

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

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE INTERIM PERIOD 1 JANUARY – 31 MARCH 2017**

**(CONVENIENCE TRANSLATION INTO ENGLISH -
THE TURKISH TEXT IS AUTHORITATIVE)**

**CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH
PETKİM PETROKİMYA HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**

**INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE INTERIM PERIOD 1 JANUARY – 31 MARCH 2017**

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PETKİM PETROKİMYA HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**

**CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS AS OF
MARCH 31 2017 AND 31 DECEMBER 2016**

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

| | Notes | Not reviewed 31 March 2017 | Audited 31 December 2016 |
|---|-------|-------------------------------|-----------------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 2.018.067.127 | 1.267.188.405 |
| Trade receivables | | 745.515.633 | 674.471.489 |
| - Trade receivables from third parties | | 745.515.633 | 674.471.489 |
| Other receivables | | 39.214.952 | 30.792.406 |
| - Other receivables from related parties | 14 | 18.920.162 | 14.321.046 |
| - Other receivables from third parties | | 20.294.790 | 16.471.360 |
| Derivative financial assets | | 6.895.810 | 7.466.471 |
| Inventories | 4 | 644.169.026 | 604.333.833 |
| Prepaid expenses | | 62.315.181 | 31.915.791 |
| - Prepaid expenses to third parties | | 42.914.990 | 19.037.704 |
| - Prepaid expenses to related parties | 14 | 19.400.191 | 12.878.087 |
| Other current assets | | 63.585.001 | 43.777.394 |
| - Other current assets from third parties | | 63.585.001 | 43.777.394 |
| TOTAL CURRENT ASSETS | | 3.579.762.730 | 2.659.945.789 |
| NON-CURRENT ASSETS | | | |
| Financial investments | | 8.910.000 | 8.910.000 |
| - Financial assets available for sale | | 8.910.000 | 8.910.000 |
| Other receivables | | 436.637.661 | 423.305.661 |
| - Other receivables from related parties | 14 | 436.637.661 | 423.305.661 |
| Investment property | | 989.962.282 | 928.881.678 |
| Property, plant and equipment | 5 | 1.935.229.847 | 1.903.849.406 |
| Intangible assets | | 24.163.391 | 22.398.670 |
| Prepaid expenses | | 58.247.165 | 64.040.243 |
| - Prepaid expenses to third parties | | 57.173.991 | 59.747.547 |
| - Prepaid expenses to related parties | 14 | 1.073.174 | 4.292.696 |
| Deferred tax assets | 9 | 245.899.116 | 244.963.987 |
| Other non-current assets | | 12.699.031 | 12.232.354 |
| - Other non-current assets from third parties | | 12.699.031 | 12.232.354 |
| TOTAL NON-CURRENT ASSETS | | 3.711.748.493 | 3.608.581.999 |
| TOTAL ASSETS | | 7.291.511.223 | 6.268.527.788 |

Condensed consolidated financial statements for the interim period 1 January - 31 March 2017, were approved by the Board of Directors of Petkim Petrokimya Holding A.Ş. on 4 May 2017.

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

**CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH
PETKİM PETROKİMYA HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**

**CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS AS OF
MARCH 31 2017 AND 31 DECEMBER 2016**

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

| | Notes | Not reviewed 31 March 2017 | Audited 31 December 2016 |
|---|-------|-------------------------------|-----------------------------|
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Short term borrowings | | 1.697.541.118 | 1.164.193.179 |
| - Short term borrowings from third parties | | 1.697.541.118 | 1.164.193.179 |
| - Bank borrowings | | 1.045.837.984 | 461.698.893 |
| - Other financial liabilities | | 651.703.134 | 702.494.286 |
| Short term portion of long term borrowings | | 65.774.725 | 55.495.727 |
| - Short term portion of long term borrowings from third parties | | 65.774.725 | 55.495.727 |
| - Bank borrowings | | 65.774.725 | 55.495.727 |
| Derivative financial liabilities | | - | 432.006 |
| Trade payables | | 433.388.801 | 412.369.070 |
| - Trade payables to related parties | 14 | 31.270.514 | 29.584.837 |
| - Trade payables to third parties | | 402.118.287 | 382.784.233 |
| Short term liabilities for employee benefits | | 18.486.899 | 25.429.492 |
| Other payables | | 644.624.871 | 38.733.947 |
| - Other payables to related parties | 14 | 631.202.170 | 26.450.401 |
| - Other payables to third parties | | 13.422.701 | 12.283.546 |
| Deferred income | | 56.435.574 | 39.144.851 |
| - Deferred income from related parties | 14 | 17.667.975 | 4.198.100 |
| - Deferred income from third parties | 6 | 38.767.599 | 34.946.751 |
| Short term provisions | | 7.523.869 | 4.000.981 |
| - Provision for employee benefits | 7 | 6.219.473 | 2.617.402 |
| - Other short term provisions | 15 | 1.304.396 | 1.383.579 |
| Current tax liabilities | | 74.862.685 | 48.864.818 |
| Other current liabilities | | 9.371.536 | 7.976.519 |
| - Other current liabilities from third parties | | 9.371.536 | 7.976.519 |
| TOTAL CURRENT LIABILITIES | | 3.008.010.078 | 1.796.640.590 |
| NON-CURRENT LIABILITIES | | | |
| Long term financial liabilities | | 1.205.164.051 | 1.172.474.368 |
| - Long term financial liabilities from third parties | | 1.205.164.051 | 1.172.474.368 |
| - Bank borrowings | | 1.205.164.051 | 1.172.474.368 |
| Derivative financial liabilities | | 8.095.434 | 9.027.379 |
| Deferred income | | 133.716.902 | 129.637.103 |
| - Deferred income from related parties | 14 | 7.861.719 | 8.829.511 |
| - Deferred income from third parties | 6 | 125.855.183 | 120.807.592 |
| Long term provisions | | 96.869.206 | 91.308.322 |
| - Provision for employee benefits | | | |
| Other long term provisions | 7 | 96.869.206 | 91.308.322 |
| TOTAL NON-CURRENT LIABILITIES | | 1.443.845.593 | 1.402.447.172 |
| TOTAL LIABILITIES | | 4.451.855.671 | 3.199.087.762 |

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ORIGINALLY ISSUED IN TURKISH
PETKİM PETROKİMYA HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**

**CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS AS OF
MARCH 31 2017 AND 31 DECEMBER 2016**

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

| | Notes | Not reviewed 31 March 2017 | Audited 31 December 2016 |
|--|-------|-------------------------------|-----------------------------|
| EQUITY | | | |
| Equity Attributable to Owners of the Parent Company | | 2.773.956.070 | 3.001.710.146 |
| Share capital | 8 | 1.500.000.000 | 1.500.000.000 |
| Adjustment to share capital | 8 | 238.988.496 | 238.988.496 |
| Share premium | | 214.187.872 | 214.187.872 |
| Other comprehensive income / (expense) not to be reclassified to profit or loss | | | |
| - Actuarial loss arising from defined benefit plan | | (24.694.546) | (24.694.546) |
| Other comprehensive income / (expense) to be reclassified to profit or loss | | 6.893.993 | 572.240 |
| - Foreign currency translation differences | | 8.077.359 | - |
| - Cash flow hedges | | (1.183.366) | 572.240 |
| Restricted reserves | | 192.598.686 | 104.957.638 |
| Retained earnings | | 280.057.398 | 241.912.168 |
| Net profit for the period / year | | 365.924.171 | 725.786.278 |
| Non-controlling interest | | 65.699.482 | 67.729.880 |
| TOTAL EQUITY | | 2.839.655.552 | 3.069.440.026 |
| TOTAL LIABILITIES AND EQUITY | | 7.291.511.223 | 6.268.527.788 |

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PETKİM PETROKİMYA HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE INTERIM PERIODS 1 JANUARY - 31 MARCH 2017 AND 2016**

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

| | Notes | Not reviewed 1 January - 31 March 2017 | Not reviewed 1 January - 31 March 2016 |
|--|-------|--|--|
| PROFIT OR LOSS | | | |
| Revenue | | 1.766.233.046 | 1.108.525.061 |
| Cost of sales | | (1.297.964.181) | (897.545.797) |
| Gross Profit from Trading Operations | | 468.268.865 | 210.979.264 |
| GROSS PROFIT | | | |
| General administrative expenses | 10 | (52.498.365) | (39.858.936) |
| Selling, marketing and distribution expenses | | (13.195.190) | (10.817.140) |
| Research and development expenses | | (3.087.983) | (2.313.386) |
| Other operating income | 11 | 115.524.109 | 43.287.195 |
| Other operating expense | 11 | (69.513.758) | (22.531.348) |
| OPERATING PROFIT | | 445.497.678 | 178.745.649 |
| Income from investment activities | | 15.181.784 | 4.111.849 |
| Expense from investment activities | | (7.703.045) | (12.246) |
| OPERATING PROFIT BEFORE FINANCIAL INCOME/ (EXPENSE) | | 452.976.417 | 182.845.252 |
| Financial income | 12 | 181.481.405 | 61.265.713 |
| Financial expenses | 12 | (192.099.754) | (69.414.743) |
| PROFIT BEFORE TAX FROM CONTINUING OPERATIONS | | 442.358.068 | 174.696.222 |
| Tax expense from continuing operations | | (83.227.457) | (25.833.084) |
| - Current tax expense | 9 | (77.227.725) | (29.633.516) |
| - Deferred tax income | 9 | (5.999.732) | 3.800.432 |
| PROFIT FOR THE YEAR CONTINUING OPERATIONS | | 359.130.611 | 148.863.138 |
| PROFIT FOR THE YEAR | | 359.130.611 | 148.863.138 |
| DISTRIBUTION OF INCOME / (EXPENSE) FOR THE PERIOD | | | |
| - Non-controlling interest | | (6.793.560) | 2.393.018 |
| - Owners of parent | | 365.924.171 | 146.470.120 |
| Earnings Per Share | 13 | 0,2439 | 0,0976 |
| - Earnings per Kr 1 number of 1 shares from continuing operations | | 0,2439 | 0,0976 |

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**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE INTERIM PERIODS 1 JANUARY - 31 MARCH 2017 AND 2016**

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

| Notes | Not reviewed 1 January - 31 March 2017 | Not reviewed 1 January - 31 March 2016 |
|---|--|--|
| OTHER COMPREHENSIVE INCOME / (LOSS) | | |
| Items to be Reclassified to Profit or Loss | 11.084.915 | 8.210.317 |
| Currency translation differences | 10.450.283 | - |
| Other Comprehensive Income (Loss) Related with Cash Flow Hedges | 793.290 | 10.262.896 |
| Gain/(Losses) on Cash Flow Hedges | 793.290 | 10.262.896 |
| Taxes relating to other comprehensive income that will be reclassified to profit or loss | (158.658) | (2.052.579) |
| Taxes relating to cash flow hedges | (158.658) | (2.052.579) |
| OTHER COMPREHENSIVE (EXPENSE)/ INCOME | 11.084.915 | 8.210.317 |
| TOTAL COMPREHENSIVE INCOME | 370.215.526 | 157.073.455 |
| Attributable to: | | |
| Non-controlling interests | (4.196.968) | 2.393.018 |
| Owners of parent | 374.412.494 | 154.680.437 |

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PETKİM PETROKİMYA HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE INTERIM PERIODS
1 JANUARY - 31 MARCH 2017 AND 2016**

(Amounts expressed in 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 2016 | 1.500.000.000 | 238.988.496 | (23.668.037) | (7.490.023) | - | 214.187.872 | 36.548.777 | 626.378.793 | 156.442.236 | 2.741.388.114 | 63.995.383 | 2.805.383.497 |
| Transfers | - | - | - | - | - | - | 68.408.861 | (626.378.793) | 557.969.932 | - | - | - |
| Total comprehensive income | - | - | - | 8.210.317 | - | - | - | 146.470.120 | - | 154.680.437 | 2.393.018 | 157.073.455 |
| - Other comprehensive income (loss) | - | - | - | 8.210.317 | - | - | - | - | - | 8.210.317 | - | 8.210.317 |
| - Net profit for the period | - | - | - | - | - | - | - | 146.470.120 | - | 146.470.120 | 2.393.018 | 148.863.138 |
| Dividend paid | - | - | - | - | - | - | - | - | (472.500.000) | (472.500.000) | - | (472.500.000) |
| 31 March 2016 | 1.500.000.000 | 238.988.496 | (23.668.037) | 720.294 | - | 214.187.872 | 104.957.638 | 146.470.120 | 241.912.168 | 2.423.568.551 | 66.388.401 | 2.489.956.952 |
| 1 January 2017 | 1.500.000.000 | 238.988.496 | (24.694.546) | 572.240 | - | 214.187.872 | 104.957.638 | 725.786.278 | 241.912.168 | 3.001.710.146 | 67.729.880 | 3.069.440.026 |
| Transfers | - | - | - | - | - | - | 87.641.048 | (725.786.278) | 638.145.230 | - | - | - |
| Total comprehensive income | - | - | - | (1.755.606) | 8.077.359 | - | - | 365.924.171 | - | 372.245.924 | (2.030.398) | 370.215.526 |
| - Other comprehensive income (loss) | - | - | - | (1.755.606) | 8.077.359 | - | - | - | - | 6.321.753 | 4.763.162 | 11.084.915 |
| - Net profit for the period | - | - | - | - | - | - | - | 365.924.171 | - | 365.924.171 | (6.793.560) | 359.130.611 |
| Dividend paid | - | - | - | - | - | - | - | - | (600.000.000) | (600.000.000) | - | (600.000.000) |
| 31 March 2017 | 1.500.000.000 | 238.988.496 | (24.694.546) | (1.183.366) | 8.077.359 | 214.187.872 | 192.598.686 | 365.924.171 | 280.057.398 | 2.773.956.070 | 65.699.482 | 2.839.655.552 |

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PETKİM PETROKİMYA HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE
INTERIM PERIODS 1 JANUARY - 31 MARCH 2017 AND 2016**

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

| Notes | Not reviewed 1 January - 31 March 2017 | Not reviewed 1 January - 31 March 2016 |
|--|--|--|
| A. Cash flows from operating activities: | 335.992.644 | 313.207.140 |
| Profit for the year (I) | 359.130.611 | 148.863.138 |
| Adjustments related to reconciliation of (II) net profit (loss) for the year: | 136.585.046 | 59.486.252 |
| Adjustments for depreciation and amortization | 36.911.542 | 25.457.323 |
| Adjustments for impairments/ reversals | (2.843.014) | (11.178.930) |
| - Adjustments for impairment of inventories | 4 (2.843.014) | (11.178.930) |
| Adjustments for provisions | 15.317.386 | 11.490.574 |
| - Adjustments for provision employment termination benefits | 7 15.380.872 | 11.021.360 |
| - Adjustments for provision legal cases | 15 (434.622) | (8.582) |
| - Adjustments for provision / other cases | 15 371.136 | 477.796 |
| Adjustments for interest income/ (expense) | 8.441.819 | (7.358.673) |
| - Adjustments for interest income | 12 (15.325.002) | (15.047.686) |
| - Adjustments for interest expense | 12 14.951.540 | 6.991.088 |
| - Deferred interest expense due to credit purchase | 11 (349.737) | (14.143) |
| - Unearned interest income due to credit sales | 11 9.165.018 | 712.068 |
| Adjustments for unrealized foreign currency translation differences | (2.681.225) | 13.914.446 |
| Adjustments for tax income/ losses | 83.227.457 | 25.833.084 |
| Adjustments for gain/ losses on sale of tangible assets | (1.642.959) | (463.064) |
| Adjustments for income from government incentives | (145.960) | 1.791.492 |
| Changes in working capital (III) | (102.275.238) | 134.457.439 |
| Adjustments for increases/decreases in trade receivables | (98.532.446) | 17.232.833 |
| Adjustments for increases/decreases in other receivables | 20.242.094 | 36.132.671 |
| Adjustments for increases/decreases in inventory | 4 (29.915.467) | 45.810.963 |
| Increases/decreases in prepaid expenses | (65.154.880) | (14.619.847) |
| Adjustments for increases/decreases in trade payables | 49.371.590 | (30.461.786) |
| Adjustments for increases/decreases in other payable | 7.285.942 | 5.899.992 |
| Increases/decreases in debts from employment termination benefits | 7 (6.942.593) | 4.436.924 |
| Adjustments for increases/decreases in deferred income | 6 21.370.522 | 70.025.689 |
| Cash flows from operating activities (I+II+III) | 393.440.419 | 342.806.829 |
| Employee termination benefits paid | 7 (6.217.917) | (17.182.266) |
| Income taxes refund/ (paid) | 9 (51.229.858) | (12.417.423) |
| B. Cash flows from investing activities | (137.106.642) | (101.473.689) |
| Cash outflows due to purchases of tangible and intangible assets | (135.463.683) | (100.199.920) |
| Proceeds from sale of tangible and intangible assets | (1.642.959) | 947.958 |
| Other cash outflows | - | (2.221.727) |
| C. Cash flows from financing activities | 522.453.838 | (190.376.146) |
| Proceeds from borrowings | 819.106.048 | 89.608.319 |
| Repayments of borrowings | (242.556.896) | (15.992.499) |
| Proceeds other financial liabilities | 161.793.932 | 19.460.164 |
| Repayments of other financial liabilities | (212.585.084) | (288.010.329) |
| Interest received | 14.583.634 | 16.446.750 |
| Interest paid | (17.887.796) | (11.888.551) |
| D. Net increase / (decrease) in cash and cash equivalents before foreign currency translation differences (A+B+C) | 721.339.840 | 21.357.305 |
| E. Effect of currency translation differences on cash and cash equivalents | 29.538.882 | (28.286.591) |
| Net increase / (decrease) in cash and cash equivalents (D+E) | 750.878.722 | (6.929.286) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | 1.267.188.405 | 1.341.536.749 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | 2.018.067.127 | 1.334.607.463 |

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

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PETKİM PETROKİMYA HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR
THE INTERIM PERIODS 1 JANUARY - 31 MARCH 2017**

(Amounts expressed in 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 April 3, 1965. The Company started its investment activities in İzmit-Yarımca and initially established the Ethylene, Polyethylene, Chlorine Alkali, VCM and PVC plants in 1970 in the Yarımca Complex. During the course of the Company, construction of other plants continued. In 1985, Aliağa Petrochemical Complex was established. The Company has 14 main plants, 1 bag production unit and 1 solid waste incineration facility. The Company operates its facilities in the petrochemical sector in Turkey.

The Company is mainly engaged in the following fields:

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

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

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

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

To carry out and to perform pilotage, trailer and mooring activities, to operate ports, cruise ports, passenger terminals, seaports, docks, harbors, berths, liquid fuel/liquefied petroleum pipeline and buoy systems, and such other similar onshore facilities/plants, and to be involved in port management activities, to offer port, agency, provision, bunkering services, and to provide that such services are offered by 3rd parties either by way of leasing or such other methods when required, and to purchase, to have built and to lease, to sell the necessary vessels/naval platforms, and to establish either domestic or international partnerships in relation thereto, to operate warehouses, and to offer warehousing services,

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

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

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

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

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

As of March 31, 2016 and December 31, 2015 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 its shares have been quoted in Istanbul Stock Exchange ("ISE") since July 9, 1990.

Consolidated financial statements were approved to be issued by the Board of Directors May 4, 2017 and signed by Mr. Anar Mammadov, General Manager and Mr. Riza Bozoklar, Vice President of Finance, on behalf of the Board of Directors. General Assembly and relevant regulators has the right to modify legal financial statements and the consolidated financial statements.

Subsidiaries

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

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

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

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

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NOTE 1 - GROUP’S ORGANISATION AND NATURE OF OPERATIONS (continued)

The number of personnel in the Group is 2.389 as of March 31, 2017 (December 31, 2016 - 2.395).

| | 31 March 2017 | 31 December 2016 |
|----------------|----------------------|-------------------------|
| Union (*) | 1.825 | 1.857 |
| Non-union (**) | 564 | 538 |
| | 2.389 | 2.395 |

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

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

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

Siteler Mah. Necmettin Giritlioğlu Cad. No:6 35800 Aliğa/İZMİR

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

2.1 Basis of Presentation of Financial Statements

The accompanying 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 (“TAS” / “IFRS”) and its addendum and interpretations (“IFRIC”) issued by the Public Oversight Accounting and Auditing Standards Authority (“POAASA”) Turkish Accounting Standards Board.

The Group prepared its condensed interim consolidated financial statements for the period ended 31 March 2017 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 examined together with the year end financial statements.

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.

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**NOTE 2 - BASIS OF PRESENTATION OF INTERIM CONDENSED CONSOLIDATED
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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 TAS/IFRS.

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 16).

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

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 2016 except for the following:

In the interim periods, provisions for taxes are calculated by taking into consideration the tax rates expected to be applied to the year-end financial results and the tax assessments that are expected to be applied to the year-end financial results.

Financial statements in the condensed consolidated interim balance sheet prepared for the interim period 1 January - 31 March 2017 should be evaluated together with the financial statements in the annual consolidation for the period 1 January - 31 December 2016.

Unallocated expenses are considered in the financial statements in the condensed consolidated financial statements only when they can be estimated or deferred appropriately at the end of the fiscal year.

2.3 Basis of consolidation

In condensed interim consolidated financial statements include the accounts of the parent company, Petkim and its subsidiaries, in line with the principles explained below. The consolidated financial statements include the accounts of the parent, Company, and its subsidiaries from the date on which the control is transferred to the Group until the date that the control ceases.

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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 consensated 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. 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 financial positions (balance sheet) 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.

The table below sets out the associates and the proportion of ownership interest as of 31 March 2017 and 31 December 2016.

| <u>Subsidiaries</u> | Direct or Indirect Control Shares of Company (%) | |
|--|---|-------------------------|
| | 31 March 2017 | 31 December 2016 |
| Petlim | 73,00 | 73,00 |
| Petkim Specialities Mühendislik Plastikleri Sanayi ve Ticaret A.Ş. | 100,00 | 100,00 |

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

Foreign currency transactions are translated into functional currency at the exchange rates at which the transaction is made. Foreign exchange gains and losses arising from the settlement of such transactions and translation of monetary assets and liabilities denominated in foreign currencies at period-end exchange rates are recognized as cash flow hedges and net investment hedges and are reflected in the profit or loss in the consolidated statement of financial position and financial income and expenses. Are included in other income and expenses from main operations.

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

The financial statements of Petlim, subsidiary of the Group, have been translated into US dollars at the current exchange rate of TL / USD as of 1 January 2017. As of March 31, 2017, Petlim assets and liabilities were translated into TL using the exchange rates at the balance sheet date. Petlim's comprehensive income statement items were converted to TL using average exchange rates. The translation of the net assets of Petlim, the differences arising from the exchange rates at the average exchange rates and balance sheet dates are followed under "currency translation differences" under equity.

The period ends and average exchange rates used for profit or loss and other comprehensive income items for the related periods are as follows:

| The end of the period: | 31 March 2017 | 1 January 2017 |
|-------------------------------|----------------------|--------------------------------------|
| Turkish Liras / USD Dollars | 3,6386 | 3,5192 |
| <u>Average:</u> | | 1 January - 31 March 2017 |
| Turkish Liras / USD Dollars | | 3,6913 |

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**NOTE 2 - BASIS OF PRESENTATION OF INTERIM CONDENSED CONSOLIDATED
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2.4 Amendments in Turkish Financial Reporting Standards

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

- Amendment to TAS 14, 'Deferral account based on regulation': effective from annual periods beginning on or after 1 January 2016. This amendment allows the first-time TFRS-applying companies to continue to reflect deferral account balances based on arrangements in accordance with previous generally accepted accounting principles. However, in order to provide comparability with other companies that have applied TFRS and will not account for the related amount, it is required that the effect of the tariff regulation be presented separately from other items.
- Annual improvements 2014, effective from annual periods beginning on or after 1 January 2016. These set of amendments impacts 4 standards:
 - TFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
 - TFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to
 - TFRS 1) regarding servicing contracts.
 - TAS 19, 'Employee benefits' regarding discount rates
 - TAS 34, 'Interim financial reporting' regarding disclosure of information
- Amendment to TAS 11, 'amendments to joint agreements' effective from annual periods beginning on or after 1 January 2016. It deals with acquisition of shares in joint activities. In a standard amendment and a joint activity that falls within the definition of an entity, it is clarified how the share will be accounted for acquisitions.
- Amendment to TAS 16, 'Property, plant and equipment' and TAS 38, 'Intangible assets', on depreciation and amortisation, effective from annual periods beginning on or after 1 January 2016. In this amendment the it has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. It is also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.
- Amendment to TAS 27, 'Individual financial statements'; effective from annual periods beginning on or after 1 January 2016. This amendment permits the use of equity management accounting for investments in businesses, subsidiaries, associates and joint ventures.
- Amendment to TAS 10, 'Consolidated financial statements' and TAS 28, 'Investments in associates and joint ventures'; effective from annual periods beginning on or after 1 January 2016. These amendment clarify the application of consolidation exemption for investment company and their subsidiaries.
- Amendment to TAS 1, 'Presentation of financial statements' on the disclosure initiative, effective from annual periods beginning on or after 1 January 2016, these amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports.

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**NOTE 2 - BASIS OF PRESENTATION OF INTERIM CONDENSED CONSOLIDATED
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- b) New standards, amendments and interpretations issued and effective as of 1 January 2017 have not been presented since they are not relevant to the operations of the Company or have insignificant impact on the financial statements.**
- c) Standards, amendments and interpretations effective after 31 March 2017:**
- Amendments to TAS 7 ‘Statement of cash flows’ on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB’s Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.
 - Amendments TAS 12 ‘Income Taxes’, effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset’s tax base. It also clarifies certain other aspects of accounting for deferred tax assets.
 - Amendments TAS 2 ‘Share-based payments’: effective from annual periods beginning on or after 1 January 2018. The amendment clarifies the measurement basis of cash based share-based payments and how to account for changes in a reward based on cash basis from equity. The amendment also requires that an employee of the employer be obliged to pay an amount related to the share-based payment and to pay this amount to the tax office, with an exception to the principles of IFRS 2, which should be treated as if it were purely equity-based.
 - TFRS 9 ‘Financial instruments’, effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in TAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.
 - Amendments TAS 15 ‘Revenue arising from contracts with customers’: effective from annual periods beginning on or after 1 January 2018. The goal of the compliance study with Accepted Accounting Standards in the United States was to provide financial reporting of the resulting new standard revenue and to ensure that the total income of the financial statements is comparable globally.
 - Amendments to TFRS 15 ‘Revenue arising from contracts with customers; These amendments include implementation guidance that sets performance (performance) obligations, accounting for intellectual property licenses, and disclosures about whether the entity is a principal or an intermediary (gross revenue presentation vs. net revenue presentation). New and modified explanatory examples have been added for each of these areas in the implementation guidance. The IASB also included additional practical measures related to the transition to the new revenue standard.

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**NOTE 2 - BASIS OF PRESENTATION OF INTERIM CONDENSED CONSOLIDATED
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- TFRS 16 'Leases', effective from annual periods beginning on or after 1 January 2019, This standard replaces the current guidance in TAS 17 and is a 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 IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- Amendments to TFRS 4 'Insurance Contracts'; effective for annual reporting periods beginning on or after 1 January 2018. The amendment to IFRS 4 provides two different approaches for insurance companies, namely the 'overlay approach' and the 'deferral approach'. According to this:
 - All companies issuing insurance contracts will have the option to account for the volatility that may arise when IFRS 9 is applied, in the statement of comprehensive income rather than in profit or loss, before the new insurance contract standard is issued and
 - Companies whose activities are predominantly linked to insurance will, on a voluntary basis, be temporarily exempted from application of IFRS 9 until 2021. Entities that postpone IFRS 9 application will continue to apply the existing IAS 39 'Financial Instruments' standard.
- Amendments TAS 15 'investment property2: effective from annual periods beginning on or after 1 January 2018. These amendments to the classification of investment property clarify the classification of investment property or immovable properties when there is a change in the purpose of use. If the use of an immovable is changed, it must be assessed whether it conforms to the definition of 'investment property'. This change should be supported by evidence.
- Annual improvements 2014–2016, effective from annual periods beginning on or after 1 January 2018. These amendments impact 3 standards:
 - TFRS 1,' First-time adoption of TFRS', regarding the deletion of short-term exemptions for first-time adopters regarding TFRS 7, TAS 19, and TFRS 10 effective 1 January 2018.
 - TFRS 12,'Disclosure of interests in other entities' regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.
 - TAS 28,'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value effective 1 January 2018.

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**NOTE 2 - BASIS OF PRESENTATION OF INTERIM CONDENSED CONSOLIDATED
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- TFRS 22, 'Foreign currency transactions and advance consideration', effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

The Company will determine the effects of these amendments above on the operations of the Company and will apply after effective date. The above mentioned amendments and interpretations are not expected to have significant impact on the Group's consolidated financial statements.

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 31 March 2017 on a comparative basis with balance sheet at 31 December 2016; and statements of comprehensive income, cash flows and changes in equity for the period of 1 January - 31 March 2017 on a comparative basis with financial statements for the period of 1 January - 31 March 2016. 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.

The reclassifications made to interim condensed consolidated balance sheet dated 31 December 2016 and income statement and other comprehensive income / (loss) of the Group dated 31 March 2016 are as follows:

- The letters of credit amounting to TL 702.494.286 classified as trade payables to non-related parties are classified as other financial liabilities.
- Trade receivables rediscount income amounting to TL 8.388.021 which are included in other expenses from main operations are classified as other income from operating activities. (Note 11).
- The rent income amounting to TL 3.648.785, which is shown in other income from main operations, is classified as income in income from investment activities. (Note 11).

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**NOTE 2 - BASIS OF PRESENTATION OF INTERIM CONDENSED CONSOLIDATED
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2.6 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) *Useful life of tangible and intangible assets and investment property*

The Group determines useful economic lives of tangible and intangible assets and investment properties in capitalization periods in line with opinions of technical experts and recognizes depreciation and redemption during aforementioned economic lives. Useful lives of land improvements related to port project included in investment properties are anticipated through considering leasing period obtained by Petkim in scope of use of right contract. The Group reviews economic lives of assets subject to aforementioned depreciation in each reporting period and it is anticipated that there exist no situation requiring any adjustment in economic lives as of 31 March 2017.

b) *Deferred tax assets*

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

The Group has deferred tax assets resulting from tax loss carry-forwards and deductible temporary differences, which could reduce taxable income in the future periods. All or partial amounts of the realizable deferred tax assets are estimated in current circumstances. As a result of the projections made by the Group management by using its best estimates deferred income tax asset regarding to the unused investment incentives was recognized in the consolidated financial statements (Note 9).

c) *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. The details related with the defined benefit plans are stated in Note 7.

d) *Current value of financial derivative instruments*

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

e) *Impairment of assets*

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

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**NOTE 2 - BASIS OF PRESENTATION OF INTERIM CONDENSED CONSOLIDATED
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f) Provision for inventories

As a result of this, the provision for inventories with the net realizable values below the costs and the slow moving inventories are presented in (Note 4).

g) Provision for doubtful receivables

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

NOTE 3 - SEGMENT REPORTING

Besides, the primary operation of the Group is to produce and sell petrochemical products and these operations have similar economical features, production processes, customer classes and distribution methods, the port operations exist.

NOTE 4 - INVENTORIES

| | 31 March 2017 | 31 December 2016 |
|---|----------------------|-------------------------|
| Raw materials | 199.319.470 | 131.205.558 |
| Work-in-progress | 150.054.126 | 151.387.512 |
| Finished goods | 160.985.969 | 155.419.561 |
| Trade goods | 20.701.122 | 16.287.036 |
| Goods in transit | 38.782.616 | 107.705.559 |
| Other inventories | 78.167.551 | 43.327.421 |
| | 648.010.854 | 605.332.647 |
| Less: Provision for impairment on inventories | (3.841.828) | (998.814) |
| | 644.169.026 | 604.333.833 |

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NOTE 4 - INVENTORIES (continued)

Movements of provision for impairment on inventory for the periods ended 31 March 2017 and 2016 were as follows:

| | 2017 | 2016 |
|------------------------|--------------------|---------------------|
| 1 January | (998.814) | (12.046.150) |
| Current year additions | (3.841.828) | (867.220) |
| Used within year | 998.814 | 12.046.150 |
| 31 March | (3.841.828) | (867.220) |

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

| | 31 March 2017 | 31 December 2016 |
|-------------------|----------------------|-------------------------|
| Work-in-progress | (3.358.280) | (555.245) |
| Trade goods | (213.177) | (173.195) |
| Other inventories | (270.371) | (270.374) |
| | (3.841.828) | (998.814) |

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NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

| | 1 January 2017 | Additions | Transfers | Disposals | Foreign currency translation differences | 31 March 2017 |
|---|------------------------|---------------------|--------------------|--------------------|---|------------------------|
| <u>Cost:</u> | | | | | | |
| Land | 13.522.051 | - | - | - | 254.415 | 13.776.466 |
| Land improvements | 115.726.542 | - | - | - | 73.072 | 115.799.614 |
| Buildings | 171.618.043 | - | - | - | 14.490 | 171.632.533 |
| Machinery and equipment | 6.560.805.488 | - | 18.898.291 | (8.768.163) | - | 6.570.935.616 |
| Motor vehicles | 12.513.098 | - | - | (488.793) | - | 12.024.305 |
| Furniture and fixtures | 91.565.404 | - | 617.779 | (2.853) | 6.993 | 92.187.323 |
| Other fixed assets | 996.152 | - | - | - | - | 996.152 |
| Leasehold improvements | 671.402 | - | - | - | - | 671.402 |
| Construction in progress (*) | 574.289.542 | 69.034.654 | (21.622.648) | - | - | 621.701.548 |
| | 7.541.707.722 | 69.034.654 | (2.106.578) | (9.259.809) | 348.970 | 7.599.724.959 |
| <u>Accumulated depreciation:</u> | | | | | | |
| Land improvements | (87.814.829) | (722.996) | - | - | (37.107) | (88.574.932) |
| Buildings | (102.921.777) | (935.228) | - | - | (8.357) | (103.865.362) |
| Machinery and equipment | (5.373.700.672) | (32.406.081) | - | 8.746.900 | - | (5.397.359.853) |
| Motor vehicles | (9.648.129) | (218.793) | - | 472.128 | - | (9.394.794) |
| Furniture and fixtures | (62.187.463) | (1.512.744) | - | 713 | (4.034) | (63.703.528) |
| Other fixed assets | (996.152) | - | - | - | - | (996.152) |
| Leasehold improvements | (589.294) | (11.197) | - | - | - | (600.491) |
| | (5.637.858.316) | (35.807.039) | - | 9.219.741 | (49.498) | (5.664.495.112) |
| Net book value | 1.903.849.406 | | | | | 1.935.229.847 |

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NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (continued)

| | 1 January 2016 | Additions | Transfers | Disposals | 31 March 2016 |
|---|------------------------|---------------------|-------------|--------------------|------------------------|
| <u>Cost:</u> | | | | | |
| Land | 13.200.586 | - | - | - | 13.200.586 |
| Land improvements | 113.957.571 | - | - | - | 113.957.571 |
| Buildings | 171.235.674 | - | - | - | 171.235.674 |
| Machinery and equipment | 6.436.255.729 | - | 2.513.456 | (436.523) | 6.438.332.662 |
| Motor vehicles | 12.319.269 | - | 123.725 | (1.225.011) | 11.217.983 |
| Furniture and fixtures | 74.702.806 | - | 47.256 | (116.813) | 74.633.249 |
| Other fixed assets | 996.152 | - | - | - | 996.152 |
| Leasehold improvements | 581.831 | - | - | - | 581.831 |
| Construction in progress | 987.795.284 | 104.560.098 | (2.684.437) | - | 1.089.670.945 |
| | 7.811.044.902 | 104.560.098 | - | (1.778.347) | 7.913.826.653 |
| <u>Accumulated depreciation:</u> | | | | | |
| Land improvements | (85.089.479) | (679.889) | - | - | (85.769.368) |
| Buildings | (98.986.892) | (935.228) | - | - | (99.922.120) |
| Machinery and equipment | (5.281.270.613) | (24.959.202) | - | 61.109 | (5.306.168.706) |
| Motor vehicles | (9.909.746) | (182.034) | - | 1.115.531 | (8.976.249) |
| Furniture and fixtures | (57.753.151) | (960.472) | - | 116.813 | (58.596.810) |
| Other fixed assets | (996.152) | - | - | - | (996.152) |
| Leasehold improvements | (404.795) | (48.486) | - | - | (453.281) |
| | (5.534.410.828) | (27.765.311) | - | 1.293.453 | (5.560.882.686) |
| Net book value | 2.276.634.074 | | | | 2.352.943.967 |

(*) Construction in progress amounting to TL 2.106.578 has been transferred to the intangible assets as of 31 March 2017.

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NOTE 6 - DEFERRED INCOME

a) Short term deferred income

| | 31 March 2017 | 31 December 2016 |
|-------------------|----------------------|-------------------------|
| Advances received | 33.328.979 | 28.820.322 |
| Deferred income | 5.438.620 | 6.126.429 |
| | 38.767.599 | 34.946.751 |

b) Long term deferred income

| | | |
|-------------------------------|--------------------|--------------------|
| Long-term deferred income (*) | 125.855.183 | 120.807.592 |
| | 125.855.183 | 120.807.592 |

(*) For a container port to be established inside Petkim facilities to be operated by APM Terminalleri Liman İşletmeciliği A.Ş. (APM Terminalleri), an operation agreement was signed between the Group and APMT BV. and APM Terminalleri on 22 February 2013. Under the agreement, the amount paid by the Group APM Terminals TL 3.520.825 in short-term deferred revenue TL 123.812.798 is followed in long-term deferred revenues.

NOTE 7 - EMPLOYEE BENEFITS

31 March 2017 31 December 2016

a) Short-term employee benefits:

| | | |
|---|------------------|------------------|
| Provision for seniority incentive bonus | 3.838.377 | 2.617.402 |
| Provision for bonus premium | 2.381.096 | - |
| | 6.219.473 | 2.617.402 |

b) Long-term employee benefits:

| | | |
|---|-------------------|-------------------|
| Provision for employment termination benefits | 75.342.513 | 79.216.848 |
| Provision for unused vacation rights | 17.104.127 | 8.867.379 |
| Provision for seniority incentive bonus | 4.422.566 | 3.224.095 |
| | 96.869.206 | 91.308.322 |

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NOTE 7 - EMPLOYEE BENEFITS (continued)

Provision for unused vacation:

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

| | 2017 | 2016 |
|----------------------------|-------------------|-------------------|
| 1 January | 8.867.379 | 7.686.675 |
| Changes in the period, net | 8.236.748 | 8.031.744 |
| 31 March | 17.104.127 | 15.718.419 |

Provision for employment termination benefits:

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

The amount payable consists of one month's salary limited to a maximum of TL 4.426,16 for each year of service as of 31 March 2017 (31 December 2016 – TL 4.297,21).

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:

| | 31 March 2017 | 31 December 2016 |
|-------------------------------|----------------------|-------------------------|
| Net discount rate (%) | 3,61 | 3,61 |
| Probability of retirement (%) | 100,00 | 100,00 |

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of TL 4.426,16 which is effective from 1 January 2017, has been taken into consideration in the calculation of employment termination benefits of the Group (1 January 2016 – TL 4.092,53).

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NOTE 7 - EMPLOYEE BENEFITS (continued)

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

| | 2017 | 2016 |
|----------------------------|-------------------|-------------------|
| 1 January | 79.216.848 | 78.796.553 |
| Interest cost | 2.209.802 | 748.567 |
| Payments during the period | (5.224.922) | (5.776.742) |
| Service cost | (859.215) | 618.210 |
| 31 March | 75.342.513 | 74.386.588 |

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.

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

| | 31 March 2017 | 31 December 2016 |
|---|----------------------|-------------------------|
| Net discount rate (%) | 3,61 | 3,61 |
| Used rate related to retirement probability (%) | 100,00 | 100,00 |

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NOTE 7 – EMPLOYEE BENEFITS (continued)

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

| | 2017 | 2016 |
|----------------------------|------------------|------------------|
| 1 January | 5.671.563 | 5.671.563 |
| Interest cost | 158.520 | 53.880 |
| Payments during the period | (823.062) | (2.086.791) |
| Service cost | 3.253.922 | 1.568.959 |
| 31 March | 8.260.943 | 5.207.611 |

NOTE 8 - SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

The shareholders of the Company and their shareholdings as of 31 March 2017 and 31 December 2016 were as follows:

| Group: | Shareholder: | 31 March 2017 | | 31 December 2016 | |
|---------------------------------|---------------------------------|----------------------|------------------|-------------------------|------------------|
| | | Amount | Share (%) | Amount | Share (%) |
| A | Socar Turkey Petrokimya A.Ş. | 765.000.000 | 51,00 | 765.000.000 | 51,00 |
| A | Public quotation | 735.000.000 | 49,00 | 735.000.000 | 49,00 |
| C | Özelleştirme İdaresi Başkanlığı | 0,01 | - | 0,01 | - |
| Total paid share capital | | 1.500.000.000 | | 1.500.000.000 | 100 |
| Adjustment to share capital | | 238.988.496 | | 238.988.496 | |
| Total share capital | | 1.738.988.496 | | 1.738.988.496 | |

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

As the board of directories meeting decision taken at the December 8, 2015 in the registered capital ceiling of TL 4.000.000.000, increased 50% of the issued share capital and reached from TL 1.000.000.000 to TL 1.500.000.000. Capital increase consists from adjustments to share capital amounting to TL 247.863.787 and special fund amounting to TL 252.136.213. Group A registered shares, issued per procuration of the capital increased at an amount of TL 500.000.000, are distributed to shareholders in due form. Approved and issued capital of the Company consist of 149.999.999.999 Group A shares, each of them having a registered nominal price of 1Kr, and 1 Group C preferred stock belonging to Management (31 December 2016 - 149.999.999.999 Group A shares each of them having a registered nominal price of 1Kr, and 1 Group C preferred stock belonging to Management).

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NOTE 8 - SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

Capital of the Company is composed of all registered shares (31 December 2016 – All registered).

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

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

NOTE 9 - INCOME TAXES (INCLUDING DEFERRE TAX ASSETS AND LIABILITIES)

a) Corporate tax:

Tax expenses included in the consolidated income statement for the interim periods ended 31 March 2017 and 2016 are summarized below:

| | 1 January – 31 March 2017 | 1 January – 31 March 2016 |
|--------------------------|--------------------------------------|--------------------------------------|
| Deferred tax income | (5.999.732) | 3.800.432 |
| Current year tax | (77.227.725) | (29.633.516) |
| Total tax expense | (83.227.457) | (25.833.084) |

The corporation tax rate of the fiscal year 2017 is 20% (31 December 2016 - 20%). Corporation tax is payable at a rate of 20% on the total income of the companies after adjusting for certain disallowable expenses, exempt income (exemption for participation in subsidiaries, exemption for investment incentive allowance etc.) and allowances (such as research and development expenditure allowances). No other tax liabilities arise other than the event of dividend distribution (except for the 19,8% withholding taxes paid in the event of the utilization of investment incentive allowance within the scope of Income Tax Law temporary clause 61).

With the article 5 of the law 6009 adopted by Turkish National Assembly on 23 July 2010 and published on the official gazette on August 1, 2010, phrase in the temporary article numbered 69 of Income Tax Law numbered 193 stating that” might be offset from the fiscal gain within the context of the laws and regulations(including tax rate) applicable at this date”, was substituted as “ might be offset from fiscal gain within the context of the laws and regulations(including tax rate specified in paragraph 2 article 61 of this law) applicable at this date”.

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**NOTE 9 - INCOME TAXES (INCLUDING DEFERRE TAX ASSETS AND LIABILITIES)
(Continued)**

In addition, a phrase coming after the substituted phrase stating that "investment incentives which will be deducted from fiscal gain during determination of tax base cannot be greater than 25% of the gain and tax is calculated from remaining gain according to applicable tax rate" was also added.

With the above mentioned amendments,

- a. Unused and carried investment incentive amounts might be used without any period limitation but the amount of investment incentive that can be deducted was restricted up to the limit of 25% of fiscal gain.
- b. The practice of applying income tax rate (20%- 40%) applicable as of December 31, 2005 for income tax payers and 30% for corporate tax payers on remaining tax base, if any, after deducting investment incentive was abandoned and principle of using applicable tax rate (15%- 35% for income tax payers and 20% for corporation tax payers) of the period investment incentive used is adopted.
- c. With the phrase added to paragraph 1 of article 69 ("including tax rate specified in paragraph 2 article 61 of this law") 19,8% of income tax cut is applied to fiscal gains for which investment incentive (applied before April 24, 2003) is applied but ceded to following period due to inadequate fiscal gain, parallel to former application. Hence, 19,8% stoppage application, formerly called "withholding investment incentive" remained unchanged.

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

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.

For the companies operating in Turkey, deferred income taxes are calculated on temporary differences that are expected to be realized or settled based on the taxable income in future periods under the liability method using a principal tax rate of 20% (31 December 2016 - 20%).

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**NOTE 9 – INCOME TAXES (INCLUDING DEFERRE TAX ASSETS AND LIABILITIES)
(Continued)**

Details of cumulative temporary differences and the resulting deferred income tax assets and liabilities provided as of 31 March 2017 and 31 December 2016 were as follows:

| | Taxable Temporary Differences | | Deferred Income Tax Assets/(Liabilities) | |
|--|--|-------------------------|---|-------------------------|
| | 31 March 2017 | 31 December 2016 | 31 March 2017 | 31 December 2016 |
| Difference between the carrying values and tax bases of property, plant, equipment and intangible assets | (256.865.049) | (234.712.829) | (51.373.010) | (46.942.565) |
| Income accrual related with hedging reserve | (6.895.810) | (7.466.471) | (1.379.162) | (1.493.294) |
| Unincurred finance cost | (1.283.696) | (1.004.159) | (256.739) | (200.832) |
| Adjustment for internal rate of return | (607.016) | (1.450.884) | (121.403) | (290.177) |
| Adjustment for price difference | - | (1.578.140) | - | (315.628) |
| Deferred income tax liabilities | (265.651.571) | (246.212.483) | (53.130.314) | (49.242.496) |
| Unused investment incentives | 960.626.521 | 947.460.922 | 255.099.338 | 250.612.314 |
| Employment termination benefits and seniority incentive bonus provision | 83.598.334 | 85.053.223 | 16.719.667 | 17.010.645 |
| Deferred income related to the transfer of operating rights | 77.393.661 | 74.386.834 | 15.478.732 | 14.877.367 |
| Provision for unused vacation | 17.104.127 | 8.867.379 | 3.420.826 | 1.773.476 |
| Adjustment to rediscount of receivables | 9.099.524 | 9.094.536 | 1.819.905 | 1.818.907 |
| Expense accruals/provisions for risk hedging | 8.095.434 | 9.459.385 | 1.619.087 | 1.891.877 |
| Letter of credit interest accrual and IRR adjustment | 6.443.267 | 5.195.490 | 1.288.653 | 1.039.098 |
| Rent allowance fee | 4.601.515 | 4.643.350 | 920.303 | 928.670 |
| Inventory impairment | 4.454.843 | 998.814 | 890.969 | 199.763 |
| Advances given exchange rate adjustment | 3.374.479 | 5.040.411 | 674.896 | 1.008.083 |
| Accrued expense for personnel bonus | 2.381.095 | 9.524.380 | 476.219 | 1.904.876 |
| Provision for legal cases | 1.304.396 | 1.383.579 | 260.879 | 276.716 |
| Provision for doubtful receivables | 775.295 | 1.128.024 | 155.059 | 225.605 |
| Impairment of property, plant and equipment | - | 2.667.127 | - | 533.425 |
| Other | 1.024.485 | 528.306 | 204.897 | 105.661 |
| Deferred income tax assets | 1.180.276.981 | 1.165.431.760 | 299.029.430 | 294.206.483 |
| Deferred tax assets / (liabilities) – net | | | 245.899.116 | 244.963.987 |

The movement of deferred income tax is as follows:

| | 2017 | 2016 |
|---|--------------------|--------------------|
| 1 January | 244.963.987 | 133.346.497 |
| Charged to consolidated statement of comprehensive income | (5.999.732) | 3.800.432 |
| Charged to cash flows hedge reserves | (158.658) | (2.052.579) |
| Foreign currency translation differences | 7.093.519 | - |
| 31 March | 245.899.116 | 135.094.350 |

As of 31 March 2017, the Group has TL 960.626.521 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 2016 - TL 947.460.922).

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NOTE 10 - GENERAL ADMINISTRATIVE EXPENSES

| | 1 January - 31 March 2017 | 1 January - 31 March 2016 |
|-------------------------------|--------------------------------------|--------------------------------------|
| Personnel expense | (27.228.615) | (18.710.187) |
| Outsourced services | (14.144.064) | (8.968.974) |
| Energy expenses | (4.449.372) | (4.078.054) |
| Depreciation and amortization | (2.133.030) | (1.604.237) |
| Taxes, funds and fees | (1.142.643) | (2.521.466) |
| EMRA contribution share | (663.160) | (482.451) |
| Other | (2.737.481) | (3.493.567) |
| | (52.498.365) | (39.858.936) |

NOTE 11 - OTHER INCOME/ EXPENSES FROM OPERATING ACTIVITIES

| | 1 January - 31 March 2017 | 1 January - 31 March 2016 |
|---|--------------------------------------|--------------------------------------|
| a) Other operating income: | | |
| Foreign exchange gains on trade payables | 46.607.610 | 11.724.946 |
| Trade receivables and credit finance gains | 24.388.671 | 22.319.191 |
| Foreign exchange gains on trade receivables | 19.990.017 | 2.876.233 |
| Rent income | 1.546.985 | 3.969.761 |
| Energy maintenance income | 1.427.433 | 1.032.726 |
| Infrastructure income | 145.097 | 314.170 |
| Rediscount income on trade payables | 276.106 | 14.143 |
| Other | 21.142.190 | 1.036.025 |
| | 115.524.109 | 43.287.195 |

| | | |
|--|---------------------|---------------------|
| b) Other operating expenses: | | |
| Foreign exchange losses on trade payables | (46.700.034) | - |
| Rediscount expense on trade receivables | (9.165.018) | (9.100.089) |
| Foreign exchange losses on trade receivables | (7.938.127) | (6.837.595) |
| Trade payables and credit finance losses | (4.479.622) | (1.592.923) |
| Compensation and penalty charges | (234.786) | (1.147.316) |
| Provision for doubtful receivables | (16.700) | (465.600) |
| Litigation provisions expense | 92.566 | - |
| Other | (1.072.037) | (3.387.825) |
| | (69.513.758) | (22.531.348) |

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NOTE 12 - FINANCIAL INCOME/EXPENSES

| | 1 January - 31 March 2017 | 1 January - 31 March 2016 |
|---------------------------------------|--------------------------------------|--------------------------------------|
| a) Finance income | | |
| Foreign exchange gain | 165.245.847 | 44.610.504 |
| Interest income | 15.325.002 | 15.047.686 |
| Other | 910.556 | 1.607.523 |
| | 181.481.405 | 61.265.713 |
| b) Finance expense | | |
| Foreign exchange loss | (173.541.489) | (61.290.955) |
| Interest expense | (14.951.540) | (7.119.012) |
| Interest expense on employee benefits | (2.368.322) | (802.447) |
| Commission expense | (1.238.403) | (202.329) |
| | (192.099.754) | (69.414.743) |

NOTE 13 - EARNINGS PER SHARE

| | 1 January - 31 March 2017 | 1 January - 31 March 2016 |
|---|--------------------------------------|--------------------------------------|
| Net profit for the period of the equity holders of the parent | 365.924.171 | 146.470.120 |
| Weighted average number of shares with nominal value of Kr1 each (thousand) | 150.000.000 | 150.000.000 |
| Earnings per share (Kr) | 0,2439 | 0,0976 |

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NOTE 14 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Summary of the intercompany balances as of 31 March 2017 and 31 December 2016 and significant intercompany transactions during the period were as follows:

i) Balances with related parties

| | 31 March 2017 | 31 December 2016 |
|--|----------------------|-------------------------|
| a) Short term other receivables from related parties: | | |
| STEAS ^{(1)(*)} | 17.607.186 | 13.169.638 |
| STAR ⁽²⁾ | 1.305.097 | 1.149.900 |
| TANAP Doğalgaz İletişim A.Ş. ⁽²⁾ | 1.389 | 1.508 |
| SOCAR Turkey Akaryakıt Depolama A.Ş. ⁽²⁾ | 6.490 | - |
| | 18.920.162 | 14.321.046 |

b) Long term other receivables from related parties:

| | | |
|--|--------------------|--------------------|
| STEAS ^{(1)(*)} | 367.263.613 | 356.875.812 |
| SOCAR Power Enerji Yatırımları A.Ş. ^{(2)(**)} | 69.374.048 | 66.429.849 |
| | 436.637.661 | 423.305.661 |

(*) It relates to the advance given to STEAS. The amount of TL 17.607.186 consists of interest and miscellaneous expenses reflects interest of TL 14,21% USD per annum for TL receivables and annual interest of 4,60% is applied.

(**) Revenue from Socar Power Enerji Yatırımları A.Ş. consist from land sale and rent receivable amounting to TL 60.888.747, interest and other receivables amounting to TL 8.485.301.

c) Short term trade payables to related parties:

| | | |
|--|-------------------|-------------------|
| SOCAR Turkey Petrokimya A.Ş. ⁽¹⁾ | 29.518.055 | - |
| SOCAR Logistics DMCC ⁽²⁾ | 953.473 | - |
| SOCAR Turkey Enerji A.Ş.(“STEAS”) ⁽¹⁾ | 414.227 | - |
| Azoil Petrolcülük A.Ş. ⁽²⁾ | 374.171 | 284.141 |
| STAR ⁽²⁾ | 10.588 | 955 |
| SOCAR Gaz Ticareti A.Ş. ⁽²⁾ | - | 25.217.360 |
| Petrokim Trading Ltd. (“Petrokim”) ⁽²⁾ | - | 3.675.964 |
| STEAS ⁽¹⁾ | - | 404.943 |
| SOCAR Power Enerji Yatırımları A.Ş. ⁽²⁾ | - | 1.474 |
| | 31.270.514 | 29.584.837 |

(1) Shareholders of the Company

(2) Shareholders of the Company or SOCAR’s subsidiaries

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NOTE 14 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Short term trade payables to related parties are mainly consist of natural gas, fuel, LPG and trade goods purchases. Average maturity of short term trade payables is 11 days. (31 December 2016 – 15 days).

d) Other payables to related parties:

| | 31 March 2017 | 31 December 2016 |
|------------------------|----------------------|-------------------------|
| Due to shareholder (*) | 600.087.116 | 87.116 |
| STAR ⁽²⁾ | 31.115.054 | 26.363.285 |
| | 631.202.170 | 26.450.401 |

(*) According to the decision of General Assembly meeting dated 28 March 2017 amounting to TL 600.000.000 dividend will be paid after 14 April 2017.

e) Short term deferred income from related parties

| | | |
|--|-------------------|------------------|
| STAR ^{(2) (*)} | 17.664.225 | 4.188.726 |
| SOCAR Power Enerji Yatırımları A.Ş. ⁽²⁾ | 3.750 | 9.374 |
| | 17.667.975 | 4.198.100 |

f) Long term deferred income from related parties

| | | |
|-------------------------|------------------|------------------|
| STAR ^{(2) (*)} | 7.861.719 | 8.829.511 |
| | 7.861.719 | 8.829.511 |

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

g) Short term prepaid expense to related parties

| | | |
|--------------------------|-------------------|-------------------|
| STAR ^{(2) (**)} | 12.949.256 | 12.878.087 |
| Petrokim ⁽²⁾ | 6.450.935 | - |
| | 19.400.191 | 12.878.087 |

(**) Long and short term prepaid expense to STAR, consists of rent expense of naphtha tank.

h) Long term prepaid expense to related parties

| | | |
|--------------------------|------------------|------------------|
| STAR ^{(2) (**)} | 1.073.174 | 4.292.696 |
| | 1.073.174 | 4.292.696 |

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NOTE 14 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

ii) Transactions with related parties

| | 1 January - 31 March 2017 | 1 January - 31 March 2016 |
|--|--------------------------------------|--------------------------------------|
| a) Other income / (expenses) from related party transactions – net: | | |
| STEAŞ ⁽¹⁾ | 16.462.174 | (1.754.863) |
| SOCAR Power Enerji Yatırımları A.Ş. ⁽²⁾ | 2.867.746 | (602.338) |
| STAR ⁽²⁾ | 1.301.813 | 791 |
| Azoil Petrolcülük A.Ş. ⁽²⁾ | 2.303 | - |
| Petrokim ⁽²⁾ | 214.842 | (14.726) |
| SOCAR Turkey Petrokimya A.Ş. ⁽¹⁾ | (51) | - |
| SOCAR Azerikimya Production Union ⁽²⁾ | (162.184) | - |
| Socar Gaz Ticareti A.Ş. ⁽²⁾ | (396.667) | - |
| Other | - | 922 |
| | 20.289.976 | (2.370.214) |

c) Service and rent purchases from related parties:

| | | |
|--|-------------------|-------------------|
| STAR ⁽²⁾ | 10.367.636 | 5.613.830 |
| STEAŞ ⁽¹⁾ | 3.179.149 | 4.123.339 |
| SOCAR Power Enerji Yatırımları A.Ş. ⁽²⁾ | 66.792 | 472.066 |
| | 13.613.577 | 10.209.235 |

The rent and service purchases made from STAR consist of TL 3.199.522 rent from the naphtha tank, TL 2.944.761 from labor purchases and TL 4.203.353 from engineering and other purchases. 1.894.957 TL from service purchases made from STEAŞ consists of labor invoiced for STEAŞ personnel who are working on behalf of the Group, expenses of these employees and other purchases amounting to TL 1.284.192.

c) Product purchase from related parties:

| | | |
|--|--------------------|--------------------|
| SOCAR Logistics DMCC ⁽²⁾ | 49.724.751 | - |
| SOCAR Turkey Petrokimya A.Ş. ⁽¹⁾ | 79.140.102 | - |
| SOCAR Gaz Ticareti A.Ş. ⁽²⁾ | - | 75.262.365 |
| Petrokim ⁽²⁾ | 76.033.248 | 30.819.055 |
| SOCAR Turkey Petrol Enerji Dağıtım A.Ş. ⁽²⁾ | - | - |
| Azoil Petrolcülük A.Ş. ⁽²⁾ | 551.265 | 288.903 |
| | 205.449.366 | 106.370.323 |

⁽¹⁾ Shareholders of the Company

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

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NOTE 14 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

d) Product and service sales to related parties:

| | 1 January - 31 March 2017 | 1 January - 31 March 2016 |
|--|--------------------------------------|--------------------------------------|
| STAR ⁽²⁾ | 2.262.569 | 469.742 |
| STEAS ⁽¹⁾ | 60.827 | 103.052 |
| SOCAR Power Enerji Yatırımları A.Ş. ⁽²⁾ | 624 | 563 |
| Petrokim ⁽²⁾ | - | 772.000 |
| SOCAR Azerikimya Production Union ⁽²⁾ | - | - |
| TANAP Doğalgaz İletişim A.Ş. ⁽²⁾ | - | 163 |
| | 2.324.020 | 1.345.520 |

e) Rent income from related parties:

| | | |
|--|------------------|------------------|
| STAR ⁽²⁾ | 5.603.629 | 4.850.375 |
| Socar Power Enerji Yatırımları A.Ş. ⁽²⁾ | 5.112 | 5.621 |
| Socar Teknolojik Çözümler A.Ş. ⁽²⁾ | - | 253 |
| | 5.608.741 | 4.856.249 |

⁽¹⁾ Shareholders of the Company

⁽²⁾ Shareholders of the Company or SOCAR’s subsidiaries

f) Key management emoluments:

i. Key management emoluments – short term:

| | | |
|--|------------------|------------------|
| Payments for salary and seniority incentives | 4.354.481 | 3.381.843 |
| | 4.354.481 | 3.381.843 |

ii. Key management emoluments – long term:

| | | |
|---|------------------|------------------|
| Provision for employment termination benefits | 61.822 | 99.907 |
| Provision for seniority incentives | 89.257 | 70.506 |
| Provision for unused vacation | 461.532 | 830.666 |
| | 612.611 | 1.001.079 |
| | 4.967.092 | 4.382.922 |

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

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

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NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

| | 31 March 2017 | 31 December 2016 |
|--|----------------------|----------------------|
| a) Short - term provisions: | | |
| Provision for legal cases | 1.304.396 | 1.383.579 |
| | 1.304.396 | 1.383.579 |
| b) Guarantees received: | | |
| Bank guarantees within the context of DOCS | 548.155.946 | 491.942.679 |
| Letters of guarantee received from customers | 314.818.719 | 288.961.642 |
| Letters of guarantee received from suppliers | 189.468.211 | 183.424.856 |
| Letters of credit | 168.493.690 | 96.013.037 |
| Receivable insurance | 113.713.242 | 84.503.722 |
| Mortgages | 2.000.000 | 2.000.000 |
| Policies received | 3.026.085 | 1.502.374 |
| | 1.339.675.893 | 1.148.348.310 |
| c) Guarantees given: | | |
| Mortgages given to banks | 921.087.872 | 867.787.728 |
| Securities given to banks | 897.230.174 | 585.141.407 |
| Custom offices | 52.182.203 | 50.099.000 |
| Türkiye Elektrik Ticaret ve Taahhüt A.Ş. | 8.552.629 | 8.478.465 |
| EMRA | 5.600.000 | 5.600.000 |
| Other | 111.614.597 | 109.379.677 |
| | 1.996.267.475 | 1.626.486.277 |

(*) The guarantee given for the loan used by Petlim Limancılık Ticaret A.Ş. is related to pledge and mortgage. Petkim Petrokimya Holding A.Ş. and Petlim Limancılık Ticaret A.Ş.'s pledge amounting to TL 105 million and Petmin Limancılık Ticaret A.Ş.'s credit limit of USD 212 million amounting to TL 691.827.728, was used as of 31 December 2015. In the first phase of the loan, Petlim pledged Petlim stock at a nominal value of TL 105 million. Later on 20 November 2015, a mortgage amounting to USD 350 million was established by Petkim on Petlim's land sold at a price of TL 5.650.000. It is judged that it is appropriate to consider the land price instead of the mortgage amount in terms of the risk created by the given mortgage.

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NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

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

| | 31 March 2017 | 31 December 2016 |
|---|----------------------|-------------------------|
| A. Total amount of CPMs given for the Company’s own legal personality | 1.099.037.301 | 758.698.549 |
| B. Total amount of CPMs given on behalf of fully consolidated companies | 715.300.174 | 691.827.728 |
| C. Total amount of CPMs given for continuation of its economic activities on behalf of third parties | 181.930.000 | 175.960.000 |
| 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 | - | - |
| | 1.996.267.475 | 1.626.486.277 |

Annual income plans and amounts (not discounted) regarding to the operational lease income, which are not recognized in the consolidated financial statements of the Group as of 31 March 2017 and 2016 are as follows:

d) Operational leases

| | 31 March 2017 | 31 March 2016 |
|------------------|----------------------|----------------------|
| 0-1 year | 316.087.350 | 192.814.819 |
| 1-5 year(s) | 933.276.648 | 590.197.778 |
| 5 years and more | 1.939.876.730 | 1.688.067.055 |
| Total | 3.189.240.728 | 2.471.079.652 |

NOTE 16 - 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 16 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Foreign currency position

| | 31 March 2017 | | | | 31 December 2016 | | | |
|---|----------------------|----------------------|---------------------|------------------|----------------------|----------------------|---------------------|------------------|
| | TL equivalent | USD dollar | Euro | Other | TL equivalent | USD dollar | Euro | Other |
| 1. Trade receivables | 430.310.429 | 99.758.634 | 17.227.097 | - | 390.148.989 | 93.945.230 | 16.048.124 | - |
| 2a. Monetary financial assets (Cash, bank accounts included) | 1.430.572.203 | 371.863.276 | 19.831.965 | 1.218 | 1.013.602.609 | 263.001.335 | 23.733.204 | 497 |
| 2b. Non-monetary financial assets | - | - | - | - | - | - | - | - |
| 3. Current assets (1+2) | 1.860.882.632 | 471.621.910 | 37.059.062 | 1.218 | 1.403.751.597 | 356.946.565 | 39.781.328 | 497 |
| 4. Trade receivables | - | - | - | - | - | - | - | - |
| 5a. Monetary financial assets | 377.585.577 | 103.772.214 | - | - | 365.195.175 | 103.772.214 | - | - |
| 5b. Non-monetary financial assets | - | - | - | - | - | - | - | - |
| 6. Other | - | - | - | - | - | - | - | - |
| 7. Non-current assets (4+5+6) | 377.585.577 | 103.772.214 | - | - | 365.195.175 | 103.772.214 | - | - |
| 8. Total assets (3+7) | 2.238.468.210 | 575.394.124 | 37.059.062 | 1.218 | 1.768.946.773 | 460.718.779 | 39.781.328 | 497 |
| 9. Trade payables | 289.606.264 | 67.840.745 | 10.789.263 | 593.253 | 290.388.302 | 74.598.272 | 7.139.375 | 327.913 |
| 10. Financial liabilities | 1.414.358.775 | 379.519.873 | 8.555.578 | - | 1.129.097.581 | 313.193.198 | 7.253.047 | - |
| 11a. Monetary other liabilities | - | - | - | - | - | - | - | - |
| 11b. Non-monetary other liabilities | - | - | - | - | - | - | - | - |
| 12. Short-term liabilities (9+10+11) | 1.703.965.040 | 447.360.618 | 19.344.841 | 593.253 | 1.418.438.101 | 387.791.470 | 14.392.422 | 327.913 |
| 13. Trade payables | - | - | - | - | - | - | - | - |
| 14. Financial liabilities | 1.205.164.049 | 239.001.672 | 85.851.282 | - | 1.172.474.367 | 239.001.672 | 89.323.077 | - |
| 15a. Monetary other liabilities | - | - | - | - | - | - | - | - |
| 15b. Non-monetary other liabilities | - | - | - | - | - | - | - | - |
| 16. Long-term liabilities (13+14+15a+15b) | 1.205.164.049 | 239.001.672 | 85.851.282 | - | 1.172.474.367 | 239.001.672 | 89.323.077 | - |
| 17. Total liabilities (12+16) | 2.909.129.089 | 686.362.290 | 105.196.123 | 593.253 | 2.590.912.468 | 626.793.142 | 103.715.499 | 327.913 |
| 18. Net (liability)/asset position of off-balance sheet derivative instruments (18a-18b) | 222.292.900 | 52.500.000 | 8.000.000 | - | 325.687.680 | 87.275.000 | 5.000.000 | - |
| 18a. Amount of asset nature off-balance sheet derivative instruments | 222.292.900 | 52.500.000 | 8.000.000 | - | 325.687.680 | 87.275.000 | 5.000.000 | - |
| 18b. Amount of liability nature-off balance sheet derivative instruments | - | - | - | - | - | - | - | - |
| 19. Net foreign (liability) / asset position (8-17+19) | (448.367.979) | (58.468.166) | (60.137.061) | (592.035) | (496.278.015) | (78.799.363) | (58.934.171) | (327.416) |
| 20. Net foreign currency (liability) / asset position of monetary items (IFRS 7.B23) (=1+2a+4+5a-9-10-11a-13-14-15a) | (670.660.879) | (110.968.166) | (68.137.061) | (592.035) | (821.965.695) | (166.074.363) | (63.934.171) | (327.416) |
| 21. Total fair value of financial instruments used for foreign currency hedging | 5.640.877 | 1.531.451 | 17.537 | - | 1.556.304 | 163.660 | 264.252 | - |
| 22. Hedged amount for current assets | 222.292.900 | 52.500.000 | 8.000.000 | - | 325.687.680 | 87.275.000 | 5.000.000 | - |
| 23. Hedged amount for current liabilities | - | - | - | - | - | - | - | - |
| 24. Export | 712.158.494 | 125.743.704 | 63.345.966 | - | 1.350.245.112 | 239.964.703 | 182.543.988 | - |
| 25. Import | 1.095.820.810 | 278.175.414 | 17.358.232 | 2.555.323 | 2.976.902.046 | 934.910.668 | 42.161.459 | 17.541.205 |

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**NOTE 16 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT
(Continued)**

Table of sensitivity analysis for foreign currency risk

31 March 2017

| | <u>Profit/(Loss)</u> | | <u>Equity</u> | |
|--|--|--|--|--|
| | Appreciation of foreign currency | Depreciation of foreign currency | Appreciation of foreign currency | Depreciation of foreign currency |
| Change of USD by 10% against TL: | | | | |
| 1- Asset/Liability denominated in USD – net | (40.376.877) | 40.376.877 | - | - |
| 2- The part hedged for USD risk (-) | 19.102.650 | (19.102.650) | - | - |
| 3- USD effect - net (1+2) | (21.274.227) | 21.274.227 | - | - |
| Change of EUR by 10% against TL: | | | | |
| 4- Asset/Liability denominated in EUR – net | (26.630.008) | 26.630.008 | - | - |
| 5- The part hedged for EUR risk (-) | 3.126.640 | (3.126.640) | - | - |
| 6- EUR effect - net (4+5) | (23.503.368) | 23.503.368 | - | - |
| Change of other currencies by 10% against TL: | | | | |
| 7- Assets/Liabilities denominated in other foreign currencies - net | (226.714) | 226.714 | - | - |
| 8- The part hedged for other foreign currency risk (-) | - | - | - | - |
| 9- Other foreign currency effect - net (7+8) | (226.714) | 226.714 | - | - |
| Total (3+6+9) | (45.004.308) | 45.004.308 | | |

31 December 2016

| | <u>Profit/(Loss)</u> | | <u>Equity</u> | |
|--|--|--|--|--|
| | Appreciation of foreign currency | Depreciation of foreign currency | Appreciation of foreign currency | Depreciation of foreign currency |
| Change of USD by 10% against TL: | | | | |
| 1- Asset/Liability denominated in USD – net | (58.444.890) | 58.444.890 | - | - |
| 2- The part hedged for USD risk (-) | 30.713.818 | (30.713.818) | - | - |
| 3- USD effect - net (1+2) | (27.731.072) | 27.731.072 | - | - |
| Change of EUR by 10% against TL: | | | | |
| 4- Asset/Liability denominated in EUR – net | (23.718.938) | 23.718.938 | - | - |
| 5- The part hedged for EUR risk (-) | 1.854.950 | (1.854.950) | - | - |
| 6- EUR effect - net (4+5) | (21.863.988) | 21.863.988 | - | - |
| Change of other currencies by 10% against TL: | | | | |
| 7- Assets/Liabilities denominated in other foreign currencies - net | (137.457) | 137.457 | - | - |
| 8- The part hedged for other foreign currency risk (-) | - | - | - | - |
| 9- Other foreign currency effect - net (7+8) | (137.457) | 137.457 | - | - |
| Total (3+6+9) | (49.732.517) | 49.732.517 | - | - |

.....