in foreign currency. These risks are managed by analysis of the foreign currency monetary assets and liabilities in the consolidated financial statements, by a comprehensive risk tracking system which includes natural hedging and similar practices.

The table below summarizes the net balance sheet foreign currency position risk and components that are managed within the risk tracking system of the Group as at 31 December 2017 and 31 December 2016:

	31 December 2017	31 December 2016
Financial instruments with fixed interest rate		
Financial assets		
Time deposits	**8,778,098**	6,044,576
Financial liabilities	**8,188,456**	5,554,764
Financial instruments with floating interest rate		
Financial liabilities (*)	**6,862,528**	6,579,501

(*) As of 31 December 2017, there is total interest rate swap amounting and cross currency interest rate swap transaction amounting to USD529,412 thousand classified as hedging entered for borrowings with floating rate for Tupras' Residuum Upgrading Project (31 December 2016: USD617,647 thousand). Additionally, Ditaş has interest rate swap transaction at an amount of EUR17,714 thousand classified as hedging in scope of floating rate loans received for tankers of Kartal and Maltepe (31 December 2016: EUR44,285 thousand) (Note 20).

As at 31 December 2017, had the interest rate for borrowings denominated in USD strengthened by 100 base points (1%), with all other variables held constant, profit before tax would be TRY9,420 thousand lower/higher (31 December 2016: TRY7,879 thousand). As at 31 December 2017, had the interest rate for borrowings denominated in EURO strengthened/weakened by 100 base points (1%), with all other variables held constant, profit before tax would be TRY3,387 thousand lower/ higher (31 December 2016: TRY2,823 thousand). As of 31 December 2017 and 2016, there is no interest rate risk for TL bank loans.

Expected repricing and maturity dates do not differ from the contract dates excluding borrowings; therefore no additional table is presented.

The maturity groupings of borrowings at 31 December 2017 and 2016 based on their contractual repricing dates are disclosed in Note 5.

Foreign exchange risk

The Group is exposed to foreign exchange risk due to operations in foreign currency. These risks are managed by analysis of the foreign currency monetary assets and liabilities in the consolidated financial statements, by a comprehensive risk tracking system which includes natural hedging and similar practices.

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

32. Financial instruments and financial risk management (Continued)

The table below summarizes the net balance sheet foreign currency position risk and components that are managed within the risk tracking system of the Group as at 31 December 2017 and 31 December 2016:

	31 December 2017 TRY	31 December 2016 USD(*)	**31 December 2017 TRY**	31 December 2016 USD(*)
Monetary assets	**7,648,679**	2,027,805	**4,347,693**	1,235,421
Monetary liabilities	**(21,286,304)**	(5,643,390)	**(14,585,609)**	(4,144,581)
Monetary assets/(liabilities) foreign currency position	**(13,637,625)**	(3,615,585)	**(10,237,916)**	(2,909,160)
Non-monetary assets	**11,343**	3,007	**148,748**	42,268
Net foreign currency position of derivative financial instruments	**4,294,924**	1,138,663	**1,310,386**	372,353
Net foreign currency asset/(liability) position	**(9,331,358)**	(2,473,914)	**(8,778,782)**	(2,494,539)
Cash flow hedging (**)	**4,796,118**	1,271,539	**5,130,371**	1,457,823
Net foreign currency position after cash flow hedging	**(4,535,240)**	(1,202,376)	**(3,648,411)**	(1,036,716)
Inventory in natural hedge scope (***)	**5,058,436**	1,341,084	**3,477,413**	988,126
Net foreign currency position after cash flow hedging and natural hedge	**523,196**	138,709	**(170,998)**	(48,590)

(*) Dollar equivalent amounts are determined through dividing total TRY equivalent positions to exchange rate of dollar as at balance sheet date.

(**) The Group has used USD1.254.421 thousand, which is equivalent to TRY4.731.551 thousand as a prevention against USD/TRY spot foreign excahnge risk. (USD1.456.823 thousand / TRY5.130.371 thousand in 31 December 2016). And USD 17.118 thousand, which is equivalent to TRY 64.567 thousand of the derivative transactions (December 31, 2016 - None) the USD / TRY spot rate, which is exposed to USD denominated export revenue, which is highly probable to be realized, is used as a protection against exchange rate risk.Based on the outcome of effectiveness test, group considered that the process in subject is fully effective and used for hedging through cash flow risk.As of 31 December 2017, TRY1.477.564 thousand of foreign exchange loss that arose from investment credits is classified under equity (Hedge Accounting) until hedging of cash flow actualizes, which is no effect on current year income statement (Note: 2.3.26). During the year ended 31 December 2017, the foreign exchange loss amounting to TRY 351.148 thousand corresponding to the export income of the mentioned credits denominated in USD has been transferred to the foreign exchange loss in the income statement from the "Hedging gains/(loses)" account under equity. Moreover, as of 31 December 2017, foreign exchange loss amounting to TRY 366.643, which was realized in 2017, were added to the "Hedging gains/(loses)" account under equity.

(***) The Group manages its foreign currency risk arising from foreign currency denominated financial liabilities and trade payables by regularly considering and reflecting the foreign exchange rate changes in the determination of petroleum product prices. As at 31 December 2017, the Group has crude oil and petroleum products inventories amounting to TRY5,058,436 thousand (31 December 2016: TRY3,477,413 thousand) (Note 8).

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

32. Financial instruments and financial risk management (Continued)

Foreign exchange position table

	31 December 2017					31 December 2016				
	TRY equivalent (In terms of functional currency)	USD	EUR	GBP	Other	TRY equivalent (In terms of functional currency)	USD	EUR	GBP	Other
Trade receivables	102,783	27,226	19	-	-	257,339	73,124	-	-	-
Monetary financial assets (including cash, banks)	7,528,924	1,851,164	120,909	-	554	4,085,609	875,246	270,883	114	-
Other	11,343	2,298	590	2	-	3,780	1,074	-	-	-
Current assets	7,643,050	1,880,688	121,518	2	554	4,346,728	949,444	270,883	114	-
Monetary financial assets	16,972	2,498	1,672	-	-	4,745	1,348	-	-	-
Other	-	-	-	-	-	144,968	27,163	13,309	-	-
Non-current assets	16,972	2,498	1,672	-	-	149,713	28,511	13,309	-	-
Total assets	7,660,022	1,883,186	123,190	2	554	4,496,441	977,955	284,192	114	-
Trade payables	7,297,348	1,916,299	14,705	329	1,191	3,841,321	1,056,681	27,213	1,043	17,189
Financial liabilities	3,966,781	1,046,575	10,897	-		1,243,661	333,977	18,418	-	-
Other monetary liabilities	524,280	138,814	153	-		257,008	72,774	243	-	-
Current liabilities	11,818,409	3,101,688	25,755	329	1,191	5,341,990	1,463,432	45,874	1,043	17,189
Financial liabilities	9,464,531	2,160,677	291,146	-	-	9,241,837	2,314,067	296,011	-	-
Other monetary liabilities	3,364	686	172	-	-	1,782	-	480	-	-
Non-current liabilities	9,467,895	2,161,363	291,318	-	-	9,243,619	2,314,067	296,491	-	-
Total liabilities	21,286,304	5,263,051	317,073	329	1,191	14,585,609	3,777,499	342,365	1,043	17,189
Net asset/(liability) position of off-balance sheet foreign currency derivatives	4,294,924	925,914	177,714	-	-	1,310,386	372,353	-	-	-
Total amount of off-balance sheet derivative financial assets	4,365,360	944,588	177,714	-	-	1,310,386	372,353	-	-	-
Total amount of off-balance sheet derivative financial liabilities	(70,436)	(18,674)	-	-	-	-	-	-	-	-
Net foreign currency asset/(liability) position	(9,331,358)	(2,453,951)	(16,169)	(327)	(637)	(8,778,782)	(2,427,191)	(58,173)	(929)	(17,189)
Cash flow hedging	4,796,118	1,271,539	-	-	-	5,130,371	1,457,823	-	-	-
Net foreign currency position after cash flow hedging	(4,535,240)	(1,182,412)	(16,169)	(327)	(637)	(3,648,411)	(969,368)	(58,173)	(929)	(17,189)
Net monetary foreign currency asset/(liability) position	(13,637,625)	(3,382,163)	(194,473)	(329)	(637)	(10,237,916)	(2,827,781)	(71,482)	(929)	(17,189)
Fair value of derivative instruments used for hedging	426,328	113,027	-	-	-	373,700	106,189	-	-	-

As at 31 December 2017, the Group has TRY523,196 thousand as net foreign currency surplus after natural hedging (31 December 2016: TRY170,998 thousand net foreign currency deficit) (p. 62).

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

32. Financial instruments and financial risk management (Continued)

The table below summarizes the effect of foreign currency rate changes on net balance sheet foreign currency position of the Group as at 31 December 2017 and 31 December 2016.

	Statement of foreign currency risk sensitivity			
	31 December 2017			
	Profit/Loss		**Equity**	
	Appreciation of foreign currency	**Depreciation of foreign currency**	**Appreciation of foreign currency**	**Depreciation of foreign currency**
	10% change in USD rate:			
USD net assets/ liabilities	(1,275,718)	1,275,718	473,155	(473,155)
Amount hedged for USD risk (-)	808,651	(808,651	-	-
USD net effect	**(467,067)**	**467,067**	**473,155**	**(473,155)**
	10% change in EUR rate:			
Euro net assets/ liabilities	(87,665)	87,665	-	-
Amount hedged for Euro risk (-)	80,247	(80,247)	-	-
EUR net effect	**(7,418)**	**7,418**	**-**	**-**
TOTAL	**(474,485)**	**474,485**	**473,155**	**(473,155)**

	31 December 2016			
	Profit/Loss		Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
	10% change in USD rate:			
USD net assets/ liabilities	(995,153)	995,153	(513,037)	513,037
Amount hedged for USD risk (-)	644,076	(644,076)	-	-
USD net effect	(351,077)	351,077	(513,037)	513,037
	10% change in EUR rate:			
Euro net assets/ liabilities	(26,519)	26,519	-	
Amount hedged for Euro risk (-)	-	-	-	-
EUR net effect	(26,519)	26,519	-	-
TOTAL	(377,596)	377,596	(513,037)	513,037

The Company accounted investment loans in scope of cash flow hedge accounting and foreign exchange income/expense arising from these loans are recognised in equity. 10% increase and decrease effect of foreign exchange rates are calculated with the same method and the calculated foreign exchange gains/losses are presented as hedged portion in the foreign exchange sensitivity table. Furthermore, the hedged portion of foreign exchange gains/losses via forwards and cross currency swap transactions is classified as the amount hedged against US dollar in the statement of exchange rate sensitivity analysis.

Export and import

	1 January - 31 December 2017	1 January - 31 December 2016
Export		
USD (equivalent of thousand TRY)	**10,205,556**	6,374,428
	10,205,556	6,374,428
Import		
USD (equivalent of thousand TRY)	**42,552,146**	26,456,318
	42,552,146	26,456,318

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

32. Financial instruments and financial risk management (Continued)

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, issue new shares or sell assets to reduce debt. The gearing ratios as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
Total financial liabilities (Note 5)	**15,050,984**	12,134,265
Less: Cash and cash equivalents (Note 4)	**(7,603,858)**	(5,048,709)
Net financial liabilities	**7,447,126**	7,085,556
Total shareholders' equity	**10,477,661**	8,167,033
Total capital invested	**17,924,787**	15,252,589
Gearing ratio	**41.55%**	46.45%

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 could realise in a current market exchange.

Following methods and assumptions were used to estimate the fair value of the financial instruments for which is practicable to estimate fair value:

Financial assets

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

The carrying values of cash and cash equivalents are estimated to be their fair values since they are short term.

The carrying values of trade receivables along with the related allowances for uncollectibility are estimated to be their fair values since they are short term.

Financial liabilities

The fair values of short-term financial liabilities and other financial liabilities are estimated to be their fair values since they are short term. The fair values of long-term bank borrowings with variable interest are considered to approximate their respective carrying values, since the initial rates applied to bank borrowings are updated periodically by the lender to reflect active market price quotations.

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

32. Financial instruments and financial risk management (Continued)

Fair value hierarchy table:

The Group classifies the fair value measurement of each class of financial instruments according to the source, using the three-level hierarchy, as follows:

Level 1: Market price valuation techniques for the determined financial instruments traded in markets (unadjusted)

Level 2: Other valuation techniques includes direct or indirect observable inputs

Level 3: Valuation techniques does not contains observable market inputs

Fair value hierarchy table as at 31 December 2017 is as follows:

Financial assets at fair value through profit or loss	**Level 1**	**Level 2**	**Level 3**
Derivative financial assets	**-**	**447,469**	**-**
Financial investments	**-**	**-**	**-**
Financial liabilities at fair value through profit or loss			
Derivative financial liabilities	**-**	**180,501**	**-**

Fair value hierarchy table as at 31 December 2016 is as follows:

Financial assets at fair value through profit or loss	Level 1	Level 2	Level 3
Derivative financial assets	-	403,613	-
Financial investments	-	-	-
Financial liabilities at fair value through profit or loss			
Derivative financial liabilities	-	31,236	-

33. Subsequent events

None.

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