

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

**PETKİM PETROKİMYA HOLDİNG
ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS FOR THE PERIOD
FROM 1 JANUARY TO 30 JUNE 2019
TOGETHER WITH INDEPENDENT AUDITOR'S REVIEW REPORT**

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FOR THE INTERIM PERIOD 1 JANUARY - 30 JUNE 2019**

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**CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS AS AT
30 JUNE 2019 AND 31 DECEMBER 2018**

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

	Notes	Reviewed 30 June 2019	Audited 31 December 2018
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	2.382.115	3.009.408
Financial investments		229.275	-
- Time deposit	5	229.275	-
Trade receivables		1.599.443	1.194.398
- Trade receivables from related parties	19	118.495	168.543
- Trade receivables from third parties	7	1.480.948	1.025.855
Other receivables		192.941	5.226
- Other receivables from related parties	19	189.149	3.043
- Other receivables from third parties		3.792	2.183
Derivative financial instruments		17.084	1.129
Inventories	6	1.125.721	1.129.581
Prepaid expenses		2.822.757	2.562.435
- Prepaid expenses to third parties	11	53.942	36.011
- Prepaid expenses to related parties	19	2.768.815	2.526.424
Other current assets		157.460	60.866
- Other current assets from third parties		157.460	60.866
Current income tax assets	14	-	31.925
TOTAL CURRENT ASSETS		8.526.796	7.994.968
NON-CURRENT ASSETS			
Financial investments		8.910	8.910
- Financial assets available for sale	5	8.910	8.910
Other receivables		124.393	109.745
- Other receivables from related parties	19	124.393	109.745
Investment property		1.476	1.476
Property, plant and equipment	9	4.292.929	4.085.395
Right-of-use assets	2.6	253.978	-
Intangible assets		35.305	27.793
Prepaid expenses		74.328	72.110
- Prepaid expenses to third parties	11	51.401	52.115
- Prepaid expenses to related parties	19	22.927	19.995
Derivative financial instruments		-	624
Deferred tax assets	14	268.028	270.900
Other non-current assets		16.099	15.885
- Other non-current assets from third parties		16.099	15.885
TOTAL NON-CURRENT ASSETS		5.075.446	4.592.838
TOTAL ASSETS		13.602.242	12.587.806

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

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

	Notes	Reviewed 30 June 2019	Audited 31 December 2018
LIABILITIES			
CURRENT LIABILITIES			
Short term borrowings		2.432.279	2.784.469
- Short term borrowings from third parties		2.419.577	2.784.469
- Bank borrowings	8	1.232.878	1.261.339
- Operational lease liabilities	8	5.729	-
- Other financial liabilities	8	1.180.970	1.523.130
- Short term borrowings from related parties	19	12.702	-
- Operational lease liabilities		12.702	-
Short term portion of long term borrowings		748.710	234.491
- Short term portion of long-term borrowings from third parties		748.710	234.491
- Bank borrowings	8	678.391	170.377
- Bonds issued	8	70.319	64.114
Derivative financial instruments		10.032	13.954
Trade payables		984.869	697.145
- Trade payables to related parties	19	331.545	55.336
- Trade payables to third parties	7	653.324	641.809
Short term liabilities for employee benefits		28.146	10.062
Other payables		39.753	48.712
- Other payables to related parties	19	24.944	25.302
- Other payables to third parties		14.809	23.410
Deferred revenue		66.142	23.519
- Deferred revenue from related parties	19	16.854	1.495
- Deferred revenue from third parties	10	49.288	22.024
Short term provisions		20.264	33.119
- Provision for employee benefits	12	17.149	30.051
- Other short term provisions	20	3.115	3.068
Current tax liabilities	14	17.371	-
Other current liabilities		10.793	16.640
- Other current liabilities to third parties		10.793	16.640
TOTAL CURRENT LIABILITIES		4.358.359	3.862.111
NON-CURRENT LIABILITIES			
Long term financial liabilities		4.372.762	4.306.321
- Long term financial liabilities from third parties		4.253.910	4.306.321
- Bank borrowings	8	1.253.513	1.681.996
- Operational lease liabilities	8	127.977	-
- Bonds issued	8	2.872.420	2.624.325
- Long term financial liabilities from related parties		118.852	-
- Operational lease liabilities	19	118.852	-
Derivative financial instruments		23.800	-
Deferred revenue		192.075	178.668
- Deferred revenue from related parties	19	192.075	178.668
Long term provisions		104.016	105.770
- Provision for employee termination benefits	12	104.016	105.770
TOTAL NON-CURRENT LIABILITIES		4.692.653	4.590.759
TOTAL LIABILITIES		9.051.012	8.452.870

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**CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS AS AT
30 JUNE 2019 AND 31 DECEMBER 2018**

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

	Notes	Reviewed 30 June 2019	Audited 31 December 2018
EQUITY			
Equity Attributable to Owners of the Parent Company		4.546.368	4.090.300
Share capital	13	2.112.000	1.650.000
Adjustment to share capital	13	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		(27.573)	(29.607)
Other comprehensive income / (expense) to be reclassified to profit or loss		(58.969)	(39.556)
- Currency translation differences		(51.283)	(29.645)
- Cash flow hedges		(7.686)	(9.911)
Restricted reserves		330.000	310.644
Retained earnings		1.414.287	1.023.971
Net profit for the period / year		473.447	871.672
Non-controlling interest		4.862	44.636
TOTAL EQUITY		4.551.230	4.134.936
TOTAL LIABILITIES AND EQUITY		13.602.242	12.587.806

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**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE INTERIM PERIODS 1 JANUARY - 30 JUNE 2019 AND 2018**

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

	Notes	Reviewed 1 January - 30 June 2019	1 April - 30 June 2019	Reviewed 1 January - 30 June 2018	1 April - 30 June 2018
PROFIT OR LOSS					
Revenue	15	5.940.555	3.108.468	4.231.847	2.352.899
Cost of sales	15	(5.061.902)	(2.563.369)	(3.484.139)	(1.881.192)
GROSS PROFIT		878.653	545.099	747.708	471.707
General administrative expenses	16	(150.953)	(63.748)	(111.774)	(45.208)
Selling, marketing and distribution expenses		(46.333)	(22.431)	(34.158)	(16.626)
Research and development expenses		(11.662)	(5.862)	(10.480)	(5.776)
Other operating income		211.849	116.545	127.535	74.794
Other operating expense		(178.231)	(135.938)	(128.632)	(84.389)
OPERATING PROFIT		703.323	433.665	590.199	394.502
Income from investing activities		15.985	7.935	11.807	4.718
Expense from investing activities		(15)	(12)	-	-
OPERATING PROFIT BEFORE FINANCIAL INCOME/ (EXPENSE)		719.293	441.588	602.006	399.220
Financial income	17	1.174.134	615.335	1.007.073	731.286
Financial expenses	17	(1.385.272)	(739.264)	(1.046.678)	(734.079)
PROFIT BEFORE TAX FROM CONTINUED OPERATIONS		508.155	317.659	562.401	396.427
Tax expense from continuing operations		(68.912)	(22.237)	(80.324)	(40.160)
- Current tax expense	14	(43.631)	(22.979)	(36.526)	(7.384)
- Deferred tax (expense) / income	14	(25.281)	742	(43.798)	(32.776)
PROFIT FOR THE PERIOD CONTINUED OPERATIONS		439.243	295.422	482.077	356.267
PROFIT FOR THE PERIOD		439.243	295.422	482.077	356.267
DISTRIBUTION OF INCOME/ (EXPENSE) FOR THE PERIOD					
- Non-controlling interest		(34.204)	(23.998)	(20.657)	(15.092)
- Owners of parent company		473.447	319.420	502.734	371.359
Earnings Per Share	18	0,2242	0,1512	0,2380	0,1758
- Earnings per Kr 1 number of 1 shares from continued operations		0,2242	0,1512	0,2380	0,1758

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**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE INTERIM PERIODS 1 JANUARY - 30 JUNE 2019 AND 2018**

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

Notes	Reviewed 1 January - 30 June 2019	1 April - 30 June 2019	Reviewed 1 January - 30 June 2018	1 April - 30 June 2018
OTHER COMPREHENSIVE INCOME/ (LOSS)				
Items to be Reclassified to Profit or Loss	(24.983)	(22.904)	6.692	5.600
Currency translation differences	(21.345)	(12.628)	(4.207)	(3.561)
Other comprehensive income/(loss) related with cash flow hedges	(4.548)	(12.845)	13.625	11.453
Taxes relating to income/(loss) on cash flow hedges	910	2.569	(2.726)	(2.292)
Items not to be Reclassified to Profit or Loss	2.034	2.034	(949)	(949)
Defined benefit plans remeasurement Earnings (losses)	2.543	2.543	(1.186)	(1.186)
Taxes relating to remeasurements of defined benefit plans	(509)	(509)	237	237
OTHER COMPREHENSIVE (EXPENSE)/INCOME	(22.949)	(20.870)	5.743	4.651
TOTAL COMPREHENSIVE INCOME	416.294	274.552	487.820	360.918
Attributable to:				
Non-controlling interests	(39.774)	(29.746)	(7.401)	(5.347)
Owners of the parent company	456.068	304.298	495.221	366.265

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE INTERIM PERIODS
1 JANUARY - 30 JUNE 2019 AND 2018**

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

	Share capital	Adjustment to share capital	Other comprehensive income / (expense) not to be reclassified to profit or loss Actuarial loss arising from defined benefit plan	Cash flow hedges	Other comprehensive income / (expense) to be reclassified to profit or loss Currency translation differences	Share premium	Restricted reserves	Net profit for the year	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	-	-	(948)	7.573	(14.138)	-	-	502.734	-	495.221	(7.401)	487.820
- Other comprehensive income (loss)	-	-	(948)	7.573	(14.138)	-	-	-	-	(7.513)	13.256	5.743
- Net profit for the period	-	-	-	-	-	-	-	502.734	-	502.734	(20.657)	482.077
Dividend paid	-	-	-	-	-	-	46.500	-	(586.500)	(540.000)	-	(540.000)
30 June 2018	1.650.000	238.988	(28.239)	3.799	(16.933)	64.188	310.644	502.734	1.023.971	3.749.152	52.746	3.801.898
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	-	-	2.034	2.225	(21.638)	-	-	473.447	-	456.068	(39.774)	416.293
- Other comprehensive income (loss)	-	-	2.034	2.225	(21.638)	-	-	-	-	(17.379)	(5.570)	(22.949)
- Net profit for the period	-	-	-	-	-	-	-	473.447	-	473.447	(34.204)	439.243
30 June 2019	2.112.000	238.988	(27.573)	(7.686)	(51.283)	64.188	330.000	473.447	1.414.287	4.546.368	4.862	4.551.230

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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE
INTERIM PERIODS 1 JANUARY - 30 JUNE 2019 AND 2018**

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

Notes	Reviewed 1 January - 30 June 2019	Reviewed 1 January - 30 June 2018
A. Cash flows from operating activities:	628.483	438.951
Net profit for the year (I)	439.243	482.075
Adjustments related to reconciliation of (II) net profit (loss) for the year:	441.079	270.067
Adjustments for depreciation and amortization	154.998	91.746
Adjustments for impairments/ reversals		
- Adjustments for impairment of inventories	6 (16.732)	(908)
Adjustments for provisions		
- Adjustments for provision employment termination benefits	38.876	14.741
- Adjustments for provision legal cases	-	(288)
- Adjustments for provision / other cases	(2.914)	(18.332)
Adjustments for interest income/ (expense)		
- Adjustments for interest income	17 (64.744)	(100.814)
- Adjustments for interest expense	17 205.430	120.217
Adjustments for unrealized foreign currency translation differences	57.247	81.779
Adjustments for tax income/ losses	14 68.912	80.324
Adjustments for gain/ losses on sale of tangible assets	6	-
Adjustments for income from government incentives	-	1.602
Changes in working capital (III)	(174.590)	(192.146)
Adjustments related to increase in trade receivables	(423.714)	(210.949)
Adjustments related to (increase)/decrease in other receivables	(9.512)	137.184
Adjustments related to increase in inventory	38.390	(243.076)
Increase in prepaid expenses	(139.666)	(63.719)
Adjustments for increase in trade payables	287.511	209.791
Adjustments for decrease in other payable	15.198	(29.376)
Change in derivative financial instruments	(518)	(1.990)
Increase in payables to employees	18.010	15.860
Adjustments for increase/(decrease) in deferred revenue	39.711	(5.871)
Cash flows from operating activities (I+II+III)	705.732	559.996
Employee termination benefits paid	(50.989)	(16.102)
Income taxes paid	14 (26.260)	(104.943)
B. Cash flows from investing activities	(425.323)	(599.885)
Cash outflows from purchases of tangible and intangible assets	(244.376)	(158.448)
Proceeds from sale of tangible and intangible assets	76	28
Other advances and payables	3.977	(48.562)
Advances and loans to related parties	(445.000)	(908.660)
Proceeds from related party loans	260.000	515.757
C. Cash flows from financing activities	(782.458)	1.806.895
Proceeds from borrowings	8 1.440.341	361.643
Repayments of borrowings	8 (1.543.103)	(489.659)
Proceeds from bonds issued	8 -	1.862.600
Proceeds from other financial liabilities	8 1.176.651	1.045.742
Repayments of other financial liabilities	8 (1.496.678)	(477.751)
Principal elements of lease payments	(22.248)	-
Interest received	74.257	107.278
Interest paid	(182.403)	(62.958)
Dividends paid	-	(540.000)
Other cash inflow/ (outflows)	5 (229.275)	-
D. Net increase / (decrease) in cash and cash equivalents before foreign currency translation differences (A+B+C)	(579.298)	1.645.961
E. Effect of currency translation differences on cash and cash equivalents	(47.995)	299.801
Net increase/ (decrease) in cash and cash equivalents (D+E)	(627.293)	1.945.762
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 2.382.115	3.406.211

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

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, Aliğa 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.

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

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THE PERIOD BETWEEN 1 JANUARY AND 30 JUNE 2019**

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

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

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

STEAS and SİPAŞ merged on 22 September 2014 under STEAS.

As of 30 June 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 ("BİST") since 9 July 1990.

These condensed consolidated interim financial statements were approved to be issued by the Board of Directors on 7 August 2019 and signed by Mr. Anar Mammadov, General Manager and Mr. Rıza Bozoklar, Vice President of Finance, on behalf of the Board of Directors.

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

Siteler Mahallesi Necmettin Giritlioğlu Cad.
SOCAR Türkiye Aliğa Yönetim Binası No 6/1 Aliğa/İZMİR

As of 30 June 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

The number of personnel in the Group is 2.486 as of 30 June 2019 (31 December 2018: 2.493).

	30 June 2019	31 December 2018
Union (*)	1.839	1.917
Non-union (**)	629	642
	2.468	2.559

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

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

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**NOTE 2 - BASIS OF PRESENTATION OF INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENT**

2.1 Basis of Presentation of Financial Statements

The 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, consolidated financial statements are prepared in accordance with Turkish Accounting Standards / Turkish Financial Reporting Standards (“TFRS”) and its addendum and interpretations (“IFRIC”) issued by the Public Oversight Accounting and Auditing Standards Authority (“POAASA”) Turkish Accounting Standards Board.

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

The Group prepared its condensed interim consolidated financial statements for the period ended 30 June 2019 in accordance with (“TAS”) 34 “Interim Financial Reporting” in the framework of the Communiqué Serial II, No: 14.1, and its related announcement. The condensed interim consolidated financial statements and its accompanying notes are presented in compliance with the format recommended by CMB including its mandatory information.

In compliance with the TAS 34, entities have preference in presenting their interim financial statements whether full set or condensed. In this framework, the Group preferred to present its interim financial statements in condensed.

The Group’s condensed interim consolidated financial statements do not include all disclosure and notes that should be included at year end financial statements. Therefore the condensed interim financial statements should be read in conjunction with the Group’s annual consolidated financial statements dated 31 December 2018 and group’s public announcements during the financial year.

The Group 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 account issued by the Ministry of finance.

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.

According to CMB Communiqué No:14 and announcements made by the CMB, it is obligatory for the foreign exchange position table of the companies preparing the summary financial statements in interim periods to present the hedging ratio of the total foreign exchange liability and the total export and total import amounts in the footnotes of the financial statements. (Note 21).

The Group’s interim condensed consolidated financial statements do not have any effect on the seasonality of the Group’s operations.

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

2.2 Summary of significant accounting policies

Significant accounting policies applied in the preparation of the financial statements in the interim condensed consolidated statements are consistent with the explanations in the financial statements for the period 1 January – 31 December 2018 except for the following:

Income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year. Amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the annual income tax rate changes.

Expenses, which are not evenly distributed through the year, are recognized in the condensed consolidated interim financial statements only when they can be estimated or deferred appropriately.

2.3 Basis of consolidation

The condensed consolidated interim 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 TFRS applying uniform accounting policies and presentation.

a) Subsidiaries

All companies that have control over the Group are affiliates of the Group. The Group controls the entity if it is exposed to variable interest due to its relationship with the entity or if it has the right to influence the entity at the same time. Control over the subsidiary the subsidiary is included in the consolidation as of the date of its transition to the Group. Since the control on the subsidiary has ended, the related subsidiary is excluded from the scope of consolidation.

The balance sheets and income statements of the companies included in the consolidation have been consolidated using the full consolidation method and all debit / credit balances and transactions between them have been mutually canceled. The shareholding amounts and the shareholders' equity of the companies participating in are eliminated mutually. 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 TFRS applying uniform accounting policies and presentation. Gains and losses arising from intra-group transactions recognized in assets are eliminated when the losses are offset against each other and unrealized losses are eliminated when the transaction does not indicate an impairment in the transferred asset.

The non-controlling share in the net assets and results of subsidiaries for the period are classified within the materiality principle of the account in the consolidated statements of balance sheets and retained earnings.

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

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

2.3 Basis of consolidation (Continued)

a) Subsidiaries (Continued)

The table below sets out the associates and the proportion of ownership interest as of 30 June 2019 and 31 December 2018.

<u>Subsidiaries</u>	Direct or Indirect Control Shares of Company (%)	
	30 June 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 of 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, a subsidiary of the Group, has been designated as US Dollars beginning from 1 January 2017. In the interim condensed consolidated financial statements, the financial statements have been prepared and presented in Turkish lira ("TL") which is the parent company's functional and presentation currency of the Group.

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 gain or losses arising from the settlement 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 shareholder's equity.

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

As of 30 June 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.

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

2.3 Basis of consolidation (Continued)

b) Foreign currency translation (Continued)

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

The end of the period:	30 June 2019	31 December 2018
Turkish Liras / USD Dollars	5,7551	5,2609
<u>Average:</u>	30 June 2019	30 June 2018
Turkish Liras / USD Dollars	5,6197	4,0860

2.4 Amendments in Turkish Financial Reporting Standards

a) Standards, amendments and interpretations applicable as at 30 June 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.
- **Amendment to TAS 28, 'Investments in associates and joint venture'**; effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using TFRS 9.
- **TFRS 16, 'Leases'**; effective from annual periods beginning on or after 1 January 2019, 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 far-reaching 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 TASB 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 TASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

2.4 Amendments in Turkish Financial Reporting Standards (Continued)

a) Standards, amendments and interpretations applicable as at 30 June 2019 (Continued):

- **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 TAS 12 ‘Income taxes’, are applied where there is uncertainty over income tax treatments. The TFRS IC had clarified previously that TAS 12, not TAS 37 ‘Provisions, contingent liabilities and contingent assets’, applies to accounting for uncertain income tax treatments. TFRIC 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.
 - **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.
 - **Amendments to TAS 19, ‘Employee benefits’ on plan amendment, curtailment or settlement’;** effective from annual periods beginning on or after 30 June 2019. These amendments require an entity to:
 - use updated assumptions to determine current service cost and net interest for the remainder 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) New standards, amendments and interpretations issued and effective as of 1 30 June 2019 have not been presented since they are not relevant to the operations of the Company or have insignificant impact on the financial statements.**

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

2.4 Amendments in Turkish Financial Reporting Standards (Continued)

c) Standards, amendments and interpretations that are issued but not effective as at 30 June 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 TFRSs:
 - i) use a consistent definition of materiality throughout TFRSs and the Conceptual Framework for Financial Reporting;
 - ii) clarify the explanation of the definition of material; and
 - iii) 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.
- **TFRS 17, ‘Insurance contracts’;** effective from annual periods beginning on or after 1 January 2021. This standard replaces TFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. TFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

The Group will assess the effects of the above amendments on its operations and apply them from the effective date. The impact of the above standards and interpretations on the implementation of the above is assessed.

2.5 Comparative information and restatement of previous year financial statements

The Group prepared its interim condensed consolidated financial statements on a comparative basis with the preceding financial period, which enables determination of trends in financial position and performance. The Company prepared its balance sheet at 30 June 2019 on a comparative basis with balance sheet at 31 December 2018; and statements of comprehensive income, cash flows and changes in equity for the period of 1 January – 30 June 2019 on a comparative basis with financial statements for the period of 1 January – 30 June 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.

As of 30 June 2019, the Group management reclassified non-recurring operational and managerial consultancy expenses, donations and aid expenses amounting to TL 23.877, which were classified as general administrative expenses as of 30 June 2018, as other operating expense in the consolidated statement of income.

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

2.6 Restatement and errors in the accounting policies and estimates

The Group has applied the first time adoption of a new standard TFRS 16 “Leases” in accordance with the transition requirements. Effects of first time adoption of this standard and changes in accounting policy are disclosed as follows:

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 has the right when it has the decision making rights that are most relevant to changing the how and for what purpose the asset is used is predetermined, the Group has the right the use of asset if either:
 - i. the Group has the right to operate the asset or;
 - ii. the Group designed the asset 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 costs incurred by the Group for restoring the asset underlying the conditions of leasing (excluding costs incurred for the production of inventories).

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

2.6 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 TMS16 “Property, Plant and Equipment” to amortize the right of use asset and to asses for any impairment.

TAS 36 Impairment of Assets is applied to determine whether an asset is impaired and to recognize 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, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’ incremental borrowing rate. Group uses its incremental borrowing rate as the discount 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.

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

2.6 Restatement and errors in the accounting policies and estimates (Continued)

TFRS 16 Leases (Continued)

The Group – as a lessor

The Group’s activities as a lessor are not material.

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

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:

	30 June 2019	1 January 2019
Lands	114.881	113.659
Buildings	117.342	123.528
Machinery, equipment and installations	2.876	5.751
Motor vehicles	18.879	23.195
Total right of use	253.978	266.133

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**NOTE 2 - BASIS OF PRESENTATION OF INTERIM CONDENSED CONSOLIDATED
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2.7 Critical accounting estimates and judgments

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

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 20.

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. Useful lives of land improvements related to port project are estimated by considering leasing period granted by Petlim in via operator agreement dated 22 February 2013. The Group reviews useful lives of assets subject to aforementioned depreciation in each reporting period and it is estimated that there exist no situation requiring any adjustment in useful lives as of 30 June 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. 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 14).

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 12.

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 finalization of 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 30 June 2019 and have been subjected to exchange rate valuation.

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NOTE 3 - SEGMENT REPORTING

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

The operating segment of the Group are as follows;

- Petrochemical
- Port

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

a) Revenue

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Petrochemical	5.888.902	3.081.774	4.188.532	2.329.775
Port	51.653	26.694	43.317	23.124
Total before eliminations and adjustments	5.940.555	3.108.468	4.231.849	2.352.899
Consolidation eliminations and adjustments	-	-	(2)	-
	5.940.555	3.108.468	4.231.847	2.352.899

b) Operating profit/(loss)

Petrochemical	736.373	473.566	571.736	383.297
Port	7.422	3.090	8.295	5.840
Total before eliminations and adjustments	743.795	476.656	580.031	389.137
Consolidation eliminations and adjustments	(40.472)	(42.991)	10.168	5.365
Operating profit	703.323	433.665	590.199	394.502

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NOTE 3 - SEGMENT REPORTING (Continued)

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Financial (expenses)/income, net	(211.138)	(123.929)	(39.605)	(2.793)
Income from investing activities, net	15.970	7.923	11.807	4.718
Profit before tax from continued operations	508.155	317.659	562.401	396.427
Tax expense	(68.912)	(22.237)	(80.324)	(40.160)
Profit for the period	439.243	295.422	482.077	356.267

c) Total assets

	30 June 2019	31 December 2018
Petrochemical	12.626.854	11.583.892
Port	2.239.410	2.124.320
Total before eliminations and adjustments	14.866.264	13.708.212
Consolidation eliminations and adjustments	(1.264.022)	(1.120.406)
	13.602.242	12.587.806

d) Total liabilities

Petrochemical	7.719.869	7.243.428
Port	2.232.582	1.984.915
Total before eliminations and adjustments	9.952.451	9.228.343
Consolidation eliminations and adjustments	(901.439)	(775.473)
	9.051.012	8.452.870

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NOTE 4 - CASH AND CASH EQUIVALENTS

	30 June 2019	31 December 2018
Banks	2.382.115	3.006.484
- Demand deposits	13.651	7.188
- TL	3.495	2.261
- Foreign currency	10.156	4.927
- Time deposits	2.368.464	2.999.296
- TL	230.206	137.718
- Foreign currency	2.138.258	2.861.578
Other	-	2.924
	2.382.115	3.009.408

As of 30 June 2019, foreign currency time deposits consist of monthly deposits. The weighted average effective interest rates of USD and EUR monthly deposits are 3,73% and 1,24% per annum, respectively. (31 December 2018: USD – 5,32% , EUR - 2,08%).

As of 30 June 2019, the TL dominated time deposits consist of overnight and monthly deposits and the weighted average effective interest rates are 21,95% and 23,46% per annum, respectively. (31 December 2018: overnight 22,88%, monthly 23,66%).

NOTE 5 - FINANCIAL INVESTMENTS

a) Short-term financial investments

	30 June 2019	31 December 2018
Time deposit (*)	229.275	-
	229.275	-

(*) Due to the probability of breach assessment of a loan from a financial institution as result of ratings decrease of guarantor banks below the specified limits stated in loan agreement the Group management classified loans amounting to EUR 74 million to short-term financial liabilities, previously classified as long-term liability as of 30 June 2019 (Note 8). On 16 May 2019, the Group obtained a waiver letter from related financial institution with a validity date of 31 December 2019. The Group has blocked time deposits of EUR 35 million in a bank approved by the financial institution on the same date and the Group considers the maturity of the time deposits as the effective date of the waiver letter.

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NOTE 5 - FINANCIAL INVESTMENTS (Continued)

b) Long-term financial investments

	30 June 2019		31 December 2018	
	Amount	rate (%)	Amount	rate (%)
SOCAR Power Enerji Yatırımları A.Ş.	8.910	9,90	8.910	9,90
	8.910		8.910	

TL8.910.000 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 30 June 2019 and 31 December 2018, the cost of financial assets approximates to its fair value.

NOTE 6 - INVENTORIES

	30 June 2019	31 December 2018
Raw materials	226.434	273.514
Work-in-progress	285.774	334.646
Finished goods	354.381	310.783
Merchandise	122.622	52.738
Goods in transit	8.368	130.836
Other inventories	144.725	60.379
Less: Provision for impairment on inventories	(16.583)	(33.315)
	1.125.721	1.129.581

Movements of provision for impairment on inventory for the periods ended 30 June 2019 and 2018 were as follows:

	2019	2018
1 January	(33.315)	(1.678)
Current year income	16.732	908
30 June	(16.583)	(770)

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NOTE 7 - TRADE RECEIVABLES AND PAYABLES

a) Short-term trade receivables from third parties

	30 June 2019	31 December 2018
Trade receivables	1.502.896	1.047.855
Provision for doubtful trade receivables (-)	(21.948)	(22.000)
	1.480.948	1.025.855

The balances of trade receivables as of 30 June 2019 and 31 December 2018 are as follows:

Overdue receivables	26.818	18.637
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The trade receivables that are not overdue are as stated below:

0 to 30 days due	745.740	374.658
31 to 60 days due	284.177	226.020
61 to 90 days due	225.838	209.117
91 days and over due	198.375	197.423
	1.480.948	1.025.855

b) Short-term trade payables to third parties:

	30 June 2019	31 December 2018
Trade payables	653.324	641.809
	653.324	641.809

NOTE 8 - BORROWINGS AND BORROWING COSTS

	30 June 2019	31 December 2018
Short-term borrowings	1.232.878	1.261.339
Short-term portions of long-term borrowings (*)	678.391	170.377
Bonds issued (***)	70.319	64.114
Operational lease liabilities	5.729	-
Other financial liabilities (**)	1.180.970	1.523.130
Short term financial liabilities	3.168.287	3.018.960
Long term borrowings (*)	1.253.513	1.681.996
Bonds issued (***)	2.872.420	2.624.325
Operational lease liabilities	127.977	-
Long term borrowings	4.253.910	4.306.321
Total financial liabilities	7.422.197	7.325.281

(*) Refer to Note 5.

(**) Other financial liabilities consist of letters of credits and murabaha loan arising from naphtha purchases. The average remaining maturity of other financial liabilities is 241 days as of 30 June 2019 (31 December 2018: average remaining maturity 95 days).

(***) Petkim issued bonds listed on Ireland stock exchange and release of these bonds were realized 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%.

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NOTE 8 - BORROWINGS AND BORROWING COSTS (Continued)

	Effective weighted average Interest rate p.a. (%)		Original currency		TL equivalent	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018	30 June 2019	31 December 2018
Short - term borrowings:						
TL borrowings	No Interest	No Interest	33.180	16.108	33.180	16.108
USD borrowings	Libor + 0,65 + 2	Libor + 0,50 + 0,65	159.935	221.152	920.442	1.163.461
EUR borrowings	Libor + 0,50 +0,65	Libor + 0,50	42.630	13.565	279.256	81.770
Short - term portions of long-term borrowings and bond issued:						
USD borrowings	Libor + 4,67 - 4,26	Libor + 4,67 - 4,26	12.021	10.631	69.182	55.929
Euro borrowings	Euribor + 0,6 +3,00 - 1,64	Euribor + 0,6 +3,00 - 1,64	92.999	18.986	609.209	114.448
Bond issued	5,88	5,88	12.219	12.187	70.319	64.114
Total short - term borrowings					1.981.588	1.495.830
Long - term borrowings and bond issued:						
USD borrowings	Libor + 4,67 - 4,26	Libor + 4,67 - 4,26	209.006	215.196	1.202.850	1.132.124
Euro borrowings	Euribor + 3,00	Euribor + 0,6 +3,00 - 1,64	7.734	91.220	50.663	549.872
Bond issued	5,88	5,88	499.109	498.836	2.872.420	2.624.325
Total long - term borrowings					4.125.933	4.306.321
Total borrowings					6.107.521	5.802.151

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NOTE 8 - BORROWINGS AND BORROWING COSTS (Continued)

The redemption schedule of long-term bank borrowings and bonds issued as of 30 June 2019 and 31 December 2018 is as follows:

	30 June 2019
2020	44.085
2021	121.733
2022	140.791
2023	3.000.530
2024	189.113
2025 and over	629.681
	4.125.933
	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 30 June 2019, details of collaterals given by the Group for US Dollar and Euro loans are explained in Note 20. As of 30 June 2019, the Group has meet a number of key performance indicators related to the contractual obligations of the Group in relation to long-term US dollar debts and other debt instruments issued.

Movements of financial liabilities are as of 30 June 2019 and 2018 as follows:

	2019	2018
1 January	4.315.873	1.491.617
Proceeds from financial liabilities	2.616.992	3.269.985
Repayments of financial liabilities	(3.039.781)	(967.410)
Changes in foreign exchange	398.520	983.978
Changes in interest accrual	(12.521)	68.375
Change in Cash and cash equivalents	627.293	(1.945.764)
30 June	4.906.376	2.900.781

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NOTE 9 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2019	Additions	Transfers	Disposals	Foreign currency translation differences	30 June 2019
<u>Cost:</u>						
Land	16.216	-	-	(2)	-	16.214
Land improvements	206.498	-	-	-	255	206.753
Buildings	187.797	-	-	-	80	187.877
Machinery and equipment	7.408.282	-	14.604	-	-	7.422.886
Motor vehicles	11.628	-	-	-	-	11.628
Furniture and fixtures	124.523	-	4.722	(115)	59	129.189
Other fixed assets	996	-	-	-	-	996
Leasehold improvements	671	-	-	-	-	671
Assets subject to operating lease (*)	1.624.656	-	-	-	141.150	1.765.806
Construction in progress	555.530	236.808	(31.135)	-	311	761.514
	10.136.797	236.808	(11.809)	(117)	141.855	10.503.534
<u>Accumulated depreciation:</u>						
Land improvements	(97.567)	(4.274)	-	-	(64)	(101.905)
Buildings	(110.919)	(2.231)	-	-	(39)	(113.189)
Machinery and equipment	(5.687.677)	(110.610)	-	-	-	(5.798.287)
Motor vehicles	(9.758)	(441)	-	-	-	(10.199)
Furniture and fixtures	(65.887)	(5.820)	-	41	(47)	(71.713)
Other fixed assets	(996)	-	-	-	-	(996)
Leasehold improvements	(671)	-	-	-	-	(671)
Assets subject to operating lease	(77.927)	(28.233)	-	-	(7.485)	(113.645)
	(6.051.402)	(151.609)	-	41	(7.635)	(6.210.605)
Net book value	4.085.395					4.292.929

(*) The investments in progress mainly consist of factory improvement projects.

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NOTE 9 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2018	Additions	Transfers	Disposals	Foreign currency translation differences	30 June 2018
<u>Cost:</u>						
Land	13.501	-	-	(28)	-	13.473
Land improvements	177.687	-	2.621	-	405	180.713
Buildings	171.743	-	8.200	-	125	180.068
Machinery and equipment	6.862.864	-	30.944	(2.012)	-	6.891.796
Motor vehicles	11.512	-	-	-	-	11.512
Furniture and fixtures	98.178	-	5.200	(6)	95	103.467
Other fixed assets	996	-	-	-	-	996
Leasehold improvements	671	-	-	-	-	671
Assets subject to operating lease (*)	663.032	-	562.022	-	185.763	1.410.817
Construction in progress	963.829	153.145	(614.047)	-	38.362	541.289
	8.964.013	153.145	(5.060)	(2.046)	224.750	9.334.802
<u>Accumulated depreciation:</u>						
Land improvements	(90.896)	(2.984)	-	-	(63)	(93.943)
Buildings	(106.681)	(2.018)	-	-	(52)	(108.751)
Machinery and equipment	(5.504.853)	(77.190)	-	2.012	-	(5.580.031)
Motor vehicles	(8.893)	(481)	-	-	-	(9.374)
Furniture and fixtures	(57.109)	(4.162)	-	6	(74)	(61.339)
Other fixed assets	(996)	-	-	-	-	(996)
Leasehold improvements	(634)	(22)	-	-	-	(656)
Assets subject to operating lease	(21.558)	(17.373)	-	-	(6.017)	(44.948)
	(5.791.620)	(104.230)	-	2.018	(6.206)	(5.900.038)
Net book value	3.172.393					3.434.764

(*) Assets subject to operating lease consists of port investment.

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NOTE 10 - DEFERRED REVENUE

a) Short term deferred revenue

	30 June 2019	31 December 2018
Advances received	48.354	20.121
Deferred revenue	934	1.903
	49.288	22.024

NOTE 11 - PREPAID EXPENSES

a) Short term prepaid expenses

	30 June 2019	31 December 2018
Prepaid rent, insurance and other expenses	20.625	8.689
Advances given for inventory orders	19.233	25.153
Advances given for customs procedures	14.084	2.169
	53.942	36.011

b) Long term prepaid expenses

Advances given for property, plant and equipment	45.759	45.270
Prepaid rent, insurance and other expenses	5.642	6.845
	51.401	52.115

NOTE 12 - EMPLOYEE BENEFITS

a) Short-term employee benefits:

	30 June 2019	31 December 2018
Provision for bonus premium	12.250	24.500
Provision for seniority incentive bonus	4.899	5.551
	17.149	30.051

b) Long-term employee benefits:

Provision for employment termination benefits	72.723	82.718
Provision for unused vacation rights	24.835	16.702
Provision for seniority incentive bonus	6.458	6.350
	104.016	105.770

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NOTE 12 - EMPLOYEE BENEFITS (Continued)

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	8.133	8.057
30 June	24.835	19.548

Provision for employment termination benefits:

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

The amount payable consists of one month’s salary limited to a maximum of full TL 6.017,60 for each year of service as of 30 June 2019 (31 December 2018 – full TL5.434,42).

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

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

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:

	30 June 2019	31 December 2018
Net discount rate (%)	5,00	5,00
Probability of retirement (%)	99,89	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 full 6.379,86 TL which is effective from 1 July 2019, has been taken into consideration in the calculation of employment termination benefits of the Group (1 January 2019 – full TL 6.017,60).

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NOTE 12 - EMPLOYEE BENEFITS (Continued)

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

	2019	2018
1 January	82.718	79.164
Interest cost	6.734	4.631
Payments during the period	(18.090)	(12.855)
Service cost	3.904	6.328
Actuarial loss	(2.543)	(1.186)
30 June	72.723	76.082

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

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

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NOTE 12 - EMPLOYEE BENEFITS (Continued)

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:

	30 June 2019	31 December 2018
Net discount rate (%)	5,00	5,00
Used rate related to retirement probability (%)	99,89	100,00

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

	2019	2018
1 January	11.901	9.670
Interest cost	974	566
Payments during the period	(4.546)	(3.011)
Service cost	3.028	2.630
30 June	11.357	9.855

NOTE 13 - SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

The shareholders of the Company and their shareholdings as of 30 June 2019 and 31 December 2018 were as follows:

Group: Shareholder:	30 June 2019		31 December 2018	
	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 amounts of cash and cash equivalents contributions, restated for inflation, to share capital and the amounts before the restatement.

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NOTE 13 - SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

With General Assembly meeting decision dated 29 March 2019, the issued capital was increased from TL 1.650.000 to TL 2.112.000 by TL 462.000 within the registered capital ceiling of TL 4,000,000. All of the capital increase has been transferred from the premiums related to the shares to the capital account. The increased capital of TL 462.000 has been issued to the shareholders of the 7th Serial, Group A shares in a proper manner. 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 (31 December 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).

NOTE 14 - INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)

a) Corporate tax:

	30 June 2019	31 December 2018
Calculated corporate tax	43.631	125.936
Less: Prepaid taxes	(26.260)	(157.861)
Corporate tax liability/(asset)	17.371	(31.925)

Tax expenses included in the income statement for the condensed consolidated period end 30 June 2019 and 2018 are summarized below:

	1 January - 30 June 2019	1 April- 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Deferred tax (loss) / income	(25.281)	742	(43.798)	(32.776)
Current period tax expense	(43.631)	(22.979)	(36.526)	(7.384)
Total tax expense	(68.912)	(22.237)	(80.324)	(40.160)

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 CMB Financial Reporting Standards and the statutory tax financial statements.

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

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**NOTE 14 - INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)
(Continued)**

Details of cumulative temporary differences and the resulting deferred income tax assets and liabilities provided as of 30 June 2019 and 31 December 2018 were as follows:

	<u>Taxable Temporary Differences</u>		<u>Deferred Income Tax Assets/(Liabilities)</u>	
	30 June 2019	31 December 2018	30 June 2019	31 December
2018				
Difference between the carrying values and tax bases of property, plant, equipment and intangible assets	(152.501)	(99.163)	(30.500)	(19.833)
Deferred revenue related to the port	-	(6.556)	-	(1.311)
Other	(303)	(4.468)	(61)	(893)
Deferred income tax liabilities	(152.804)	(110.187)	(30.561)	(22.037)
Unused investment incentives	871.002	888.885	231.067	236.079
Provision for employee benefits	121.165	135.816	24.232	27.163
Deferred revenue related to the port	21.367	-	4.274	-
Carry forward tax losses	92.104	21.976	18.421	4.395
Fair value difference of derivative financial instruments	16.748	13.954	3.350	2.791
Inventory provision	16.583	33.315	3.317	6.663
Rent allowance fee	4.225	4.309	845	862
Provision for legal cases	3.115	3.068	623	614
Other	62.304	71.850	12.460	14.370
Deferred income tax assets	1.208.613	1.173.173	298.589	292.937
Deferred tax assets / (liabilities) , net			268.028	270.900

The movement of deferred income tax is as follows:

	2019	2018
1 January	270.900	237.963
Charged to consolidated statement of comprehensive income	(25.281)	(43.798)
Charged to cash flows hedge reserves	401	(2.489)
Foreign currency translation differences	22.008	39.729
30 June	268.028	231.405

As of 30 June 2019, the Group has 871.002 TL unused investment spending for which the realization of the related tax benefit through the future taxable profit has deemed probable with respect to its projections (31 December 2018 - TL 888.885).

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NOTE 15 – REVENUE AND COST OF SALES

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Domestic sales	3.351.609	1.767.487	2.591.963	1.445.743
Foreign sales	2.647.373	1.381.142	1.709.616	951.201
Other sales	54.047	24.627	34.750	20.827
Discounts (-)	(112.474)	(64.788)	(104.482)	(64.872)
Net revenue	5.940.555	3.108.468	4.231.847	2.352.899
Raw materials	(3.180.448)	(1.691.723)	(2.590.578)	1.539.419
Cost of trade goods sold	(1.180.199)	(601.329)	(575.679)	(316.907)
Energy	(349.910)	(187.845)	(205.432)	(110.870)
Personnel expense	(177.886)	(94.091)	(119.654)	(69.050)
Depreciation	(128.818)	(69.380)	(75.087)	(41.830)
Other	(44.641)	80.999	82.291	196.884
Cost of Sales	(5.061.902)	(2.563.369)	(3.484.139)	(1.881.192)

NOTE 16 - GENERAL ADMINISTRATIVE EXPENSES

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Personnel expense	74.346	26.335	51.660	18.016
Depreciation and amortization	22.014	11.836	6.486	3.491
Outsourced services	20.921	7.846	30.165	15.830
Energy expenses	10.303	3.284	4.832	1.123
Taxes, funds and fees	6.383	4.041	5.824	2.805
Other	16.986	10.406	12.807	3.943
	150.953	63.748	111.774	45.208

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NOTE 17 - FINANCIAL INCOME/EXPENSES

a) Financial income

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Foreign exchange gain	1.107.882	582.742	904.546	679.867
Interest income	64.744	32.079	100.814	51.221
Other	1.508	514	1.713	198
	1.174.134	615.335	1.007.073	731.286

b) Financial expense

Foreign exchange losses	(1.160.309)	(623.062)	(889.953)	(656.254)
Interest expense	(205.430)	(107.363)	(120.217)	(71.133)
Commission expense	(11.825)	(4.985)	(30.737)	(3.969)
Interest expense on employee benefits	(7.708)	(3.854)	(5.182)	(2.591)
Other	-	-	(589)	(132)
	(1.385.272)	(739.264)	(1.046.678)	(734.079)

NOTE 18 - EARNINGS PER SHARE

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Net profit for the period of the equity holders of the parent	473.447	319.420	502.734	371.359
Weighted average number of shares with nominal value of Krl each (thousand)	211.200	211.200	211.200	211.200
Earnings per share (Krl)	0,2242	0,1512	0,2380	0,1758

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NOTE 19 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Summary of the intercompany balances as of 30 June 2019 and 31 December 2018 and significant intercompany transactions during the period were as follows:

i) Balances with related parties

a) Trade receivables from related parties:

	30 June 2019	31 December 2018
SOCAR Aliğa Liman İşletmeciliği A.Ş. ⁽²⁾	117.952	168.543
SOCAR Azerikimya Production Union ⁽²⁾	363	-
SOCAR Turkey Akaryakıt Depolama ⁽²⁾	180	-
	118.495	168.543

b) Short term other receivables from related parties:

STEAŞ ^{(1) (*)}	187.621	1.409
SOCAR Aliğa Liman İşletmeciliği A.Ş. ⁽²⁾	882	24
STAR Rafineri A.Ş. ("STAR") ⁽²⁾	438	506
SOCAR Turkey Akaryakıt Depolama A.Ş. ⁽²⁾	207	180
TANAP Doğalgaz İletişim A.Ş. ⁽²⁾	1	1
SCR Gayrimenkul A.Ş. ⁽²⁾	-	923
	189.149	3.043

(*) TL 185.000 of the receivables from STEAŞ consists of intercompany loan, TL 2.621 of this amount consists of labor cost invoiced and other receivables.

c) Long term other receivables from related parties:

SOCAR Power Enerji Yatırımları A.Ş. ^{(2) (**)}	124.393	109.745
	124.393	109.745

(**) TL 94.168 of the receivables from Socar Power Yatırımları A.Ş. consists of sale of land and rent receivables, TL 30.225 of this amount consists of interest and other receivables (As of 31 December 2018, TL 86.082 of the receivables from Socar Power Yatırımları A.Ş. consists of sale of land, TL 23.663 of this amount consists interest and other receivable).

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NOTE 19 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

d) Short term trade payables to related parties:

	30 June 2019	31 December 2018
STAR ⁽²⁾	117.587	2.175
SOCAR Turkey Petrol Enerji Dağ. A.Ş. ⁽²⁾	98.336	7.316
SOCAR Turkey Petrokimya A.Ş. ⁽¹⁾	59.146	-
STEAŞ ⁽¹⁾	52.321	45.330
SCR Gayrimenkul A.Ş. ⁽²⁾	4.052	6
Azoil Petrolcülük A.Ş. ⁽²⁾	103	419
SOCAR Turkey Akaryakıt Depolama A.Ş. ⁽²⁾	-	90
	331.545	55.336

Short term payables to the related parties mainly consist of consultancy and product purchases. Average maturity of short term payables to the related parties is 19 days. (31 December 2019- 29 days)

e) Other payables to related parties:

STEAŞ ⁽¹⁾	24.857	25.215
Due to shareholders ⁽¹⁾	87	87
	24.944	25.302

f) Short term deferred revenue from related parties

STAR ⁽²⁾	15.283	1.495
SOCAR Turkey Akaryakıt Depolama A.Ş. ⁽²⁾	1.218	-
SOCAR Aliğa Liman İşletmeciliği A.Ş. ⁽²⁾	353	-
	16.854	1.495

g) Long term deferred revenue from related parties

SOCAR Aliğa Liman İşletmeciliği A.Ş. ⁽²⁾	187.612	174.527
STAR ⁽²⁾	4.463	4.141
	192.075	178.668

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NOTE 19 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

h) Short term prepaid expense to related parties

	30 June 2019	31 December 2018
STEAS ^{(1) (*)}	2.762.806	2.525.317
STAR ⁽²⁾	5.863	1.107
SCR Gayrimenkul A.Ş. ⁽²⁾	91	-
SOCAR Turkey Akaryakıt Depolama A.Ş. ⁽²⁾	55	-
	2.768.815	2.526.424

(*) As a result of negotiations between the Group and its main shareholder SOCAR Turkey Enerji A.Ş. (STEAS), 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 STEAS 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 30 June 2019 and have been subject to Exchange rate valuation.

i) Long term prepaid expense to related parties

STAR ⁽²⁾	22.846	19.892
STEAS ⁽¹⁾	81	103
	22.927	19.995

j) Short term operational lease liabilities from related parties

SCR Gayrimenkul A.Ş. ⁽²⁾	8.612	-
STAR ⁽²⁾	3.037	-
STEAS ⁽¹⁾	1.053	-
	12.702	-

k) Long term operational lease liabilities from related parties

SCR Gayrimenkul A.Ş. ⁽²⁾	105.795	-
STEAS ⁽¹⁾	13.057	-
	118.852	-

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NOTE 19 - 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 - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
STEAŞ ⁽¹⁾	238.543	63.194	194.668	146.174
SOCAR Turkey Petrokimya A.Ş. ⁽¹⁾	-	-	53.292	39.854
SOCAR Power Enerji Yatırımları A.Ş. ⁽²⁾	13.678	5.005	16.121	11.888
SOCAR Turkey Akaryakıt Depolama A.Ş. ⁽²⁾	321	(215)	78	80
SOCAR TRADING SA ⁽²⁾	20	19	(14)	-
SCR Gayrimenkul A.Ş. ⁽²⁾	(14.141)	(4.915)	4.214	2.050
Socar Turkey Petrol Ener. Dağ. A.Ş. ⁽²⁾	(6.606)	(1.114)	(4.306)	(3.442)
STAR ⁽²⁾	(5.626)	(2.914)	2.797	1.197
SOCAR Azerikimya Production Union ⁽²⁾	(1)	(21)	-	-
Azoil Petrolcülük A.Ş. ⁽²⁾	-	-	4	4
	226.188	59.039	266.854	197.805

The Group has interest income for TL receivables with the rates of 27,67% and 25,47%, interest income for US Dollar receivables with the rates of 5,33% and 5,40% from SOCAR Power Enerji A.Ş. The Group has interest income from SOCAR Turkey Enerji A.Ş. with a rate of 25,47% for TL receivables. The breakdown of income from STAR is as follows; TL 6.243 is foreign exchange gain, TL 617 other income and the breakdown of income from STEAŞ is as follows; TL 4.199 interest income, TL 237.212 foreign exchange gain and TL 2.868 other expense. Income from SOCAR Power Enerji Yatırımları A.Ş. consists of TL 8.289 foreign exchange gain and TL 5.389 interest income.

b) Service and rent purchases from related parties:

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
SCR Gayrimenkul İnşaat ve Müşavirlik A.Ş. ⁽²⁾	10.025	5.804	-	-
STEAŞ ⁽¹⁾	9.015	4.241	6.784	3.464
STAR ⁽²⁾	8.700	4.408	10.142	6.650
Socar Turkey Petrol Ener. Dağ. A.Ş. ⁽²⁾	17	-	37	-
SOCAR Power Enerji Yatırımları A.Ş. ⁽²⁾	-	-	3	-
	27.757	14.453	16.966	10.114

The rent and service purchases from STAR consist of rent expense amounting to TL 5.362 and other services amounting to TL 3.338. The service purchases from STEAŞ consist of labor cost charges of STEAŞ personnel amounting to TL 5.470 and other services amounting to TL 3.545.

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NOTE 19 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

c) Product purchase from related parties:

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
STAR ⁽²⁾	727.605	513.015	-	-
SOCAR Turkey Petrol Enerji Dağıtım A.Ş. ⁽²⁾	364.544	174.648	109.021	68.659
SOCAR Turkey Petrokimya A.Ş. ⁽¹⁾	308.671	154.920	-	-
Petrokim ⁽²⁾	1.269	650	-	-
SOCAR Trading SA ⁽²⁾	-	-	17.408	-
Azoil Petrolcülük A.Ş. ⁽²⁾	-	-	1.149	610
	1.402.089	843.233	127.578	69.269

Purchases made from STAR consist of 229.075 tone of naphta purchasing, amounting to TL 662.258 and other products purchasing amounting to TL 65.347. Purchases made from related parties consist of natural gas, commercial products and fuel purchases.

d) Product and service sales to related parties:

STAR ⁽²⁾	33.433	18.457	16.699	11.631
SOCAR Azerikimya Production Union ⁽²⁾	2.354	1.847	-	-
SOCAR Aliğa Liman İşletmeciliği A.Ş. ⁽²⁾	1.875	877	-	-
SOCAR Turkey Akaryakıt Depolama A.Ş. ⁽²⁾	1.769	1.180	29	21
STEAŞ ⁽¹⁾	266	157	164	(49)
	39.697	22.518	16.892	11.603

e) Rent income from related parties:

STAR ⁽²⁾	19.570	10.822	12.282	6.169
SOCAR Turkey Akaryakıt Depolama A.Ş. ⁽²⁾	1.071	662	426	213
	20.641	11.484	12.708	6.382

f) Key management emoluments:

i. Key management emoluments - short term:

Payments for salary and seniority incentives	15.362	5.466	11.090	4.275
	15.362	5.466	11.090	4.275

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NOTE 19 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

ii. Key management emoluments - long term:

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Provision for unused vacation	2.193	165	1.289	164
Provision for employment termination benefits	300	(127)	200	97
Provision for seniority incentives	178	29	137	1
	2.671	67	1.626	262
	18.033	5.533	12.716	4.537

The Group classifies the general manager, assistant general managers, and board of directors and audit committee members as executive management. Key management emoluments consist of salary and travel payments; employment termination benefits, seniority incentive bonus and vacation pays made to the key management and their provisions for the period in which they incurred.

NOTE 20 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

a) Short - term provisions:

	30 June 2019	31 December 2018
Provision for legal cases	3.115	3.068
	3.115	3.068

b) Guarantees received:

Bank guarantees within the context of DOCS (*)	1.083.125	946.920
Letters of guarantee received from customers	617.773	551.916
Insurance for receivables	595.540	479.635
Letters of guarantee received from suppliers	273.699	263.916
Letters of credit	210.642	51.592
Mortgages	2.000	2.000
	2.782.779	2.295.979

(*) Direct Order and Collection System

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NOTE 20 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

c) Guarantees given:

	30 June 2019	31 December 2018
Guarantees given to banks	2.136.925	2.069.233
Mortgages given to banks (**)	1.101.245	1.009.468
Custom offices	99.101	42.099
Other	33.895	134.997
	3.371.166	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 1.101 thousand as of 30 June 2019. Petkim has guaranteed the loan repayment and its shares in Petlim Limancılık Ticaret A.Ş. amounting TL105 thousand 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 TL5.650. Guarantees given has been considered as total risk amount.

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

	30 June 2019	31 December 2018
A. Total amount of CPMs given for the Company’s own legal personality	2.269.921	2.246.329
B. Total amount of CPMs given on behalf of fully consolidated companies	1.101.245	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	-	-
	3.371.166	3.255.797

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NOTE 20 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

d) Ongoing cases and investigations

The Customs Administration levied an incremental VAT charge and fine amounting to TL1.413 on the Group in 2014, 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 TL 99 thousand and penalty and interest of TL 66 thousand. At the same time during 2017, two of the three ongoing lawsuits at local tax courts related to the imported Pygas were concluded in favour of the Group, with the conclusion that the product customs tariff statistical position does not require SCT. In the third lawsuit it was ruled that the product does require SCT but that the penalty amount was unfair. Subsequently on 28 September 2017 all the lawsuits which were heard at the Regional Administrative Court (the “Court of Appeals”) were concluded in favour of the Group with rulings that the product’s customs tariff statistical position does not require SCT, and a lawsuit was filed with the Council of State by the Customs Administration.

Furthermore, 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 TL 937 and TL 1.405, respectively. In accordance with 7143 numbered Law regarding restruction, a fine amounting TL 479 was levied to the Group.

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 30 June 2019.

As a result of this judicial process, the Group expects the decision that PYGAS does not have a GTIP with SCT as claimed by the Customs administration and Pygas had a GTIP with free SCT.

Following the approval of Pygas had a GTIP with free SCT by the Court of Appeal, the Group management and legal advisors believes that the tax penalty and interest notified by the Ministry of Finance will be resulted in compromise and / or litigation without a significant financial risk

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NOTE 20 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

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 30 June 2019 and 2018 are as follows:

	30 June 2019	30 June 2018
0-5 years	637.252	608.815
5-10 years	695.334	640.561
10 years and more	2.806.826	2.710.140
Total	4.139.412	3.959.516

NOTE 21 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Foreign exchange risk

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

Although the raw materials, which comprise the significant portion of production and import volume, are foreign exchange-denominated cost items, the determination of sales prices by the Group in foreign exchange terms is a factor that decreases the foreign exchange risk in the cash flows.

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NOTE 21 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Foreign currency position

	30 June 2019				31 December 2018			
	TL equivalent	USD dollar	Euro	Other	TL equivalent	USD dollar	Euro	Other
1. Trade receivables	1.152.306	155.404	39.376	-	678.105	105.696	20.247	-
2a. Monetary financial assets (Cash, bank accounts included)	5.159.366	798.179	85.070	8.498	5.399.250	972.726	45.454	7.838
2b. Non-monetary financial assets	-	-	-	-	-	-	-	-
3. Current assets (1+2)	6.311.672	953.583	124.446	8.498	6.077.355	1.078.422	65.701	7.838
4. Trade receivables	-	-	-	-	-	-	-	-
5a. Monetary financial assets	-	-	-	-	-	-	-	-
5b. Non-monetary financial assets	845.292	146.877	-	-	750.365	142.631	-	-
6. Other	-	-	-	-	-	-	-	-
7. Non-current assets (4+5+6)	845.292	146.877	-	-	750.365	142.631	-	-
8. Total assets (3+7)	7.156.964	1.100.460	124.446	8.498	6.827.720	1.221.053	65.701	7.838
9. Trade payables	767.346	112.813	3.722	93.714	488.770	66.746	9.050	75.030
10. Financial liabilities	3.116.127	387.075	135.630	-	2.993.693	531.749	32.551	-
11a. Monetary other liabilities	-	-	-	-	-	-	-	-
11b. Non-monetary other liabilities	-	-	-	-	-	-	-	-
12. Short-term liabilities (9+10+11)	3.883.473	499.888	139.352	93.714	3.482.463	598.495	41.601	75.030
13. Trade payables	-	-	-	-	-	-	-	-
14. Financial liabilities	3.045.070	520.306	7.733	-	3.314.131	525.434	91.220	-
15a. Monetary other liabilities	-	-	-	-	-	-	-	-
15b. Non-monetary other liabilities	-	-	-	-	-	-	-	-
16. Long-term liabilities (13+14+15a+15b)	3.045.070	520.306	7.733	-	3.314.131	525.434	91.220	-
17. Total liabilities (12+16)	6.928.542	1.020.194	147.085	93.714	6.796.594	1.123.929	132.821	75.030
18. Net (liability)/asset position of off-balance sheet derivative instruments (18a-18b)	282.162	67.240	(16.000)	-	152.866	34.786	(5.000)	-
18a. Amount of asset nature off-balance sheet derivative instruments	386.973	67.240	-	-	183.006	34.786	-	-
18b. Amount of liability nature-off balance sheet derivative instruments	(104.811)	-	(16.000)	-	(30.140)	-	(5.000)	-
19. Net foreign (liability) / asset position (8-17+19)	510.584	147.506	(38.639)	(85.216)	183.992	131.910	(72.120)	(67.191)
20. Net foreign currency (liability) / asset position of monetary items (IFRS 7.B23)	-	-	-	-	-	-	-	-
(=1+2a+4+5a-9-10-11a-13-14-15a)	228.422	80.266	(22.639)	(85.216)	31.126	97.124	(67.120)	(67.191)
21. Total fair value of financial instruments used for foreign currency hedging	(9.399)	(1.269)	(320)	-	(1.898)	(575)	187	-
22. Hedged amount for current assets	386.973	67.240	-	-	183.006	34.786	-	-
23. Hedged amount for current liabilities	(104.811)	-	(16.000)	-	(30.140)	-	(5.000)	-
24. Export	2.537.661	283.497	139.570	7.719	3.611.200	445.755	246.938	38.163
25. Import	3.536.292	602.812	25.144	-	5.764.669	1.114.524	55.666	85.919

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**NOTE 21 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT
(Continued)**

Table of sensitivity analysis for foreign currency risk

30 June 2019

	<u>Profit/(Loss)</u>		<u>Equity</u>	
	<u>Appreciation of foreign currency</u>	<u>Depreciation of foreign currency</u>	<u>Appreciation of foreign currency</u>	<u>Depreciation of foreign currency</u>
Change of USD by 10% against TL:				
1- Asset/Liability denominated in USD – net	46.194	(46.194)	46.194	(46.194)
2- The part hedged for USD risk (-)	-	-	38.697	(38.697)
3- USD effect - net (1+2)	46.194	(46.194)	84.891	(84.891)
Change of EUR by 10% against TL:				
4- Asset/Liability denominated in EUR – net	(14.830)	14.830	(14.830)	14.830
5- The part hedged for EUR risk (-)	-	-	(10.481)	10.481
6- EUR effect - net (4+5)	(14.830)	14.830	(25.311)	25.311
Change of other currencies by 10% against TL:				
7- Assets/Liabilities denominated in other foreign currencies - net	(8.522)	8.522	(8.522)	8.522
8- The part hedged for other foreign currency risk (-)	-	-	-	-
9- Other foreign currency effect - net (7+8)	(8.522)	8.522	(8.522)	8.522
Total (3+6+9)	22.842	(22.842)	51.058	(51.058)

31 December 2018

	<u>Profit/(Loss)</u>		<u>Equity</u>	
	<u>Appreciation of foreign currency</u>	<u>Depreciation of foreign currency</u>	<u>Appreciation of foreign currency</u>	<u>Depreciation of foreign currency</u>
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)	51.096	(51.096)	69.397	(69.397)
Change of EUR by 10% against TL:				
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)