CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

PETKİM PETROKİMYA HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019 TOGETHER WITH INDEPENDENT AUDITORS' REPORT

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

PETKİM PETROKİMYA HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

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PETKİM PETROKİMYA HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2019

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

	Notes	Audited 31 December 2019	Audited 31 December 2018
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	4,037,170	3,009,408
Trade receivables		1,552,153	1,194,398
- Trade receivables from related parties	29	151,715	168,543
- Trade receivables from third parties	7	1,400,438	1,025,855
Other receivables		12,759	5,226
- Other receivables from related parties	29	8,672	3,043
- Other receivables from third parties	8	4,087	2,183
Inventories	5	929,156	1,129,581
Prepaid expenses		2,895,185	2,562,435
- Prepaid expenses to third parties	15	40,296	36,011
- Prepaid expenses to related parties	29	2,854,889	2,526,424
Derivative instruments	18	-	1,129
Other current assets		116,227	60,866
- Other current assets to third parties	17	116,227	60,866
Current income tax assets	20	3,997	31,925
TOTAL CURRENT ASSETS		**9,546,647**	**7,994,968**
NON - CURRENT ASSETS			
Financial investments	6	8,910	8,910
Other receivables		6,462	109,745
- Other receivables from related parties	29	6,462	109,745
Investment properties	10	1,476	1,476
Property, plant and equipment	11	4,691,147	4,085,395
Right of use assets	2.5	173,979	-
Intangible assets	12	35,702	27,793
Prepaid expenses		59,226	72,110
- Prepaid expenses to third parties	15	35,810	52,115
- Prepaid expenses to related parties	29	23,416	19,995
Derivative financial instruments	18	-	624
Deferred income tax assets	20	261,426	270,900
Other non-current assets		16,358	15,885
- Other non-current assets related to third parties	17	16,358	15,885
TOTAL NON - CURRENT ASSETS		**5,254,686**	**4,592,838**
TOTAL ASSETS		**14,801,333**	**12,587,806**

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

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2019

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

	Notes	Audited 31 December 2019	Audited 31 December 2018
LIABILITIES			
CURRENT LIABILITIES			
Short-term borrowings		3,741,354	2,784,469
- Short-term borrowings from third parties		3,715,680	2,784,469
- Bank borrowings	9	2,180,590	1,261,339
- Short term lease liabilities	9	24,815	-
- Other financial liabilities	9	1,510,275	1,523,130
- Short-term borrowings from related parties		25,674	-
- Short term lease liabilities to related parties	29	25,674	-
Short-term portion of long-term borrowings		295,890	234,491
- Short-term portion of long-term borrowings from third parties		295,890	234,491
- Bank borrowings	9	223,245	170,377
- Bonds issued	9	72,645	64,114
Derivative instruments	18	942	13,954
Trade payables		957,019	697,145
- Trade payables to related parties	29	533,668	55,336
- Trade payables to third parties	7	423,351	641,809
Payables related to employee benefits	16	19,939	10,062
Other payables		13,239	48,712
- Other payables to related parties	29	87	25,302
- Other payables to third parties	8	13,152	23,410
Deferred revenue		42,723	23,519
- Deferred revenue from related parties	29	184	1,495
- Deferred revenue from third parties	14	42,539	22,024
Short term provisions		36,415	33,119
- Provision for employee benefits	16	33,780	30,051
- Other short term provisions	31	2,635	3,068
Other current liabilities		21,032	16,640
- Other current liabilities related to third parties	17	21,032	16,640
TOTAL CURRENT LIABILITIES		**5,128,553**	**3,862,111**
NON-CURRENT LIABITIES			
Long term financial liabilities		4,487,000	4,306,321
- Long term financial liabilities from third parties		4,383,439	4,306,321
- Bank borrowings	9	1,385,373	1,681,996
- Long-term lease liabilities to third parties	9	36,425	-
- Bonds issued	9	2,961,641	2,624,325
- Long-term borrowings from related parties		103,561	-
- Long term lease liabilities to related parties	29	103,561	-
Derivative financial instruments	18	23,176	-
Deferred revenue		194,600	178,668
- Deferred revenue from related parties	29	194,600	178,668
Long term provisions		119,123	105,770
- Provision for employee termination benefits	16	119,123	105,770
TOTAL NON - CURRENT LIABILITIES		**4,823,899**	**4,590,759**
TOTAL LIABILITIES		**9,952,452**	**8,452,870**

PETKİM PETROKİMYA HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2019

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

	Notes	Audited 31 December 2019	Audited 31 December 2018
EQUITY			
Equity attributable to owners of the parent company		**4,859,836**	**4,090,300**
Share capital	19	2,112,000	1,650,000
Adjustment to share capital	19	238,988	238,988
Share premium		64,188	64,188
Other comprehensive income/ (expense) not to be reclassified to profit or loss			
- Actuarial loss arising from defined benefit plan		(37,861)	(29,607)
Other comprehensive (expense) / income to be reclassified to profit or loss		(75,057)	(39,556)
- Currency translation differences		(61,549)	(29,645)
- (Loss) / Gain on cash flow hedges		(13,508)	(9,911)
Restricted reserves		330,000	310,644
Retained earnings		1,414,287	1,023,971
Net profit for the period / year		813,291	871,672
Non-controlling interest		**(10,955)**	**44,636**
TOTAL EQUITY		**4,848,881**	**4,134,936**
TOTAL LIABILITIES AND EQUITY		**14,801,333**	**12,587,806**

PETKİM PETROKİMYA HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIODS 1 JANUARY- 31 DECEMBER 2019 AND 2018

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

	Notes	Audited 1 January - 31 December 2019	Audited 1 January - 31 December 2018
PROFIT OR LOSS			
Revenue	21	11,672,220	9,314,717
Cost of sales	21	(10,071,083)	(7,735,757)
GROSS PROFIT		**1,601,137**	**1,578,960**
General administrative expenses	22	(285,163)	(243,759)
Selling, marketing and distribution expenses	23	(96,187)	(77,586)
Research and development expenses	24	(24,867)	(22,303)
Other operating income	25	330,244	447,985
Other operating expense	25	(311,575)	(499,521)
OPERATING PROFIT		**1,213,589**	**1,183,776**
Income from investing activities	26	40,942	22,827
Expense from investing activities	26	(10,528)	(264)
OPERATING PROFIT BEFORE FINANCIAL INCOME/ (EXPENSE)		**1,244,003**	**1,206,339**
Financial income	27	1,694,730	2,408,338
Financial expenses	27	(2,080,023)	(2,610,877)
PROFIT BEFORE TAX FROM CONTINUED OPERATIONS		**858,710**	**1,003,800**
Tax expense from continuing operations		**(94,473)**	**(167,538)**
- Current tax expense	20	(50,677)	(125,936)
- Deferred tax expense	20	(43,796)	(41,602)
PROFIT FOR THE PERIOD CONTINUED OPERATIONS		**764,237**	**836,262**
DISTRIBUTION OF INCOME/(EXPENSE) FOR THE PERIOD			
- Non-controlling interest		(49,054)	(35,410)
- Owners of the parent company		813,291	871,672
Earnings Per Share			
- Earnings per Kr 1 number of 1 shares from continued operations	28	0.3851	0.4127

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

PETKİM PETROKİMYA HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIODS 1 JANUARY- 31 DECEMBER 2019 AND 2018

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

	Notes	Audited 1 January - 31 December 2019	Audited 1 January - 31 December 2018
OTHER COMPREHENSIVE (LOSS)/INCOME			
Items to be reclassified to Profit or Loss		**(42,038)**	**(13,088)**
Currency translation differences		(32,503)	(8,719)
Other comprehensive (loss)/income related with cash flow hedges		(11,918)	(5,461)
Tax relating to (loss)/gain on cash flow hedge		2,383	1,092
Items not to be reclassified to Profit or Loss		**(8,254)**	**(2,316)**
Defined benefit plans remeasurement Earnings/(losses)		(10,317)	(2,895)
Taxes relating to remeasurements of defined benefit plans		2,063	579
OTHER COMPREHENSIVE INCOME		**(50,292)**	**(15,404)**
TOTAL COMPREHENSIVE INCOME		**713,945**	**820,858**
Attributable to:			
Non-controlling interests		(55,591)	(15,511)
Owners of parent company		769,536	836,369

PETKİM PETROKİMYA HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIODS 1 JANUARY- 31 DECEMBER 2019 AND 2018

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

			Other comprehensive (expense) / income not to be reclassified to profit or loss	Other comprehensive (expense) / income to be reclassified to profit or loss								
	Share capital	**Adjustment to share capital**	**Actuarial loss arising from defined benefit plan**	**(Loss) / gain on cash flow hedges**	**Currency translation differences**	**Share premium**	**Restricted reserves**	**Net profit for the period**	**Retained earnings**	**Equity attributable to owners of the parent company**	**Non-controlling interests**	**Total equity**
1 January 2018	**1,500,000**	**238,988**	**(27,291)**	**(3,774)**	**(2,795)**	**214,188**	**192,599**	**1,401,959**	**280,057**	**3,793,931**	**60,147**	**3,854,078**
Transfers	150,000	-	-	-	-	(150,000)	71,545	(1,401,959)	1,330,414	-	-	-
Total comprehensive income	-	-	(2,316)	(6,137)	(26,850)	-	-	871,672	-	836,369	(15,511)	820,858
- Other comprehensive income	-	-	(2,316)	(6,137)	(26,850)	-	-	-	-	(35,303)	19,899	(15,404)
- Net profit for the period	-	-	-	-	-	-	-	871,672	-	871,672	(35,410)	836,262
Dividend paid	-	-	-	-	-	-	46,500	-	(586,500)	(540,000)	-	540,000
31 December 2018	**1,650,000**	**238,988**	**(29,607)**	**(9,911)**	**(29,645)**	**64,188**	**310,644**	**871,672**	**1,023,971**	**4,090,300**	**44,636**	**4,134,936**
1 January 2019	**1,650,000**	**238,988**	**(29,607)**	**(9,911)**	**(29,645)**	**64,188**	**310,644**	**871,672**	**1,023,971**	**4,090,300**	**44,636**	**4,134,936**
Transfers	**462,000**	-	-	-	-	-	19,356	(871,672)	390,316	-	-	-
Total comprehensive income	-	-	(8,254)	(3,597)	(31,904)	-	-	813,291	-	769,536	(55,591)	713,945
- Other comprehensive income	-	-	(8,254)	(3,597)	(31,904)	-	-	-	-	(43,755)	(6,537)	(50,292)
- Net profit for the period	-	-	-	-	-	-	-	813,291	-	813,291	(49,054)	764,237
31 December 2019	**2,112,000**	**238,988**	**(37,861)**	**(13,508)**	**(61,549)**	**64,188**	**330,000**	**813,291**	**1,414,287**	**4,859,836**	**(10,955)**	**4,848,881**

PETKİM PETROKİMYA HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE PERIODS 1 JANUARY- 31 DECEMBER 2019 AND 2018

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

	Notes	Audited 1 January - 31 December 2019	Audited 1 January - 31 December 2018
A. Cash flows from operating activities:		**1,380,969**	**1,325,061**
Net profit for the year (I)		764,237	836,262
Adjustments related to reconciliation of (II) net profit (loss) for the year:		**603,509**	**1,043,114**
Adjustments for depreciation and amortization	2.5-11	335,782	242,330
Adjustments for impairments/ reversals			
- Adjustments for impairment of inventories	5	(20,427)	31,637
Adjustments for provisions			
- Adjustments for provision employee benefits		60,756	55,932
- Adjustments for provision legal cases	31	(433)	(134)
- Adjustments for other provisions		2,497	(17,994)
Adjustments for interest income/ (expense)			
- Adjustments for interest income	27	(128,585)	(224,293)
- Adjustments for interest expense	27	402,162	301,738
Adjustments for unrealized foreign currency translation differences		(141,672)	487,908
Adjustments for tax income/ losses	20	94,473	167,538
Adjustments for gain/ losses on sale of property, plant and equipment	26	1,377	(3,150)
Adjustments for income from government incentives		(2,421)	1,602
Changes in working capital (III)		**121,888**	**(289,826)**
Adjustments related to (increase)/decrease in trade receivables		(313,168)	(269,665)
Adjustments related to (increase)/decrease in other receivables		(8,504)	39,376
Adjustments related to (increase)/decrease in inventory		236,714	(252,380)
(Increase)/decrease in prepaid expenses		(5,744)	18,945
Adjustments for increase/(decrease) in trade payables		244,384	171,627
Adjustments for increase/(decrease) in other payables from operating activities		(3,341)	10,441
Increase/(decrease) in payables related to employee benefits		9,877	8,355
Adjustments for increase/(decrease) in deferred revenue		12,910	(24,079)
Changes in derivative financial instruments		(3,213)	(1,851)
Adjustments related to other increases/(decreases) in working capital		(48,027)	9,435
Cash flows from operating activities (I+II+III)		**1,489,634**	**1,589,550**
Employee benefits paid		(53,991)	(38,211)
Income taxes (paid)	20	(54,674)	(226,278)
B. Cash flows from investing activıties		**(625,463)**	**(2,462,428)**
Cash outflows from purchases of property, plant and equipment		(656,194)	(767,120)
Proceeds from sale of property, plant and equipment		14,936	442
Advances given and payables to related parties		(500,000)	(2,721,651)
Proceeds from related party advances and payables		500,000	1,062,819
Other cash advances and payables given		15,795	(36,918)
C. Cash flows from financing activities		**177,464**	**2,306,694**
Proceeds from borrowings	9	2,827,160	1,368,166
Repayments of borrowings	9	(2,359,736)	(862,765)
Proceeds from bonds issued	9	-	1,869,002
Proceeds from other financial liabilities	9	1,754,171	1,401,129
Repayments of other financial liabilities	9	(1,778,494)	(922,534)
Interest received		125,142	213,207
Interest paid		(364,243)	(219,511)
Cash outflow related to lease agreements		(26,536)	-
Dividends paid		-	(540,000)
D. Net increase / (decrease) in cash and cash equivalents before foreign currency translation differences (A+B+C)		**932,970**	**1,169,327**
E. Effect of currency translation differences on cash and cash equivalents		**94,792**	**379,632**
Net increase / (decrease) in cash and cash equivalents (D+E)		**1,027,762**	**1,548,959**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**4**	**3,009,408**	**1,460,449**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**4**	**4,037,170**	**3,009,408**

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

NOTE 1 - GROUP'S ORGANISATION AND NATURE OF OPERATIONS

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

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

- To establish and to operate factories, plants in Turkey home or abroad in relation to the petro-chemistry, chemistry and such other industrial sectors,

- To process and to treat the raw materials and supplementary/auxiliary substances, materials and chemicals necessary for the production of petrochemicals, chemicals and such other materials/substances by procuring such materials/substances either from Turkey or abroad, to produce such materials/substances, and to carry out and to perform the domestic and international trading thereof,

- In accordance with the Law 4628 on the Electricity Market, and the related legislation thereto, to establish power plants as per the auto-producer's license in order to meet its own need for electricity and heat/thermal energy at first, to generate electricity and heat/thermal energy, to sell the generated electricity and heat/thermal energy and/or the capacity to other legal persons holding the requisite licenses or to the eligible consumers as per the mentioned legislation in case of any surplus production, and to carry out and to perform the activities in relation to the obtainment of any and all kinds of equipment and fuel in relation to the electricity power/ generating plant provided that such activities are not of commercial nature,

- To carry out and to perform the activities in relation to the importation or purchase from domestic resources, of natural gas on wholesale and retail basis, utilization, storage of natural gas imported and purchased, in accordance with the legislation thereto,

- To carry out and to perform pilotage, trailer and mooring activities, to operate ports, cruise ports, passenger terminals, seaports, docks, harbors, berths, liquid fuel/liquefied petroleum pipeline and buoy systems, and such other similar onshore facilities/plants, and to be involved in port management activities, to offer port, agency, provision, bunkering services, and to provide that such services are offered by third parties either by way of leasing or such other methods when required, and to purchase, to have built and to lease, to sell the necessary vessels/naval platforms, and to establish either domestic or international partnerships in relation thereto, to operate warehouses, and to offer warehousing services,

- To support and to donate to the foundations, associations, educational institutions, which have been established for social purposes, and to such other persons, institutions and organizations in accordance with the principles prescribed by the Capital Markets Board.

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

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

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

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

STEAŞ and SİPAŞ merged on 22 September 2014 under STEAŞ.

As of 31 December 2019 and 31 December 2018 the ultimate shareholder of the Company is State Oil Company of Azerbaijan Republic ("SOCAR").

The Group is registered at the Capital Markets Board ("CMB") and have been quoted in Borsa İstanbul ("BIST") since 9 July 1990.

These consolidated financial statements were approved to be issued by the Board of Directors on 2 March 2020 and signed by Mr. Anar Mammadov, General Manager and Mr. Elchin İbadov, Chief Financial Officer, on behalf of the Board of Directors.

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

Siteler Mh. Necmettin Giritlioğlu Cd.
SOCAR Türkiye Aliağa Administration Building No: 6/1 Aliağa/İZMİR

As of 31 December 2019, the Company's subsidiaries ("subsidiaries") the Company and its subsidiaries (hereinafter collectively referred to as the "Group") and their respective operating segments are as follows:

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

As of 31 December 2019, the average number of employees working for the Group is 2,494 (31 December 2018: 2,493). The details of the employees as of 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
Union (*)	1,899	1,917
Non - union (**)	648	642
	2,547	**2,559**

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

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

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

The consolidated financial statements are presented in accordance with "Announcement regarding with TAS Taxonomy" which was published on April 15, 2019 by POA and the format and mandatory information recommended by CMB.

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

The consolidated financial statements, except for the financial assets and liabilities presented with their fair values, are maintained under historical cost conversion, with the required adjustment and reclassification reflected for the purpose of fair presentation in accordance with the TFRS.

2.2 Amendments in Turkish Financial Reporting Standards

a) Standards, amendments and interpretations applicable as at 31 December 2019:

- **Amendment to TFRS 9**, **'Financial instruments'**: effective from annual periods beginning on or after 1 January 2019. This amendment confirmed two points: (1) that reasonable compensation for prepayments can be both negative or positive cash flows when considering whether a financial asset solely has cash flows that are principal and interest and (2) that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from TAS 39. This change does not have any impact on the Group's financial performance.

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

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.2. Amendments in Turkish Financial Reporting Standards (Continued)

a) Standards, amendments and interpretations applicable as at 31 December 2019 (Continued):

- **TFRS 16, 'Leases';** effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if TFRS 15'Revenue from Contracts with Customers' is also applied. This standard replaces the current guidance in TAS 17 and is a farreaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

According to TFRS 16, if a contract includes the right to use an asset and the right to control that asset for a certain amount for a certain amount of time, that contract is a lease contract or includes a lease. The impact on the Group's performance is explained detail in Note 2.5.

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

- **Annual improvements 2015-2017**; effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:

    - TFRS 3, 'Business combinations', – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
    - TFRS 11, 'Joint arrangements', – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
    - TAS 12, 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way.
    - TAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.2. Amendments in Turkish Financial Reporting Standards (Continued)

a) Standards, amendments and interpretations applicable as at 31 December 2019 (Continued):

Amendments to TAS 19, 'Employee benefits' on plan amendment, curtailment or settlement'; effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:

- use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and

- recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

b) Standards, amendments and interpretations that are issued but not effective as at 31 December 2019:

- **Amendments to TAS 1 and TAS 8 on the definition of material;** effective from Annual periods beginning on or after 1 January 2020. These amendments to TAS 1, 'Presentation of financial statements', and TAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:

    - use a consistent definition of materiality throughout TFRSs and the Conceptual Framework for Financial Reporting;
    - clarify the explanation of the definition of material; and
    - incorporate some of the guidance in TAS 1 about immaterial information.

- **Amendments to TFRS 3 - definition of a business;** effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

- **Amendments to TFRS 9, TAS 39 and TFRS 7 – Interest rate benchmark reform;** effective from Annual periods beginning on or after 1 January 2020. These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.

Group will evaluate the effects of these alterations above to the their operations and will follow them from the validation date.

The impacts of the new standards, amendments and improvements on the financial position and performance of the Group is being assessed.

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

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.3. Basis of consolidation

The consolidated financial statements include the accounts of the parent company, Petkim and its subsidiaries on the basis set out in sections below. The financial statements of the companies included in the scope of consolidation have been prepared as of the date of the consolidated financial statements and have been prepared in accordance with TAS/TFRS applying uniform accounting policies and presentation.

a) Subsidiaries

The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date the control ceases.

Intercompany transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The non-controlling share in the net assets and results of subsidiaries for the period are separately classified as "non-controlling interest" in the consolidated balance sheet and statement of income.

The accounting policies of the subsidiaries have been changed where necessary to be consistent with the accounting policies accepted by the Group.

The table below sets out all subsidiaries included in the scope of consolidation together with the related voting rights and effective ownership rates at 31 December 2019 and 2018;

Subsidiaries	Direct or Indirect Control Shareholding rates of the Group (%) 31 December 2019	31 December 2018
Petlim	73.00	73.00
Petkim Specialities Mühendislik Plastikleri Sanayi ve Ticaret A.Ş.	100.00	100.00

b) Foreign currency translation

i) Functional and presentation currency

The financial statements of each company within the Group are measured in the currency in which the entity is located and in which the operations are maintained ("functional currency"). As a result of the Group management's assessment, the functional currency of Petlim has been designated as US Dollars as of 1 January 2017 due to Petlim's commencement of its operations and generating all its revenues in US Dollars. The condensed consolidated financial statements have been prepared and presented in Turkish Lira ("TL"), which is the parent Company's functional and presentation currency.

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

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.3 Basis of consolidation (Continued)

b) Foreign currency translation (Continued)

ii) Transactions and balances

Transactions in foreign currencies have been translated into functional currency at the exchange rates prevailing at the date of the transaction. Exchange gains or losses arising from the settlement and translation of monetary assets and liabilities denominated in foreign currency at the exchange rates prevailing at the balance sheet dates are included in consolidated comprehensive income, except for the effective portion of foreign currency hedge of cash flow which are included under shareholders equity.

iii) Translation of financial statements of subsidiaries, whose functional currency is not Turkish liras

As of 31 December 2019, Petlim's assets and liabilities are translated into TL from the foreign exchange rate at the date of that balance sheet date. The income and expenses of Petlim are translated into TL at the average exchange rate. The effects of conversion of opening net assets of Petlim and the differences arising from the exchange rates at the average exchange rates and balance sheet dates are recognized in "currency translation differences" in other comprehensive income.

The balance sheet date rates and average rates used for translation for the related periods are as follows:

The end of the period:	**31 December 2019**	**31 December 2018**
Turkish Liras / US Dollars	5.9402	5.2609

Average:	**31 December 2019**	**31 December 2018**
Turkish Liras / US Dollars	5.6710	4.8301

2.4. Comparative information and correction of prior period financial statements

The Group prepared its consolıdated financial statements on a comparative basis with the preceding financial period, which enables determination of trends in financial position and performance. The Group prepared its balance sheet at 31 December 2019 on a comparative basis with balance sheet at 31 December 2018; and statements of profit or loss comprehensive income, cash flows and changes in equity for the period of 1 January - 31 December 2019 on a comparative basis with financial statements for the period of 1 January - 31 December 2018. For the purpose of convenience with the presentation of current period consolidated financial statements, comparative information is restated when necessary and major changes are disclosed.

2.5. Restatement and errors in the accounting policies and estimates

The Group has adopted TFRS 16 "Leases" as at 1 January 2019 for the first time, in line with the transition provisions of the standard.

The Group, by opting fort he facilitator, has not reasssed whether or not a contract was a lease contract at the first implementation date for leases previously classified as operating lease in accordance with TAS 17.

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.5. Restatement and errors in the accounting policies and estimates (Continued)

TFRS 16 Leases

The Group – as a lessee

At inception of a contract, the Group assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset. The Group assess whether:

- The contract involved the use of an identified asset – this may be specified explicitly or implicitly.

- The asset should be physically distinct or represent substantially all of the capacity of a physically distinct asset, If the supplier has a substantive substitution right, the asset is not identified.

- The Group has the right to obtain substantially all of the economic benefits from the use of an asset throughout the period of use; and

- The Group has the right to direct use of the asset, The Group concludes to have the right of use, when it is predetermined how and for what purpose the Group will use the asset. The Group has the right to direct use of asset if either:

  i. The Group has the right to operate (or to have the right to direct others to operate) the asset over its useful life and the lessor does not have the rights to change the terms to operate or;
  ii. The Group designed the asset (or the specific features) in a way that predetermines how and for what purpose it is used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Right of use asset

The right of use asset is initially recognized at cost comprising of:

a) Amount of the initial measurement of the lease liability;
b) Any lease payments made at or before the commencement date, less any lease incentives received;
c) Any initial direct costs incurred by the Group; and an estimate of costs to be incurred by the lessee for restoring the underlying asset to the condition required by the terms and conditions of the lease (unless those costs are incurred to produce inventories).

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.5. Restatement and errors in the accounting policies and estimates (Continued)

TFRS 16 Leases (Continued)

The Group re-measure the right of use asset:

a) After netting-off depreciation and reducing impairment losses from right of use asset.

b) Adjusted for certain re-measurements of the lease liability recognized at the present value.

The Group applies TAS16 "Property, Plant and Equipment" to amortize the right of use asset and to asses for any impairment. TAS 36 Impairment on assets standard is applied to determine whether the right of use asset has been impaired to account any impairment loss.

Lease Liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. Lease liabilities are discounted to present value by using the interest rate implicit in the lease if readily determined or with the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

a) Fixed payments, including in-substance fixed payments;

b) Variable lease payments that depend on an index or a rate, initially measured using the index or rate as the commencement date.

c) The exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewable period if the Group is reasonably certain to exercise an extension option and penalties for early termination of a lease unless the Group is reasonably certain to terminate early.

After initial recognition, the lease liability is measured:

a) Increasing the carrying amount to reflect interest on lease liability,

b) Reducing the carrying amount to reflect the lease payments made and

c) Remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Variable lease payments

Group's lease contracts also include variable lease payments which are not in the scope of TFRS 16. Variable lease payments are recognised in profit or loss in the related period.

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

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.5. Restatement and errors in the accounting policies and estimates (Continued)

TFRS 16 Leases (Continued)

The Group – as a lessor

Rental income from operating leases that the group is lessor is recorded as income by linear method during the lease period. The relevant leased asset is included in the statement of financial position according to its nature. The direct costs incurred during the operating lease are added to the book value of the asset and are accounted as expense during the lease term in the same manner as the rental income. These leased assets are included in the balance sheet according to their qualifications. As a lessor as a result of applying the new lease standard, the group did not have to make any adjustments to the accounting of the assets.

First time adoption of TFRS 16 Leases

The Group has applied TFRS 16 "Leases", which replaces TAS 17, for the effective period beginning on 1 January 2019 in line with the simplified approach. The cumulative impact of applying TFRS 16 is accounted in the consolidated financial statements retrospectively at the start of the current accounting period ("cumulative impact approach"). The simplified transition approach of the related standard does not require a restatement in the comparative periods or in the retained earnings.

With the transition to TFRS 16 "Leases", a "lease liability" is recognized in the consolidated financial statements for the lease contracts, which were previously measured under TAS 17 as operational leases. At transition lease liabilities are measured at the net present value of the remaining lease payments, discounted at the Group's incremental borrowing rate on the effective transition date. The Group measured right-of-use assets at an amount equal to the lease liability (adjusted by the amount of any prepaid or accrued lease payments) under TFRS 16 simplified transition approach.

The reconciliation of operating lease commitments under TAS 17 before the transition date and the lease liabilities measured under TFRS 16 as of 1 January 2019 is as below:

	1 January 2019
Operating lease commitments within the scope of TAS 17	**792.458**
- Agreements considered as rent (+)	26.585
Total lease liabilities within the scope of TFRS 16 (non discounted)	**819.043**
Total lease liabilities within the scope of TFRS 16 (discounted with alternative borrowing rate)	**259.713**
- Short term lease liabilities	25.757
- Long term lease liabilities	233.956

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

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.5. Restatement and errors in the accounting policies and estimates (Continued)

TFRS 16 Leases (Continued)

The weighted average of the Group's incremental borrowing rates for US Dollar, EUR and TL as of 1 January 2019 8%, 6% and 19%, are respectively.

As of 1 January and 30 June 2019, the details of the right of use assets that are accounted in the condensed consolidated financial statements are as follows:

	31 December 2019	1 January 2019
Buildings	112,095	123,528
Lands	44,335	113,659
Motor vehicles	17,549	23,195
Machinery, equipment and installations	-	5,751
Total right of use	**173,979**	**266,133**

The net book value of rights-to-use assets for the year ended 31 December 2019 TL 173,979 TL. As a result of the evaluations made by the Group management, the expected rental period of the management building was determined and accounted as 10 years as of 1 January 2019. The depreciation expense of the right of use assets for 2019 is 33.372 TL and 5.860 TL is allocated in the cost of the goods sold, 24.890 TL in general administrative expenses and 2.622 TL in marketing, sales and distribution expenses.

2.6. Significant accounting policies

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

a. Inventories

lnventories are valued at the lower of cost and net realizable value. The cost of inventory consists of purchase materials, cost of conversion and other costs that are necessary ta bring the inventories to their present location and condition. The costs of inventories are determined an a weighted average basis by the Group.

Net realizable value is the estimated selling price in the ordinary course of business, Iess cost of cornpletion and selling expenses (Note 5).

Spare parts in the forrns of operating supplies are presented in the other inventory. These inventories are valued at the lower of cost and net realizable value Spare parts and material inventory are valued at the lower of cost and net recoverable value. The cost af spare parts and material inventory consist of purchase materials and other costs that are necessary to bring them ta their present location and condition. The costs of spare parts and material stocks are determined on a weighted average basis by the Group (Note 5).

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

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.6. Significant accounting policies (Continued)

b. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment losses if any. Historical costs include the costs directly related to the acquisition of property plant and equipment. Land is not depreciated as it is deemed to have an indefinite useful life.

Buildings, machinery and equipment are capitalized and depreciated when they are in the condition necessary for operations in the manner intended by the management. Residual values of property, plant and equipment are deemed as insignificant. Expected useful life, residual value and depreciation method are reviewed annually to determine the probable effects of changes in estimates.

The useful lives of property, plant and equipment are as follows:

	Useful lifes
Land improvements	4-50 years
Buildings	18-50 years
Machinery and equipment	4-50 years
Motor vehicles	5 years
Furniture and fixtures	3-20 years
Other fixed assets	5 years
Leasehold Improvements	at the lower of 3 years or lease term
Assets subject to operating lease	32-50 years

(*) The Group determines useful lives of property, plant and equipment and intangible assets in line with opinions of technical experts and recognizes depreciation and amortization expenses during aforementioned useful lives. Useful lives of land improvements related to port project are estimated by considering leasing period granted by Petlim in via operator agreement dated 22 February 2013.

Expenses after the capitalization are added to the cost of related asset and reflected in financial statements as a separate asset if they shall mostly provide an economic benefit and their cost is measured in a trustable manner. Tangible assets are reviewed for impairment if there are conditions showing that the securities are more than amount recoverable. Assets are grouped at the lowest level which is cash-generating unit in order to determine impairment. Carrying amount of a tangible asset and recoverable value is the one which is higher than the net sales price following the deduction of commensurable value for the sale of the asset. Useful life of assets are reviewed as of date of balance sheet and adjusted, if required.

Maintenance and repair expenses are recorded as expense to the income statement of the related period. The Company omits the carrying values of the changed pieces occurred with respect to renovations from the balance sheet without considering whether they are subject to depreciation in an independent manner from other sections. Main renovations are subject to deprecation based on the shortest of residual life of the related tangible asset or useful life of the renovation itself.

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.6. Significant accounting policies (Continued)

b. Property, plant and equipment (Continued)

Advances paid related to purchasing of tangible assets are monitored in prepaid expenses under fixed assets until the related asset is capitalized or recognized under on-going investments. Advances paid in foreign currency are evaluated based on being monetary or non-monetary items and measured accordingly. It is evaluated that a significant part of advances paid in foreign currency are in nature of non-monetary item and tracked over exchange rate on the date of advance payment. Impairment regarding advances given is evaluated in accordance with the impairment of non-financial assets policy and recognized on profit and loss statement of the related period.

Spare parts and material stocks qualify as property, plant and equipment when they are expected to be used more than one period and only in connection with an item of property, plant and equipment. Spare parts and material stocks are carried at cost less the accumulated depreciation which is calculated over the remaining useful life of the related item of property, plant and equipment.

Gains or losses on disposals of property, plant and equipment are included in income and expense from investment activities accounts, in the consolidated statement of comprehensive income as appropriate.

c. Intangible assets

Rights and software

Intangible assets comprise acquired rights, information systems and software and capitalized development costs. Intangible assets are amortized on a straight-line basis over their estimated useful lives from the date of acquisition. In case of impairment, the carrying values of the intangible assets are written-down to their recoverable amounts (Note 12).

The estimated useful lives of intangible assets are as follows:

	Useful life
Rights and software	3-15 years

d. Investment properties

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

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

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.6. Significant accounting policies (Continued)

e. Impairment of assets

At each reporting date, the Group assesses whether there is an impairment indication for the assets, except for the deferred income tax asset and financial assets stated at fair values.

The Group assesses whether there is any indication that the book value of tangible and intangible assets, calculated by the acquisition cost less accumulated amortization, may be impaired. When an indication of impairment exists, the Group estimates the recoverable values of such assets. When the individual recoverable value of assets cannot be measured, the recoverable value of the cash-generating unit of that asset is measured.

Impairment exists if the carrying value of an asset or a cash-generating unit is greater than its recoverable amount, which is the higher of value in use or fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from an asset or cashgenerating unit.

When the recoverable amount of an asset (or a cash-generating unit) is lower than its carrying value, the asset's (or cash-generating unit's) carrying value is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of comprehensive income. An impairment loss recognized in prior periods for an asset is reversed if the subsequent increase in the asset's recoverable amount is caused by a specific event since the last impairment loss was recognized. Such a reversal amount cannot be higher than the previously recognized impairment and is recognized in the consolidated statement of comprehensive income.

f. Financial investments

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

g Financial assets carried at amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, whose payments are fixed or predetermined, which are not actively traded and which are not derivative instruments are measured at amortized cost. The Group's financial assets carried at amortized cost comprise "trade receivables" and "cash and cash equivalents" in the statement of financial position.

Impairment

Group has applied simplified approach and used impairment matrix for the calculation of impairment on its receivables carried at amortized cost, since they do not comprise of any significant finance component. In accordance with this method, if any provision to the trade receivables as a result of a specific event, Group measures expected credit loss from these receivables by the life-time expected credit loss. The calculation of expected loss is performed based on the past experience of the Group and its expectations for the future indications.

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.6. Significant accounting policies (Continued)

h. Financial assets carried at fair value

Assets that are held by the management for collection of contractual cash flows and/or for selling the financial assets are measured at their fair value. If the management do not plan to dispose these assets in 12 months after the balance sheet date, they are classified as non-current assets. Group make a choice for the equity instruments during the initial recognition and elect profit or loss or other comprehensive income for the presentation of fair value gain and loss:

Financial assets carried at fair value through profit or loss

Financial assets carried at fair value through profit or loss comprise of "derivative instruments" in the statement of financial position. Derivative instruments are recognized as asset when the fair value of the instrument is positive, as liability when the fair value of the instrument is negative. Group's financial instruments consist of currency swaps.

Financial assets carried at fair value through other comprehensive income

Financial assets carried at fair value through other comprehensive income comprise of "financial assets" in the statement of financial position. When the financial assets carried at fair value through other comprehensive income are sold fair value gain or loss classified in other comprehensive income is classified to retained earnings.

Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Trade receivables net of deferred finance income, are calculated using the effective interest method based on the collection amount in the subsequent period instead on the amount at the invoice date. Short term trade receivables with no determined interest rate are measured at the original invoice amount if the effect of interest accrual is not significant. In accordance with TFRS 9, if no provision provided to the trade receivables because of a specific events, Group measures expected credit loss from these receivables by the lifetime expected credit loss. The calculation of expected credit loss is performed based on the past experience of the Group and its expectation based on the macroeconomic indications. Calculated expected credit losses are not recognized in the consolidated financial statements within the scope of materiality principle.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturitiesare three-months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value.

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.6. Significant accounting policies (Continued)

h. Financial assets carried at fair value (Continued)

Financial liabilities

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

Borrowings

Bank borrowings are recognized initially at the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortized cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the period of the borrowings. If the maturity of the bank borrowings is less than 12 months at the balance sheet date, these are classified in current liabilities; and if more than 12 months, they are classified under non-current liabilities (Note 9).

Trade payables

Trade payables are recognized initially at fair value.(Note 7).

Other financial liabilities

Other financial liabilities are initially accounted at fair value, net of transaction costs. Subsequently other financial liabilities are accounted at amortized cost using the effective interest method, with interest expense recognized on an effective interest rate basis.The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating the interest expense to therelevant period. The effective interest rate is the rate that exactly discounts the estimated.

i. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets.All other borrowing costs are expensed in the consolidated statement of comprehensive income in the period they incurred.

j. Government grants

All government grants, including non-monetary government grants followed up at fair values, are taken into account in the financial statements when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received or when the grant is actually received by the Group. Government grants shall be recognized in profit or loss on a systematic and pro rata basis over periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate.

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.6. Significant accounting policies (Continued)

k. Statement of cash flow

Cash flows during the period are classified and reported as operating, investing and financing activities in the consolidated statement of cash flows.

Cash flows from operating activities represent the Group's cash flows from the sale of petrochemical products and port operations.

Cash flows arising from investment activities represent the cash flows that are used in or provided by the investing activities (direct investments and financial investments) of the Group.

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

l. Related parties

Parties are considered related to the Group if;

(a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control over the reporting entity,
- (ii) has significant influence over the reporting entity,
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others),
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member),
- (iii) Both entities are joint ventures of the same third party,
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity,
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity,
- (vi) The entity is controlled or jointly controlled by a person identified in (a),
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity). A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

Key management personnel are identified as Board of Directors, general manager and vice general managers (Note 29).

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.6. Significant accounting policies (Continued)

m. Taxation and deferred income taxes

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in future and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

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

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

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

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

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.6. Significant accounting policies (Continued)

m. Taxation and deferred income taxes

Deferred tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred income tax is determined using tax rates that have been enacted by the balance sheet date. Tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized in equity. Taxes arisen on items recognized in equity are recognized directly in equity.

Deferred income tax liabilities are recognized for all taxable temporary differences; whereas deferred income tax assets resulting from deductible temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilized. Deferred income tax asset is recognized to the extent that it is probable that the entity will have sufficient taxable profit in the same period as the reversal of the deductible temporary difference arising from tax losses carried forward. Deferred income tax assets and deferred income tax liabilities related to income taxes levied by the same taxation authority are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities. Deferred income tax assets and deferred income tax liabilities are classified as long-term in the consolidated financial statements.

n. Employee benefits

Defined benefit plans

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Furthermore, the Group has an employee benefit plan, namely "Seniority Incentive Bonus", which is paid to employees with a certain level of seniority.

In the consolidated financial statements, the Group has recognized a liability using the "Projected Unit Credit Method" based upon factors derived using the Group's experience of personnel terminating and being eligible to receive benefits, discounted by using the current market yield at the balance sheet date on government bonds. All actuarial gains and losses are recognized in the consolidated statement of comprehensive income.

Defined contribution plan

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

Unused vacation

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

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.6. Significant accounting policies (Continued)

o. Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions, as of the balance sheet date, are recorded with the best estimate of management in order to provide for the estimated obligation and are discounted, if they are material for the consolidated financial statement.

p. Contingent assets and liabilities

Contingent assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, not wholly within the control of the Group, are not included in the consolidated financial statements and are treated as contingent assets or liabilities (Note 31).

Contingent liabilities are not recognized in the consolidated financial statements, and disclosed only, unless the possibility of an outflow of resources embodying economic benefits is probable. A contingent asset is not recognized in the consolidated financial statements but disclosed
when an inflow of economic benefits is mostly probable.

r. Revenue recognition

Group recognizes revenue in accordance with TFRS 15 "Revenue from contracts with customers" standard when the goods or services is transferred to the customer and when performance obligation is fulfilled based on the following main principles:

- Identification of customer contracts,
- Identification of performance obligations,
- Determination of transaction price in the contract,
- Allocation of price to performance obligations,
- Recognition of revenue when the performance obligations are fulfilled.

The Group assess the goods or services promised in a contract with a customer and identify as a performance obligation each promise to transfer to the customer.

For each performance obligation identified, the entity determine at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time. If the Group transfers control of a good or service over time and therefore satisfies a performance obligation and recognises revenue over time. However, almost all of the Group's sales of goods and services include a single performance obligation.

The Group recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to the customer. An asset is transferred when the customer obtains control of that asset or service.

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.6. Significant accounting policies (Continued)

r. Revenue recognition (Continued)

Group recognized revenue from its customers only when all of the following criteria are met:

- The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations,
- Group can identify each party's rights regarding the goods or services to be transferred,
- Group can identify the payment terms for the goods or services to be transferred,
- The contract has commercial substance,
- It is probable that Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due.

The Company does not adjust the promised amount of consideration for the effects of a significant financing component since the Company expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. If the financing component is significant in revenue, future collections are discounted by the interest rate in financing component. The difference is recognised as income from operating activities in current period.

Revenue from port operation

The port operations of the Group have started on 1 January 2017. The fixed revenue to be generated by the Group based on the contract is updated annually by considering the related inflation coefficient stated in the contract and recognized as revenue within the contractual period on a straight line basis. The variable revenue to be generated over the port operator's revenue, at amount exceeding the minimum revenue limits stated in the contract, will be recognized when incurred. The Group's rent income from port operations is accounted for in accordance with TAS 17 "Leases".

s. The effects of foreign exchange rate changes

Foreign currency transactions are recorded at the rates of exchange prevailing on the dates of the transactions. Assets and liabilities denominated in foreign currencies are converted at the exchange rates prevailing on the balance sheet date.

Transactions realized in foreign currency (currencies other than TL) are recorded through based on the exchange rate on date of the transaction during the preparation of financial statements of each entity. Foreign exchange indexed monetary assets and liabilities included in the balance sheet are converted by using the exchange rates effective on balance sheet date. Those recorded in foreign currency from the non-monetary items followed-up with fair value are converted through based on the exchange rates on date when the fair value is determined. Nonmonetary items in foreign currency measured in type of historical cost may not be subjected to conversion again.

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.6. Significant accounting policies (Continued)

s. The effects of foreign exchange rate changes (Continued)

Exchange differences are recognized in the profit or loss of the period when they occur except for below stated circumstances:

- Exchange differences considered as the correction item in the interest costs on the debts associated with the assets built for the purpose of future use and indicated in foreign currency and included in the cost of such assets,

- Exchange differences resulted from the transactions realized for the purpose of financial protection against the risks rising from foreign currency.

t. Share capital and dividends

Ordinary shares are classified as equity. Dividends payable on ordinary shares are recognized as an appropriation of the profit in the period they are declared.

u. Share premiums

Share premium represents differences resulting from the sale of the Company's subsidiaries and associates' shares at a price exceeding the face values of those shares or differences between the face values and the fair value of shares issued for acquired companies.

v. Subsequent events

Subsequent events and announcements related to net profit or even declared after other selective financial information has been publicly announced; include all events that take place between the balance sheet date and the date when the balance sheet is authorized for issue. In the case that events requiring an adjustment to the financial statements occur subsequent to the balance sheet date, the Group makes the necessary corrections on the consolidated financial statements. Post period end events that are not adjusting events are disclosed in the notes when material.

y. Earnings per share

Basic earnings per share are calculated by dividing the net profit by the weighted average number of ordinary shares outstanding during the year.The companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings. For the purpose of the earnings per share calculation such Bonus Share issues are regarded as stock dividends. Accordingly, the weighted average number of shares used in earnings per share calculation is derived by giving retroactive effect to the issue of such shares.

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.6. Significant accounting policies (Continued)

z. Segment reporting

Reporting of operating segments is arranged in a manner consistent with reporting to the competent boards of the operating decision-makers. It is the responsibility of the business operator to make decisions on the decision-making mechanisms related to the activities or on the resources to be allocated to the competent division in this regard and to evaluate the performance of the division. The Board of Directors of the Company has been designated as the competent authority to decide on the activities of the company.

aa. Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liabilities simultaneously.

2.7. Significant accounting estimates, judgments and assumptions

a) Provision for lawsuits

Provision for lawsuits is evaluated by the Group based on opinions of Group Legal Counsel and legal consultants. The Group determines the amount of provisions based on best estimates. As of reporting date, provision for lawsuits is stated in Note 31.

b) Useful life of tangible and intangible assets and investment property

The Group determines useful lives of tangible and intangible assets and investment properties in line with opinions of technical experts and recognizes depreciation and amortization expenses during aforementioned useful lives. The Group reviews useful lives of assets subject to aforementioned depreciation in each reporting period and it is estimated that there exist no situation requiring any adjustment in useful lives as of 31 December 2019.

c) Deferred income tax assets

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and significant judgment is required in determining the provision for income taxes. The Group recognizes tax liabilities for anticipated tax issues based on estimates of whether additional taxes will be due and recognizes tax assets for the tax losses carried forward and investment incentives to the extent that the realization of the related tax benefit through the future taxable profits is probable (Note 20). Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.7. Significant accounting estimates, judgments and assumptions (Continued)

d) Provision for employee benefits

Actuarial assumptions about discount rates, inflation rates, future salary increases and employee turnover rates are used to calculate Group's provision for employee benefits. Such assumptions used in determination of the provision for defined benefit plans are disclosed in Note 16.

e) Exchange rate valuation of foreign currency denominated advances given to related parties in accordance with share purchase of Rafineri Holding A.Ş.

As a result of correspondence between the Group and its main shareholder SOCAR Turkey Enerji A.Ş. (STEAŞ), a share sale and transfer agreement ("Agreement") has been signed on 9 January 2018 in order to acquire 30% shares of Rafineri Holding A.Ş. (Rafineri Holding) from STEAŞ with a purchase consideration of USD 720 million. The shares of Rafineri Holding which are subject to the Agreement may be purchased by the Group provided that the conditions specified in the Agreement are realized. As Petkim has a share transfer contract that can be terminated at Petkim's own discretion and finalisation of the share transfer is subject to Group's operational performance and cash flows, advances paid are classified as prepaid expenses to related parties in the balance sheet as of 31 December 2019 and have been subjected to exchange rate valuation.

NOTE 3 - SEGMENT REPORTING

Operating segments are identified on the same basis as financial information is reported internally to the Group's chief operating decision maker. The Company Board of Directors has been identified as the Group's chief operating decision maker who is responsible for allocating resources between segments and assessing their performances. The Group management determines operating segments by reference to the reports reviewed by the Board of Directors to make strategic decisions.

The operating segment of the Group are as follows;

- Petrochemical
- Port

The Board of Directors assesses the performance of operating segments with specific criteria and measurement units. This measurement criterion consists of net sales and operating profit. Assets and liabilities of the segment include all assets and liabilities of the Group.

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

NOTE 3 - SEGMENT REPORTING (Continued)

a) Revenue

	31 December 2019	31 December 2018
Petrochemical	11,550,926	9,169,627
Port	121,294	145,092
Total before eliminations and adjustments	**11,672,220**	**9,314,719**
Consolidation eliminations and adjustments	-	(2)
	11,672,220	**9,314,717**

b) Operating profit/(loss)

Petrochemical	1,214,095	1,117,280
Port	33,938	50,998
Total before eliminations and adjustments	**1,248,033**	**1,168,278**
Consolidation eliminations and adjustments	(34,444)	15,498
Operating profit	**1,213,589**	**1,183,776**
Financial (expenses)/income, net	(385,293)	(202,539)
Income from investing activities, net	30,414	22,563
Profit before tax from continued operations	**858,710**	**1,003,800**
Tax expense	(94,473)	(167,538)
Profit for the period	**764,237**	**836,262**

c) Total assets

Petrochemical	13,791,030	11,583,892
Port	2,266,664	2,124,320
Total before eliminations and adjustments	**16,057,694**	**13,708,212**
Consolidation eliminations and adjustments	(1,256,361)	(1,120,406)
	14,801,333	**12,587,806**

d) Total liabilities

Petrochemical	8,529,570	7,243,428
Port	2,312,556	1,984,915
Total before eliminations and adjustments	**10,842,126**	**9,228,343**
Consolidation eliminations and adjustments	(889,674)	(775,473)
	9,952,452	**8,452,870**

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

NOTE 4 - CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Banks	4,037,170	3,006,484
- Demand deposits	6,049	7,188
- Turkish Liras	597	2,261
- Foreign currency	5,452	4,927
- Time deposits	4,031,121	2,999,296
- Turkish Liras	593,909	137,718
- Foreign currency	3,437,212	2,861,578
Other	-	2,924
	4,037,170	**3,009,408**

The weighted average effective interest rates of USD and Euro time deposits are 2.24% and 1.25% per annum (31 December 2018: USD 5.32%, Euro 2.08%).

As of 31 December 2019, the TL dominated time deposits consist of overnight deposits and the weighted average effective interest rate is 9.75% and 11.62% per annum. (31 December 2018: 22.88% and 23.66%). The Group has no blocked deposits as of 31 December 2019 (31 December 2018: None).

NOTE 5 - INVENTORIES

	31 December 2019	31 December 2018
Raw materials	201,929	273,514
Work-in-progress	275,846	334,646
Finished goods	236,747	310,783
Trade goods	62,775	52,738
Goods in transit	108,851	130,836
Other inventories	55,896	60,379
Less: Provision for impairment on inventories	(12,888)	(33,315)
	929,156	**1,129,581**

Movements of provision for impairment on inventory for the periods ended 31 December 2019 and 2018 were as follows:

	2019	2018
1 January	**(33,315)**	**(1,678)**
Realized due to sales of inventory	33,315	1.678
Current year additions	(12,888)	(33.315)
31 December	**(12,888)**	**(33,315)**

Cost of the raw materials and trade goods included in the cost of sales for the period 1 January - 31 December 2019 amounts to TL8,530,835 (1 January - 31 December 2018: TL6,779,604).

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

NOTE 6 - FINANCIAL INVESTMENTS

	31 December 2019		31 December 2018	
	Amount	Shareholding rate (%)	Amount	Shareholding rate (%)
SOCAR Power Enerji Yatırımları A.Ş.	8,910	9.90	8,910	9.90
	8,910		**8,910**	

8,910,000 shares having a nominal price of TL0,001 per share corresponding to 9,9% of capital of SOCAR Power Enerji Yatırımları A.Ş. (SOCAR Power) (TL8,910) owned by SOCAR Turkey Elektrik Yatırımları Holding A.Ş (Power Holding), which is a subsidiary of controlling shareholder of the Group, SOCAR Turkey Enerji A.Ş., in Socar Power are purchased by the Group on January 26 2015. As of 31 December 2019 and 2018, the cost of financial assets approximates to its fair value.

NOTE 7 - TRADE RECEIVABLES AND PAYABLES

a) Short - term trade receivables from third parties

	31 December 2019	31 December 2018
Trade receivables	1,424,935	1,047,855
Provision for doubtful trade receivables (-)	(24,497)	(22,000)
	1,400,438	**1,025,855**

The maturity of trade receivables as of 31 December 2019 and 31 December 2018 are as follows:

Overdue receivables	18,167	18,637
The trade receivables that are not overdue are as stated below:		
0 to 30 days due	705,108	374,658
31 to 60 days due	260,574	226,020
61 to 90 days due	246,637	209,117
More than 91 days due	169,672	197,423
	1,400,438	**1,025,855**

Other information related with the Group's credit risk is explained in Note 32. Concentrations of credit risk with respect to trade receivables are limited due to the Group's widely diversified customer base, covering the spectrum of manufacturing and distribution and the variety of available end markets in which they sell. As part of its sales policy, the Group obtains 100% of total outstanding TL trade receivables from its customers. An appropriate provision is provided by the Group according to the past experiences of the collections of trade receivables. Therefore, management believes that no additional credit risk exists beyond the Group's trade receivables, which have been identified as doubtful receivable and have been fully provided.

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

NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

a) Short - term trade receivables from third parties (Continued)

Letters of guarantee received for trade receivables

The Group's receivables mainly arise from sales of thermoplastics and fiber materials. As of 31 December, 2019, total amount of letters of guarantee received and bank guarantees within the context of direct order collection system ("DOCS") from domestic and foreign customers are amounting to TL2,406,251 (31 December 2018: TL2,032,063) (Note 31).

	2019	2018
1 January	**(22,000)**	**(22,266)**
Provision for doubtful trade receivables	(4,301)	(338)
Write-offs	1,804	604
31 December	**(24,497)**	**(22,000)**

b) Trade payables

	31 December 2019	31 December 2018
Trade payables	423,351	641,809
	423,351	**641,809**

Average maturity for trade payables other is 20 days as of 31 December 2019 (31 December 2018: 16 days).

NOTE 8 - OTHER RECEIVABLES AND PAYABLES

a) Other short term receivables:

	31 December 2019	31 December 2018
Receivables from third parties	4,786	1,710
Other	1,014	1,407
	5,800	**3,117**
Provision for other doubtful receivables (-)	(1,713)	(934)
	4,087	**2,183**

b) Other short term payables:

Deposits and guarantees received	8,982	12,957
Other	4,170	10,453
	13,152	**23,410**

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

NOTE 9 - BORROWINGS AND BORROWING COSTS

	31 December 2019	**31 December 2018**
Short-term borrowings	2,180,590	1,261,339
Short-term portions of long-term borrowings	223,245	170,377
Bonds issued (**)	72,645	64,114
Short-term lease liabilities	24,815	-
Other financial liabilities (*)	1,510,275	1,523,130
Short term financial liabilities	**4,011,570**	**3,018,960**
Long-term borrowings	1,385,373	1,681,996
Long-term lease liabilities	36,425	-
Bonds issued (**)	2,961,641	2,624,325
Long term borrowings	**4,383,439**	**4,306,321**
Long term financial liabilities	**8,395,009**	**7,325,281**

(*) Other financial liabilities consist of letters of credits and murabaha loans arising from naphtha purchases. The average remaining maturity of other financial liabilities 147 days as of 31 December 2019 (31 December 2018: Average remaining maturity is 95 days).

(**) Petkim issued bonds listed on Ireland Stock Exchange and release of these bonds were finalized on 26 January 2018.Total amount of these issued bonds 500 million USD, with a maturity of 5 years, coupon payment every 6 months and paying principal at the end of the maturity, with an annual interest rate of 5,875%.

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

NOTE 9 - BORROWINGS AND BORROWING COSTS (Continued)

	Effective weighted average Interest rate p.a. (%)		Original currency		TL equivalent	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
Short - term borrowings:						
TL borrowings	13.75 – No Interest	No Interest	33,433	16,108	33,433	16,108
USD borrowings	Libor + 0.50 + 2.25	Libor + 0.50 + 0.65	361,462	221,152	2,147,157	1,163,461
Euro borrowings	-	Libor + 0.50	-	13,565	-	81,770
Short - term portions of long-term borrowings:						
TL borrowings	11.26 - 13.00	-	71,170	-	71,170	-
USD borrowings	Libor + 4.67 - 4.26	Libor + 4.67 - 4.26	13,017	10,631	77,322	55,929
Euro borrowings	Euribor + 0.72 + 3.00 - 1.64	Euribor + 0.6 + 3.00 – 1.64	11,240	18,986	74,753	114,448
Bond issued	5.88	5.88	12,229	12,187	72,645	64,114
Total short - term borrowings					**2,476,480**	**1,495,830**
Long - term borrowings:						
USD borrowings	Libor + 4.67 - 4.26	Libor + 4.67 - 4.26	202,830	215,196	1,204,849	1,132,124
Euro borrowings	Euribor + 0.72 + 3.00 - 1.64	Euribor + 0.6 + 3.00 - 1.64	27,144	91,220	180,524	549,872
Bond issued	5.88	5.88	498,576	498,836	2,961,641	2,624,325
Total long - term borrowings					**4,347,014**	**4,306,321**
Total borrowings					**6,823,494**	**5,802,151**

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

NOTE 9 - BORROWINGS AND BORROWING COSTS (Continued)

The redemption schedule of long-term bank borrowings as of 31 December 2019 and 31 December 2018 is as follows:

	31 December 2019
2021	171,302
2022	194,664
2023	3,135,916
2024	195,195
2025	245,568
2026 and over	404,369
	4,347,014

	31 December 2018
2020	174,808
2021	201,274
2022	218,618
2023	2,831,274
2024	225,618
2025 and over	654,729
	4,306,321

Fair values of the short-term bank borrowings and other financial liabilities approximate their carrying values due to their short-term nature and long-term borrowings due to having floating interest rate updated with market conditions. As of 31 December 2019, the fair value of bonds issued is TL 3,023,140, which are in fixed interest rate financial liabilities and whose carrying value is TL 3,034,286.

As of 31 December 2019, the collaterals given by the Group against US Dollar and Euro loans held are explained in Note 31. The Group is subject to some key performance indicators to for the bonds issued and the Group has met those indicators as of 31 December 2019.

Movements of financial liabilities are as of 31 December 2019 and 31 December 2018 as follows:

	2019	**2018**
1 January	**4,315,873**	**1,491,617**
Proceeds from financial liabilities	4,581,331	4,638,297
Repayments of financial liabilities	(4,138,230)	(1,785,299)
Changes in foreign exchange	557,291	1,441,371
Changes in interest accrual	8,096	78,843
Less: Cash and cash equivalents	(1,027,762)	(1,548,959)
31 December	**4,296,599**	**4,315,873**

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

NOTE 10 - INVESTMENT PROPERTIES

	31 December 2019	31 December 2018
Land	1,476	1,476
	1,476	**1,476**

30 years right of construction of the land, that is 2.085.347 m2, is given to the Star Rafineri A.Ş. ("STAR") by Group. The annual cost of the land, that is located in Aliağa district, is USD 5.3 million and the cost will be increased at the rate of Libor + 1% each year. 30 years right of construction of the land, that is 11,017.36 m2, is given to a third party by the Group.

As of 31 December 2019, according to the valuation report of a real estate appraisal company authorized by the CMB prepared for STEAŞ, the market value of the land has been determined as TL 1.897.946.

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

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2019	Additions	Transfers	Disposals	Foreign currency translation differences	31 December 2019
Cost:						
Land	16,216	107,484	-	(2)	198	123,896
Land improvements	206,498	-	18,240	-	350	225,088
Buildings	187,797	-	1,730	-	110	189,637
Machinery and equipment	7,408,282	-	314,022	(61,435)	-	7,660,869
Motor vehicles	11,628	-	-	-	-	11,628
Furniture and fixtures	124,523	-	21,225	(1,242)	80	144,586
Other fixed assets	996	-	-	-	-	996
Leasehold improvements	671	-	-	-	-	671
Assets subject to operating lease (**)	1,624,656	-	-	-	193,729	1,818,385
Construction in progress (*)	555,530	656,194	(373,523)	-	291	838,492
	10,136,797	**763,678**	**(18,306)**	**(62,679)**	**194,758**	**11,014,248**
Accumulated depreciation:						
Land improvements	(97,567)	(8,789)	-	-	(98)	(106,454)
Buildings	(110,919)	(4,477)	-	-	(57)	(115,453)
Machinery and equipment	(5,687,677)	(225,911)	-	48,188	-	(5,865,400)
Motor vehicles	(9,758)	(860)	-	-	-	(10,618)
Furniture and fixtures	(65,887)	(12,071)	-	932	(77)	(77,103)
Other fixed assets	(996)	-	-	-	-	(996)
Leasehold improvements	(671)	-	-	-	-	(671)
Assets subject to operating lease	(77,927)	(56,730)	-	-	(11,749)	(146,406)
	(6,051,402)	**(308,838)**	**-**	**49,120**	**(11,981)**	**(6,323,101)**
Net book value	**4,085,395**					**4,691,147**

(*) Construction in progress mainly consist of investments related to facility improvements.
(**) Assets subject to operating lease consists of port investment.

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

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2018	Additions	Transfers	Disposals	Foreign currency translation differences	31 December 2018
Cost:						
Land	13,501	-	2,738	(23)	-	16,216
Land improvements	177,687	-	28,047	-	764	206,498
Buildings	171,743	-	15,818	-	236	187,797
Machinery and equipment	6,862,864	-	548,953	(3,535)	-	7,408,282
Motor vehicles	11,512	-	197	(81)	-	11,628
Furniture and fixtures	98,178	-	27,063	(899)	181	124,523
Other fixed assets	996	-	-	-	-	996
Leasehold improvements	671	-	-	-	-	671
Assets subject to operating lease (**)	663,032	-	566,597	-	395,027	1,624,656
Construction in progress (*)	963,829	768,655	(1,199,195)	(8,147)	30,388	555,530
	8,964,012	**768,655**	**(9,782)**	**(12,685)**	**426,596**	**10,136,797**
Accumulated depreciation:						
Land improvements	(90,896)	(6,552)	-	-	(119)	(97,567)
Buildings	(106,681)	(4,140)	-	-	(98)	(110,919)
Machinery and equipment	(5,504,853)	(186,296)	-	3,472	-	(5,687,677)
Motor vehicles	(8,893)	(932)	-	67	-	(9,758)
Furniture and fixtures	(57,109)	(9,205)	-	557	(130)	(65,887)
Other fixed assets	(996)	-	-	-	-	(996)
Leasehold improvements	(634)	(37)	-	-	-	(671)
Assets subject to operating lease	(21,558)	(45,196)	-	-	(11,173)	(77,927)
	(5,791,620)	**(252,358)**	**-**	**4,096**	**(11,520)**	**(6,051,402)**
Net book value	**3,172,393**					**4,085,395**

(*) Construction in progress mainly consist of investments related to facility improvements.
(**) Assets subject to operating lease consists of port investment.

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group has compared the investment loans in foreign currencies with investment loans in the same terms and conditions denominated in TL and no borrowing costs capitalized in 2019 (31 December 2018: None).

Depreciation charges amounting to TL318,272 for the year ended 31 December 2019 (31 December 2018: TL257,996) were allocated to cost of sales by TL277,819(31 December 2018: TL222,073) to inventories by TL15,862 (31 December 2018: TL15,666), to general administrative expenses by TL18,267 (31 December 2018: TL14,961), to marketing, selling and distribution expenses by TL4,452 (31 December 2018: TL2,246), and to research and development expenses by TL1,872 (31 December 2018: TL3,050).

As of 31 December 2019, Petlim Limancılık Ticaret A.Ş. has given 1st degree mortgage in favor of Akbank T.A.Ş. on its land amounting to USD 350 million on the date of 20 November 2015 (31 December 2018: USD350 million).

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

NOTE 12 - INTANGIBLE ASSETS

	1 January 2019	Additions	Transfers	Disposals	Foreign Currency differences	31 December 2019
Cost:						
Rights and software	38,494	-	18,307	(103)	167	56,865
Capitalized development costs	14,137	-	-	(3,428)	-	10,709
	52,631	**-**	**18,307**	**(3,531)**	**167**	**67,574**
Accumulated amortization:						
Rights and software	(18,901)	(6,344)	-	12	(14)	(25,247)
Capitalized development costs	(5,937)	(3,090)	-	2,402	-	(6,625)
	(24,838)	**(9,434)**		**2,414**	**(14)**	**(31,872)**
Net book value	**27,793**					**35,702**

	1 January 2018	Additions	Transfers	Disposals	Foreign Currency differences	31 December 2018
Cost:						
Rights and software	31,291	-	7,145	-	58	38,494
Capitalized development costs	11,500	-	2,637	-	-	14,137
	42,791	**-**	**9,782**	**-**	**58**	**52,631**
Accumulated amortization:						
Rights and software	(16,058)	(2,820)	-	-	(22)	(18,901)
Capitalized development costs	(3,119)	(2,818)	-	-	-	(5,937)
	(19,177)	**(5,638)**	**-**	**-**	**(22)**	**(24,838)**
Net book value	**23,614**					**27,793**

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

NOTE 13 - GOVERNMENT GRANTS

As of 31 December 2019, government grants consist of research and development incentives granted from TÜBİTAK amounting to TL2,661 and from other institutions TL909 (31 December 2018: TL2,413) and TL2,421 (31 December 2018: TL304) of that incentives grant has been presented in income statement. Investment incentives that of the Group are disclosed in Note 20.

NOTE 14 - DEFERRED REVENUE

a) Short term deferred revenue

	31 December 2019	31 December 2018
Advances received	42,028	20,121
Deferred revenue	511	1,903
	42,539	**22,024**

NOTE 15 - PREPAID EXPENSES

a) Short - term prepaid expenses

	31 December 2019	31 December 2018
Advances given for inventory	28,531	25,153
Prepaid insurance and other expenses	8,439	8,689
Advances given for customs procedures	3,326	2,169
	40,296	**36,011**

b) Long - term prepaid expenses

Advances given for property, plant and equipment	33,941	45,270
Prepaid insurance and other expenses	1,869	6,845
	35,810	**52,115**

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

NOTE 16 - EMPLOYEE BENEFITS

a) Liabilities for employee benefits

	31 December 2019	31 December 2018
Due to personnel	10,944	1,464
Social security contribution	8,995	8,598
	19,939	**10,062**

b) Short - term employee benefits

Provision for bonus premium	24,500	24,500
Provision for seniority incentive bonus	9,280	5,551
	33,780	**30,051**

c) Long - term employee benefits

Provision for employment termination benefits	94,821	82,718
Provision for unused vacation rights	19,196	16,702
Provision for seniority incentive bonus	5,106	6,350
	119,123	**105,770**

Provision for unused vacation:

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

	2019	2018
1 January	**16,702**	**11,491**
Changes in the period, net	2,494	5,211
31 December	**19,196**	**16,702**

Provision for employment termination benefits:

Under Turkish Labour Law, the Group is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who is called up for military service, dies or retires after completing 25 years of service (20 years for women).

The amount payable consists of one month's salary limited to a maximum ceiling of TL6,379.86 for each year of service as of 31 December 2019 (31 December 2018: TL5,434.42).

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

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

NOTE 16 - EMPLOYEE BENEFITS (Continued)

Provision for employment termination benefits (Continued):

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

TAS 19 requires actuarial valuation methods to be developed to estimate the enterprises' obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	31 December 2019	31 December 2018
Net discount rate (%)	3.50	5.00
Probability of retirement (%)	100.00	100.00

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of TL6,730.15 which is effective from 1 January 2020, has been taken into consideration in the calculation of employment termination benefits of the Group (1 January 2019: TL6,017.60).

The movements of the provision for employment termination benefits are as follows:

	2019	2018
1 January	**82,718**	**79,164**
Interest cost	13,468	9,262
Payments during the period	(19,101)	(14,409)
Service cost	6,757	6,257
Actuarial (gain)/loss	10,979	2,444
31 December	**94,821**	**82,718**

Sensitivity analysis of the assumptions, that are used in order to calculate the provision of the employment termination benefits as 31 December 2019 and 2018 are follows:

	31 December 2019 Net discount rate		31 December 2018 Net discount rate	
Sensitivity analysis	**100 Basis point increase**	**100 Basis point decrease**	**100 Basis point increase**	**100 Basis point decrease**
Rate	4.50	2.50	6.00	4.00
Change in liability of employment Termination benefit	(9,006)	11,239	(5,653)	6,678

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

NOTE 16 - EMPLOYEE BENEFITS (Continued)

Provision for seniority incentive bonus

Seniority incentive bonus is a benefit provided to the personnel to promote their loyalty to the job and workplace.

The bonus amounting to 40 days of gross salary for 5 years seniority, 50 days of gross salary for 10 years seniority, 65 days of gross salary for 15 years seniority, 80 days of gross salary for 20 years seniority, 90 days of gross salary for 25 and 100 days of gross salary for 30, 35 and 40 years seniority is paid to the union personnel with the gross salary of the month when they are reached to the seniority level. In case of termination of employment for any reason that does not prevent gaining severance pay, 20% of seniority incentive which the employee will gain, for each year last first seniority incentive level. In this calculation the periods which are shorter than six months are not considered. Periods which are more than six months are considered as one year.

For the non-union personnel working at the Group, the bonus amounting to 40 days of gross salary for 5 years seniority, 50 days of gross salary for 10 years seniority, 65 days of gross salary for 15 years seniority, 80 days of gross salary for 20 years seniority, 90 days of gross salary for 25 years and100 days for 30, 35 and 40 years seniority for the seniority levels in which they are entitled as of the aforementioned date and 30 days of gross salary for the following seniority levels that they are going to be entitled is paid with the gross salary of the month when they are reached to the seniority level. In case of termination of employment for any reason that does not prevent gaining severance pay, 20% of seniority incentive which the employee will gain, for each year last first seniority incentive level. In this calculation the periods which are shorter than six months are not considered. Periods which are more than six months are considered as one year.

The seniority incentive bonus provision is calculated by estimating the present value of the future probable obligation arising from the qualification of the employees for the bonus.

TAS 19 requires that actuarial valuation methods to be developed to estimate the employee benefit provisions. The following actuarial assumptions have been used in the calculation of the total provision:

	31 December 2019	**31 December 2018**
Net discount rate (%)	3.50	5.00
Used rate related to retirement probability (%)	100.00	100.00

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

	2019	**2018**
1 January	**11,901**	**9,670**
Interest cost	1,945	1,131
Payments during the period	(6,438)	(6,325)
Service cost	7,640	6,974
Actuarial (gain)/loss	(662)	451
31 December	**14,386**	**11,901**

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

NOTE 17 - OTHER ASSETS AND LIABILITIES

a) Other current assets

	31 December 2019	31 December 2018
Value added tax ("VAT") receivable	114,606	60,087
Other	1,621	779
	116,227	**60,866**

b) Other non - current assets

Spare parts	16,340	15,867
Other	18	18
	16,358	**15,885**

c) Other liabilities

Taxes and funds payable and other deductions	20,814	16,525
Other	218	115
	21,032	**16,640**

NOTE 18 - DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2019			31 December 2018		
		Fair value (TL)			Fair value (TL)	
	Nominal contract amount (TL)	Assets	(Liabilities)	Nominal contract amount (TL)	Assets	(Liabilities)
Foreign currency forward transactions	-	-	-	152,866	1,129	(3,027)
Emtia swap contract	-	-	-	114,718	-	(10,927)
Interest rate swap - transactions (*)	447,882	-	(24,118)	399,978	624	-
		-	**(24,118)**		**1,753**	**(13,954)**

(*) The Group's hedging transactions that fulfil the conditions of hedge accounting from financial risk are classified as derivatives for hedging purposes. The maturities of these contracts are matched to the interest payment dates of the bank loans with floating interest rates and the fair value changes of the derivative instruments are accounted in the statement of other comprehensive income.

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

NOTE 19 - EQUITY

The shareholders of the Company and their shareholdings as of 31 December 2019 and 31 December 2018 were as follows:

		31 December 2019		31 December 2018	
Shareholder:		**Amount**	**Share (%)**	**Amount**	**Share (%)**
A	Socar Turkey Petrokimya A.Ş.	1,077,120	51.00	841,500	51.00
A	Publicly traded and other	1,034,880	49.00	808,500	49.00
C	Privatization Administration	-	0.01	-	0.01
Total paid share capital		**2,112,000**	**100**	**1,650,000**	**100**
Adjustment to share capital		238,988		238,988	
Total share capital		**2,350,988**		**1,888,988**	

Adjustment to share capital represents the difference between the inflation adjusted amounts of the cash and cash equivalents of the paid-in capital and the amounts before the inflation adjustment.

With General Assembly meeting decision dated 29 March 2019, within the maximum registered capital of TL4,000,000, a bonus share of %28 of the issued capital and a bonus share of TL462,000 was increased from TL1,650,000 to TL2,112,000. Approved and issued capital of the Company consist of 211,199,999,999 Group A shares, each of them having a registered nominal price of 1Kr, and 1 Group C preferred stock belonging to Management (December 31, 2018 **-** Approved and issued capital of the Company consist of 164,999,999,999 Group A shares, each of them having a registered nominal price of 1Kr, and 1 Group C preferred stock belonging to Management).

Capital of the Company is composed of all registered shares.

The following matters are subject to the approval of the member of the Board of Directors representing the C type share:

- The amendments on the articles of association affecting the privileges of type C,
- The recording of the transfer of the registered shares in the stock ledger,
- The determination of the form of the certificate of authority stated in the 31st clause of the Articles of Association,
- The decision related with the reduction of the capacity of any plant by 10% owned by the Company
- The foundation of new company or partnership, acquisition of a company being a partner of existing companies and/or merging with them, spin-off, changes of the titles, annulment and winding-up.

NOTE 19 - EQUITY (Continued)

Dividend distribution

Listed companies shall distribute their profit in accordance with the Capital Market Board's Communiqué on Dividends II-19.1 which is effective from February 1, 2014.

Companies shall distribute their profits as part of the profit distribution policies to be determined by their general assemblies and in accordance with the related regulation provisions. A minimum distribution rate has not been determined in these regulations. The companies pay dividends as determined in their main agreements or profit distribution policies. Furthermore, dividends may be paid in instalments with same or different amounts and profit share advances may be distributed over the profit in the financial statements.

In accordance with the Turkish Commercial Code (TCC), no decision may be made to set aside other reserves, to transfer profits to the subsequent year or to distribute dividends to the holders of a usufruct right certificate, to the members of the board of directors or to the employees unless the required reserves and the dividend for shareholders as determined in the main agreement or in the dividend distribution policy of the company are set aside; and no dividend can be distributed to these persons unless the determined dividend for shareholders is paid in cash.

The dividend distribution policy of the Company has been determined in accordance with the Communiqué on Dividends II-19-1 as follows:

- In line with the determination of Profit Distribution Policy in 2013 and in the forthcoming years; the Company, in principle, accepts to distribute profits in cash to shareholders at the maximum level without disregarding its medium term and long term strategies, investment and financial plans, market conditions, and economic developments.

- According to the Article numbered 37 of Association of the Company, dividends in advance can be distributed.

- In the event that distributable profit is available in accordance with relevant communiqués, the Profit Distribution resolution to be taken by the Board of Directors in the form of cash and/or shares and/or installments as long as the amount is not below than 50% of the distributable profit within the frame of the provisions of Capital Market Legislation and Turkish Commercial Code shall be submitted to the approval of General Assembly; and the distribution shall be completed within legal terms.

- According to the Articles of Association of the Company, the amount to be determined by the General Assembly, not exceeding the 0,1% of distributable profits remaining after distribution of first dividend shall be distributed to Board Members.

- A consistent policy shall be followed between the benefits of the shareholders' and the company in the application of Profit Distribution Policy.

- The date of distribution shall be decided by General Assembly upon proposal of the Board. Profit distribution payments shall be completed within legal terms. For other methods of profit distribution, relevant legislation, communiqués, and regulations of CMB shall be followed.

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

NOTE 19 - EQUITY (Continued)

Dividend distribution (Continued)

- In the event that calculated "net distributable profit for the year" is below 5% of issued capital, no profit shall be distributed.

- When no profit is distributed, the Board of Directors shall inform the shareholders at General Assembly meeting about the reasons and how the undistributed profits would be allocated.

A provision in the main agreement is required for dividend to be distributable to holders of privileged shares, holders of usufruct right certificate, to the members of the board of directors, to the employees of the company and to non-shareholders. If, despite the fact that a provision is present in the main agreement regarding dividend distribution to these persons, a rate has not been determined, the dividend to be distributed to these persons may not exceed one fourth of the dividend distributed to shareholders under any circumstance except for those arising from privilege.

In accordance with the Communiqué No:XI-29 and related announcements of CMB, effective from January 1, 2008, "Share Capital", "Restricted Reserves" and "Share Premiums" shall be carried at their statutory amount. The valuation differences shall be classified as follows:

- the difference arising from the "Paid-in Capital" and not been transferred to capital yet, shall be classified under the "Inflation Adjustment to Share Capital";

- the difference due to the inflation adjustment of "Restricted reserves" and "Share premium" and the amount has not been utilized in dividend distribution or capital increase yet, shall be classified under "Retained earnings". Other equity items shall be carried at the amounts calculated based on CMB Financial Reporting Standards.

Adjustment to share capital has no use other than being transferred to paid-in share capital.

NOTE 20 - TAX ASSETS AND LIABILITIES

a) Corporate tax:

Current tax liabilities at 31 December 2019 and 31 December 2018 are summarized below:

	31 December 2019	31 December 2018
Calculated corporation tax	50,677	125,936
Less: Prepaid taxes (-)	(54,674)	(157,861)
Total corporation tax asset	**(3,997)**	**(31,925)**

Tax expenses included in the income statement for the condensed consolidated periods ended 31 December 2019 and 2018 are summarized below:

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

NOTE 20 - TAX ASSETS AND LIABILITIES (Continued)

a) Corporate tax (Continued):

	1 January - 31 December 2019	1 January - 31 December 2018
Deferred tax expense	(43,796)	(41,602)
Current period tax expense	(50,677)	(125,936)
Total tax expense	**(94,473)**	**(167,538)**

Turkish tax legislation does not permit a parent company, its subsidiaries and its subsidiaries to file a tax return on its consolidated financial statements. For this reason, the tax provisions reflected in the financial statements in this consolidated are separately calculated for the subsidiaries.

In Turkey, the corporate tax rate is %22 for 2019 (2018: 22%). Institutions tax rate is applied to the tax base that will result in deducting expenses not included in the deduction according to the tax legislation of the corporation's commercial income, deduction in the tax laws (exemption of participation profits, exception of investment discount etc.) and discounts (such as R&D discount). No further tax is payable unless the profit is distributed (except for the withholding tax at the rate of 19.8% calculated and paid on the exemption amount utilized in case of investment reduction exemption utilized under Article 61 of the Income Tax Law).

b) Deferred taxes

The Group recognizes deferred income tax assets and liabilities based upon temporary differences arising between their financial statements as reported under the TAS and the statutory tax financial statements prepared in accordance with Corporate Tax Law.

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017, "Bazı Vergi Kanunları le Diger Bazı Kanunlarda Degisiklik Yapılmasına Dair Kanun", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%.

Details of cumulative temporary differences and the resulting deferred income tax assets and liabilities provided as of 31 December 2019 and 31 December 2018 are as follows:

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

NOTE 20 - TAX ASSETS AND LIABILITIES (Continued)

b) Deferred taxes (Continued)

	Taxable Temporary Differences		**Deferred Income Tax Assets/(Liabilities)**	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Difference between the carrying values and tax bases of property, plant, equipment and intangible assets	(185,629)	(99,163)	(37,126)	(19,833)
Deferred revenue related to the port rental agreement	-	(6,556)	-	(1,311)
Other	-	(4,468)	-	(893)
Deferred income tax liabilities	**(185,629)**	**(110,187)**	**(37,126)**	**(22,037)**
Unused investment incentives	860,956	888,885	228,251	236,079
Provision for employee benefits	152,898	135,816	30,580	27,163
Deferred revenue related to the Port rental agreement	14,504	-	2,901	-
Carry forward tax losses	121,212	21,976	24,242	4,395
Fair value difference of derivative financial instruments	24,118	13,954	4,824	2,791
Inventory provision	12,888	33,315	2,578	6,663
Rent allowance fee	4,141	4,309	828	862
Provision for legal cases	2,635	3,068	527	614
Other	19,105	71,850	3,821	14,370
Deferred income tax assets	**1,212,457**	**1,173,173**	**298,552**	**292,937**
Deferred tax assets / (liabilities) - net			**261,426**	**270,900**

The reconciliations of the taxation on income for the years ended December 31, 2019 and 2018 were as follows:

	1 January - 31 December 2019	**1 January - 31 December 2018**
Profit before tax	**858,710**	**1,003,800**
Statutory tax rate	%22	%22
Calculated tax expense based on effective tax rate	(188,916)	(220,836)
Reconciliation between the tax provision and calculated tax:		
Effect of unused tax losses for which no deferred tax asset was recognized	(2,928)	-
Utilised investment incentives during the year	117,540	53,029
Income exempt from tax	1,058	3,882
Non-deductible expense	(24,771)	(3,978)
Other	3,544	365
Total tax expense reported in the profit or loss statement	**(94,473)**	**(167,538)**

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

NOTE 20 - TAX ASSETS AND LIABILITIES (Continued)

b) Deferred taxes (Continued)

The movement of deferred income tax is as follows:

	2019	2018
1 January	**270,900**	**237,963**
Recognized in the profit or loss statement	(43,796)	(41,602)
Recognized in other comprehensive income	4,446	1,671
Foreign currency translation differences	29,876	72,868
31 December	**261,426**	**270,900**

The Group obtained a strategic investment incentive certificate from TC Ministry of Economy for PTA capacity increase project on January 4, 2013. The Group will be able to deduct 50% of the expenditures within the investment period that are in the scope of the investment incentives, from tax base, up to 90% as deduction from corporate tax. The Group has TL240,878 unused investment incentive within the scope of strategic investment incentive certificate as of December, 31, 2019. In this context, as of 31 December, 2019 the Group has recognized deferred tax assets, that can be used in following periods, amounting to TL30,561.

As a result of request from TC Ministry of Economy for RES investment, the project was included in the scope of the strategic incentive certificate for the request made in April 20, 2015. The Group will be able to deduct 22.2% of the expenditures within the investment period. The group has TL33,300 unused investment incentive within the scope of strategic investment incentive certificate as of 31 December 2019. In this context, as of December 31, 2019, the Group has recognized deferred tax asset, that can be used in following periods, amounting to TL582.

The Group has obtained regional investment incentive certificates from T.C. Ministry of Economy for factory modernization investment at the date of June 15, 2012. The Group will be able to deduct 50% of the expenditures within the investment period that are in the scope of the investment incentives, from tax base, up to 15% deduction from corporate tax. The group has TL249,450 unused investment incentive within the scope of strategic investment incentive certificate as of 31 December, 2019. In this context, as of 31 December, 2019, the Group has recognized deferred tax asset, that can be used in following periods, amounting to TL3,834.

The Group has obtained large scale of investment incentive certificate from T.C. Ministry of Economy for port project investments at the date of November 20, 2014. The Group will be able to deduct 25% of the expenditures within the investment period that are in the scope of the investment incentives, from tax base, up to 50% as deduction from corporate tax. The Group has TL773,096 unused investment incentives within the scope of the port project investment certificate. In this context, as of December 31, 2019, the Group has recognized deferred tax asset, that can be used in following periods, amounting to TL193,274.

As a result of projections made as of December 31, 2019, total investment expenditures made within the scope of total investment incentive documents foreseen to be used in deduction of expected future financial income amounted to TL860,956 (31 December 2018: TL888,885).

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

NOTE 21 - REVENUE AND COST OF SALES

	1 January - 31 December 2019	1 January - 31 December 2018
Domestic sales	6,992,880	5,758,811
Export sales	4,858,785	3,797,455
Other sales	123,280	76,748
Sales discounts (-)	(302,725)	(318,297)
Net sales	**11,672,220**	**9,314,717**
Direct raw materials and supplies	(6,294,584)	(5,396,480)
Cost of trade goods sold	(2,236,251)	(1,383,124)
Energy	(701,802)	(479,824)
Labour costs	(392,627)	(323,765)
Depreciation and amortization	(283,679)	(222,073)
Changes in work in progress and finished goods	(132,837)	221,018
Other	(29,303)	(151,509)
Cost of sales	**(10,071,083)**	**(7,735,757)**

NOTE 22 - GENERAL ADMINISTRATIVE EXPENSES

	1 January - 31 December 2019	1 January - 31 December 2018
Personnel expense	(127,253)	(113,058)
Outsourced services	(57,235)	(66,976)
Depreciation and amortization	(43,157)	(14,961)
Energy expenses	(16,478)	(10,629)
Taxes, funds and fees	(11,283)	(11,360)
Other	(29,757)	(26,775)
	(285,163)	**(243,759)**

NOTE 23 - MARKETING, SELLING AND DISTRIBUTION EXPENSES

	1 January - 31 December 2019	1 January - 31 December 2018
Outsourced services	(46,376)	(40,160)
Personnel expense	(26,583)	(23,715)
Depreciation and amortization	(7,074)	(2,246)
Other	(16,154)	(11,465)
	(96,187)	**(77,586)**

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

NOTE 24 - RESEARCH AND DEVELOPMENT EXPENSES

	1 January - 31 December 2019	1 January - 31 December 2018
Personnel expense	(18,382)	(15,102)
Outsourced services	(1,872)	(3,050)
Depreciation and amortization	(2,608)	(1,591)
Other	(2,005)	(2,560)
	(24,867)	**(22,303)**

NOTE 25 - OTHER INCOME/ EXPENSES FROM OPERATING ACTIVITIES

a) Other operating income:

	1 January - 31 December 2019	1 January - 31 December 2018
Foreign exchange gains	265,076	380,593
Term sales income	36,376	35,163
Rent income	14,024	13,160
Other	14,768	19,069
	330,244	**447,985**

b) Other operating expenses

Foreign exchange losses	(149,578)	(308,992)
Consultancy expenses	(37,183)	(60,250)
Term purchase expense	(21,303)	(43,825)
Provision for doubtful receivables	(3,277)	(339)
Other	(100,234)	(86,115)
	(311,575)	**(499,521)**

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

NOTE 26 - INCOME / (EXPENSES) FROM INVESTMENT ACTIVITIES

a) Income from investment activities

	1 January - 31 December 2019	1 January - 31 December 2018
Rent income	31,791	19,677
Gain on sale of property, plant and equipment	9,151	3,150
	40,942	**22,827**

b) Expenses from investment activities

Loss on sale of property, plant and equipment	(10,528)	(264)
	(10,528)	**(264)**

NOTE 27 - FINANCIAL INCOME / EXPENSES

a) Finance income

	1 January - 31 December 2019	1 January - 31 December 2018
Foreign exchange gains	1,563,941	2,180,848
Interest income	128,585	224,292
Other	2,204	3,198
	1,694,730	**2,408,338**

b) Finance expense

Foreign exchange loss	(1,637,122)	(2,243,934)
Interest expense	(376,601)	(301,738)
Interest expense from lease liabilities	(25,561)	-
Commission expense	(25,317)	(49,520)
Interest expense on employee benefits	(15,413)	(9,262)
Other	(9)	(6,423)
	(2,080,023)	**(2,610,877)**

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

NOTE 28 - EARNINGS PER SHARE

	1 January - 31 December 2019	1 January - 31 December 2018
Net profit for the period of the equity holders of the parent	813,291	871,672
Weighted average number of shares with nominal value of Kr l each (thousand)	211,200	211,200
Earnings per share (Kr)	**0.3851**	**0.4127**

NOTE 29 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Summary of the intercompany balances as of 31 December 2019 and 31 December 2018 and significant intercompany transactions during the period were as follows:

i) Balances with related parties

a) Short - term trade receivables from related parties:

	31 December 2019	31 December 2018
SOCAR Aliağa Liman İşletmeciliği A.Ş. (2)	151,695	168,543
Kayserigaz Kayseri Doğalgaz Dağ Paz. ve Tic A.Ş. (2)	20	-
	151,715	**168,543**

b) Short - term other receivables from related parties:

SOCAR Turkey Araştırma Geliştirme ve İnovasyon A.Ş. (2)	7,009	-
Socar Turkey Petrol Ener. Dağ. A.Ş. (2)	679	-
STAR (2)	541	506
STEAŞ (1)	164	1,409
SOCAR Trading SA (2)	164	-
SOCAR Turkey Akaryakıt Depolama A.Ş. (2)	38	180
SOCAR Aliağa Liman İşletmeciliği A.Ş. (2)	71	24
SCR Müşavirlik ve İnşaat A.Ş. (formerly named as "SCR Gayrimenkul A.Ş.") (2)	6	923
TANAP Doğalgaz İletişim A.Ş. (2)	-	1
	8,672	**3,043**

c) Long - term other receivables from related parties:

SOCAR Power Enerji Yatırımları A.Ş. (2)	6,462	109,745
	6,462	**109,745**

(1) Shareholders of the Company.
(2) Shareholders of the Company or SOCAR's subsidiaries.

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

NOTE 29 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

i) Balances with related parties (Continued)

d) Short - term trade payables to related parties:

	31 December 2019	31 December 2018
STAR [(2)]	273,692	2,175
STEAŞ [(1)]	115,374	45,330
SOCAR Turkey Petrokimya A.Ş. [(1)]	71,285	-
Socar Turkey Petrol Ener. Dağ. A.Ş. [(2)]	45,051	7,316
SCR Müşavirlik ve İnşaat A.Ş. [(2)]	15,235	6
SOCAR Turkey Akaryakıt Depolama A.Ş. [(2)]	11,810	90
Azoil Petrolcülük A.Ş. [(2)]	868	419
SOCAR Turkey Fiber Optik A.Ş. [(2)]	244	-
Other [(2)]	109	-
	533,668	**55,336**

Short term trade payables to related parties are mainly consist of naphta, engineering services, consultancy and trade goods purchases. Average maturity of short term trade payables is 11 days. (31 December 2018: 29 days.).

e) Other payables to related parties:

Due to shareholder [(1)]	87	87
STEAŞ [(1)]	-	25,215
	87	**25,302**

f) Short - term deferred revenue from related parties

STAR [(2)]	184	1,495
	184	**1,495**

g) Long - term deferred revenue from related parties

SOCAR Aliağa Liman İşletmeciliği A.Ş. [(2) (*)]	190,228	174,527
STAR [(2)]	4,372	4,141
	194,600	**178,668**

(1) Shareholders of the Company.
(2) Shareholders of the Company or SOCAR's subsidiaries.

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

NOTE 29 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

i) Balances with related parties (Continued)

h) Short - term prepaid expense to related parties

	31 December 2019	31 December 2018
STEAŞ[1] [**]	2,852,279	2,525,317
STAR [2]	1,813	1,107
SOCAR Logistics DMCC [2]	604	-
Other [2]	193	-
	2,854,889	**2,526,424**

(*) In accordance with the operating agreement between The Group and SOCAR Aliağa Liman İşletmeciliği A.Ş., during the rental period of the port (32 years), a prepayment amount of USD 33 million was received as part of the total rental amount. The Group recognizes these prepayments as income through the straight-line method.

(**) As a result of negotiations between the Group and its main shareholder SOCAR Turkey Enerji A.Ş. (STEAŞ), a share sale and transfer agreement ("Agreement") has been signed on 9 January 2018 in order to acquire 30% shares of Rafineri Holding A.Ş. (Rafineri Holding) from STEAŞ with a purchase price of USD 720 million. Rafineri Holding A.Ş. owns 60% shares of SOCAR Turkey Yatırım A.Ş. The shares of Rafineri Holding which are subject to the contract may be purchased by the Group provided that the conditions specified in the Agreement are realized on a date which is defined as the closing date in the contract. Closing date defined as 31 March 2019 as per agreement is modified as no later than 30 June 2020 by modification memorandum signed at 7 March 2019. As the agreement, Petkim has a share transfer contract that can be terminated at Petkim's own discretion and finalisation of the share transfer is subject to Group's operational performance and cash flows, advances paid are reclassified as prepaid expenses to related parties in the balance sheet as of 31 December 2019 and have been subject to exchange rate valuation.

i) Long - term prepaid expense to related parties

STAR [2]	21,935	19,892
STEAŞ[1]	1,481	103
	23,416	**19,995**

j) Short-term leasing payables to related parties

SCR Müşavirlik ve İnşaat A.Ş. [2]	22,793	-
STEAŞ [1]	2,881	-
	25,674	**-**

k) Long-term leasing payables to related parties

SCR Müşavirlik ve İnşaat A.Ş. [2]	92,293	-
STEAŞ [1]	11,268	-
	103,561	**-**

(1) Shareholders
(2) Shareholders or subsidiaries of Socar

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

NOTE 29 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

ii) Transactions with related parties

a) Other income/(expenses), income from investing activities and finance income/(expenses) from related party transactions - net:

	1 January - 31 December 2019	1 January - 31 December 2018
STEAŞ [1]	328,204	148,003
SOCARPowerEnerji Yatırımları A.Ş. [2]	21,774	33,031
SOCAR Turkey Araştırma Geliştirme ve İnovasyon A.Ş. [2]	5,940	-
STAR [2]	3,001	5,231
SOCAR Turkey Akaryakıt Depolama A.Ş. [2]	435	971
SOCAR Aliağa Liman İşletmeciliği A.Ş. [2]	435	-
Socar Turkey Petrol Ener. Dağ. [2]	266	(3,524)
Socar Trading SA [2]	159	-
Kayserigaz Kayseri Doğalgaz Dağ Paz. ve Tic A.Ş. [2]	30	-
SCR Müşavirlik ve İnşaat A.Ş. [2]	(23,573)	10,151
SOCAR Logistics DMCC [2]	(139)	-
SOCAR Azerikimya Production Union [2]	(3)	-
SOCAR Turkey Petrokimya A.Ş. [1]	-	152,680
Azoil Petrolcülük A.Ş. [2]	-	(6)
	336,557	**346,537**

The breakdown of income from STAR is as follows; TL53 is foreign exchange loss, TL3,054 other income and the breakdown of income from STEAŞ is as follows;TL6,044 interest income, TL326,067 foreign exchange gain and TL3,907 other expense. Income from SOCAR Power Enerji Yatırımları A.Ş. consists of TL11,394 foreign exchange gain and TL10,380 interest income.

(1) Shareholders of the Company.
(2) Shareholders of the Company or SOCAR's subsidiaries.

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

NOTE 29 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

ii) Transactions with related parties (Continued)

b) Service and rent purchases from related parties:

	1 January - 31 December 2019	1 January - 31 December 2018
SCR Müşavirlik ve İnşaat A.Ş. [2]	28,662	-
STEAŞ[1]	27,936	43,623
STAR [2]	13,422	16,271
Other[2]	2,429	122
	72,449	**64,337**

The purchases from SCR Müşavirlik and STAR mainly consist of rent purchases. The service purchases from STEAŞ consist of labor cost charges of STEAŞ personnel amounting to TL11,062 and other services purchases amounting to TL16,874.

c) Product purchase from related parties:

STAR [2]	2,313,009	-
SOCAR Turkey Petrokimya A.Ş. [1]	626,496	-
SOCAR Turkey Petrol Enerji Dağıtım A.Ş.[2]	485,081	210,674
SOCAR Logistics DMCC[2]	12,558	-
Azoil Petrolcülük A.Ş. [2]	3,064	2,747
Socar Trading SA. [2]	-	40,427
	3,440,208	**253,848**

Goods purchases from related parties consist of raw material and commercial product purchases. Purchases from STAR consist of 759,182 tons of 2,126,253 TL naphtha purchases, 86,808 tons and 186,756 TL other purchases.

[1] Shareholders of the Company.
[2] Shareholders of the Company or SOCAR's subsidiaries.

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

NOTE 29 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

ii) Transactions with related parties (Continued)

d) Product and service sales to related parties:

	1 January - 31 December 2019	1 January - 31 December 2018
STAR [2]	83,562	32,824
SOCAR Azerikimya Production Union [2]	4,875	-
SOCAR Aliağa Liman İşletmeciliği A.Ş. [2]	4,302	-
SOCAR Turkey Akaryakıt Depolama A.Ş. [2]	3,590	401
STEAŞ [1]	457	346
SCR Müşavirlik ve İnşaat A.Ş. [2]	162	-
	96,948	**33,571**

e) Rent income from related parties:

STAR [2]	35,798	24,957
SOCAR Turkey Akaryakıt Depolama A.Ş. [2]	2,147	568
SCR Müşavirlik ve İnşaat A.Ş. [2]	673	-
STEAŞ [1]	5	-
	38,623	**25,525**

f) Fixed assets purchases from related parties:

Socar Power Enerji Yatırımları A.Ş. [2]	107,484	-
STEAŞ [1]	26,268	-
SOCAR Turkey Akaryakıt Depolama A.Ş. [2]	10,824	-
STAR [2]	143	4,321
SOCAR Aliağa Liman İşletmeciliği A.Ş. [2]	5	-
	144,724	**4,321**

(1) Shareholders of the Company.
(2) Shareholders of the Company or SOCAR's subsidiaries

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

NOTE 29 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

ii) Transactions with related parties (Continued)

g) Key management compensation:

	1 January - 31 December 2019	**1 January - 31 December 2018**
i. Key management compensation - short term:		
Payments for salary and seniority incentives	27,665	21,550
	27,665	**21,550**
ii. Key management compensation - long term:		
Provision for unused vacation	2,312	1,621
Provision for employment termination benefits	275	250
Provision for seniority incentives	178	-
	2,765	**1,871**
	30,430	**23,421**

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

Key management compensation consist of salary and travel payments; employment termination benefits, seniority incentive bonus and vacation pays made to the key management and their provisions for the period in which they incurred.

NOTE 30 - COMMITMENTS

As of 25 July, 2014, the Group has signed a contract with STAR Rafineri A.Ş. whose main shareholder is SOCAR Turkey Enerji A.Ş. which is main shareholder of Petkim in the direction of purchasing naphtha approximately amounting to 1,600,000 tons per year and xysilen amounting to 270,000 tons per year for 20 years from STAR Rafineri which will be landed at Petkim Peninsula in order to ensure supply security and reduce costs. In addition, the Group has signed a cooperation contract with STAR Rafineri A.Ş. at the mentioned date and accordance with that contract the Group is going to sell steam for 20 years and serve solid and hazardous waste disposal, supply of workers on temporary duty and security services to STAR Rafineri which will be established by STAR Rafineri A.Ş. at Petkim Peninsula.

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

NOTE 31 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

a) Short - term provisions:

	31 December 2019	31 December 2018
Provision for legal cases	2,635	3,068
	2,635	**3,068**

b) Guarantees received:

	31 December 2019	31 December 2018
Bank guarantees within the context of DOCS	1,059,061	946,920
Receivable insurance	617,505	479,635
Letters of guarantee received from customers	596,343	551,916
Letters of guarantee received from suppliers	251,510	263,916
Letters of credit	131,342	51,592
Mortgages	2,000	2,000
	2,657,761	**2,295,979**

c) Guarantees given:

	31 December 2019	31 December 2018
Mortgages given to banks	2,511,496	2,069,233
Mortgage given to banks (*)	1,127,219	1,009,468
Custom offices	99,400	42,099
Other	26,869	134,997
	3,764,984	**3,255,797**

(*) Mortgage amounting to USD350 million is related with the borrowing for port investment amounting to USD 190 million as of 31 December 2019.

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

NOTE 31 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

c) Guarantees given (Continued):

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

	31 December 2019	31 December 2018
A. Total amount of CPMs given for the Company's own legal personality	2,637,765	2,246,329
B. Total amount of CPMs given on behalf of fully consolidated companies (*)	1,127,219	1,009,468
C. Total amount of CPMs given for continuation of its economic activities on behalf of third parties	-	-
D. Total amount of other CPMs		
i. Total amount of CPMs given on behalf of the majority shareholder	-	-
ii. Total amount of CPMs given to on behalf of other group companies which are not in scope of B and C	-	-
iii. Total amount of CPMs given to on behalf of third parties which are not in scope of C	-	-
	3,764,984	**3,255,797**

(*) Mortgages given to banks consist of pledge and mortgage for loan of Petlim Limancılık Ticaret A.Ş. at an amount of USD 212 million which Petlim has remaining loan balance amounting to TL 1,127,219 as of 31 December 2019. Petkim has guaranteed the loan repayment and its shares in Petlim Limancılık Ticaret A.Ş. amounting TL 105,000 has been pledged. On 20 November 2015, a mortgage amounting to USD 350 million was established on Petlim's land which was sold by Petkim at a price of TL 5,650. In terms of the risk occured by the given mortgage, it is considered that it would be appropriate to consider the land amount instead of the mortgage amount.

d) Ongoing cases and investigations

The Customs Administration levied an incremental VAT charge and fine to Group in, with the claim that the customs tariff statistical position of Pygas, which was imported by the group in 2014, requires SCT. The Group objected to the VAT charge and fine, then started legal proceedings when its objection was rejected by the Customs Administration.

While these lawsuits were in process, the Turkish Ministry of Finance started a limited tax inspection for the 2014 SCT with the claim that the customs tariff statistical position of Pygas requires SCT. As a result of this inspection, the Group was notified on 25 August 2017 of the imposition of a tax charge amounting TL66 thousand and penalty of TL99 thousand. A compromise meeting was attended for the tax and penalties communicated and no compromise was achieved. The case was filed on January 22, 2020 regarding the issue.

Subsequently on 28 September 2017 all the lawsuits which were heard at the Regional Administrative Court (the "Court of Appeals") were concluded in favour of the Group with rulings that the product's customs tariff statistical position does not require SCT, and a lawsuit was filed with the Council of State by the Customs Administration.

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

NOTE 31 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

d) Ongoing cases and investigations

Furthermore, the Turkish Ministry of Finance started a new tax inspection for 2013, 2015 and 2016 regarding our use of Pygas, following the tax loss and late payment interest notification about SCT for 2014. As a result of this inspection, an SCT loss and late payment penalty of 0.75% of the total amount was calculated by the Turkish Ministry of Finance for the relevant years, considering that the Group is entitled to receive a tax refund of 99.25%. This result is different from the result of the inspection conducted in 2014, and the tax principal and tax losses for 2013, 2015 and 2016 were accrued and the Group was informed that the sum of such losses were TL937 and TL1,405, respectively. In accordance with 7143 numbered Law regarding restruction, a fine amounting TL479 was levied to the Group. Group has paid TL 479 and these inspections has been closed.

The tax principal and the tax loss calculated for 2013, 2015 and 2016 according to the Turkish Ministry of Finance resulted to be 99.25% less than the tax principal and tax loss calculated according to the previous methodology in 2014. The tax calculation method applied by the Turkish Ministry of Finance for 2013, 2015 and 2016 is considered to be applicable and exemplary to the tax principle and tax loss calculation for 2014, which supports the estimation that the tax principal and tax penalty regarding the Group's SCT for 2014 will be concluded with a reconciliation and/or litigation, without creating a material financial risk.

The Group management and the Group legal consultants estimate that since the Court of Appeals has ruled that the customs tariff statistical position of Pygas does not require SCT, the tax principal and penalty communicated by the Turkish Ministry of Finance will then be concluded with a settlement and/or litigation in a way that does not constitute any material financial risk. Thus, no provision has been recognised in the consolidated financial statements as of 31 December 2019.

As a result of this judicial process, the Group expects that Pygas will not have the GTIP number with the excise duty claimed by the Customs administration, and that the Group will have the GTIP number without the excise duty claimed.

e) Operational leases

Annual income plans and amounts (not discounted) regarding to the operational lease income, which are not recognized in the consolidated financial statements of the Group as of 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
0-5 year	708,633	608,815
5-10 year(s)	736,636	640,561
10 years and more	2,835,333	2,710,140
Total	**4,280,602**	**3,959,516**

NOTE 32 - NATURE AND LEVEL OF RISK DERIVING FROM FINANCIAL INSTRUMENTS

a) Credit risk:

Holding of financial assets involves the risk that counterparties may be unable to meet the terms of the agreements. These risks are managed by collecting collaterals and by restricting the average risk range for counterparties (except intercompany) in every agreement. As part of its sales policy, the Group obtains collateral at on amount of 100% of total outstanding TL trade receivables from its customers. The use of credit limits is regularly monitored and financial position of the customers, past experiences, reputation in the market and other factors are considered by the Management in order to evaluate the quality of the credits.

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

NOTE 32 - NATURE AND LEVEL OF RISK DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

a) Credit risk (Continued):

The credit risk exposure in terms of financial instruments as of 31 December, 2019 and 2018 were as follows:

	31 December 2019				31 December 2018			
	Other receivables From related parties	**Receivables from related parties**	**Trade Receivables(1)**	**Cash and cash equivalents**	**Other receivables From related parties**	**Receivables from related parties**	**Trade Receivables(1)**	**Cash and cash equivalents**
Maximum amount of credit risk exposed as of reporting date (A+B+C+D+E) (2)	**15,134**	**151,715**	**1,400,438**		**112,788**	**168,543**	**1,025,855**	**3,009,408**
- The part of maximum credit risk covered with guarantees etc	-	-	(1,208,481)		-		(971,119)	-
A . Net book value of financial assets neither past due nor impaired (3)	15,134	151,715	1,381,991		112,788	168,543	1,007,218	3,009,408
B. Net book value of financial assets whose conditions are renegotiated otherwise will be classified as past due or impaired (3)	-	-	-		-		-	-
C. Net book value of assets past due but not impaired but not impaired (4)	-	-	18,447		-		18,637	-
- The part covered by guarantees etc	-	-	(4,775)		-		(12,038)	-
D. Net book value of assets impaired								
- Past due (gross book value)	-	-	24,497		-		22,000	-
- Impairment amount	-	-	(24,497)		-		(22,000)	-
- The part of net value covered with guarantees etc	-	-	-		-		-	-
E. Off-balance items exposed to credit risk	-	-	-		-		-	-

(1) Trade receivables of the Group are mainly composed of thermoplastic and fiber material sales.
(2) Unearned credit finance income and covered parts of due and overdue receivables are taken into consideration while determining aforementioned amounts.
(3) Considering the past experiences, the Group management believes that no additional credit risk for the collection of these receivables.
(4) Considering the past experience of the Group management, it is foreseen that no problem will be encountered in the collection of past financial assets and the aging of the related amounts is as follows.

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

NOTE 32 - NATURE AND LEVEL OF RISK DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

a) Credit risk (Continued):

31 December 2019	Receivables		
	Related parties	Third parties	Total
1-30 days overdue	-	17,539	17,539
1-3 months overdue	-	628	628
3 months and over	-	-	-
The part covered by the guarantees	-	(4,775)	(4,775)
	-	**13,992**	**13,992**

31 December 2018	Receivables		
	Related parties	Third parties	Total
1-30 days overdue	-	12,066	12,066
1-3 months overdue	-	6,229	6,229
3 months and over	-	342	342
The part covered by the guarantees	-	(12,038)	(12,038)
	-	**6,599**	**6,599**

b) Liquidity Risk

Prudent liquidity risk management comprises maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The ability to fund the existing and prospective debt requirements is managed by maintaining the availability of fund providers' lines from high-quality lenders. In order to maintain liquidity, the Group management closely monitors the collection of trade receivables on time in order to and to prevent any financial burden that may result from late collections and arranges cash and non-cash credit lines with banks for the use of the Group. The Group's financial liabilities and liquidity analysis into relevant maturity groupings based on the remaining period as of 31 December, 2019 and 2018 are as follows:

	31 December 2019				
	Value carried	Total cash outflow (=I+II+III)	Less than 3 months (I)	3 months-1 year (II)	1 - 5 years above (III)
Contract due date:					
Bank credits	3,789,208	4,252,572	898,968	1,621,942	1,731,662
Other financial liabilities	1,510,275	1,529,050	383,960	1,145,090	-
Bond issued	3,034,286	3,570,368	86,749	85,744	3,397,875
Trade payables	423,351	426,638	426,638	-	-
Due to related parties	533,755	533,755	533,755	-	-
Lease liabilities	190,475	444,142	9,011	32,541	402,590
	9,481,350	**10,756,525**	**2,339,081**	**2,885,317**	**5,532,127**

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

NOTE 32 - NATURE AND LEVEL OF RISK DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

b) Liquidity Risk (Continued)

	31 December 2018				
	Value carried	Total cash outflow (=I+II+III)	Less than 3 months (I)	3 months- 1 year (II)	1 - 5 years above (III)
Contract due date:					
Bank credits	3,113,712	3,620,951	446,765	1,081,943	2,092,243
Other financial liabilities	1,523,130	1,536,696	635,743	900,953	-
Bond issued	2,688,439	3,315,760	75,278	75,273	3,165,209
Trade payables	641,809	645,098	645,098	-	-
Due to related parties	80,638	80,638	80,638	-	-
	8,047,728	**9,199,143**	**1,883,522**	**2,058,169**	**5,257,452**

The following table analyzes the Group's derivative financial instruments as of balance sheet date. Amounts shown in the table are undiscounted cash movements related to the contract. Amounts that will arrive within 12 months. the amount that would have been discounted would have been insignificant.

	31 December 2019				
	Value carried	Total cash outflow (=I+II+III)	Less than 3 months (I)	3 months- 1 year (II)	1 - 5 year above (III)
Contract due date:					
Derivative financial instruments	(24,118)	(447,882)	(1,247)	(4,990)	(441,645)

	31 December 2018				
	Value carried	Total cash outflow (=I+II+III)	Less than 3 months (I)	3 months- 1 year (II)	1 - 5 year above (III)
Contract due date:					
Derivative financial instruments	(13,330)	(571,814)	(152,868)	(18,968)	(399,978)

c) Market risk

Foreign exchange risk

The Group is exposed to currency risk on assets or liabilities denominated in foreign currencies. Management has set up a policy to balance and manage their foreign exchange risk. Existing risks are followed in meetings held by the Group's Audit Committee and Board of Directors and foreign currencies, closely in terms of the Group's foreign exchange position.

Although the raw materials, which comprise the significant portion of production and import volume, are foreign exchange denominated cost items, such exposure is limited with the sales prices impacted by foreign currencies.

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

NOTE 32 - NATURE AND LEVEL OF RISK DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

c) Market risk (Continued)

Foreign currency position

	31 December 2019				31 December 201			
	TL Equivalent	**US Dollar**	**Euro**	**Other**	**TL Equivalent**	**US Dollar**	**Euro**	**Other**
1. Trade receivables	1,132,694	153,573	33,146	-	678,105	105,696	20,247	-
2a. Monetary financial assets (Cash, bank accounts included)	6,300,018	1,034,880	22,934	102	5,399,250	972,726	45,454	7,838
2b. Non-monetary financial assets	-	-	-	-	-	-	-	-
3. Current assets (1+2)	**7,432,712**	**1,188,453**	**56,080**	**102**	**6,077,355**	**1,078,422**	**65,701**	**7,838**
4. Trade receivables	-	-	-	-	-	-	-	-
5a. Monetary financial assets	-	-	-	-	750,365	142,631	-	
5b. Non-monetary financial assets	-	-	-	-	-	-	-	-
6. Other	-	-	-	-	-	-	-	-
7. Non-current assets (4+5+6)	-	-	-	-	**750,365**	**142,631**	-	-
8. Total assets (3+7)	**7,432,712**	**1,188,453**	**56,080**	**102**	**6,827,720**	**1,221,053**	**65,701**	**7,838**
9. Trade payables	743,571	87,119	14,913	149,016	488,770	66,746	9,050	75,030
10. Financial liabilities	3,865,262	638,111	11,240	-	2,993,693	531,749	32,551	-
11a. Monetary other liabilities	765,040	-	-	765,040	-	-	-	-
11b. Non-monetary other liabilities	-	-	-	-	-	-	-	-
12. Short-term liabilities (9+10+11)	**5,373,873**	**725,230**	**26,153**	**914,056**	**3,482,463**	**598,495**	**41,601**	**75,030**
13. Trade payables	-	-	-	-	-	-	-	-
14. Financial liabilities	3,242,809	515,519	27,144	-	3,314,131	525,434	91,220	-
15a. Monetary other liabilities	-	-	-	-	-	-	-	-
15b. Non-monetary other liabilities	-	-	-	-	-	-	-	-
16. Long-term liabilities (13+14+15a+15b)	**3,242,809**	**515,519**	**27,144**	-	**3,314,131**	**525,434**	**91,220**	-
17. Total liabilities (12+16)	**8,616,682**	**1,240,749**	**53,297**	**914,056**	**6,796,594**	**1,123,929**	**132,821**	**75,030**
18. Net (liability)/asset contract value of derivative instruments (18a-18b)	-	-	-	-	**152,866**	**34,786**	**(5,000)**	-
18a. Amount of asset contract value of derivative instruments	-	-	-	-	183,006	**34,786**	-	-
18b. Amount of liability contract value of derivative instruments	-	-	-	-	(30,140)	-	**(5,000)**	-
19. Net foreign (liability) / asset position (8-17+19)	**(1,183,970)**	**(52,296)**	**2,783**	**(913,954)**	**31,126**	**97,124**	**(67,120)**	**(67,191)**
20. Net foreign currency (liability) / asset Position of monetary items (TFRS 7.B23) (=1+2a+4+5a-9-10-11a-13-14-15a)	**(1,183,970)**	**(52,296)**	**2,783**	**(913,954)**	**31,126**	**97,124**	**(67,120)**	**(67,191)**
21. Total fair value of financial instruments used for foreign currency hedging	-	-	-	-	**(1,898)**	**(575)**	**187**	-
22. Hedged amount for foreign currency assets	-	-	-	-	**183,006**	**34,786**	-	-
23. Hedged amount for foreign currency liabilities	-	-	-	-	**(30,140)**	-	**(5,000)**	-
24. Export	**4,666,598**	**532,289**	**258,664**	**14,287**	**3,611,200**	**445,755**	**246,938**	**38,163**
25. Import	**5,714,698**	**941,396**	**61,936**	**39,954**	**5,764,669**	**1,114,524**	**55,666**	**85,919**

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

NOTE 32 - NATURE AND LEVEL OF RISK DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

c) Market risk (Continued)

Table of sensitivity analysis for foreign currency risk

31 December 2019

	Profit/(Loss)		Equity	
	Appreciation of foreign currency	**Depreciation of foreign currency**	**Appreciation of foreign currency**	**Depreciation of foreign currency**
Change of USD by 10% against TL:				
1- Asset/(Liability) denominated in USD - net	(31,065)	31,065	(31,065)	31,065
2- The part hedged for USD risk (-)				
3- USD effect - net (1+2)	-	-	-	-
Change of EUR by 10% against TL:	**(31,065)**	**31,065**	**(31,065)**	**31,065**
4- Asset/(Liability) denominated in EUR - net	1,851	(1,851)	1,851	(1,851)
5- The part hedged for EUR risk (-)	-	-	-	-
6- EUR effect - net (4+5)	**1,851**	**(1,851)**	**1,851**	**(1,851)**
Change of other currencies by 10% against TL:				
7- Assets/(Liabilities) denominated in other foreign currencies – net	(89,183)	89,183	(89,183)	89,183
8- The part hedged for other foreign currency risk (-)	-	-	-	-
9- Other foreign currency effect - net (7+8)	**(89,183)**	**89,183**	**(89,183)**	89,183
Total (3+6+9)	**(118,397)**	**118,397**	**(118,397)**	**118,397**

31 December 2018

	Profit/(Loss)		Equity	
	Appreciation of foreign currency	**Depreciation of foreign currency**	**Appreciation of foreign currency**	**Depreciation of foreign currency**
Change of USD by 10% against TL:				
1- Asset/(Liability) denominated in USD - net	51,096	(51,096)	51,096	(51,096)
2- The part hedged for USD risk (-)	-		18,301	(18,301)
3- USD effect - net (1+2)				
Change of EUR by 10% against TL:	**51,096**	**(51,096)**	**69,397**	**(69,397)**
4- Asset/(Liability) denominated in EUR - net	(40,460)	40,460	(40,460)	40,460
5- The part hedged for EUR risk (-)	-	-	(3,014)	3,014
6- EUR effect - net (4+5)	**(40,460)**	**40,460**	**(43,474)**	**43,474**
Change of other currencies by 10% against TL:				
7- Assets/(Liabilities) denominated in other foreign currencies – net	(7,523)	7,523	(7,523)	7,523
8- The part hedged for other foreign currency risk (-)	-	-	-	-
9- Other foreign currency effect - net (7+8)	**(7,523)**	**7,523**	**(7,523)**	**7,523**
Total (3+6+9)	**3,113**	**(3,113)**	**18,400**	**(18,400)**

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

NOTE 32 - NATURE AND LEVEL OF RISK DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

c) Market risk (Continued)

The Group's interest rate position as of December 31, 2019 and 2018 is presented below:

	31 December 2019	31 December 2018
Financial instruments with fixed interest rate		
Financial liabilities		
USD Financial liabilities	4,695,876	4,390,231
EUR Financial liabilities	82,747	94,037
TL Financial liabilities	104,602	16,108
Financial instruments with variable interest rate		
USD Financial liabilities	3,278,016	2,172,852
EUR Financial liabilities	172,528	652,053

For the year round, if the interest rates increase/decrease by 100 base points ceteris paribus, the interest expense will change by +/(-) TL8,132 (31 December 2018: TL15,571).

ii) Price risk

The Group's operational profitability and cash inflows from its operations are exposed to risk arising from fluctuations in naphtha prices which are affected by competition in the petrochemical sector and raw material prices. The Group management manages the risk by regularly reviewing the amount of inventory held on hand and takes action for cost reduction to decrease the pressure of cost on the prices. Existing risks are monitored through regular meetings by the Group's Board of Directors.

The Group sets its sales prices considering certain indicators of petrochemical products in domestic and foreign markets. The changes in foreign markets are monitored through the worldwide publications comparing most attainable competitive market prices of Western Europe, Asia and US contract, spot and factory prices and computing actual import costs to Turkey. While the Group determines the domestic market prices, it considers the indicators such as price information obtained from the market players and sector publications and Group's production levels, stock levels and order amounts received.

The Group also uses some derivative financial instruments, mainly Naphtha, to hedge cash flow risk arising from raw material price risk.

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

NOTE 32 - NATURE AND LEVEL OF RISK DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of debt/equity ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total liabilities (including short term financial liabilities, current portion of long term financial liabilities, long term financial liabilities, less cash and cash equivalents:

	31 December 2019	31 December 2018
Total financial debt	8,333,769	7,325,281
Less: Cash and cash equivalents (Note 4)	(4,037,170)	(3,009,408)
Net debt (Note 9)	4,296,599	4,315,873
Total equity	4,848,881	4,134,935
Net debt / equity ratio	**89%**	**104%**

NOTE 33 - FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES)

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group can realize in a current market exchange.

The methods and assumptions stated below are used in the estimation of the fair values of the financial instruments of which fair values are measurable:

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

NOTE 33 - FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (Continued)

Financial assets

The fair values of balances denominated in foreign currencies, which are translated at year-end exchange rates, are considered to approximate to their carrying values. Cash and cash equivalents are carried at their fair values. The fair values of trade receivables and due from related parties are considered to approximate their respective carrying values due to their short-term nature. The cost of financial assets available for sale investments less, if any, impairments are considered to approximate their fair values.

Financial liabilities

Trade payables, payables to related parties and other monetary liabilities are estimated to be presented with their discounted carrying amounts, they are considered to approximate to their fair values, and the fair values of balances denominated in foreign currencies, which are translated at year-end exchange rates, are considered to approximate carrying values.

Fair values of short-term bank borrowings and other financial liabilities are assumed to approximate their carrying values due to their short term. Long-term floating rate bank loans' interest rates are updated according to the changing market conditions, it is assumed to represent the value of the fair value is the carrying value of these loans. Long-term fixed-rate loan, when evaluated with a fixed interest rate as of the balance sheet date, it is observed its fair value is close to the carrying value.

Fair value estimation

The Group's financials classification of fair value of asset and liabilities were as follows:

Level 1: Depend on registered price (unadjusted) in the active market;
Level 2: Depend on data that are explicitly (via price in active market) or implicitly (derivate from price in active market) observable.
Level 3: Not depend on observable market data

31 December, 2019 and 2018, fair value and book value of financial statement were as follows:

31 December 2019	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	-	-	-
Total assets	-	-	-	-
Derivative financial liabilities	-	(24,118)	-	(24,118)
Total liabilities	**-**	**(24,118)**	**-**	**(24,118)**

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

NOTE 33 - FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (Continued)

Fair value estimation (Continued)

31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial instruments	-	1,753	-	1,753
Total assets	**-**	**1,753**	**-**	**1,753**
Derivative financial liabilities	-	(13,954)	-	(13,954)
Total liabilities	**-**	**(13,954)**	**-**	**(13,954)**

DİPNOT 34 - EVENTS AFTER BALANCE SHEET DATE

As explained in Note 31, since the Group management has been no mutual agreement in the settlement process regarding the dispute over the alleged Special Consumption Tax occurred due to consumption of PyGas with the tax authority regarding the ongoing tax review on 22 January 2020 and a legal process has been initiated by the Group management on 5 February 2020.

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