TURKISH PETROLEUM
2016 ANNUAL REPORT

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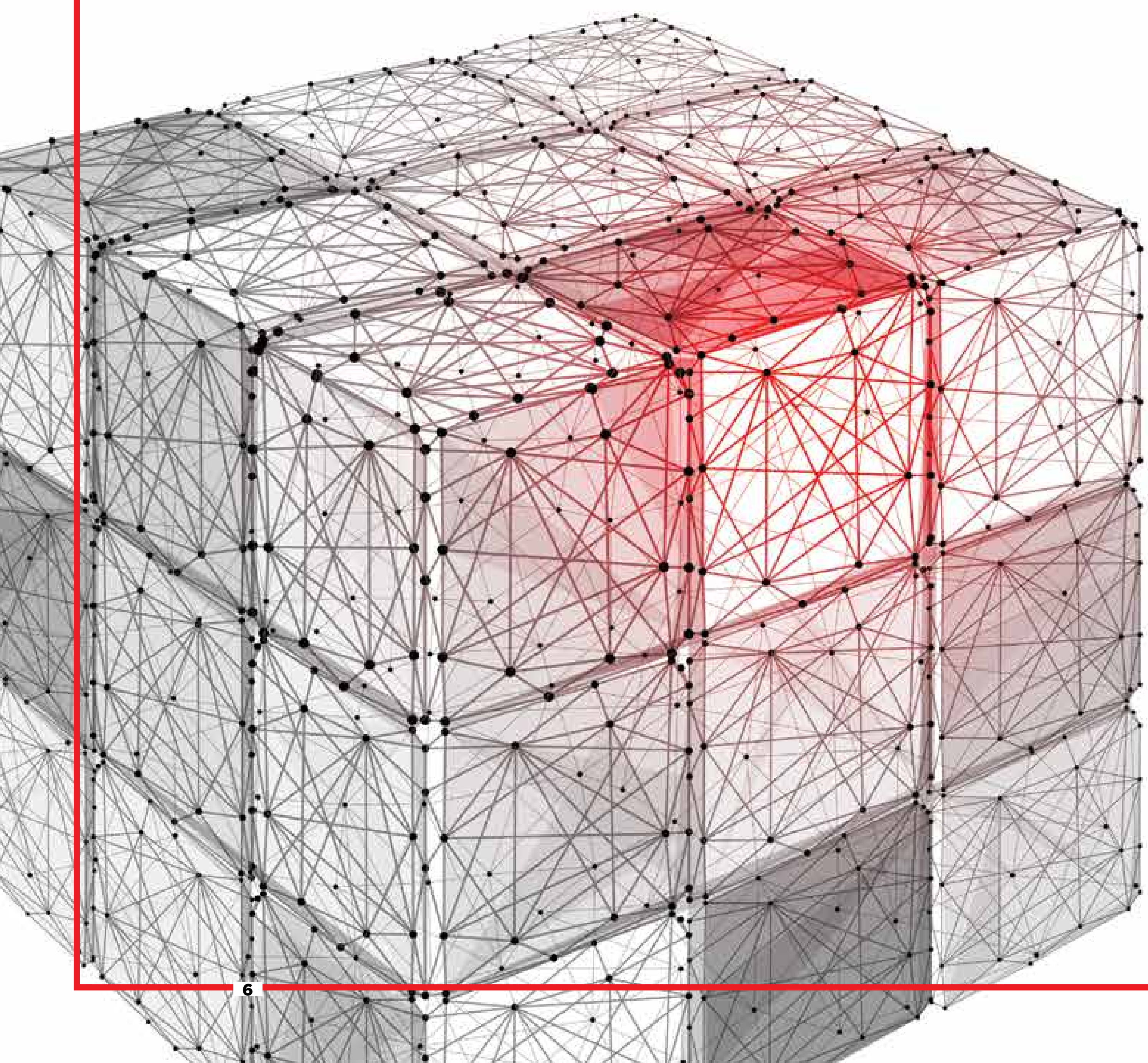
POINTS EXPRESS THE STARTS, NOT THE ENDS

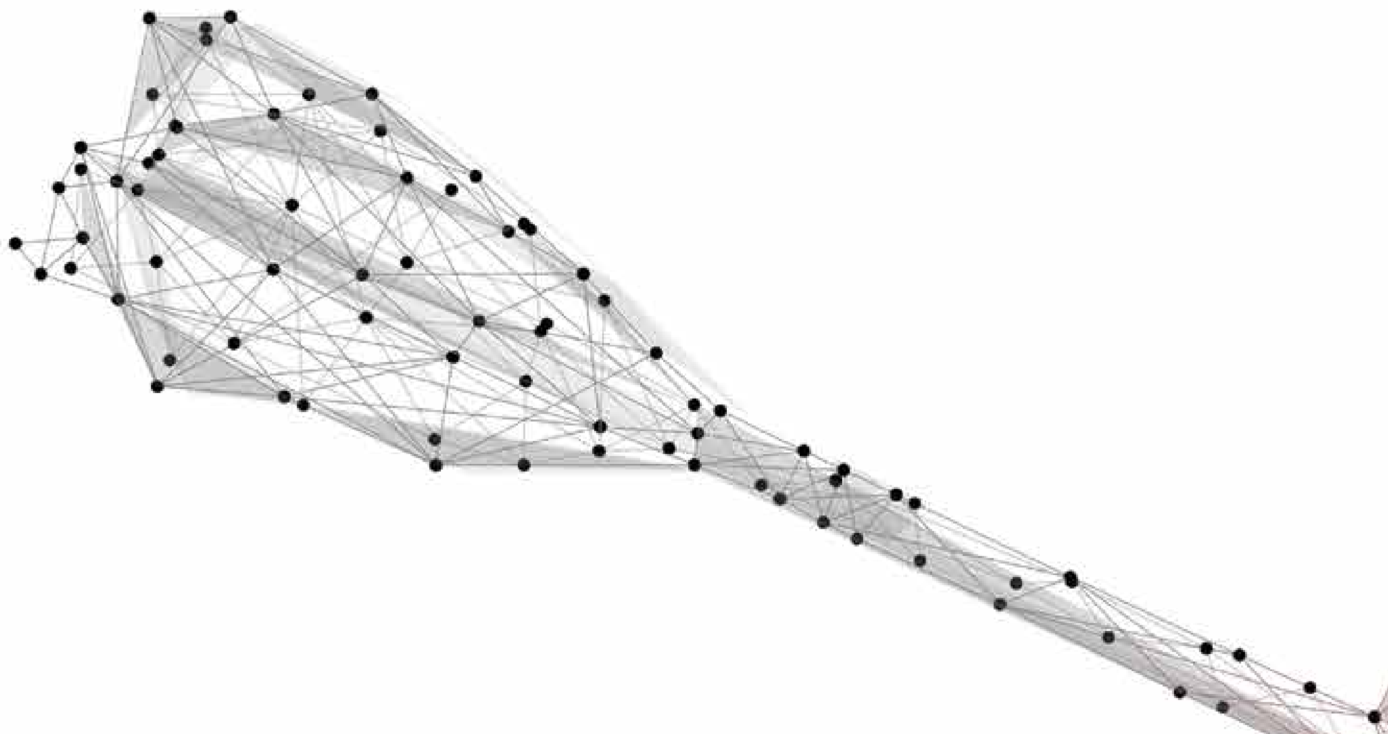
If there is a point to start, there are countless success paths that pass through that point. The goals you set for reaching the future are actually the points that build the future. Over time, as your goals grow, points establish lines, associations and paths. And every point becomes a success story. Just as our success story that begins with a point and extends to becoming a global brand.

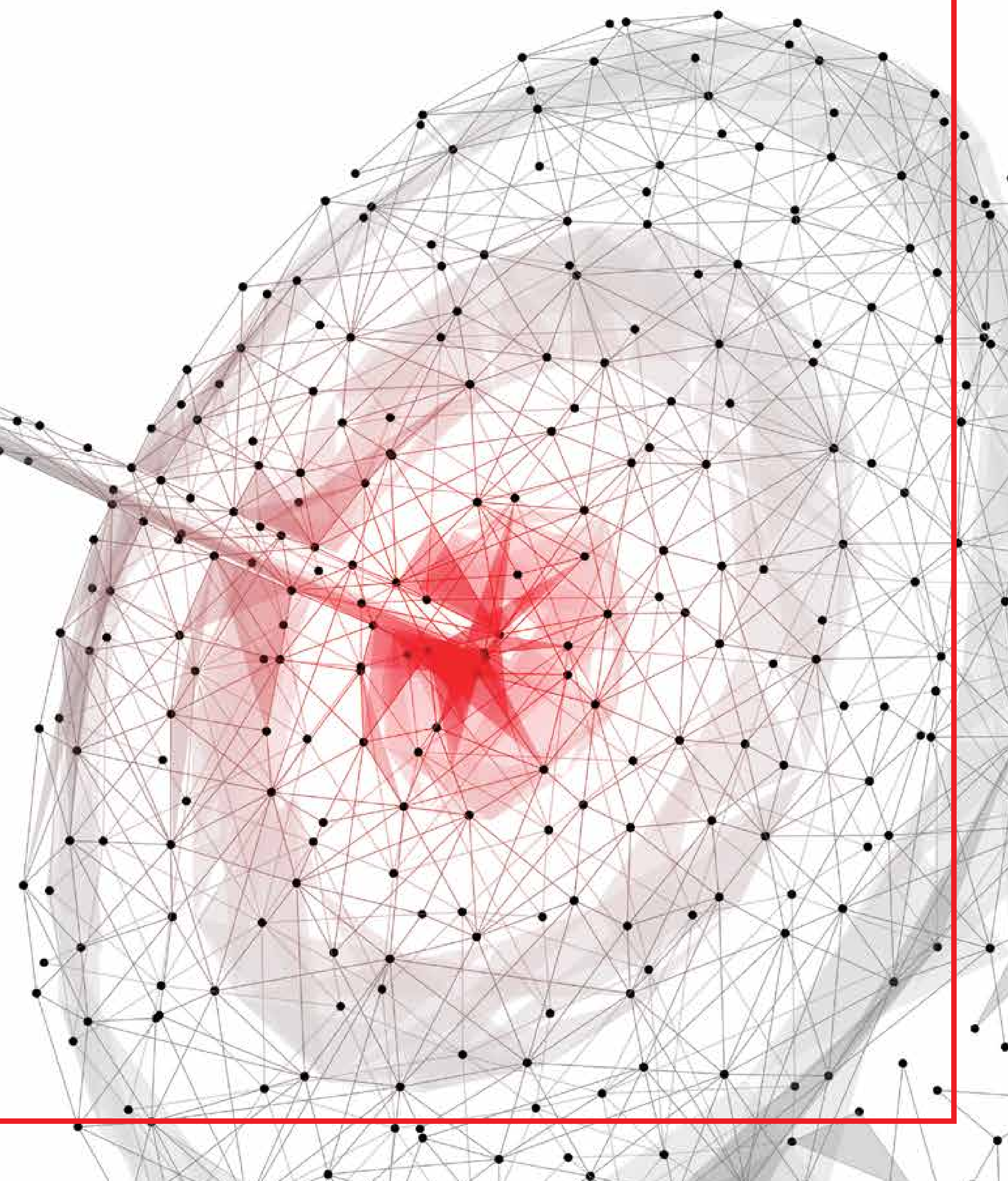
"You say you will follow me tirelessly. But my friends, what do you mean without being tired? Of course you will get tired. My demand is, even when you are tired, to walk constantly, to follow me till you are exhausted. Fatigue is natural for every human being. But there is a spiritual force that can overcome fatigue: This force will execute the tired ones without rest."

Gazi M. Kemal



CONTENTS





STRATEGIES

We know that there are lots of ways of success pass from one point to another and we plot our own way with the strategies we build.

LEADER IN THE REGION

Our desire to be an active oil company in the world is shaped not only by our technology investments, our exploration or production activities, but also by our contribution to human development and give value to our employees.

As an Exploration and Production company, TPAO determined its main strategy as concentrating on exploration and production activities. Making more and more precise search work in this framework is the backbone of the strategy.

In the offshore areas, which are the most important parts of our national energy policy, to utilize the drilling ship which will raise TPAO to a higher level in exploration, efficiently in the national and international waters, deep sea drilling in the Mediterranean and then Black Sea areas in this sense will be centered on our business plan.

Barbaros Hayreddin Pasha seismic ship supports our seismic navigation strategy to search for activities that will bring more seismic data both in terms of quantity and in terms of quality, in terms of technology development. Increasing our wildcat wells by going to unexplored areas in onshore and overcoming obstacles in seismic studies by using technological facilities like RTA are some of the steps that TPAO is taking in exploration.

Significant investments will be realized in the short term to develop a data processing center with hardware and software infrastructure that will process data collected on onshore and offshore to the most advanced standards of the world.

While our search strategy focuses on domestic onshore and offshore areas, we will continue to pursue opportunities to create value in nearby areas around us. Efforts to increase production with optimal reservoir management and the most advanced techniques, will be maintained in the domestic production areas.

Continuous cost improvement will continue to contribute to financial sustainability by adopting the approach of making our business more productive and reducing our costs.

In cooperation with our country's technology and science producing institutions, added value R & D projects will continue to be an important component of TPAO investments. TP Argem, the first R & D center with a 100% state-owned capital, will continue to value added projects and produce value both with its partnerships and with its own possibilities.

In our procurement strategy, the use of the existing national industry will be prioritized in the machines, equipment and software used with an indigenous approach. As the fact of using domestic sources, which is one of the basis of the national energy policy, it will continue to develop projects with a win-win approach together with the national industry.

We will develop our processes with a continuous improvement approach for the adoption of corporate governance practices within the corporate culture; internal control system will be more effective with risk management, internal audit, process management and all other components.

Our basic strategy in this framework is to provide more value to our country on the basis of more accurate exploration efforts and ultimately more production.

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Melih Han BİLGİN

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- **Department of Strategy Development**
  Ahmet TÜRKSOY (A)
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- **Corporate Communication Management**
- **Secretariat to the President**
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- **Directorate of International Projects**

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- **Department of Well Completion**
  Enver ÇETİNKAYA
- **Department of Drilling**
  Ercan HAYIR
- **Management of Geophysical Operations**

MESSAGE FROM THE PRESIDENT

Petroleum constitutes a key component of a national economy and it has maintained its strategic importance for decades. Offshore exploration activities have accounted for majority of recent hydrocarbon reserve additions globally. In the light of this fact, we are commencing an exploration campaign to unveil the hydrocarbon potential in the Turkish sector of Mediterranean and Black Sea within our national capabilities.

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The uncertainties in oil prices has made it difficult to make future plans for the oil companies. Typically the economic effects of oil price decrease is regarded as positive for oil-importing developing economies. However weak oil prices present significant challenges for oil companies which will be adversely impacted by decreasing oil prices. This would also undermine investment decisions in new exploration or development fields which leads to difficulties on investment decisions for petroleum exporter countries. Naturally, these circumstances put importer countries in a tight position and cause strains on the energy supply security, the economic stability, and the sustainable growth compared to the past.

Brexit and the United States presidential elections are the main milestones of 2016, deeply affecting the global marketplace. In addition, geopolitical risks in our region and external dependency on energy sources have been the most important factors that affected Turkey's import and export figures. In spite of the fact that growth rates on import and export figures are relatively lower than past years, our insist on our Medium-Term Program, despite all the barriers, shows how our country rises on a solid basis.

When viewed from this aspect, it is an honor and a pleasure to see our country strengthens its unity and solidarity, and maintains its economic growth despite recent political constipations. We, as Turkish Petroleum family, are keep working hard to fulfill our duty at full strength, within Turkey's medium and long-term strategies. We are ready to support any effort on nuclear energy, renewable energy, national coal and all other national energy policies we are additively, working to increase our production capacity and exploring ceaselessly to reduce national external dependency on oil and natural gas which is nearly 100% for the present Within this scope, we are aiming to increase our pre-exploration investments for five times more and exploration investments for three times more.

We set our focal point on offshore, primarily East Mediterranean and in the meantime keep developing our ongoing projects to strengthen Turkey's efficient and reliable partnership which has been gained due to long last political efforts. By this, we aim to be present all over the world with international consortiums and contribute global sustainable development. Moreover, we maintain our social projects in all the regions we are operating in to enhance public welfare.

Major organizations across the globe are attuned to the urgent need to transform their business and operating models, in light of evolving market conditions, disruptive technologies, regulatory policies, and globalization. By this context Turkish Petroleum improves itself to reach above mentioned goals. As one of the most strategic organizations of Turkey, our main principle is not only to invest technology and R&D projects to be used in our main operations but also in human resources. It is mainly because of the fact that, the most short term influential factors among these three are human based factors as oil industry compared to the other sectors has the longest term to see the return on investments. In this context, as a future-oriented company, we keep working with the thought that supporting academia, technical high schools, national-industry-oriented techno parks and techno cities as well as the private sector is one of our main responsibilities.

I believe and hope that Turkish Petroleum is not just follower, but the pioneer of the changing and developing world and will continue to contribute to our country as it has been in the past.

Melih Han BİLGİN
Chairman and President (A)

Melih Han Bilgin
Chairman and President (A)

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Member of the Board and Vice President

Yalçın Yüksel
Member of the Board

Cumali Kınacı
Member of the Board

Alparslan Bayraktar
Member of the Board

Melih Han BİLGİN
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Vice President

Süleyman Çalık
Member of the Board and Vice President

Mücahit Özdemir
Vice President (A)

Mehmet Sait Kirazoğlu
Vice President

Barış Bozkaya
Vice President (A)

Domestic Investment

million dollars

2013	2014	2015	2016
396	413	462	156

International Investment

million dollars

2013	2014	2015	2016
714	2,832	1,629	1,319

thousand USD	2016	2015
sales revenues	1,274,667	1,589,280
net profit	590,536	1,173,008
total current assets	1,362,444	835,843
total fixed assets	7,930,476	7,228,278
shareholder's equity	5,312,736	4,671,020
short-term foreign liabilities	796,090	625,972
long-term foreign liabilities	3,184,094	2,762,129
current ratio (%)	1.7	1.3
cash ratio (%)	1.06	2.8
financial leverage ratio (%)	0.26	0.22

			2016	2015
geology activities		(km²)	2,440	5,453
seismic activites	2B	onshore (km)	65.8	540
		offshore (km)	2,809	-
	3B	onshore (km²)	32	545
		offshore (km²)	6,589	4,433
drilling activites		on-shore (thousand b)	50.6	83.8
		off-shore (thousand b)	-	4.5
production activites		domestic (million barrel oe)	13.7	13.2
		international (million barrel oe)	24.5	22.8

DOMESTIC PROJECTS

We are opening up to the world from these lands that at every point bearing traces of labor and receiving recompense for our work.

Turkish Petroleum operates in many fields ranging from crude oil and natural gas exploration to production and transportation via pipelines.

Turkey, being in need of energy, has the highest energy demand rate in OECD countries with its developing economy. In parallel to its important investments for the energy supply security of Turkey in the last decade, TPAO increased its activities and also involved in significant and major activities to reveal new oil resources of our country.

Since the beginning of 2000s, our Corporation has given importance to hydrocarbon exploration and production on offshore fields as well as on onshore fields. In accordance with this strategy, it has realized an intense seismic program by its own and with foreign partners in the context of exploration projects in our seas, especially in the Black Sea and in the Mediterranean Sea. In this manner, 101,000 km 2D and 31,000 km^2 3D seismic data acquisition were performed between 2003 and 2016.

In 2016, 2,809 km 2D and 6,589 km^2 3D seismic programs were realized in our offshore fields. It was operated by Barbaros Hayreddin Paşa seismic ship. In this context, 4,928 km^2 3D seismic activities in the Black Sea, also 2,809 km 2D and 1,661 km^2 3D seismic activities in the Marmara Sea were completed.

Unconventional methods carried out in four licenses with Shell in Southeastern Anatolia Region and studies on petroleum and natural gas production were concluded with the agreement signed on 6 January 2016

"Seismic data acquisition" has been carried out by our two onshore seismic crews and a seismic ship. Non-seismic data acquisition surveys are carried out by one gravity - magnetic acquisition crew.

In 2016, we have conducted 12 6/30 man/month field geology works in different oil exploration fields and 2,440 km^2 field evaluation was completed in total.

We bent on maintaining our drilling activities without any cease both in domestic and international areas. In 2016, we performed 50,558 m drilling in 33 wells. With these activities, 2 oil and 6 natural gas wells were completed.

With our highly experienced staff, the wells are drilled in a safe, secure and high quality manner with low cost by applying the everchanging technology.

Activities in this context;

- Drilling Experiences in 3,236 wells,
- Deep Well Experience,
- Directional and Horizontal Wells,
- Multi-Lateral Well Drillings,
- Extended Reach Drillings,
- Unconventional Drillings.

Joint Exploration Activities

Onshore Field

TP-NVT PERENCO

Within the scope of Joint Venture Agreement between TP and NVT Perenco, activities continued in X. and XI. Oil Field exploration licenses by TP operatorship and in operating licenses by NVT operatorship in Southeast Anatolia.

Geological and geophysical evaluation activities in the XI. Oil Field continued under TP operatorship. In this context, activities continued for an appraisal well in Hançerli formation. Also activities continue on dynamic model in G. Kırtepe Karacan Field Reservoir Modelling and Simulation.

In the context of the partnership, production is ongoing in Kastel, Karaali, Yalankoz G. Kırtepe and Hançerli Fields.

TP-TIWAY OIL (Norway)

In the context of the Cendere Field Development Project which is in production process, re-completion activities continue in joint wells.

TP-AMITY OIL (Australia)

Under the Joint Operation Agreement between TP and Amity Oil for Thrace Basin; natural gas and condensate production continue in Göçerler, Adatepe, D.Adatepe, Reisdere, Eskitaşlı, Dikilitaş, Yenibağ, Pelit and Batı Pelit Fields. Drilling of G. Reisdere well was completed in August in joint license area and exploration activities carry on.

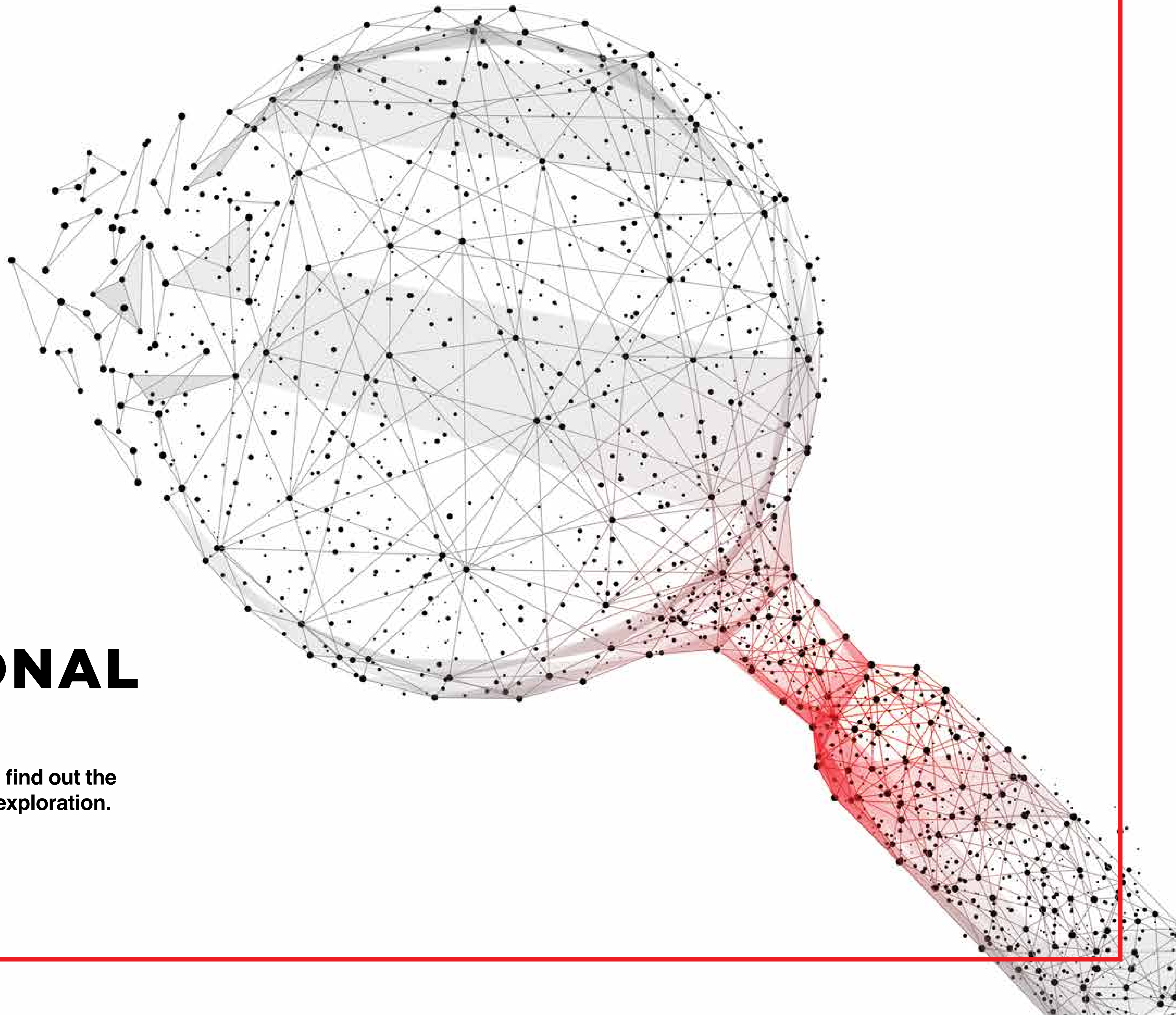
Offshore Fields

TP-PARK PLACE TURKEY LIMITED (ABD) PARK PLACE TURKEY PETROL ARAMA ÜRETİM A.Ş. (ABD)-FOINAVON (Canada)

Within the context of joint project, gas production continue in Ayazlı, Akkaya and Akçakoca Fields in operating license area. Perforation operations are being executed in production wells when required.

TP - SHELL BLACK SEA / AR / TPO / 3920 Block

Farm-in and Joint Operation Agreement was signed on February 14, 2013 between Shell and TP for the area out of license No: 3920. In this context Şile-1 well was drilled and evaluation studies were completed. Studies continue for a second exploration well in this area.



UNCONVENTIONAL ACTIVITIES

We touch the most vital points of this lands and find out the true value of our land through unconventional exploration.

Unconventional Activities

Unconventional exploration is an opportunity for our country, as the discoveries and commercial production in the world, especially in North America show us. In this regard, TP first initiated its unconventional studies in 2011 with Shell in order to reveal the unconventional hydrocarbon potential of our country and whether it has commercial value or not. It has accelerated its unconventional exploration activities, in different fields of Thrace and Southeastern Anatolia except Shell partnership.

Two pilot drillings were completed in the context of the partnership agreement signed in 2011 with Shell for Southeast Anatolia Region. 500 m horizontal drilling was completed in one of these wells and Dadas Formation was tested for shale oil with hydraulic fracturing technique. Following the tests held nearly a month, shale oil with high gravity was acquired.

TP has continued its own projects without any partner in domestic fields. It has prioritized its activity fields as Thrace and Southeast Region and completed pilot drilling both in 2015-2016 years. Crucial datas was obtained from this well, it is planned to realize a hydraulic fracturing in this well in 2017. In the South East Anatolia Region, studies has begun on drilling of new pilot wells in the search areas that are evaluated as positive following the end of the Shell agreement. In 2017, TPAO decided to drill its own pilot well intended to Dadas formation.

Turkish Petroleum continued its unconventional exploration activities with great enthusiasm in order to contribute national sources and increasing energy demand of our country.

Crude Oil and Natural Gas Production

In 2016, TPAO produced 12.2 million barrels of crude oil domestically. 80 % of our total oil production is from Batman Region, 19 % from Adıyaman Region and 1% from Thrace Region, in a the total number of production wells reached to 1,444 by the end of 2016

Reserve enhancement and production activities carried on in 2016. Fields with heavy crude oil requires special technical implementations. Various reservoir works initiated in order to avoid decreasing production and utilize the current potential.

In 2016, TPAO's total natural gas production was 248 million sm^3, 96 % of which is from Thrace Region,3 % from Batman Region and 1% from Adıyaman Region. The oil equivalent of natural gas production is 1.46 million barrels.

In the context of Western Black Sea Joint Exploration and Development Project under TP (operator), Tiway Petrol Uretim A.Ş., Tiway Turkey Ltd. and Foinavon Partnership, natural gas production continues in Akçakoca, Ayazlı, and Akkaya Fields in 2016.

In 2016, perforation operations realized in order to increase the production in Akçakoca-3 and Akkaya-5 wells. The average daily production is 138,000 sm^3 in Western Black Sea Fields through the year.

Production Enhancement Projects

203,000 barrels of crude oil produced from 25 exploration and appraisal wells in the context of production enhancement projects in 2016. 67,600 barrels of crude oil were produced from 13 re-completed wells, 1 of which in Raman, 1 in Garzan, 1 in Adıyaman, 1 in G.Karakuş, 1 in İkizce, 2 in K.Karakuş, 1 in Lilan and 2 in Magrip fields.

In 2016, 190 million barrels of produced water was injected into safe zones in different fields by 126 waste water injection wells.

At the end of the studies for Development Projects of Gas Fields in 2016, totally 4 new gas wells were put into production in Thrace Region such as in Dere1, in B.Değirmenköy1, in Büyükkılıçlı 1 and in Karaçalı 1.

With in scope of B.Raman Field Oil Production Enhancement Project, totally 2.7 million barrels of oil was produced during the year.

Water injection studies are being continued for enhancing the efficiency of CO_2 and in particular periods, 10,000 barrels of water injection was realised in 2 wells in B.Raman on a rotation basis.

Batman District Management

In Batman District Management exploration, drilling and production activities of crude oil and natural gas, which are vital inputs of national economy, have been carried out continuously since 1954.

The first oil discovery in Turkey was realized in Raman Field, in 1945 by MTA and the first production in economical means was realized in Raman-8 well in 1948.

After the foundation of TP in 1954, Batman District Management played a leading role in the exploration, drilling, production and refinery activities of the country. A total amount of 9.2 million sm^3 natural gas and 9.8 million barrels of crude oil were produced in 2016.

Thrace District Management

TP initiated its exploration and drilling activities in Thrace Basin with Uluman-1 well, in 1960. As a result of the operations performed in Thrace District, the first economical natural gas discovery was made in 1970 in Hamitabat and Kumrular fields, and the first oil discovery was realized in K. Osmancık and Deveçatak wells which were drilled between 1973-1974.

A total amount of 238 million sm^3 natural gas, 8.2 thousand barrels of condensate and 124 thousand barrels of crude oil were produced in 2016.

Adıyaman District Management

In 1954, after the adoption of the Petroleum Law No. 6326 foreign companies came to Turkey for oil exploration and in 1958, the first petroleum exploration of Adıyaman Region was made by California Asiatic Oil and Texaco Overseas Petroleum at Kahta-1 well in Adıyaman District.

A total amount of 485,000 sm^3 natural gas and 2.9 million barrels of crude oil were produced in 2016.

INTERNATIONAL PROJECTS

We are reaching everywhere in the world with our experiences and move our destination one step further on every way we go.

As Turkish Petroleum, we not only focus on domestic fields, but also on hydrocarbon rich countries like Azerbaijan, Iraq, Russia and Afghanistan, in order to meet the energy demand of our country. Our business development activities continue in Caspian Region, Russian Federation, Middle East, Africa and South America. We believe that our activities attach a great importance to secure Turkey's energy supply.

To achieve its strategic targets, it is necessary for our Corporation to add new reserves and turn them into production immediately. For this reason, international activities have become gradually more important. Being aware of the strategic importance of energy, for ensuring Turkey's security of supply, we have set up the roadmaps and action plans for achieving its objectives in the years ahead.

We have become an important actor in the region with the international exploration, production and development projects since 1990s. Within the context of these activities, most of our international production is generated from AzeriChirag-Guneshli Project in Azerbaijan.

BTC Main Export Crude Oil Pipeline was put into service in 2006. Through this pipeline, the oil produced in Azerbaijan is sold to the world markets by TP. Following the completion of SCP Gas Pipeline in 2006 and the proceeding operations, our first international natural gas production, as a shareholder of Shah Deniz Project, started in March 2007 and continues.

Azerbaijan

It is estimated that, Caspian Region holds 4 % of the world oil reserves and 6 % of the gas reserves. Because of the cultural and historical ties, Caspian Region has a special importance and value for Turkey.

Turkey, as a potential market, has a significant role in transportation of energy resources to western markets and emerging as an energy hub. Turkey's strategic and geopolitical power in the area will increase accordingly.

TP is a partner company of three exploration, development and production projects which are Azeri-Chirag-Guneshli (6.75 %), Shah Deniz (19 %) and Alov (10 %) Projects in Azerbaijan.

We have 6.53 % share in the BTC Co. which is carrying out all activities of Baku-Tbilisi-Ceyhan Main Export Crude Oil Pipeline Project. TP has 19 % share in South Caucasus Natural Gas Pipeline Project which transports Shah Deniz gas to Turkish-Georgian border.

Azeri-Chirag-Guneshli (ACG) Project

"The Joint Development and Production Sharing Agreement" for ACG Project was signed in Baku among the State Oil Company of the Azerbaijan Republic (SOCAR) and the consortium constituted by the foreign companies in 1994.

Azeri-Chirag-Guneshli structure is located in the south of Caspian Sea and about 120 km east of Baku. The license area of AzeriChirag-Guneshli is almost 432 km² with water depth varying between 120 and 175 m.

ACG Project development stages are listed below:

- November 1997 : Chirag Early Oil Project (EOP)
- November 1997 : Sangachal Terminal
- February 2005 : Central Azeri – Phase 1
- January 2006 : West Azeri – Phase 2
- October 2006 : East Azeri – Phase 2
- April 2008 : Deep Water Gunashli – Phase 3
- Jan 2014 : West Chirag – Chirag Oil Project (COP)

The oil reserve of the project is estimated to be 4.66 billion barrels by the end of 2024 and around 3.08 billion barrels of crude oil has been produced from the area by the end of 2016. 2016 production of the project is 230.5 million barrels. Our share from the area is 6.45 million barrels in 2016 while cumulative production of TP is 114.13 million barrels.

Alov Project

Turkish Petroleum Overseas Company (TPOC), a wholly owned subsidiary of TP, joined the Project after signing EDPSA, by an "Agreement on Participating Interest to be Vested" on 29 July 1998. As of 21 December 2011 TPOC was assigned as the operator of the Alov Exploration Project.

Alov Exploration Project covers three different prospective structures named Araz-Alov-Sharg in the Middle of the Southern Caspian Sea. In this Project which has three-year exploration period, 1,400 km² 3D seismic surveys completed. The first exploration well drilling depends on the legal status determination of Caspian Sea.

Shah Deniz Project

The project was signed in 1997 and after the completion of the Minimum Obligatory Work Program of the Exploration and the Extended Exploration Periods in 2001, commerciality of natural gas and condensate was declared.

TP's share was increased to 19 % after the agreement realized on 26 May 2014 related with purchasing TOTAL's 10 % of share in Shah Deniz and SCP Projects.

The Shah Deniz Structure is located in the offshore South Caspian Sea, 70 km southeast of Baku and 70 km southwest of the Azeri-Chirag-Guneshli Field. The concession has area coverage of approximately 860 km² with water depth varying between 150 and 600 m. Within the scope of the project having 450 billion m³ natural gas and 640 million barrel condensate reserves, the produced gas has been exported through Azerbaijan, Georgia and Turkey.

By the end of 2016, the cumulative produced natural gas amounted to 78.35 billion m³ (TP share is 8.03 billion m³) and produced condensate to 156.5 million barrels (TP share is 15.75 million barrels). For 2016, the amount of them was 10.7 billion m³ (TP share is 1.7 billion m³) and 20.14 million barrels (TP share is 3.2 million barrels), respectively.

The expected annual plateau production in Phase-1 is specified as 8.6 billion m³ and 6.6 billion m³ of this amount is segregated to Turkey for 15-years period. For Phase-2, it is estimated that construction decision will be taken in 2013 and first gas delivery will be realized in the late 2018.

Pipeline Projects of TP Contributing to the Energy Corridor

Turkey resides at the intersection of Middle East and Caspian Regions having the major portion of the world oil reserves. The basis of the energy corridor to carry the energy resources to the world market was initiated by the constructions of BTC and SCP Pipeline Projects. Following the determination of the Black Sea hydrocarbon potential, it will be transported from our country to the markets in safe way on time. In this regard, our Corporation is taking its own part in meeting the natural gas and oil demand of our country and we also continue our activities of increasing our efficiency and control through the east-west energy corridor.

BEYOND THE BORDERS

We are carrying out projects to bring energy resources to world markets.

Baku-Tbilisi-Ceyhan Main Export Crude Oil Pipeline (BTC) Project

By the end of 2016, 2.6 billion barrels of crude oil were carried by 3,425 vessels. Currently, transportation of a large portion of ACG oil, all of Shah Deniz condensate and some Hazar region oil is proceeding and 254 million barrels of oil were loaded to 313 tankers from Haydar Aliyev Terminal in 2016.

South Caucasus Natural Gas Pipeline (SCP) Project

The pipeline has a transportation capacity of 9 billion m³ of natural gas to Turkish border with one compressor station in Sangachal Terminal. However, it is possible to expand this capacity up to 24 billion m³ annually by adding new compressor stations and/or looping.

In 2016, totally 10.55 billion m³ natural gas was transported and 6.24 billion m³ of this amount was sold to BOTAŞ. The main target of the project is to transport the gas produced from Caspian Region to Europe via Turkey in the future.

Siba Project

Siba Project is a gas production and development service contract (GDPSC). The agreement became effective on 5 June 2011, with 20 years duration and a 5-year extension option. Plato production target is 100 MMscf / day and plateau duration is 9 years. It is expected that plateau production target will be achieved in the second half of 2018. The Kuwait Energy (KEC) is the operator company. Following the 20 % share transfer, the project partner's shares are as follows: KEC 40 %, TP 40 % ve EGPC 20 % .

The discovery was made in one of the three wells, drilled before the effective date of the agreement. After the agreement, 3 wells were drilled, however one of them was technically abandoned, therefore 3 wells were ready to be produced.

The construction of the surface facilities has been delayed. It is projected that the production activities will be started by mid-2018. With the start of production, cash flow will commence. As end of 2016, TP's share invested in this project was 190.5 million dollars.

The money invested in the project will be subject to cost recovery. When the recovery is completed, the R-Factor will be 1.0 and will gradually decrease.

Mansuria Project

The Mansuria project has the unique feature of being the only project that we are the Operator in Iraq. Within the framework of the Mansuria Field Gas Development Production Service Agreement, which entered into force on July 18, 2011, operations are underway with the consortium of TP (50 %), KEC (30 %) and KOGAS (20 %).

In line with the project objectives, we have to reach the plateau production amount of 320 mm SCF daily dry gas amount and we must keep this production amount for 13 years. In order to achieve this goal, 3 old wells located in the area are being watched as the main work items for the regeneration, the excavation of new wells and the establishment of the gas processing plant and the construction of the pipelines.

Since the date of entry into force; required reservoir studies, 3D seismic-process interpretation for the 169 km² area, preliminary and basic engineering studies for the gas processing plant, and acquisition of material and well equipment for existing wells and new excavation wells are being completed. In addition, the operation started with the construction of the underground operation and security camp and well roads.

As of June 2014, due to the ISIS events in Iraq and the security risks that have arisen, the activities on the field have been suspended and no activity has taken place in the field.

Missan Project

The Missan Project is based on a production development agreement, which is a technical service contract (TSC). The agreement entered into force on 20 December 2010 with the duration of the 20 years and 5 years extension option. According to the technical service agreement, production at Missan, a field producing 88,000 barrels / day of oil, will be increased. The investment recovery will be processed and the way of generating income from the project will be through progress payments. The operator is CNOOCI (85 %), Chinese origin company, and the other the project partner is TP (15 %).

In the Missan field, 300,000 barrel/day petroleum processing facilities were installed and pipelines were constructed. Subsurface and surface activities are ongoing to catch 300,000 barrels / day (450,000 barrels / day at the beginning of the agreement), which is the revised plateau target of production by opening the wells and completion activities. By the end of 2016, the production from the field is 160,000 barrel/day.

By the end of 2016, TP invested $ 490 million for this project and $ 340 million has been recovered as a revenue. The money invested in the project will be subject to cost recovery and the way to earn income will be through the entitlements. When the recovery is completed, the R-Factor will be 1.0 and will gradually decrease.

Badra Project

Badra has a production and development service contract (DPSC). The date of entry into force of this agreement is on February 18, 2010 and the duration of the agreement is 20 years and there is a 5-year extension option. Plateau production target is 170,.000 barrels / day and plateau duration is 7 years. Operator company is Russian Gazprom (40 %), and the other share ratios are as follows: KOGAS 30 %, Petronas 20 % and TP 10 % .

In Badra, 170,000 barrel/day petroleum processing facilities were installed and pipelines were constructed. Subsurface and surface activities are ongoing to catch and maintain 80,000 barrels/ day (170,000 barrels/ day at the beginning of the agreement), which is the target of revision plateau production by opening the wells and completion activities. By the end of 2016 it was revised to 60,000 barrel/ day.

By the end of 2016, $ 348.3 million was invested.

Afghanistan

Turkish Petroleum Corporation applied for "2012 Afghan-Tajik Phase I Hydrocarbon Bidding Round" as a member of the TP, Dragon Oil, Kuwait Energy and Ghazanfar Investment Ltd. (GIL) consortium. Turkish Petroleum Corporation established TP Afghanistan Limited on May 30th, 2013 for hydrocarbon exploration, production and related commercial activities in Islamic Republic of Afghanistan. After bidding round completion, Consortium won the Mazar-e Sharif and Sanduqli blocks. EPSCs of these blocks were signed on October 8th, 2013 by TPAL (40 % share; and Mazar-e Sharif Block Operator), DOSL (40 % share; and Sanduqli Block Operator), GIL (20 %).

Due to unexpected sharp fall in oil price during the second half of 2014 and increasing security problems in the country beginning of 2015, the consortium proposed a revised work program and budget to reduce the winners' program commitments to the Ministry of Mines and Petroleum (MoMP) in August, 2015. Several teleconferences and face to face meetings were held with the MoMP and Afghanistan Petroleum Authority (APA) during 2016. Meanwhile, TP expat staffs were withdrew and the number of the local employees was reduced for budget saving and to force the MoMP to accelerate negotiations. During the last quarter of 2016, the negotiations had been accelerated and parties had several teleconferences and a productive meeting in Kabul with a team represented by the advisors of the President, Deputy Ministers and APA to discuss Consortium's proposal.

Libya

TP Libya Ltd., founded on 30 May 2013, was liquidated on November 7, 2016. TPOC declared Force Majeure on August 28th, 2014 due to internal turmoil in Libya. Force Majeure situation in Libya still continues. TPOC Libya Branch Office was closed as of April 30, 2017. License relinquishment process of TPOC still continues.

Russia

In the context of the Baytugan Project in Russia, 49% share of the MK Oil and Gas (MKOG) B.V. company, which is one of the sub-companies of MOL, was purchased. MKOG has the whole share of Baitex LLC company. With the share transfer completed on 31 March 2014, TP Europe Ltd. became a partner to MKOG BV and indirectly a partner to BaiTex LLC legally. Oil production, transportation and salesrelated works continue. Project total production of 2016 is 4.14 million barrels, whereas TP share is 2.03 million barrels.

Drilling of 65 wells completed in 2016 and they were taken into production.

istanbul 22nd WORLD PETROLEUM CONGRESS 2017

WPC 2017 ISTANBUL

World Petroleum Congress, first of which was held in 1933, is the most prestigious organization of the oil and natural gas industry and it is held in every three years. Nowadays, 70 countries including Turkey are the members of the World Petroleum Council, the most comprehensive organization in the sector.

Istanbul carried out promotional activities with the motto of “this time İSTANBUL”, and awarded as the host city for the 22nd WPC in this huge organization which is known as the “Olympics” of the oil and natural gas industry, by eliminating Copenhagen, Astana and Houston in the contentious voting held in Calgary, Canada, on 23 October 2013.

The handover ceremony took place at the Closing Ceremony of the 21st WPC, that was held on 15-20 June 2014 in Moscow, with the participation of the Minister of Energy of Russian Federation and the Minister of Energy and Natural Resources of Republic of Turkey.

Approximately 12,000 people from 102 countries participated in the 22nd WPC, which was held in Istanbul between 9-13 July 2017, under the auspices of the President of the Republic of Turkey, with full support of the Ministry of Energy and Natural Resources. Host Country Sponsor of the Congress was Turkish Petroleum.The Congress also had 38 media partners and 10 event partners besides 18 international sponsors .

The Event started with the opening speeches of the President of the Republic of Turkey, HE. Recep Tayyip Erdoğan, where there was about 60 Ministerial level participation, besides the participation of HE İlham Aliyev, the President of Azerbaijan, HE Aleksandar Vučić, the President of Serbia, HE Frederic Willem De Klerk, the former President of South Africa, the Prime Ministers of Albania, Bulgaria and Turkey.

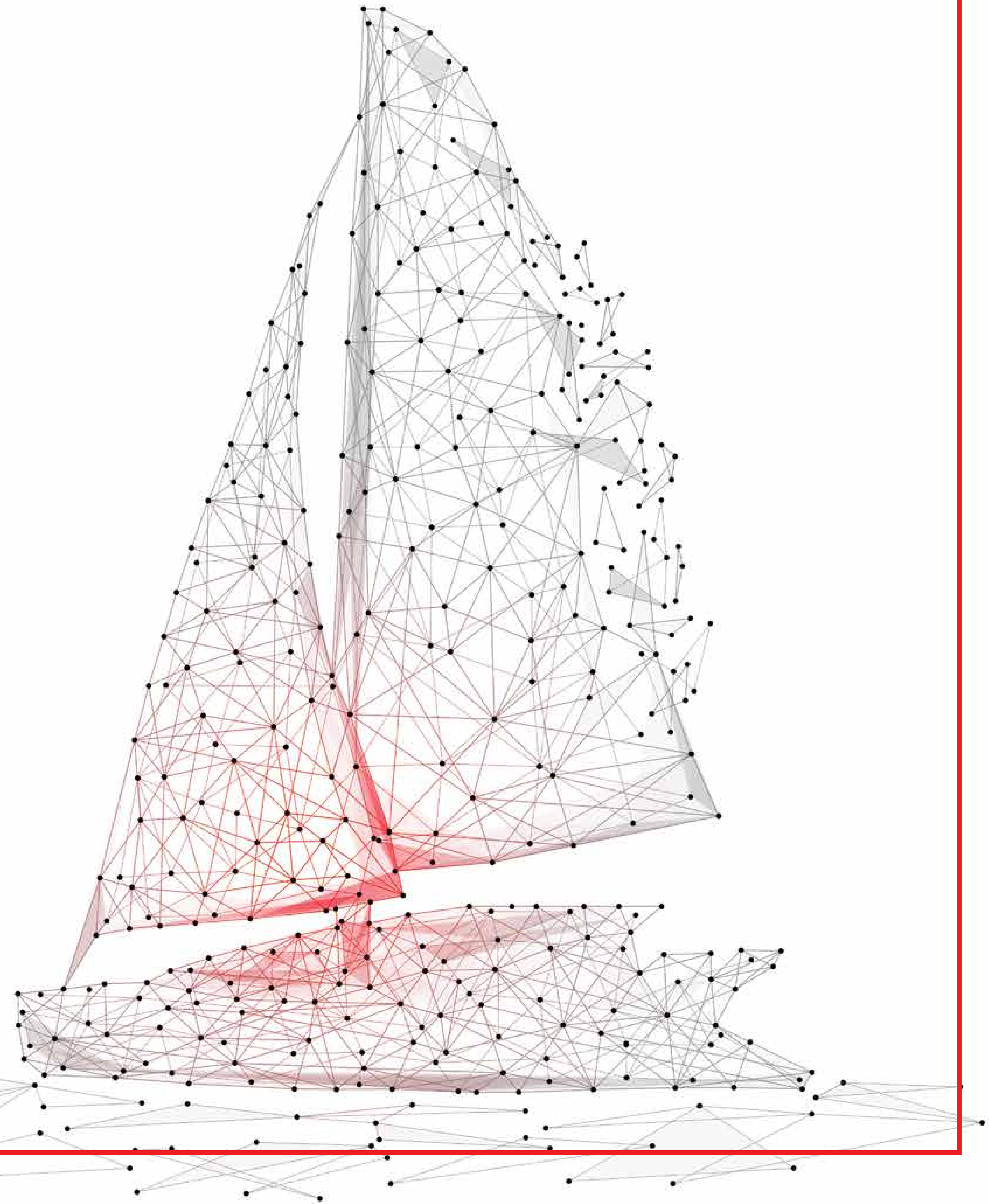
More than 4,000 delegates participated in the Congress from 51 countires; including 620 speakers at 124 sessions, more than 500 CEO’S / Presidents, more than 500 media representatives and 105 exhibitors from 37 countries.

At the Congress, state representatives, industry experts, presidents of decision making bodies such as, OPEC, IEA, OFID, representatives of companies, academicians and representatives of relevant organizations gathered and shared their experiences in the new business environment, business models, strategies, foresight and possible partnership opportunities in the oil and gas industry in a global and regional scale. In addition to technical sessions, there were also a variety of special sessions such as, Ministerial Sessions, CEO Panels and Expert workshops, as well as activities and sessions related with Young Professionals and Social Responsibility. The congress ended up with the handover ceremony to the 23rd WPC, which will take place in Houston, USA, in 2020.

As Mr. Berat Albayrak, Minister of Energy and Natural Resources, also stated in the Turkish Grand National Assembly (TBMM) 2018 Budget Presentations, the 22nd WPC was one of the important indicators of Turkey’s position as a “Key Country” in the energy arena.

R&D

We examine each area we work in detail and we are developing projects that will bring our country to the future.



Research Center combined the knowledge gained through R&D studies and new technology and reflected them to laboratory supported projects in the exploration and production activities. R&D Projects were not only carried out in TP but also in other institutions and organizations. In this context; projects of evaluation of bituminous shale sources, revealing the gas hydrate potential of Western Black Sea, production of heavy oil through microwave techniques were carried out with TKİ, TÜBİTAK and universities.

R&D Center participates in various research projects with the other departments of TP, universities, state institutions and organizations.

These projects are aimed to solve problems faced/will be faced during the exploration, drilling and production activities or to increase the quality and efficiency of the business process.

Research Center provides projects related to Research and Development studies, consultancy services and is an efficient Research Center with its expertise experiences. In this context, a total of 36 projects were performed which are in collaboration with exploration, production, occupational safety and environmental protection departments. Quality control tests were performed in the Geology and Engineering Laboratories within the scope of these projects. 41,112 analyses and quality control tests were conducted. 50 technical reports were prepared related to these activities. Throughout the year, totally 803 man/day of field/well activities were carried out in domestic and international operations.

On the other hand, in R & D studies conducted to play a leading role in TP's Exploration & Production activities, such as; projects to cope with the flow and the production loss problems caused by paraffin deposition, chemical methods for increasing oil saving, drilling fluid for solving the problems of well stability and formation pollution, and projects in cement and nanotechnology. Some of the technologies used in this context are; Isotope Geochemistry,

- Isotope geochemisty
- Determination of Oil and Gas Composition
- Determination of Oil Molecular Parameters
- Determination of physical properties of petroleum Determination of Surface Prospection
- Soil Gas Analyses
- Determination of Source Rock Parameters
- Scanning Electron Microscope
- X-Ray Microanalysis Spectrometer
- Determination of Solid Phase Behavior under Reservoir Conditions
- Interfacial Tension and Contact Angle Measurements
- Carbon Offset Test System in Laboratory Conditions
- Computer Aided Mud-Cement Test Systems,
- Rheology Measurements and Fluid Characterization in HPHT Condition
- Hydraulic Press with Three Axis Measures of Rock Mechanical Properties and Deformations
- ICP-MS and ICP-OES analysis systems
- FTIR, XRF analysis systems
- Corrosion testing systems
- GC gas analysis systems

Research Center Laboratory Services

In 2016; training, consulting and engineering services were performed on the basis of requests.

On behalf of the private domestic and foreign oil companies, sedimentological, mineralogical, petrographical, biostratigraphical and geochemical analyses were carried out.

In this context;
- Stratigraphy,
- Sedimentology and Reservoir Geology,
- Drilling Technology,
- Reservoir Technology,
- Production TechnologyOrganic Geochemistry, laboratory services were provided.

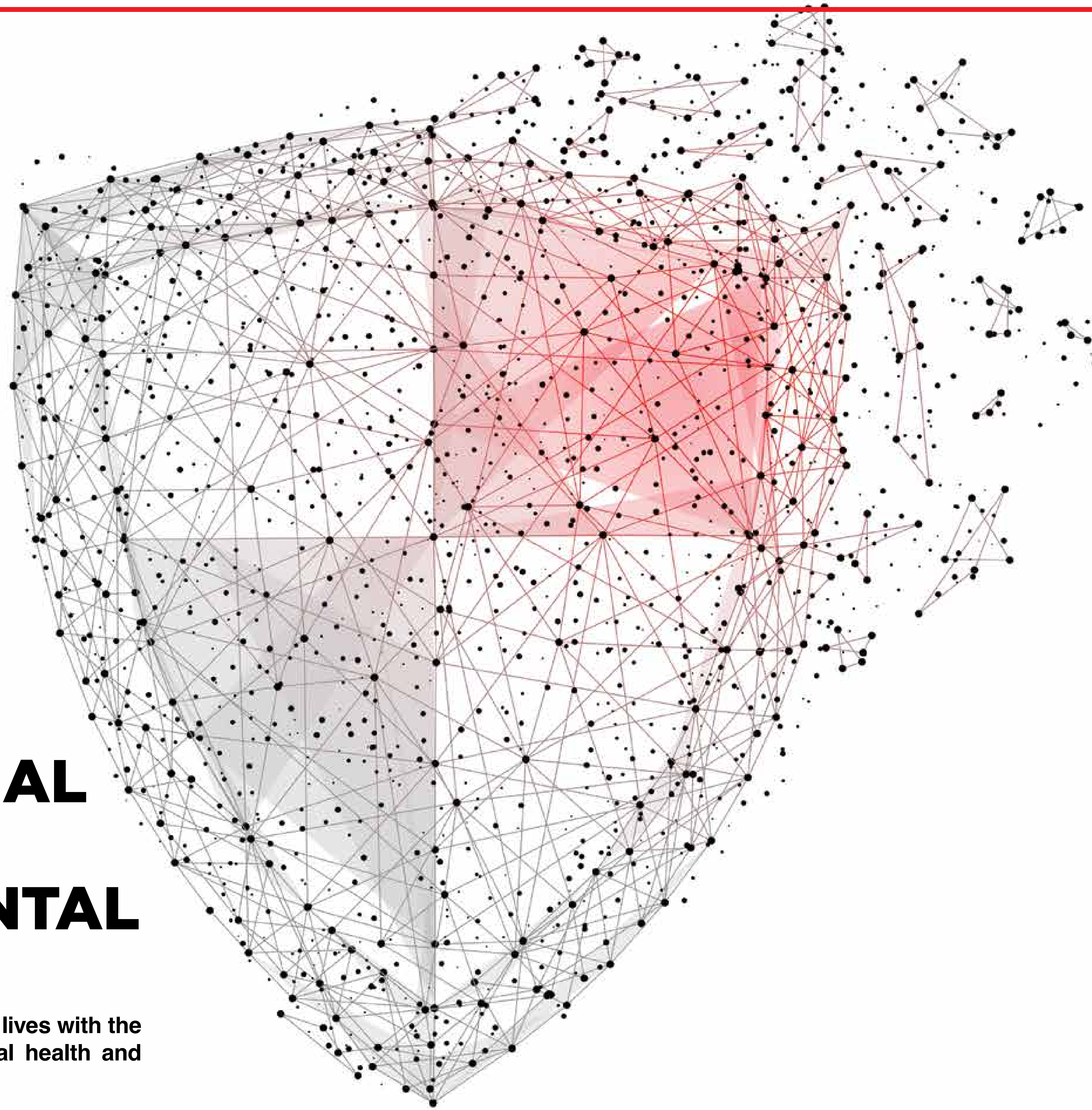
In Drilling Reservoir and Production Technologies laboratories, studies and tests related to drilling fluid and cement program, additives quality control, rock mechanics, well bore stability simulation, simulation of hydraulic and acid fracturing, basic and special core analyses, reservoir fluids (PVT) analysis and EOR subjects, corrosion and scale control, injection water quality, fuel oil analyses, are conducted. In order to register Research Center Laboratories as contemporary, dependable and umpire laboratories at international level, studies were carried out in accordance with TS EN ISO/IEC 17025:2005 "General Requirements for the Competence of Calibration and Testing Laboratories" standards. In 2016, participation in the competency tests organized by IIS, Labkar and Tubitak UME in the crude oil, natural gas, motor and water matrices was carried out with a total of 53 analysis results in 7 cycles and successful results were obtained in all. Excellence Certificate has been obtained in different international qualification cycles.

Research Center Training Activities

Applied Well Control Courses given in TP Well Control Training Center are accredited by the International Well Control Forum (IWCF) as "Rotary Drilling Well Control Assessment Center" and "Rotary Drilling Well Control Assessment Center" from October 2014 to October 2018 .

Thus, a total of 322 persons, 126 IWCF Well Control Certificates and 196 TP Well Control Certificates were issued during 39 training weeks in 2016. In addition to these courses, 26 courses were organized in the following 12 different subjects and a total of 569 vocational technical training courses were given.

- Applied Well Control,
- Basic Principles of Biostratigraphy,
- Applied Lithostratigraphy II of Southeast Anatolia Autochthonous Formations
- Clay Mineralogy and Microanalysis Techniques and Their Usage in Exploration,
- Carbonate Rocks Sedimentology and Reservoir Features
- Diesel Engines,
- Applied Drilling Fluids Technology,
- Well Cementing Slurry Design,
- Matrix Acidizing,
- Core Analyses,
- PVT Analyses,
- Oilfield Water Treatment & Injection Quality Determination,
- Corrosion Control in Oil & Natural Gas Production,
- Oil and Gas Geochemistry, Hydraulics and Pneumatics Course,
- Pumps and Compressors Course.



OCCUPATIONAL SAFETY AND ENVIRONMENTAL PROTECTION

We reach new successes with healthy lives with the priority of our employees occupational health and safety.

As one of the leading public institutions in our country, with the responsibility we feel, we prioritize our employees and environment to be a pioneer in occupational safety and environmental issues. In this regard, since 2013, we conduct our activities within the framework of OHSAS 18001 – ISO 14001 Occupational Health, Safety and Environment Integrated Management System.

Environment Management Unit, founded with the purpose of obtaining the Temporary Operating Certificate/ Environmental Permits for our facilities that have impact on environment, has carried out its activities. These Temporary Operating Certificate/ Environmental Permits were obtained for TP's facilities.

In order to respond chemical and oil wastes spills, emergency response kits and absorbent pads were utilized in our headquarter and Gölbaşı campus, however, in the regional directorate fields, bioremediation products, barriers and peds have been utilized for rehabilitation and response to the oil pollution. Rehabilitation of mud pools have been used in drilling areas, within the scope of waste management studies; paper, batteries, packaging waste, scrap, waste, toner cartridges, finished tires and medical waste were collected and recycled.

In order to minimize or eliminate the negative environmental effects of wastes that resulting from drilling activities, meetings were held with companies about dewatering of drilling wastewater and dewatering experiments were carried out on the designed pilot system.
Emergency Response Plan Trainings and Exercises were carried out for employees working at coastal facilities, within the scope of Emergency Response Plan and Risk Assessment Reports prepared for the facility for the North Marmara Natural Gas Storage Facility and Çayağzı Natural Gas Production Facility.

The work of blending the waste oils, generated in our fields and workshops, with the crude oil we produce have been continued.

Regarding the control and management of waste water resulting from our production activities, and has been injected to underground so far, a project was realized called "Management of Waste Water Generated from Oil and Natural Gas Production". This project was carried out by TUBITAK within the framework of 1007 KAMAG (Program for Supporting Public Institutions Research and Development Projects) with the objective to test different disposal methods. Project approved by TÜBİTAK-KAMAG Project Group. Within the scope of this approval of the project final report and the implementation plan of the final report and project results; The Turkish Petroleum Company has obtained a patent for Sawage Disposal Process from the Turkish Patent Institute on behalf of the TP-İTÜ. The foreign patent registration process related to this process is in progress.

EXPERT ON OCCUPATIONAL SAFETY AND ENVIRONMENTAL PROTECTION

Our employees' occupational health and safety is our priority in every area we operate.

Within the context of the Regulations on Environmental Impact Assessment; Project Promotion Files were prepared by our Regional Directorates for our exploration activities and "EIA Not Required Document" was obtained from Provincial Directorates of Environment and Urbanization Ministry.

Prior to commencement of petroleum exploration and drilling activities within the scope of the Petroleum Law Implementation Regulation, the necessary preliminary information form for the "Evaluation of the Environmental Impacts of Petroleum Exploration and Production Activities Including Unconventional Methods, Activity Preliminary Information Form" was prepared for wells thus, the necessary permits were obtained.
All of our occupational health and Safety activities have been carried out under the OHSAS 18001 Occupational Health and Safety Management System. As a part of TP's occupational health and safety policy, which based on participation of all staffs, each of them participated in this process. Dangers and risks that may occur in work environment were evaluated by risk evaluation teams created in this context, and protective and preventive cautions were taken.

Under the preparatory work for emergency

cases, emergency squads were organized, staff's awareness raised by training and drills together with current situation assessments. Improvement activities were carried out for determined matters following the evaluation.

Maintenance and control of firefighting and emergency devices and equipment have been provided to ensure continuous operation.

In field examinations, our occupational safety specialists supervised both our personnel and subcontracted workers continuously. By using observation card / near-miss applications for ensuring employee participation, the issues were determined by the employees related to occupational health and safety were evaluated and therefore control measures to reduce the risks in the working environment were provided by starting the corrective-preventive activities (CAPA).

In order to protect the health of the employees, the employees at risk were analysed, examined and evaluated for the occupational diseases, the policlinic services, vaccination studies, water and food analyses, hygiene inspections and protection of employees' health services were provided.

In order to protect our employees from possible harmful effects of hazards and risks that cannot be completely extinguish in our workplaces, personal protective equipment, compliant with appropriate protection standards and risk levels, procured and distributed to staff by ensuring utilization of the products.

Activities related to ISO 14001 Environmental Management System and OHSAS 18001 Occupational Health and Safety Management System, certified in 2014 by TSE, continued by developments in 2016. Necessary internal examinations were carried out to control the operability of the system; detected defects were eliminated by amendatory and preventive cautions. Moreover, performance report was evaluated in Management Revision Meeting, new targets were determined to improve the system and required actions were planned in line with the targets.

In order to improve the efficiency of IMS (Integrated Management System) works, to ease process monitoring and to achieve the ability of taking rapid action, system was monitored through software. Within this scope, the CAPA Module was designed to pursue occupational health, safety and environmental protection activities. With the DFF Module, actions that we take against all non-conformance can be tracked from a single centre, as well as reporting instantly.

Following the DFF module, the Works to create the Observation Module, the Near-miss Module, the Inspection Module, the Event Module, the Risk Assessment Module and the Exercises Module, which will be connected to this module in the IMS Tracking Software, have been initiated and are being carried out rapidly.

In order to promote and improve culture of TP's Occupational Health, Safety and Environment and consciousness further, training activities continued intensively in 2016. In General Directorate and Regional Directorates 30 different Occupational Health, Safety and Environment trainings were provided such as Emergency Situations, Waste Management, First Aid, Firefighting and Work Safety at height, which equals to 79,863 man-hour.

HUMAN RESOURCES

TPAO is a milestone of every staff with the steps for the future and care about human in every business realized.

We have been conducting our activities for 62 years with our worldwide technological infrastructure and qualified manpower representing our Corporation successfully in international projects.

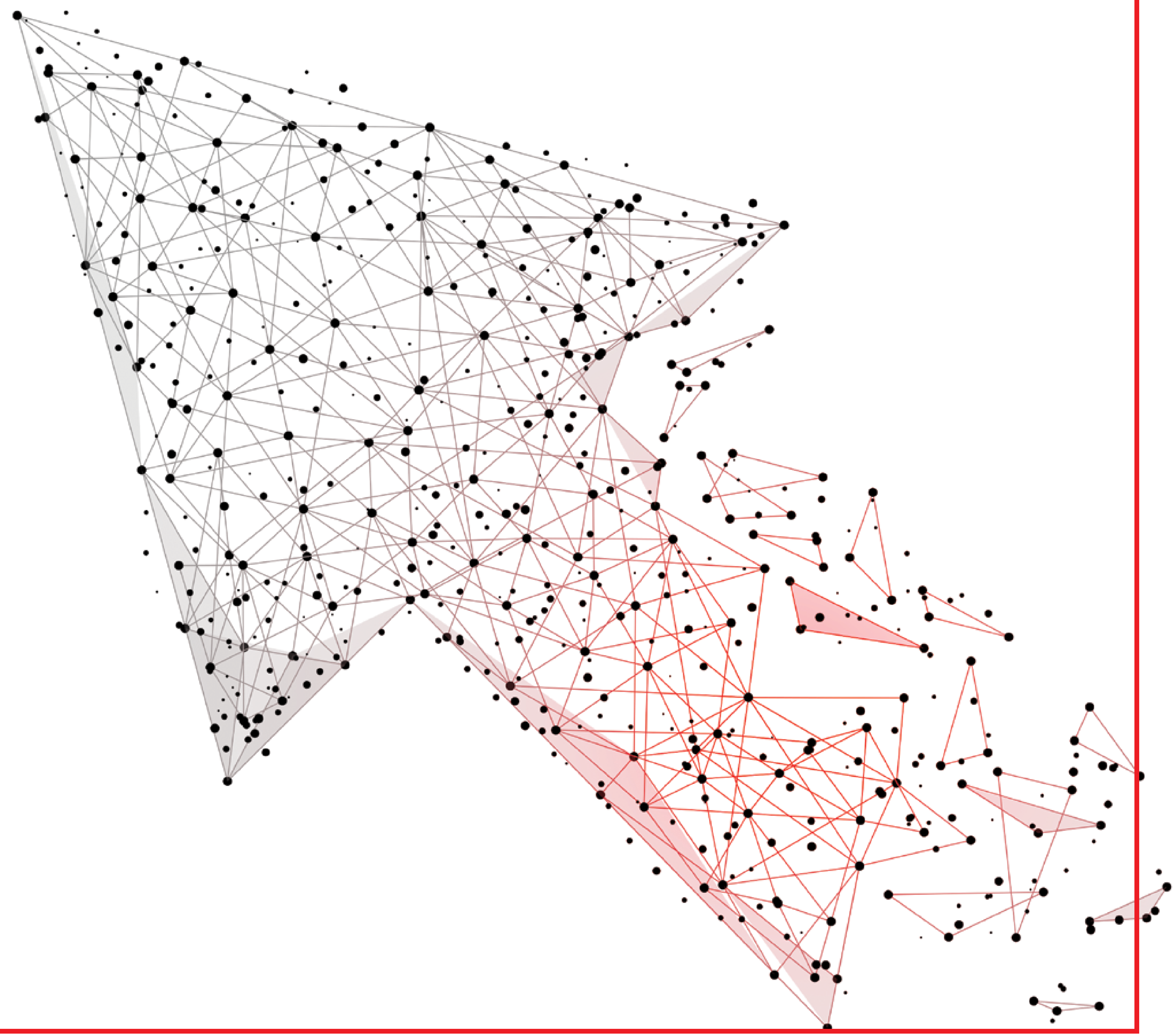
In this context, TPAO continuously invests in human resources development in line with its vision to become regionally effective “World-class Energy Company”.

In TPAO, having a rooted company culture with its staff’s great endeavor and dedication, total number of employees is 4,484; 1,593 in General Directorate, 1,546 in Batman, 916 in Adıyaman and 429 in Thrace District Management at the end of 2016.

TPAO’s qualified and experienced staff (1,521 white-collar and 2,963 blue-collar), having the values of team work, communication, innovativeness and sense of responsibility, will carry our Corporation to great success in the future.

In 2016, training and development programs continue for the staff to follow up-to-date information and developing technology. In this context, our staff participated in 5,319 in Turkey and 6 abroad, a total of 5,325 training programs.

By the end of 2016, 27 students in the UK, 119 in the USA and 1 in Canada in total 147 students study for master’s degree on behalf of our Corporation.



FINANCE

We build the future with our investments and we are proudly signing the end of every work we complete.

TP and its Subsidiaries Consolidated Balance Sheets as of 31 December 2016 and 31 December 2015 (thousands dollars)

ASSETS	31 December 2016	31 December 2015
CURRENT ASSETS		
Cash and cash equivalents	141,474	67,159
Trade receivables	248,489	213,695
Inventories	419,424	422,233
Other receivables and current assets	553,057	132,756
Derivative financial instruments	-	-
Total Current Assets	**1,362,444**	**835,843**
NON-CURRENT ASSETS		
Cushion gas and linefill	40,606	740,331
Trade receivables	101,152	143,729
Investment property	167,131	167,156
Property, plant and equipment	7,098,301	5,852,266
Intangible fixed assets	7,193	243,108
Goodwill	19,676	19,676
Other non-current assets	496,417	62,012
Total Non-Current Assets	**7,930,476**	**7,228,278**
TOTAL ASSETS	**9,292,920**	**8,064,121**

TP and its Subsidiaries Consolidated Balance Sheets as of 31 December 2016 and 31 December 2015 (thousands dollars)

LIABILITIES AND EQUITY	31 December 2016	31 December 2015
CURRENT LIABILITIES		
Trade payables	310,712	412,570
Bank loans	167,245	48,078
Current tax liabilities	100,909	12,716
Provisions	31,494	31,117
Other payables and expense accruals	185,730	121,491
Total Current Liabilities	**796,090**	**625,972**
NON-CURRENT LIABILITIES		
Bank loans	2,261,604	1,797,650
Asset retirement obligation	460,008	403,335
Provision for employment termination benefits	90,915	107,547
Deferred tax liabilities	289,048	354,861
Other non-current liabilities	82,519	103,736
Total Non-Current Liabilities	**3,184,094**	**2,767,129**
EQUITY		
Capital	1,706,898	1,664,158
Legal reserves	2,773,925	2,684,310
Accumulated gain/loss on remeasurement of defined benefit plans	-	-
Currency translation reserves	792	(7,648)
Retained earnings	831,121	330,200
Total Equity	**5,312,736**	**4,671,020**
TOTAL LIABILITIES AND EQUITY	**9,292,920**	**8,064,121**

TP and its Subsidiaries Consolidated Balance Sheets as of 31 December 2016 and 31 December 2015 (thousands dollars)

	1 January - 31 December 2016	1 January - 31 December 2016
Revenue	1,274,667	1,589,280
Cost of sales	(858,463)	(907,250)
Gross Profit	**416,204**	**682,030**
General administrative expenses	(132,582)	(130,215)
Exploration and evaluation expenses	(110,789)	(273,997)
Marketing and sales expenses	(26,919)	(28,846)
Reversal of impairment losses / Impairment charges – net	441,602	(1,081,229)
Finance income / (expenses) – net	(112,334)	(77,880)
Foreign currency gain / (losses)	(95,223)	(54,329)
Other gains / (losses)	301,357	(130,899)
Profit / (Loss) before taxation	**681,316**	**(1,095,365)**
Income tax	(90,780)	(77,643)
Profit / (Loss) for the year	590,536	(1,173,008)
Other comprehensive income /(loss)		
Change in currency translation reserves	**8,440**	**(8,765)**
Total comprehensive income / (loss)	**598,976**	**(1,181,773)**

Financial Ratios Derived from Consolidated Financial Statements of TP for 2016

Current Ratio (Working Capital Ratio)	2,96
Acid - Test Ratio	2,26
Financial Leverage	0,44
Equity / Total Assets	0,56
Equity / Liabilities	1,26
Gross Sales Revenue / Net Sales Revenue	0,51
Net Profit / Asset	0,14

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
TÜRKİYE PETROLLERİ ANONİM ORTAKLIĞI
A N K A R A

The Report of Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Türkiye Petrolleri Anonim Ortaklığı and its subsidiaries (together will be referred as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

As explained in detail in Note 34, the consolidated financial statements of the Group as at 31 December 2015 and 1 January 2015 have been restated.

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

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

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

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (cont'd)

• 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.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Ankara, 29 September 2017

ORGANIZATION AND OPERATIONS OF THE GROUP

Türkiye Petrolleri Anonim Ortaklığı (the "Company" or "TP") was established in 1954 upon the authorization granted by the Türkiye Petrolleri Law dated 7 March 1954 numbered 6327, by the Council of Ministers. The main activities of the Company are exploration and production of hydrocarbons, natural gas storage and participation to oil and natural gas pipeline projects in Turkey and abroad. Furthermore, the Company engages in petroleum and natural gas operations in Turkey and abroad as the national oil company of Turkey, petroleum and natural gas operations include all operations relating to exploration, appraisal, development, extraction, production, stabilization, treatment (including processing of natural gas), stimulation, injection, gathering, storage, handling, lifting, transportation, of petroleum to the delivery point and marketing of petroleum therefrom, and abandonment operations with respect to the contract area.

The Company's head office is located in Ankara and has three district managements in Batman, Thrace and Adıyaman. The Company manages its foreign operations and investments via subsidiaries and branch offices.

The Company has a branch office in Azerbaijan that both represents and manages the Company's 6.75% (2015: 6.75%) participating interest in the Agreement on the Joint Development and Production Sharing for the Azeri and Chirag Fields and the Deep Water Portion of the Gunashli Field in the Azerbaijan Sector of the Caspian Sea (the "ACG PSA") which became effective on 12 December 1994 with a 30 year validity. On 23 December 2016, new agreement was signed for prolongation of ACG PSA on future development of ACG field until the year 2050.

The shares of the Company are transferred from Prime Ministry Undersecretariat of Treasury to Türkiye Wealth Fund as of 21 January 2017 by decision of the Council of Ministers based on the Law No 6741 dated 19 August 2016.

Number of employees of the Company is 4,659 as at 31 December 2016 (31 December 2015: 4, 888).

The operations of the main consolidated entities are summarized below:

Turkish Petroleum Overseas Company

Turkish Petroleum Overseas Company ("TPOC") was established on 6 February 1996 on Channel Islands; Jersey. The objective of TPOC is to carry out oil exploration projects outside Turkey or take part in existing international exploration projects and related operational ventures on behalf of the Company. TPOC maintains its activities through Branches in Libya, Azerbaijan, Iraq and Cyprus.

In Azerbaijan, TPOC represents and manages 19% (2015: 19%) interest in the Agreement on the Exploration, Development and Product Sharing for the Shah Deniz Prospective Area in the Azerbaijan Sector of the Caspian Sea (the “SD PSA”), which was enacted by the legislature of the Republic of Azerbaijan giving it the full force of law in the Republic of Azerbaijan and which became effective on 4 June 1996. Construction activities are completed by the end of 2006 and first gas delivery to BOTAŞ was made in 2007. In 2014, expansion agreement is signed for Shah Deniz project (Shah Deniz Stege-2). First natural gas production of the Project is estimated as December 2018. TPOC is also the operator of Exploration, Development and Production Sharing for the Exploration Block including Araz, Alov and Sharg Prospective Structures in the Azerbaijan Sector of the Caspian Sea dated 20 July 1998 since 21 December 2011. The project is currently inactive.

In Cyprus, TPOC engaged in service activities for the Company’s exploration, drilling, production, distributing and marketing of hydrocarbon. According to agreement between TP and Ministry of Economics and Energy of Turkish Republic of Northern Cyprus, the exploration activities has been resulted unsuccessfully.

Major subsidiaries of TPOC is as follows:

Azerbaijan Gas Supply Company Limited

Azerbaijan Gas Supply Company Limited (“AGSC”) was incorporated in Cayman Islands as an exempted, limited liability company on 21 May 2002. In accordance with a deed of assignment dated 24 February 2003, the State Oil Company of the Azerbaijan Republic (“SOCAR”) assigned and transferred to the AGSC the rights and obligations of the Natural Gas Sales and Purchase Contract dated 12 March 2001, as amended by an agreement dated 31 October 2002, with BOTAŞ in accordance with the “Agreement between the Republic of Turkey and the Azerbaijan Republic Concerning the Delivery of Azerbaijan Natural Gas to the Republic of Turkey” signed on 12 March 2001. TPOC’s participation rate to AGSC equals to 15.2% (2015: 15.2%). On 15 November 2013 Transportation Confirmation (“TAP GTA”) was signed between Trans Adriatic Pipeline AG and the Company with the purpose of transporting of natural gas through the TAP Transportation System

TP Badra Limited

TP Badra Limited (“TP Badra”) was established in Jersey, Channel Islands on 10 August 2010 as a subsidiary of the TPOC to carry out all activities related with technical and commercial oil and gas trade. TP Badra Ltd. currently participates in Badra Project (10%) in Iraq in the Middle East. The Badra Project has started at the end of 2010, and the aim of the project is to increase the production capacity of the Badra field. The construction of the capacity increase has been completed and the oil field has started to produce on 2 June 2014. The participants of the project are Gazprom and the Company. Gazprom is the operator of the project. Production of oil from Badra field is commenced in the second quarter of 2014.TP Badra was registered in Jersey as an affiliate of TP on 1 March 2011. As at 24 December 2013, shares of TP Badra have been transferred by TP to TPOC.

TP Missan Limited

TP Missan Limited (“TP Missan”) was established in Jersey, Channel Islands on 10 August 2010 as subsidiary of TPOC to carry out all activities related with technical and commercial oil and gas trade. TP Missan Ltd. currently participates in Missan Project (15%) in Iraq region. The Missan Project has started at the end of 2010, and the aim of the project is to increase the production capacity of the Missan field. The participants of the project are Cnooc International Limited (“CNOOC”) and TP Missan. CNOOC is the operator of the project. Production of oil from Missan field is commenced in the first quarter of 2013.TP Missan is registered in Jersey as an affiliate of TP on 1 March 2011. As at 24 December 2013, shares of TP Missan have been transferred by TP to TPOC.

Türkiye Petrolleri Petrol Dağıtım A.Ş.

Turkish Petrolleri Petrol Dağıtım A.Ş. (“TPPD”) was incorporated in Turkey on 16 February 2006. The company’s main activity is the distribution and sales of all kinds of petroleum products, is to perform the installation of infrastructure based on these activities. Based on the Council of Minister decision dated 24 December 2012, following the transfer of shares of Turkish Petroleum International Company (“TPIC”) to BOTAŞ free of charge, TPPD shares were transferred to TPOC. TPPD was included into privatization program based on the Privatization High Council decision dated 15 June 2015. Based on this decision, Republic of Turkey Prime Ministry Privatization Administration organized a tender for the block sale of shares of TPPD and based on this tender shares are transferred as of 28 November 2016. The Company does neither have any cash inflow expectancies from the tender nor have any control over the process. Consequently, the Company lost its control power over TPPD and TPPD is not consolidated in the accompanying consolidated financial statements dated 31 December 2015.

TP Afghanistan Limited

TP Afghanistan Limited (“TP Afghanistan”) was established in Jersey, Channel Islands on 24 December 2013 as subsidiary of TPOC to carry out all activities related with rehabilitating petroleum wells in Afghanistan. TP Afghanistan Limited is resisted as a branch office of the

Company with the Afghanistan Investment Support Agency, under License No. I-57641 (the "Branch"). The Branch is a partner with 40% share as an Operator in Mazar-e-Sharif Block with Dragon Oil Mazare Limited (DOML) and Ghazanfar Investment Limited (GIL) under Exploration and Production Sharing Contract signed on 08 October 2013 with Ministry of Mines Afghanistan. The Branch is also partner with 40% share as a non-operator in Sanduqli Block under Exploration and Production Sharing Contract signed on 8 October 2013 with Ministry of Mines Afghanistan under the with Dragon Oil Sanduqli Limited (DOSL) and Ghazanfar Investment Limited (GIL). In 2016, Turkish personnel employed in TP Afghanistan are retuned to Turkey and working for the project from Turkey. Operations of Afghanistan Office are handled by local employees.

TP Africa Limited (former TP Kyrgyzstan Limited)

TP Africa Limited (former TP Kyrgyzstan Limited, "TP Africa") was established in Jersey, Channel Islands on 24 December 2013 as subsidiary of TPOC to carry out all activities related with technical and commercial oil and gas trade. The company has not started its operations as of 31 December 2016.

TP Mansuria Limited

TP Mansuria Limited ("TP Mansuria") was established in Jersey, Channel Islands on 24 December 2013 as subsidiary of TPOC to carry out all activities related with technical and commercial oil and gas trade in Mansuria filed, in Iraq. All project related costs are written off in the accompanying consolidated financial statements as there is a material uncertainty regarding continuance of the project due to security related incidences realized in the fields. Operator of the project is negotiating with the Iraq authorities for ameliorating the terms of the contract of the project.

TP Siba Limited

TP Siba Limited ("TP Siba") was established in Jersey, Channel Islands on 24 December 2013 as subsidiary of TPOC to carry out all activities related with technical and commercial oil and gas trade in Siba, Iraq. TP Siba has 30% interest in Siba project, The other participants of the project are Kuwait Energy Iraq Limited ("KEIL") with 45% share and Iraq Drilling Company with 25% share. Investments for the Project is still ongoing as of 31 December 2016.

Turkish Petroleum Oil Field Services Company Limited

Turkish Petroleum Oil Field Services Company Limited ("TPOFSCO") was established in Jersey, Channel Islands on 24 December 2013 as subsidiary of TPOC to carry out all activities related with providing service activities for technical and commercial oil and gas trade. The company's liquidation decision was taken in 2016 and a liquidation commission is established with the participation of TP staff. Liquidation process was ongoing as of the report date.

TP Europe Limited

TP Europe Limited ("TP Europe") was established in Jersey, Channel Islands as a subsidiary of TPOC to carry out all activities related with technical and commercial oil and gas trade in Europe. On 10 October 2013 TP Europe signed an agreement with MH Oil Gas B.V. for taking over 49% of MK Oil and Gas B.V. who wholly owns BaiTex LLC ("BaiTex"). BaiTex performs oil exploration and production activities on the Baitugan oil field in Volga-Ural regions in Russia. Transfer of the shares of MK Oil and Gas B.V. is realized on 31 March 2014.

Turkish Petroleum BTC Limited

Turkish Petroleum BTC Limited ("TP BTC") was established in 2002 in Cayman Islands. The main activity of the TP BTC is to participate in Baku-Tbilisi-Ceyhan Pipeline Company ("BTC Co.") that is engaged in development, financing, construction and operation of a dedicated crude oil pipeline system from Sangachal terminal near Baku in Azerbaijan, through Georgia, to an export terminal at Ceyhan on the Mediterranean cost of Turkey with a capacity of 1.2 million barrels per day ("BTC Project").

Turkish Petroleum SCP Limited

Turkish Petroleum SCP Limited ("TP SCP") was established in 2002 in Cayman Islands. TP SCP's main activity is to participate in the South Caucasus Pipeline Project. South Caucasus Pipeline Project is administered by South Caucasus Pipeline Company ("SCP Co.") and South Caucasus Pipeline Holding Company ("SCP Ho."). The SCP Co. engages in the construction, ownership, operation, expansion and abandonment of a pipeline to transport natural gas from the Sangachal terminal near Baku, Azerbaijan, crossing through Georgia and ending at the border of Georgia and Turkey, together with all processing and treatment facilities, compressor stations, meters, pumps and other equipment and facilities necessary for its installation and operation. The SCP pipeline system was constructed to primarily transport production from the Shah Deniz gas field. The pipeline commenced operations on 25 November 2006. Commercial delivery of natural gas to Georgia and Turkey border was started on 3 July 2007.

Azerbaijan International Operating Company

The Azerbaijan International Operating Company ("AIOC") was incorporated in Cayman Islands. The purpose of the AIOC is to undertake petroleum activities under the Agreement on the Joint Development and Production Sharing for the Azeri and Chirag Fields and the Deep Water Portion of the Gunashli Field in Azerbaijan Sector of the Caspian Sea dated 20 September 1994. The Company's participation rate to AIOC equals to 6.75 %, which is represented by the Company's branch office in Azerbaijan.

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

a) Amendments to IFRSs affecting amounts reported and/or disclosures in the consolidated financial statements

None.

b) New and revised IFRSs applied with no material effect on the consolidated financial statements

IFRS 14	Regulatory Deferral Accounts [1]
Amendments to IFRS 11	Accounting for Acquisition of Interests in Joint Operations [1]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation [1]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants [1]
Amendments to IAS 27	Equity Method in Separate Financial Statements [1]
Annual Improvements to 2012-2014 Cycle	IFRS 5, IFRS 7, IAS 19, IAS 34 [1]
Amendments to IAS 1	Disclosure Initiative [1]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception [1]

[1] Effective for annual periods beginning on or after 1 January 2016.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 Regulatory Deferral Accounts permits an entity, which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

IFRS 14 was issued by the IASB on 30 January 2014 and is applied to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016

Amendments to IFRS 11 Accounting for Acquisition of Interests in Joint Operations

This amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business to:

• apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11,
• disclose the information required by IFRS 3 and other IFRSs for business combinations.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

This amendment clarifies that that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment, and introduces a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendment also adds guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

This amendment include 'bearer plants' within the scope of IAS 16 rather than IAS 41, allowing such assets to be accounted for a property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with IAS 16. The amendment also introduces a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales, and clarifies that produce growing on bearer plants remains within the scope of IAS 41.

Amendments to IAS 27 Equity Method in Separate Financial Statements

This amendment permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

Annual Improvements 2012-2014 Cycle

IFRS 5: Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

IFRS 7: Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.

IAS 19: Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

IAS 34: Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference.

Amendments to IAS 1 Disclosure Initiative

This amendment addresses perceived impediments to preparers exercising their judgment in presenting their financial reports.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

This amendment addresses issues that have arisen in the context of applying the consolidation exception for investment entities by clarifying the following points:

• The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
• A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
• When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
• An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses [1]
Amendments to IAS 7	Disclosure Initiative [1]
IFRS 9	Financial Instruments [2]
IFRS 15	Revenue from Contracts with Customers [2]
Amendments to IFRS 15	Revenue from Contracts with Customers [2]
Amendments to IFRS 2	Classification and Measurement of Share-Based Payment Transactions [2]
IFRS 16	Leases [3]
Amendments to IFRS 4	Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'
IFRIC 22	Foreign Currency Transactions and Advance Consideration [2]
Amendments to IAS 40	Transfers of Investment Property [2]
Annual Improvements to IFRS Standards 2014–2016 Cycle	IFRS 1 [2], IFRS 12 [1], IAS 28 [2]

[1] Effective for annual periods beginning on or after 1 January 2017.
[2] Effective for annual periods beginning on or after 1 January 2018.
[3] Effective for annual periods beginning on or after 1 January 2019.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

This amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses

This amendment clarifies the following aspects:

• Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
• The carrying amount of an asset does not limit the estimation of probable future taxable profits.
• Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
• An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

Amendments to IAS 7 Disclosure Inıtiative

This amendment clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 is amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 is issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income ("FVTOCI") measurement category for certain simple debt instruments.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

• Identify the contract with the customer,
• Identify the performance obligations in the contract,
• Determine the transaction price,
• Allocate the transaction price to the performance obligations in the contracts,
• Recognise revenue when the entity satisfies a performance obligation.

Amendments to IFRS 15 Revenue from Contracts with Customers

This amendment clarifies three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and provides some transition relief for modified contracts and completed contracts.

Amendments to IFRS 2 Classification and Measurement of Share-Based Payment Transactions

This amendment clarifies the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity settled.

IFRS 16 Leases

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

Amendments to IFRS 4 Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'

This amendment provides optional approaches for entities that issue insurance contracts within the scope of IFRS 4, and the entities are permitted to stop applying them before the new insurance standard is applied.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation addresses foreign currency transactions or parts of transactions where:

• there is consideration that is denominated or priced in a foreign currency;
• the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
• the prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion:

• The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
• If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

Amendments to IAS 40 Transfers of Investment Property

The amendments to IAS 40 Investment Property:

• Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
• The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.

Annual Improvements to IFRS Standards 2014–2016 Cycle

• **IFRS 1:** Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.

• **IFRS 12:** Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

• **IAS 28:** Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The Group evaluates the effects of these standards, amendments and improvements on the consolidated financial statements.

SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain properties acquired through business combination that are measured at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Basis of presentation of consolidated financial statements

The Company other than foreign branches and its Turkish subsidiaries maintain their books of account and prepare their statutory financial statements in accordance with accounting principles in the Turkish Commercial Code and tax legislation. Subsidiaries that are registered in foreign countries maintain their books of account and prepare their statutory statements in accordance with the prevailing accounting principles in their registered countries. The accompanying consolidated financial statements are based on the statutory records, with adjustments and reclassifications, for the purpose of fair presentation in accordance with IFRS.

The consolidated financial statements of the Group are prepared on a going concern basis, which presumes the realization of assets and settlement of liabilities in the normal course of operations and in the foreseeable future.

Basis of consolidation

The details of the Company's subsidiaries and branches as at 31 December 2016 and 31 December 2015 are as follows:

Name of Subsidiary and Branches	Place of incorporation and operation	2016	2015	Principal Activity
		Proportion of ownership interest and voting power held by the Group		
		%	%	
Türkiye Petrolleri Azerbaijan Branch	Azerbaijan	100	100	Petroleum Activities
Turkish Petrolleri Cyprus Branch	Cyprus	100	100	Petroleum Activities
Turkish Petroleum Overseas Company	Jersey	100	100	Petroleum Activities
Turkish Petroleum Overseas Company Azerbaijan Branch	Azerbaijan	100	100	Petroleum Activities
Turkish Petroleum Overseas Company Cyprus Branch	Cyprus	100	100	Petroleum Activities
Turkish Petroleum Overseas Company Iraq Branch	Iraq	100	100	Petroleum Activities
Turkish Petroleum BTC. Ltd.	Cayman Islands	100	100	Oil Transportation
Turkish Petroleum SCP. Ltd.	Cayman Islands	100	100	Natural Gas Transportation
TP Badra Ltd.	Jersey	100	100	Petroleum Activities
TP Missan Ltd.	Jersey	100	100	Petroleum Activities
TP Afghanistan Ltd.	Jersey	100	100	Petroleum Activities
TP Africa Ltd.(*)	Jersey	100	100	Petroleum Activities
TP Mansuria Ltd.	Jersey	100	100	Petroleum Activities
TP Siba Ltd.	Jersey	100	100	Petroleum Activities
Turkish Petroleum Oil Field Services Company Limited ("TPOFSCO") (**)	Jersey	100	100	Petroleum Service Activities
TP Europe Ltd.	Jersey	100	100	Petroleum Activities

(*) The subsidiary is not operational as at 31 December 2015.
(**) Turkish Petroleum Oil Field Services Company Limited ("TPOFSCO)' liquidation process was ongoing as of the report date (Note: 1)

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Interests in joint operation

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The details of the Company's interests in joint ventures at 31 December 2016 and 31 December 2015 are as follows:

Name of Joint-Operation	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group 2016 (%)	2015 (%)	Principal Activity
Azerbaijan International Operating Company	Azerbaijan	6.75	6.75	Petroleum Activities
Azerbaijan Gas Supply Company Limited	Cayman Islands	15.2	15.2	Natural Gas Activities
Baku-Tbilisi-Ceyhan Pipeline Holding B.V. ("BTC Ho.") (*)	Cayman Islands	-	6.53	Administration
The Baku-Tbilisi-Ceyhan Pipeline Company ("BTC Co.")	Cayman Islands	6.53	6.53	Petroleum Transportation
Baku-Tbilisi-Ceyhan Pipeline Finance B.V.	Cayman Islands	-	6.53	Finance
The South Caucasus Pipeline Company ("SCP Co.")	Cayman Islands	19.00	19.00	Natural Gas Transportation
The South Caucasus Pipeline Holding Company ("SCP Ho.")	Cayman Islands	19.00	19.00	Administration

(*) The company is divested in 2016.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

• Its assets, including its share of any assets held jointly.
• Its liabilities, including its share of any liabilities incurred jointly.
• Its revenue from the sale of its share of the output arising from the joint operation.
• Its share of the revenue from the sale of the output by the joint operation.
• Its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognized in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Business combinations

The acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

• deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
• liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
• assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-

current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognized at the carrying amounts recognized previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognized as part of share premium. Any cash paid for the acquisition is recognized directly in equity.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit.

Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated income statement. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

Revenue from the sale of crude oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party.

Revenues associated with the transportation of oil are recorded when oil passes the related export meter. The tariff revenue of the Group is recognized as the amount of tariffs for the volume of throughput measured at the redelivery points.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, or receivable, net of discounts, value-added tax ("VAT"), or other sales-related taxes.

Sale of goods:

Revenue from sale of goods is recognized when all the following conditions are satisfied:
• The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
• The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
• The amount of revenue can be measured reliably;
• It is probable that the economic benefits associated with the transaction will flow to the entity; and

The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend and interest income:

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income:

Rental income from investment properties is recognized on a straight-line basis over the term of the relevant lease.

Exploration expenses

Exploration expenses relate exclusively to oil and gas exploration and production operations and comprise the costs associated with unproved reserves. These include geological and geophysical costs for the identification and investigation of areas with possible oil and gas reserves, administrative, legal and consulting costs in connection with exploration. They also include all impairments on exploration wells no proved reserves could be demonstrated. All other exploration costs are recognized in the statement of income / (loss) in the period in which they are incurred. Depletion of economically successful exploration wells forms part of cost of sales.

Foreign currency transactions

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in USD, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than USD (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise except for:

• Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on those foreign currency borrowings;

• Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies); and

• Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's operations having functional currency other than USD are translated into USD using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity. On the disposal of an operation whose functional currency is different than USD, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company is reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income and accumulated in equity.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in the statement of income / (loss) in the period in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on a weighted average basis. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale. When the net realizable value of inventory is less than cost, the inventory is written down to the net realizable value and the expense is included in statement of income/(loss) in the period the write-down or loss occurred. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal amount is limited to the amount of the original write-down.

Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are carried at cost of acquisition or construction (where and to the extent applicable) less accumulated depreciation, amortization and any accumulated impairment losses. Land is not depreciated and carried at cost less accumulated impairment.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation and amortization is recognized so as to write off the cost or valuation of assets, other than freehold land and properties under construction, less their residual values over their estimated useful lives, using the straight-line method except for oil and gas production assets; where depletion occurs to a large extent on a unit of production basis. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The Group accounts for its oil and gas exploration, development and production activities under the successful efforts method of accounting, having regard to the requirements of IFRS 6 Exploration for and Evaluation of Mineral Resources. Under this method, costs of acquiring properties (including the cost of rights to operate a license area), costs of drilling development wells, and costs of drilling successful exploratory wells are capitalized.

Costs without any identifiable future benefit are expensed, like geological and geophysical costs, and the costs of drilling exploratory wells that do not find or expected to find proved reserves are written off through the statement of profit or loss. Costs for future abandonment, or asset retirement obligations, of the offshore and onshore facilities are capitalized as part of the investment, and the present value of future liability accrued as a liability.

Development and production assets are accumulated on a field by field basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the exploration expenditures incurred in finding commercial reserves transferred from intangible assets.

Capitalized costs and production equipment are depreciated under the units-of-production method based on estimated proven oil and natural gas reserves. The depreciation base includes total capitalized costs and it is reduced with salvage value. Changes in the estimates of commercial reserves or future field development are accounted prospectively.

In classifying costs, a distinction is made between tangible and intangible assets. This assessment is made on a field-by-field basis. Costs relating to drilling exploratory wells and costs relating to acquisition of exploration licenses are initially classified as intangible assets. Such assets will be re-classified to tangible assets when the technical feasibility and commercial viability of extracting the resources are demonstrable.

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Impairment of tangible and intangible assets other than goodwill

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Intangible assets like capitalized exploration costs and license acquisition costs are subject to management review at least annually to confirm that the carrying amount does not exceed the recoverable amount. The evaluation includes technical, commercial and management reviews and the assessment of whether plans for future drilling in the license exists or whether a development decision is planned in the near future. When this is no longer the case, the costs are written off through the statement of profit or loss.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value.

Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

Taxation

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and it items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which are used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For SD PSA related temporary differences, no deferred tax is recognized in the accompanying consolidated financial statements as tax liabilities are reimbursed by the government of the Republic of Azerbaijan according to the terms of SD PSA.

Current and deferred tax for the period

Current and deferred tax are recognized as in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Employee Benefits

Termination and retirement benefits

For the Company and subsidiary located in Turkey, lump sum payments are made to employees retiring or involuntarily leaving the Group under Turkish Law and union agreements. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No.19 (revised) “Employee Benefits” (“IAS 19”).

The retirement benefit obligation recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation of the employees working in the company and subsidiaries located in Turkey.

Financial assets

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as ‘at fair value through profit or loss’ (FVTPL), ‘held-to-maturity investments’, ‘available-for-sale’ (AFS) financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held on call with banks with maturity less than three months. Restricted cash balances represent funds held as bank guarantees on certain exploration licenses and are excluded from cash and cash equivalents for the purposes of the consolidated cash flow statement. Balances restricted from being exchanged or used to settle a liability are included in other current assets.

The Group’s cash and cash equivalents are classified under the category of ‘Loans and Receivables’.

Financial liabilities and equity instruments

Classification as debt or equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Asset retirement obligation

Where a material liability for dismantling and removal, asset retirement, soil remediation and site restoration at the end of the productive life of a field exists, a provision for asset retirement obligation (or "ARO") is recognised. Net present value of the estimated ARO is recognized as soon as the obligation to dismantle and remove production assets, pipelines and other installations exists. The corresponding cost of the retirement obligation is capitalized as part of the development cost or acquisition cost and depreciated using the unit of production method. The unwinding of discounting leads to interest expense and accordingly to increased obligations at each balance sheet date until decommissioning or restoration.

Changes and Misstatements in Accounting Estimates

If changes in accounting estimates are related to only one period, the changes are applied prospectively in the current period in which changes are made. If changes in accounting estimates are related to future periods, the changes are applied prospectively both in the current period in which changes are made and also in future periods. As described in Note 34, consolidated financial statements of the Group as of 31 December 2015 and 1 January 2015 are restated.

CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Preparation of consolidated financial statements in conformity with IFRS requires the Group management to make estimates and apply critical judgment that affects the reported amounts of assets, liabilities, revenue and expenses, as well as disclosures of contingencies.
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Exploration expenses

The Group capitalizes the costs of drilling exploratory wells and certain costs related to operating oil and gas licenses pending in transit accounts until the determination of whether the wells, and related license areas, have found proved and commercially feasible oil and gas reserves. Judgments on whether these expenditures should remain capitalized or charged to profit due to impairment in the year may materially impact the operating income for the year.

Price of oil and natural gas

The Group's sales of crude oil and natural gas are subject to price fluctuations. Any substantial fall in the price of oil and natural gas might have material effect on the value and recoverability of the oil and natural gas fields. Impairment charges are calculated and reflected to the accompanying consolidated financial statements dated 31 December 2016 and 31 December 2015, based on the analysis performed regarding the recoverability of the petroleum and gas assets.

Reserves

The Group uses reserve figures estimated by reservoir engineers working for the Group as a basis for its investment plans in oil and gas properties. These estimates are used for establishing the expected production profiles for the fields in production and the expected economic lifetime of the fields. Any significant reduction and according to fluctuation of estimated annual production levels might lead to a write down of field investments through impairment tests, increased future depletion and alterations of planned capital expenditures.

Asset retirement obligation

When production from a well or a field ceases, the Group may be obligated to shut the well and remove installation from the well or field. Provisions for these costs are the best available estimates from the field operator, based on current technology and current prices for equipment and manpower. The amount recognized is the estimated expenditures determined in alignment with the field operator, local conditions and requirements. As at 31 December 2016 and 2015, asset retirement obligations are USD 460 million and USD 403 million, respectively (Note 16).

Deferred taxes

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Currently, there are deferred tax assets resulting from deductible temporary differences, which could reduce taxable income in the future. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized.

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Company Type	Corporation
Mersis	5345 4719 4697 3614
Trade Register Office	Ankara
Trade Register Number	5602
Trade Name	Türkiye Petrolleri Anonim Ortaklığı
Capital	3.500 Billion TL
Paid In Capital	3.310 Billion TL
Date Of Establishment And Registery	Law No. 16.03.1954 6357; 10.12.1954 Dated Official Gazette
Tax Office	Ulus
Tax Id Number	8790 032 784
Sector	Petroleum And Natural Gas
Trademark	Türkiye Petrolleri-Turkish Petroleum
Trademark Abbreviation	TP