Petkim

A SOCAR COMPANY

2018 Annual Report

Reporting period:	01 January - 31 December 2018
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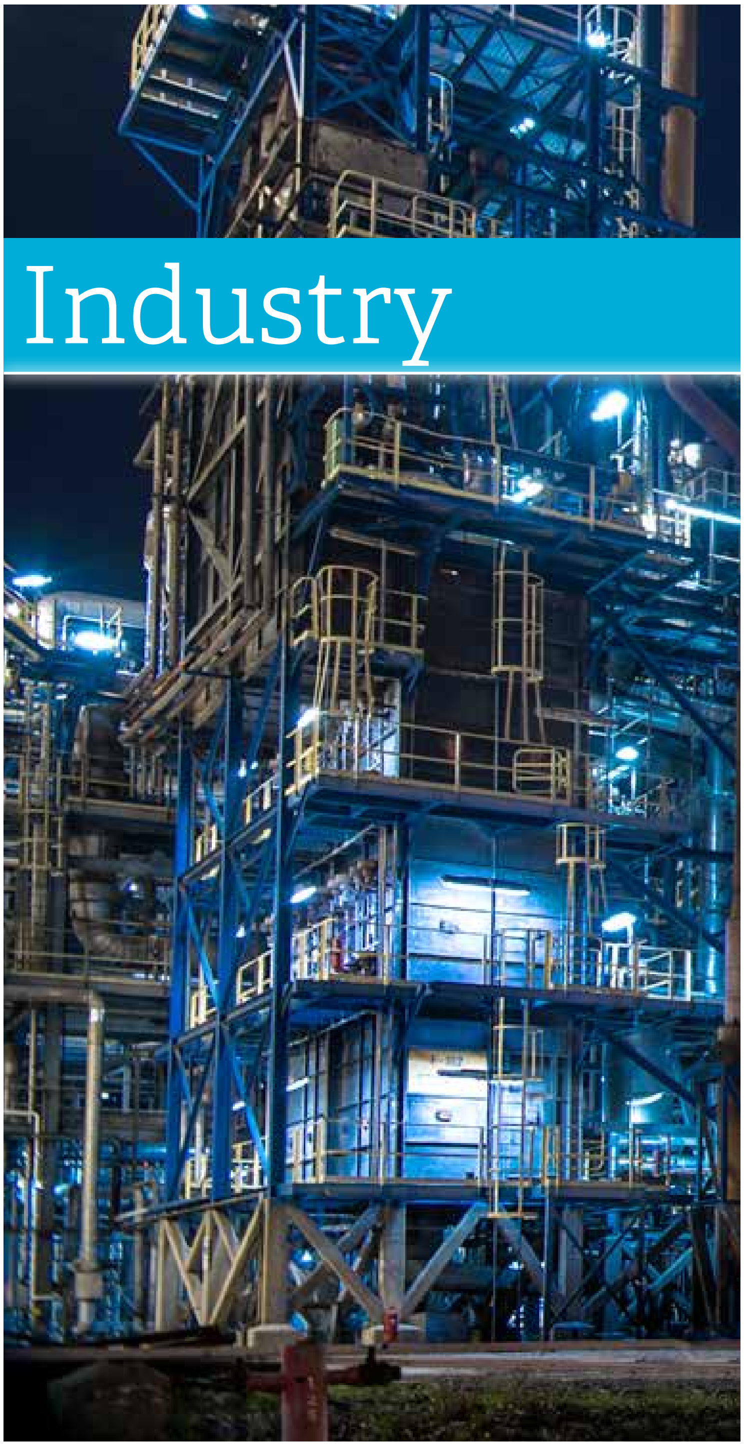
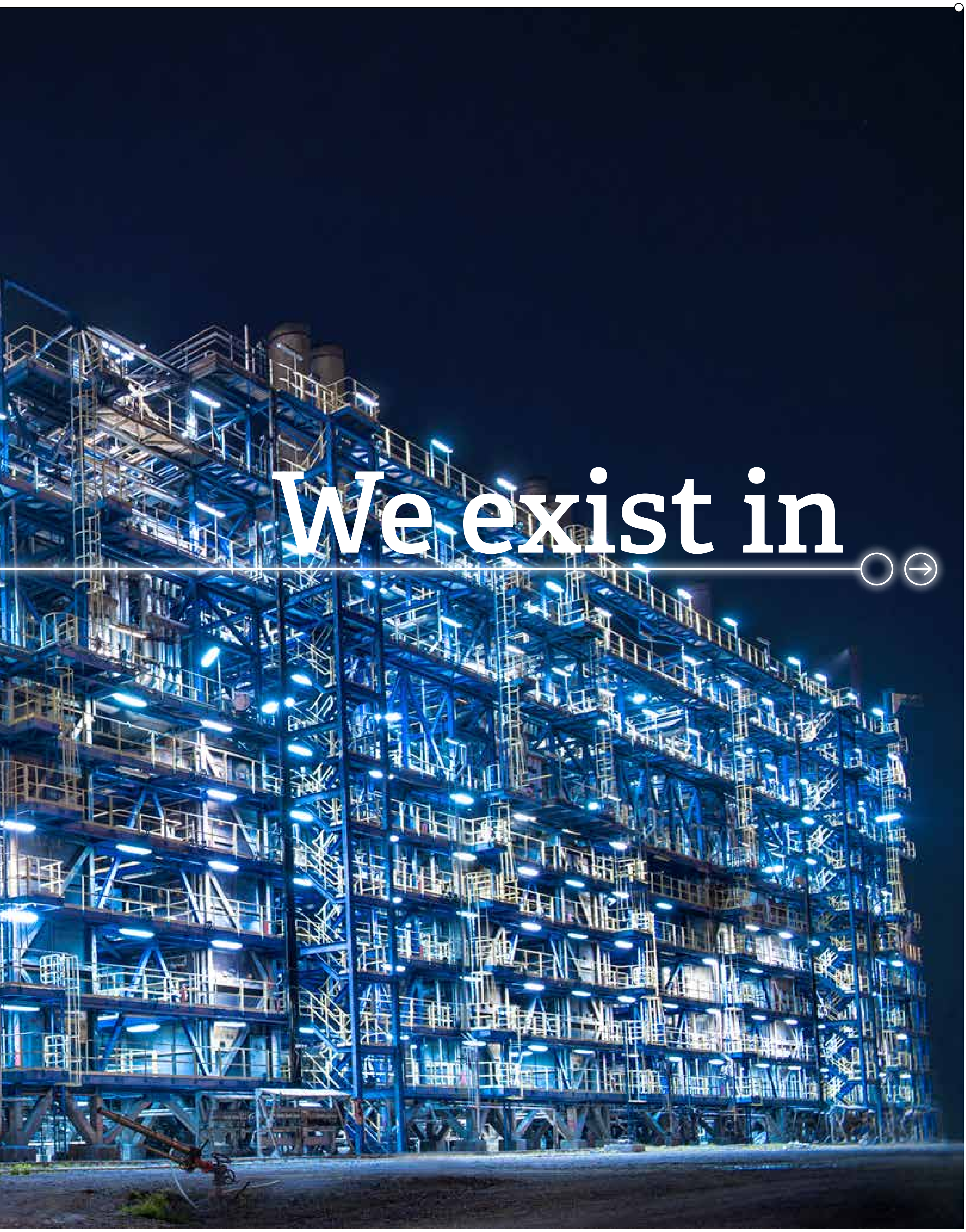
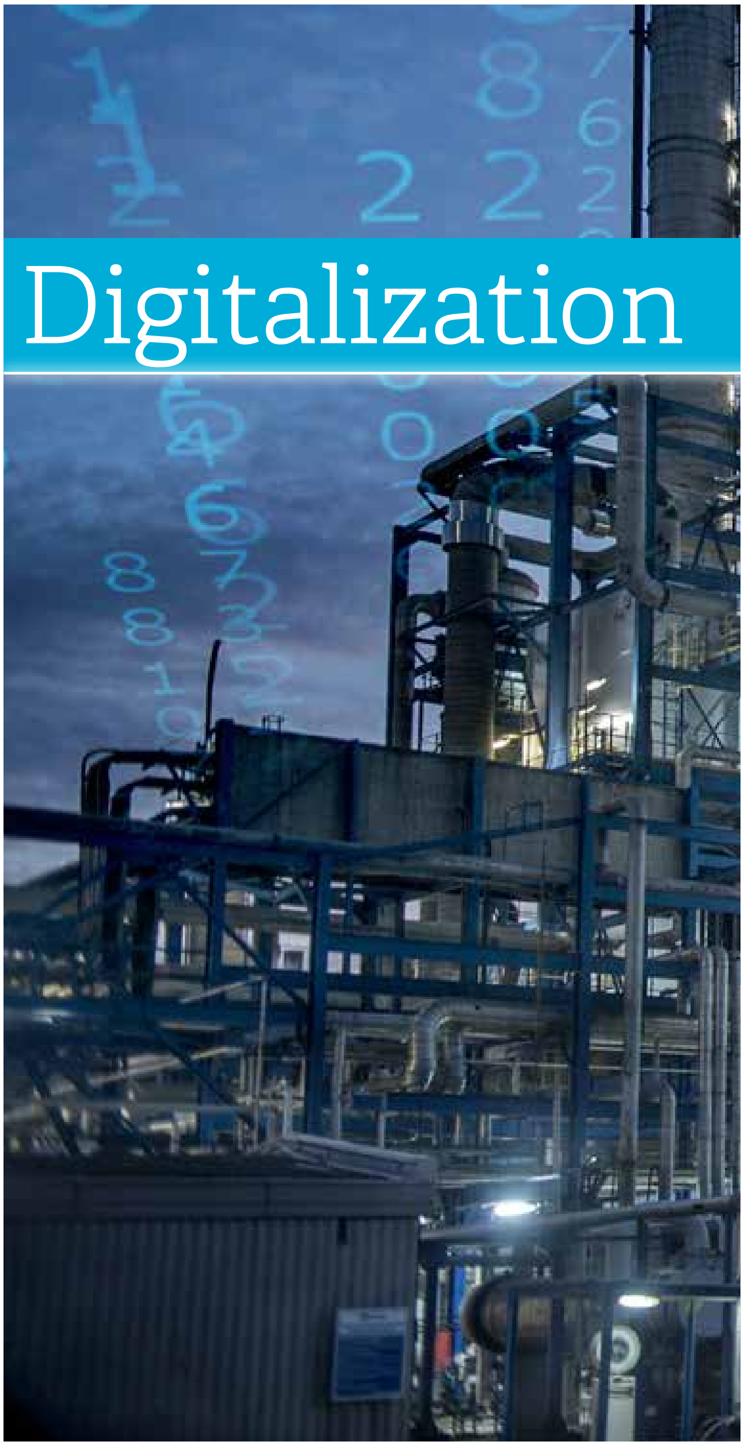
Industry





We exist in

Digitalization

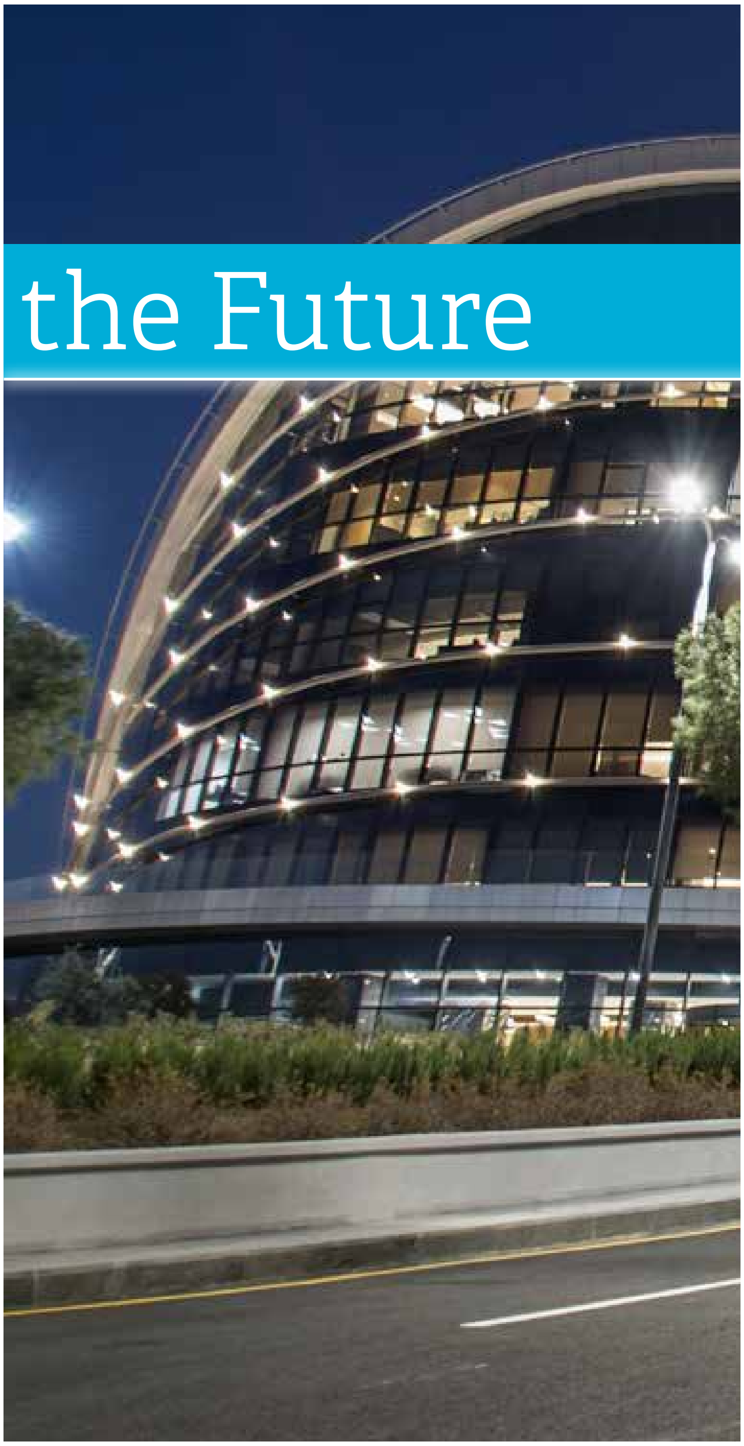


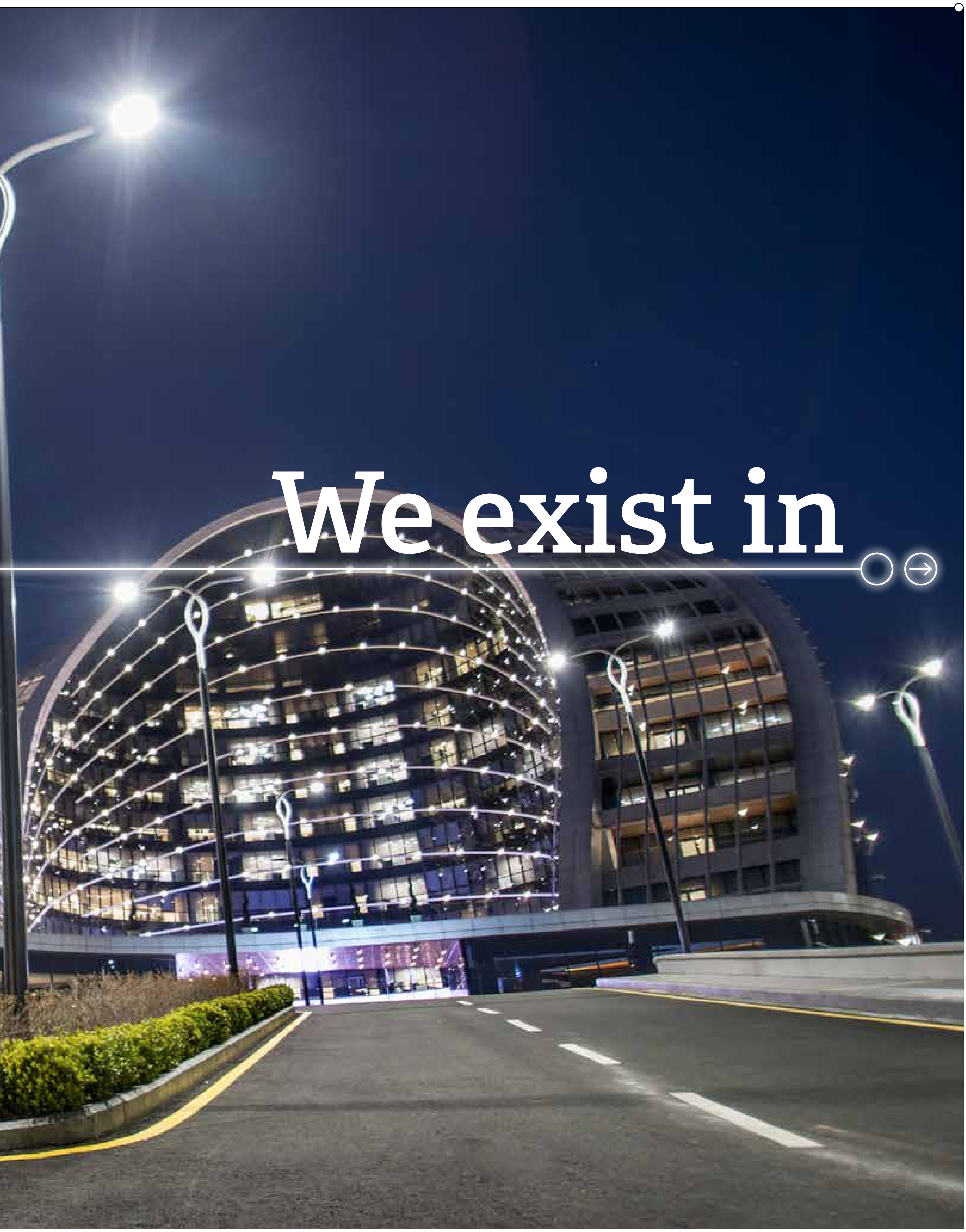
We exist in

Innovation


We exist in

the Future





We exist in

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GENERAL INFORMATION

21
15 main, 6 auxiliary production facilities

3.6
Petkim's annual average gross production capacity

18%
The ratio that Petkim meets Turkey's petrochemical raw material demand

Mission, Vision and Values

Our Vision

To add to strength to the Turkish economy with our superior petrochemical products.

Our Mission

To maintain our development that aims for operational excellence with our strong organization and culture and our stakeholders.

With the breakthroughs we have pursued with the aim of reaching better results and exceeding expectations in our "journey of excellence", which we started with Petkim Benim, we are striving to advance Petkim further. We support our passionate and devoted work at Petkim with our new vision, mission and values.

Our Values

- Responsibility
- Leadership
- Cooperation
- Passion
- Confidence

Petkim in Brief

Petkim is Turkey's first and only integrated petrochemical plant and an indispensable supplier of raw material for the industry.

A giant manufacturing power with a strategic importance for the Turkish economy and industry, Petkim represents 53 years of experience and know-how. Petkim, which is Turkey's first and sole integrated petrochemical plant with 15 main and 6 auxiliary production facilities, is an indispensable raw material supplier of the industry with an annual average gross production capacity of 3.6 million tons and around 60 petrochemical products.

Meeting 18% of Turkey's petrochemical raw material demand, Petkim provides inputs to a wide array of sectors such as plastics, chemicals, packaging, piping, paint, construction, agriculture, automotive, electricity, electronics and textiles as well as the pharmaceuticals, detergents and cosmetics sectors with the high added value products in its portfolio such as thermoplastics, fiber and paint raw material. In addition to these, Petkim gives life to numerous sub-industries.

Established on 3 April 1965, Petkim Petrokimya A.Ş. (Petkim) began production in 1970 with 5 facilities in the Yarımca Complex. Following additional investments carried out in the Yarımca Complex, the Aliağa Complex was brought into operation in 1985 to produce with optimum capacity based on the latest technologies of the time.

A giant complex that makes continuous production at high capacity, Petkim is establishing state-of-the-art technology and infrastructure in the Aliağa Complex to ensure economic and environmental sustainability, and to move the Company towards the future through investment programs that it is undertaking.

With its vast experience and strong reputation in the market, Petkim maintains its international competitive edge by effectively meeting the needs and expectations of a broad customer base. Petkim's products are exported to markets in the USA, Europe, the Middle East and North Africa.

The 51% public share in the capital structure of Petkim Petrokimya Holding A.Ş. was transferred to SOCAR & Turcas Petrokimya A.Ş. on 30 May 2008 following a tender process in the privatization through block sale, at a price of USD 2.04 billion. Following the withdrawal of Turcas from the shareholding structure, the name of the Company was amended to SOCAR Turkey Petrokimya A.Ş.

49% of the shares of Petkim, which is a subsidiary of SOCAR Turkey, were trading on Borsa Istanbul as of the end of 2018.

Focusing on the development of higher value-added, high-tech products with its well-established R&D structure, Petkim prepares for the future with its vision of strong sustainability. Petkim has been moving forward with leaps and bounds towards becoming one of the few petrochemical complexes and production bases in Europe within the framework of the investment plan that includes the "Refinery-Petrochemical-Energy-Logistics-Distribution-Transmission" integration which it determined for the Petkim Peninsula in line with the strategic goals of the SOCAR Group, to which it is affiliated.

Its identity of being the sole domestic producer of petrochemical raw materials in the Turkish industry and the driving force of the industry can find meaning in the expression of "the Chemistry of Love for Turkey". Petkim will continue to grow and exist with our country with its production technology that respects both people and the environment, contributing valuably to the country's economy, with a strong social and cultural influence.

SOCAR

The Azerbaijan State Oil Company, SOCAR, was established in 1993 to utilize the resources of Azerbaijan which is one of the richest countries in the world in terms of oil and natural gas, for development on an international basis and for global benefit.

As an energy company offering integrated solutions, SOCAR is engaged in exploring oil and gas fields, producing, processing, and transporting oil, natural gas, and natural gas condensates, marketing crude petrol and petrochemical products in domestic and international markets, and supplying natural gas to Azerbaijan.

There are three production units within SOCAR (oil and gas production, refinery and petrochemicals and the gas distribution network), as well as the Heydar Aliyev Baku Oil Refinery, a Gas Processing Plant, a Deep-Water Platform Fabrication Yard, two joint ventures (Integrated Drilling JV, Oil and Gas Construction JV), SOCAR Methanol, SOCAR Carbamide, a Polypropylene Plant, a High Density Polyethylene Plant, an Oil and Gas Research Institute in addition to many subsidiaries and affiliates operating within SOCAR, making it one of the largest companies in the world.

Focusing on providing economic, social and environmental benefits on a global scale through strategic alliances, SOCAR strengthens its international operations in this direction. As a major energy supplier of the EU, SOCAR plays a prominent role in Europe's sustainable economic development. SOCAR is the largest foreign director investor in Turkey through owning Turkey's largest petrochemicals production plants and gradually growing natural gas infrastructure. SOCAR's other major investment in the South Caucasus is SOCAR Georgia's natural gas distribution network. Other than that, SOCAR also has a growing retail sales network in Switzerland, Austria, Romania, Georgia, Ukraine, Turkey and Azerbaijan.

An Integrated value chain created in the energy field

SOCAR's strategic goal is to maintain the identity of being a vertically integrated oil and gas company with exploration and production, pipelines and logistics, refining, distribution and marketing operations.

The final objectives of this strategy are;

- To increase operational efficiency through vertical integration of operations
- To reduce the most significant economic risks through diversification of the investment portfolio.

Employing over 51,000 people in 2018

Exporting natural gas from Azerbaijan since 2007

SOCAR's Global Operations

EXPLORATION	PRODUCTION	REFINING	PETROCHEMICALS	TRANSPORTATION	SERVICES
• Absheron • Bulla Deniz • Ümid • Zafar-Maşal • Şafag-Asiman • Babek • Garabağ • Aşrafi-Dan • Ulduzu-Aypara • D230	• Azeri-Chirag-Gunashli (ACG) • Bahar Gum Deniz • Binegedi • Kürovdağ • Kursengi ve Garabağlı • Mişovdağ Kelameddin • Muradkhanli, Jafarli and Zardab • Neftchala • Pirsahhat • Ramanı • Shah Deniz • Surahanı • Güney-Batı Gobustan • Ziğ and Hovsan	• Gas Processing Plant • Haydar Aliyev Oil Refinery • STAR Refinery	• Azerikimya Production Union • Petkim • SOCAR Carbamide • Polypropylene Plant • High Density Polyethylene Plant • SOCAR Methanol	• Baku-Novorossiysk Oil Pipeline • Baku-Supsa Oil Pipeline • Baku-Tbilisi-Ceyhan Oil Pipeline (BTC) • South Caucasus Natural Gas Pipeline (SCP) • TANAP • TAP • Dubendi Terminal • Kulevi Terminal • Railroad Transportation • SOCAR Terminal	• Azerigaz Production Union • SOCAR Energy Ukraine • SOCAR Georgia Gas • SOCAR Georgia Petroleum • SOCAR Petroleum • SOCAR Petroleum SA Romania • SOCAR Trading • SOCAR Energy Switzerland • A1 and Pronto Oil in Austria

SOCAR in numbers

Oil production in 2018
7.54 million tons

Azerbaijan's total production:
38.81 million tons

Natural gas production in 2018
6.53 billion m^3

Azerbaijan's total production:
30.39 billion m^3

Proven oil reserves in Azerbaijan
7 billion barrels

Proven natural gas reserves in Azerbaijan
2.6 trillion m^3

SOCAR Turkey

SOCAR Turkey is the most important representative of the economic co-operation between Azerbaijan and Turkey, which is constantly strengthening.

Founded in 2006, SOCAR Turkey is a subsidiary of one of the world's most deeply rooted oil and gas companies, SOCAR (the State Oil Company of the Azerbaijan Republic), with the official title of "SOCAR Turkey Enerji A.Ş.".

In 2008, SOCAR Turkey acquired a 51% stake in Petkim, which is one of Turkey's most deeply rooted industrial corporations, through its subsidiary, SOCAR & Turcas Petrokimya A.Ş., starting a strong strategic collaboration between the two countries. On 14 August 2015, Goldman Sachs International acquired a 13% stake of SOCAR Turkey, thus redefining the ownership structure of SOCAR Turkey as 87% held by SOCAR and 13% held by Goldman Sachs International.

Natural gas trading and distribution, oil refinery and distribution, production and trading of petrochemicals products are defined as the main investment fields of SOCAR in Turkey in addition to operations supporting these main activities. SOCAR is also the major partner of the Trans-Anatolian Natural Gas Pipeline (TANAP) Project, which will transport resources in the Caspian Sea region to Turkey and Europe, in what is the longest section of the infrastructure project, namely Southern Gas Corridor.

With powerful initiations in the Turkish market, SOCAR Turkey believes in the potential of the Turkish market, in the future of the country and in its stable growth journey, and will contribute to Turkey's transformation into a major force in international energy production platforms.

State support for strategic investments

SOCAR operates in a highly strategic industry in Turkey. During the 10 year long investment process, SOCAR needed support to facilitate this process and bring flexibility while undergoing many challenging stages from the planning of the project to its activation. This support was forthcoming mainly in the form of state incentives which are provided for large scale investments. Within this context, the STAR Refinery received the first Strategic Investment Incentive Certificate in December 2012, followed by Petkim which received the certificate in January 2013.

Another key development in this area took place in 2018. The land in Izmir Aliağa, home to almost all SOCAR Turkey Enerji A.Ş.'s investments, was announced as the first Private Industrial Zone of Turkey by a Presidential decree on 19 October 2018 when the STAR Refinery was officially opened.

All SOCAR Turkey Enerji A.Ş. companies located on the 1,453 hectare plot of land in Aliağa, İzmir will be able to benefit from the incentives and facilities to be provided for the Special Industrial Zone.

SOCAR Turkey's investment plan in the Turkish market, which it operates in through strong initiatives, covers some of the largest scale investments in the history of the country.

In Turkey, which is one of the most important regions for SOCAR's global operations, the sum of investments either activated or planned by SOCAR amounts to USD 19.5 billion, testament to the deeply-rooted brotherhood and friendship between two countries. This amount accounts for 20% of the total foreign direct investment in Turkey, and almost half of the direct investment in the industrial sector.

Special Industrial Zone

The land in Izmir, Aliağa, where almost all investments of SOCAR Turkey Enerji A.Ş. are located, was announced as Turkey's first Special Industrial Zone with a Presidential decree dated 19 October 2018 when the STAR Refinery entered operation.

Within the framework of "Refinery-Petrochemical-Energy-Logistics-Distribution-Transmission" integration that directs SOCAR Turkey's investments, the final objective once the investments are completed is for the Aliağa Peninsula to become one of the largest chemical parks in Europe by commanding the value added chain that starts with crude oil and ends with the final product within the framework of the cluster model.

The STAR Refinery: The Largest Investment in Turkey undertaken by the Private Sector at a Single Location

One of SOCAR Turkey's investments located in the Aliağa Peninsula, the STAR (SOCAR Turkey Aegean Refinery) Refinery is the most critical investment for "Refinery-Petrochemicals-Energy-Logistics-Distribution-Transmission" integration and, hence, the chain value of SOCAR Turkey. With a capacity to process 10 million tons of crude oil per year, the STAR Refinery has the flexibility to process various types of crude oil with values in a range of 28 - 36 APIs. The foundations of the refinery were laid in 2011 in the Aliağa Peninsula on an area of approximately 2,860 acres. Having received the first Strategic Investment Incentive Certificate to be awarded in Turkey, construction work on the STAR Refinery was undertaken by an international consortium consisting of Técnicas Reunidas from Spain, Saipem from Italy, GS Engineering from South Korea and ITOCHU from Japan. A total of 19,500 people, including 3,000 engineers from 14 countries, were employed during the peak period of the construction phase.

As the first refinery to be established in Turkey since 1984, and the largest investment undertaken by the private sector at a single location, the STAR Refinery focuses on strategic products taking into consideration the needs of the national economy and the industrial sectors. In addition to the production of major raw materials for the petrochemicals industry such as naphtha, xylene and reformate, the STAR Refinery will also produce petroleum products such as diesel, jet fuel, LPG and petroleum coke, which are major components of the current account deficit, hence meeting more than 25% of Turkey's processed petroleum product needs. To this end, Turkey's external dependency will be reduced, contributing USD 1.5 billion to bringing down the current account deficit.

In addition to the approvals and Environmental Impact Assessment approvals received in accordance with the Turkish environmental legislation at the foundation stage of the STAR Refinery, an International Environmental and Social Impact assessment study was carried out within the framework of the Equator Principles, EU legislation and IFC requirements. Designed with the most advanced technology that is economically viable and environmentally sustainable, the STAR Refinery carries out its activities within the framework of Turkish Environmental Legislation and the International Finance Corporation (IFC), as well as international environmental and social sustainability performance standards.

With a total project cost of USD 6.3 billion, the project finance of the STAR Refinery is the largest and longest-term loan agreement so far signed in Turkey in terms of loan size and maturity. This was defined as one of the largest petroleum and gas project finance operations in the Europe, Middle East and North Africa (EMEA) region in 2014. Having completed the construction and installation studies, the official opening of the STAR Refinery was carried out on 19 October 2018. Approximately 2 million tons of the refinery's production will be used by Petkim.

On 9 January 2018, a stake sale and transfer agreements were signed between Petkim and SOCAR Turkey, ensuring Petkim held an 18% indirect stake in the STAR Refinery. Shares subject to the Agreement shall be transferred to Petkim at a date specified as Closure in the Agreement.

SOCAR Turkey

SOCAR Aliağa Terminal: the largest integrated port of Aegean Region

Petlim Limancılık Ticaret A.Ş. (Petlim) was established on 22 November 2010 for the development of Petkim Port, for it to be operated more economically and to build "The Largest Integrated Port of Aegean Region".

30% of Petlim's shares, which Petkim has established as a wholly owned subsidiary, were acquired by Goldman Sachs which was one of the world's leading investment banks in the last quarter of 2014. Built by Petkim, the terminal was realized to complete the logistics integration step. The port investment had a cost of USD 400 million, including financing costs.

Through the strategic collaboration established with APM Terminals in container terminal operations, the first phase of the port with an 800,000 TEU capacity entered service on 6 December 2016, and started to be operated by APM Terminalleri Liman İşletmeciliği A.Ş. The second phase of the port was put into service on 4 July 2018 and started to work at full capacity.

On 27 December 2018, a 100% stake in APM Terminalleri Liman İşletmeciliği A.Ş. was acquired and transferred by SOCAR Turkey Enerji A.Ş, and the official name of the Company was amended to SOCAR Aliağa Liman İşletmeciliği A.Ş. The operation of the port has been carried out by SOCAR Aliağa Liman İşletmeciliği A.Ş. (SOCAR Aliağa Terminal) since then.

SOCAR Aliağa Terminal maintains the port management system and operational structure as it was at the start of the process, while continuing its activities in line with the vision and goals of integration set out by SOCAR in Turkey.

With its 700-meter single-dock structure and a minimum water depth of 16 meters, the SOCAR Aliağa Terminal is the first and only port facility in the Aegean Region able to efficiently serve ships of up to 18,000 TEU. The terminal is the biggest port in the Aegean Region with a container handling capacity of 1.5 million TEU.

In addition to a logistics area of 42 hectares in the port area and a 6 hectare back-service area for the storage of containers, there is also a general cargo dock with a length of 150 meters and a depth of 10 meters at the port. The general cargo dock at the SOCAR Aliağa Terminal has a carrying capacity of 10 tons per m^2, while an additional 30 acre storage area can be provided for the project cargo shipments that require storage.

With its innovations brought for its customers and ship operators, its strong infrastructure and its set of values, SOCAR Aliağa Terminal continues to add value to the Aegean Region and to Turkey.

Power plant projects to serve as the energy pillar of the investments

Work on installation of the Wind Farm project with 17 wind turbines and a mechanical power of 51 MW, got underway 2014 with the aim of increasing Petkim's energy security, reducing the energy costs included in production costs and meeting a proportion of the electricity needed in the production process from environmentally friendly renewable

energy resources, and was completed in 2017. The 25 MW generation capacity was accepted by the Ministry of Energy and Natural Resources and the system was commissioned.

The process of benefiting from the Renewable Energy Resources Support Mechanism started for a duration of 10 years as of 1 January 2018.

The Wind Farm, which has been developed with an investment of EUR 55 million, is anticipated to increase Petkim's electricity generation production capacity by 22%, while reducing CO_2 emissions by 120,000 tons.

The TANAP Project: The most strategic step taken so far for Turkey to become an energy corridor

TANAP - Trans Anatolian Natural Gas Pipeline is the foundation of the 3,500-kilometer energy corridor reaching out from Azerbaijan to Europe and is a sign of the cooperation in Anatolia between the two countries united in brotherhood - Turkey and Azerbaijan. SOCAR Turkey is taking one of the most strategic steps ever taken for Turkey to become one of the world's energy corridors with the TANAP (Trans Anatolian Natural Gas Pipeline) project, which has an investment cost of approximately USD 8 billion.

1,850 km

The first completed phase of TANAP was opened with a ceremony held on 12 June 2018 and the first gas flowed through the pipeline on 30 June 2018.

Having established the legal infrastructure on 26 June 2012 and receiving the "Environmental and Social Impact Assessment (ESIA) Positive Certificate" on 24 July 2014, the founding stone of TANAP was laid on 17 March 2015.

The aim of the TANAP - the Trans Anatolian Natural Gas Pipeline Project - is to transport the natural gas produced by Azerbaijan at the Shah Sea 2 Gas Field in the Caspian Sea and other fields located at the south of Caspian Sea primarily to Turkey and then on to Europe. TANAP is connected to the South Caucasus Pipeline (SCP) and the Trans-Adriatic Pipeline (TAP) to form the Southern Gas Corridor.

Following a course as high as 2,760 meters of altitude on land to as low as 65 meters depth at sea, and extending a route with a main line length of 1,850 kilometers, TANAP will start from Ardahan's Posof district in the Türkgözü village, located in the east of Turkey close to the border with Georgia, before traversing the country from east to west passing through 20 provinces to end in the İpsala district of Edirne, located close to the border with Greece.

Expected to meet 12% of Turkey's natural gas requirements, 16 billion m^3 of natural gas will be transported in the first phase via TANAP. Corresponding to the annual natural gas requirement of Tbilisi, Ankara, Athens, Tirana and Rome, 6 billion m^3 of the natural gas will be used in Turkey, while 10 billion m^3 will be transported to Europe. The carrying capacity of the pipeline is aimed to rise to 24 billion m^3 and then to 31 billion m^3 with additional investments.

The first completed phase of TANAP was opened in a ceremony held on 12 June 2018 and the first gas flowed through the pipeline on 30 June 2018.

The ownership structure of TANAP is as follows: SGC 51% (51% of SGC is owned by The Republic of Azerbaijan Ministry of Economy, while the remaining 49% belongs to "SOCAR" - The State Oil Company of the Azerbaijan Republic), SOCAR Turkey Enerji A.Ş. 7%, BOTAŞ Boru Hatları ile Petrol Taşıma A.Ş. 30% and BP Pipelines (TANAP) Limited 12%.

SOCAR Fiber - the optic infrastructure that will share the route with TANAP

The SOCAR Fiber Optic Network is planned as a communication infrastructure project that will be rolled out in parallel with the TANAP Natural Gas Pipeline. Starting from the Georgian border, the fiber-optic network will end at the border of Greece, passing through Turkey from end to end in an east-west axis through 20 provinces and 67 districts.

Established to realize investments in fiber optic infrastructure, SOCAR Turkey Fiber Optik A.Ş. (SOCAR Fiber) will expand fiber optic infrastructure in the region with the investments that it has initiated to support the global need for the expansion of communication infrastructures, thereby providing the operators and telecommunication companies in Turkey and the region with access to world-class data transfer speeds and additional capacity and line backup to their services.

The Network Operation Centers of the line are located in Ankara and Eskişehir, and the security of the line is provided by 2 separate fiber-optic cables in 2 separate channel systems along the fiber-optic route.

Construction studies for the SOCAR fiber-optic line are in progress, and are expected to be completed in 2019.

SOCAR Turkey

"CHEMICAL PARK"

"With the integration of Refinery, Petrochemical, Energy, Logistics, Distribution, and Transmission operations, the Petkim Peninsula will be transformed into one of the largest chemical parks in Europe by implementing a value added chain that starts with crude oil and ends with the final product.

TANAP: NEW ENERGY CORRIDOR OF EUROPE

TANAP will turn both Turkey and Azerbaijan into the most important players in the sector. The 1,850 km pipeline will place Turkey and Azerbaijan as Europe's principal alternative natural gas suppliers.

A FIBER OPTIC NETWORK COVERING 20 PROVINCES

The SOCAR Fiber-Optic Network will be a communications infrastructure project that will be rolled out in parallel with the TANAP Natural Gas Pipeline. Encompassing regions between the border with Georgia and the border with Greece, the fiber-optic network will cover over 20 provinces.

SOCAR Distribution: An energy distribution company bringing fuel to the final consumer

SOCAR Turkey Petrol Enerji Dağıtım A.Ş. was founded to operate in energy distribution business, as the final step of SOCAR Turkey's vision to integrate the "Refinery- Petrochemicals-Energy-Logistics- Distribution-Transmission" axis. Providing services through SOCAR CNG stations in 10 provinces in Turkey, the Company will also undertake the sale of the STAR Refinery products.

SOCAR Distribution operates in the fields of wholesale and retail fuel oil, air and sea vehicles fuel sales as well as LNG, CNG and auto-CNG. These operations are carried out via SOCAR in fuel distribution sector, via SOCAR CNG in auto CNG market, via SOCAR MARINE and SOCAR AVIATION at sea and air fuel market respectively, and via SOCAR CNG and SOCAR LNG brands in gas sales. With all these brands, SOCAR Distribution is ranked third in aviation sales, second in marine sales, second in industrial CNG sales in Turkey, while having most widespread station network in the auto-CNG market.

Having won the tender opened for 9 fuel stations located in Istanbul Airport, the first phase of which was brought into service on 29 October 2018, SOCAR Turkey's new fuel stations at the airport and at the apron will meet the fuel requirements of consumers, car rental firms, taxis and airport vehicles. Thus, SOCAR will serve consumers directly in the world's largest airport with an annual capacity of 200 million passengers over a total area of 16,280 m^2. It is planned that 10,000 vehicles will benefit from all SOCAR stations at Istanbul Airport every day.

Investments in the Petkim Peninsula and Benefits to Petkim

STAR Refinery

- 1.6 million tons of light naphtha supply
- Reduction in logistics costs
- Feedstock safety
- Sustainability in product specifications
- Increased efficiency in the production of aromatics
- Production of medium distillate fuels

Capacity: **10 million tons/ year (214,000 barrels/ day)**
Configuration: **High Conversion**
Refinery complexity: **9.0**
Crude oil processing range: **28-36 API**
Storage capacity: **1,640,000 m^3**
Investment cost: **USD 6.3 billion**

SOCAR Aliağa Terminal

- The terminal will be able to accept vessels with capacities up to 11,000 TEU
- With the advantage of a water depth of 16 meters, it will rival the ports of Piraeus and Alexandria
- High capacity in cargo services
- The important logistics center of the region

Annual capacity: **1.5 million TEU**
Potential expansion capacity: **4 million TEU**
Port area: **42 hectares**
Dock and maneuvering area: **700 meters**
General cargo and bulk cargo docks: **150 meters**

Wind Farm

- Energy security
- Use of renewable energy resources
- A 22% increase in electricity generation capacity
- A 120,000 ton reduction in CO_2 missions

Investment cost: **Approximately EUR 55 million**
Total installed power: **51 MW**
Number of turbines: **Nine in the First phase, eight in the second phase (total 17)**

With the introduction of STAR Refinery products, SOCAR Turkey expects to reach high market shares within a short space of time in the distribution segment, in line with its targets.

SOCAR Storage: The highest storage capacity in Aegean Region

SOCAR Storage initiated its operations in 2016 to perform the storage and operational ring of the SOCAR energy chain in line with the needs of SOCAR group companies and its business partners.

SOCAR Storage undertakes activities such as storage of petroleum products and natural gas in tanks, filling operations for land and sea tankers and evacuation operations from sea tankers to tanks in accordance with national and international conditions and the OHS-E policy.

Located in Aliağa, İzmir, SOCAR Storage Terminal is the largest terminal in the Aegean Region with its storage capacity of 200,000 m^3 of fuel oil and 45,000 m^3 of LPG. An additional 325,000 m^3 of fuel storage capacity will be put into service in the second quarter of 2019 in order to increase service competence. It also will be one of Turkey's five largest terminals following the completion of the pier expansion project.

SOCAR Storage carries out storage and handling activities of fuel and chemical products in facilities in Kocaeli Gebze and Hatay Dörtyol, and CNG filling activities in facilities in Denizli and Ordu regions.

With the start of production at the STAR Refinery, which was brought into operation in 2018, the operating field of SOCAR Storage is planned to be expanded by providing services to all regions in Turkey with the ISO9001 certificate.

Key Parameters and Financial Highlights

Five-Year Key Indicators (TL thousand)	2014	2015	2016	2017	2018
Total Assets	3,788,257	5,460,665	6,268,528	7,788,855	12,587,806
Net Sales	4,132,846	4,532,636	4,532,591	7,363,824	9,314,717
Net Profit	8,679	639,209	731,687	1,401,959	871,672
Exports (USD million)	564	503	447	721	755
Issued Capital	1,000,000	1,500,000	1,500,000	1,500,000	1,650,000
Number of Employees (year-end)	2,425	2,471	2,395	2,464	2,559

Summary Balance Sheet (TL thousand)	2017	2018
Current Assets	4,208,404	7,994,968
Non-Current Assets	3,580,451	4,592,838
Total Assets	**7,788,855**	**12,587,806**
Short-term Liabilities	2,346,907	3,862,111
Long-term Liabilities	1,587,870	4,590,759
Shareholders' Equity	3,854,078	4,134,936
Total Equity and Liabilities	**7,788,855**	**12,587,806**

Summary Income Statement (TL thousand)	2017	2018
Net Sales	7,363,824	9,314,717
Gross Profit	1,857,960	1,578,960
Operating Profit	1,696,209	1,206,339
EBITDA	1,816,134	1,523,227
Net Profit for the Year	**1,401,959**	**871,672**

Key Ratios	2017	2018
Current Ratio	1.79x	2.07x
Liquidity Ratio	1.01x	1.09x
Financial Leverage Ratio	0.51x	0.67x
Debt Ratio (Total Debt/Equity)	1.02x	2.04x
Gross Profit Margin (%)	25.2%	17.0%
Operating Profit Margin (%)	23.0%	13.0%
EBITDA Margin (%)	24.7%	16.4%
Net Profit Margin (%)	19.0%	9.4%

TL 1,523 million

Petkim reached its second ever highest earnings before interest, tax, amortization and depreciation (EBITDA) figure in its history, closing the year with EBITDA of TL 1,523 million and TL 872 million of net earnings.

Gross Production (thousand tons)

Total Assets (TL thousand)

Growth in Asset Size

62%

Net Profit

871,672
TL thousand

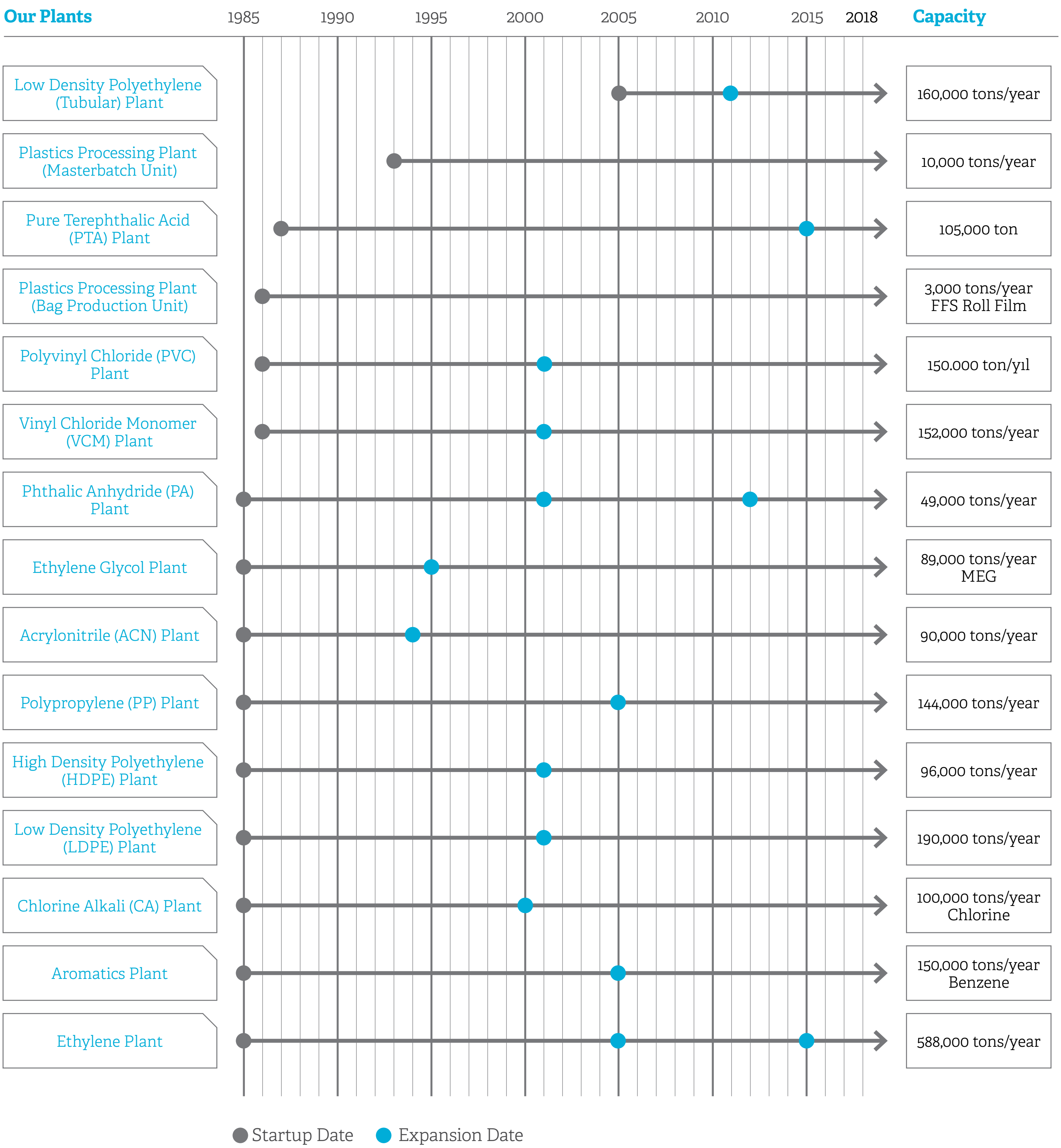
Total Assets

12,587,806
TL thousand

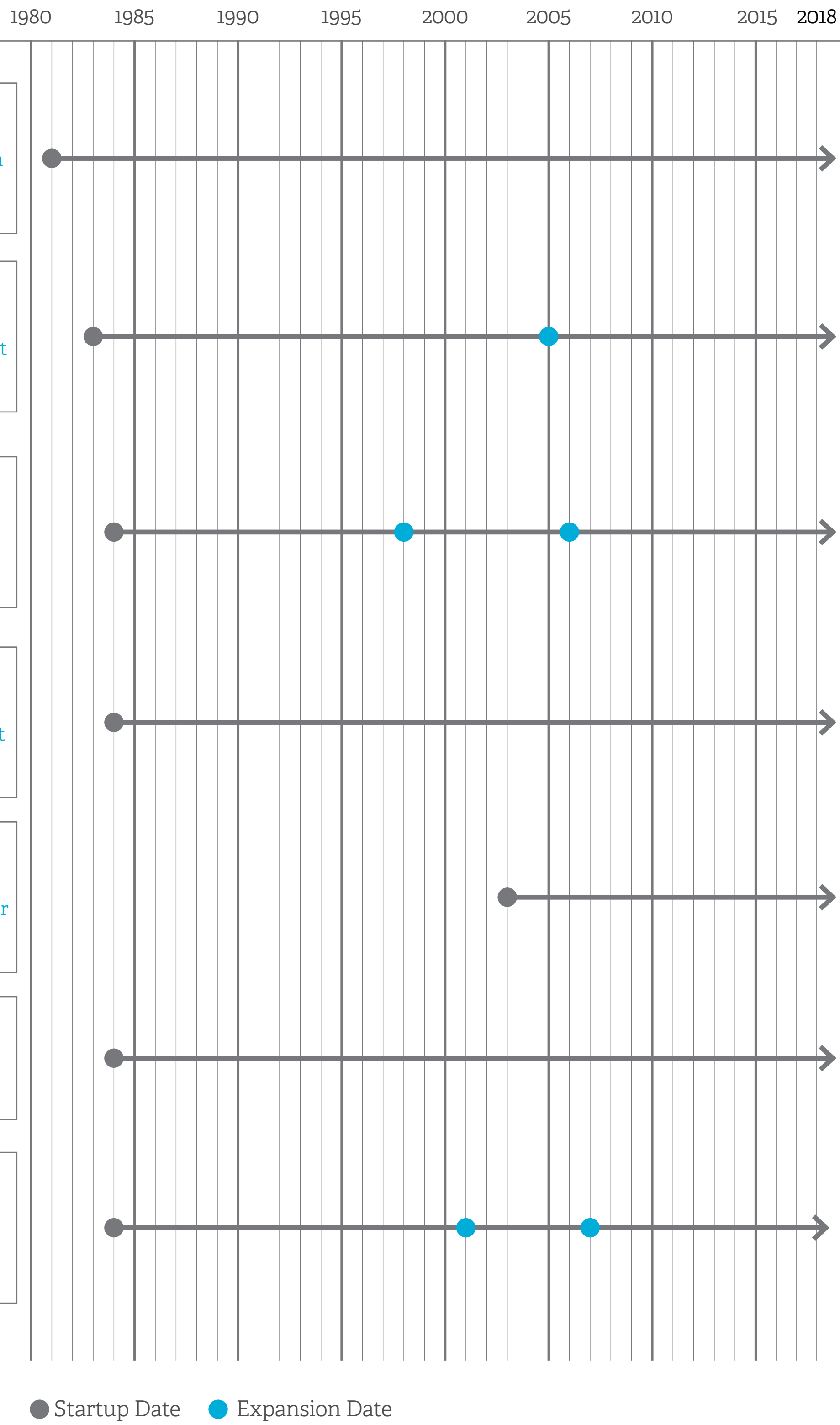
Production

2.8
million tons

Petkim Plants



Auxiliary Processing Units



Güzelhisar Dam	**Rainfall Area:** 450 km^2 **Annual Average Rainfall:** 500-600 kg/m^2 **Water Level:** 63 m. (min.), 104 m. (normal), 107 m. (max.) **Active Volume:** 137 million m^3 **Total Storage Volume:** 150 million m^3
Water Purification Unit	**Capacity:** 7,800 m^3/h **Start up Date:** 1983 **Expansion Date:** 2005 **Total Storage Capacity of Raw Water Basins:** 80,000 m^3
Demineralized Water Unit	**Capacity:** 1,700 m^3/h **Start up Date:** 1984 **Expansion Date:** 1998, 2006
Wastewater Treatment Plant	**Capacity:** 1,670 m^3/h 550 m^3/h Oily Wastewater 120 m^3/h Domestic Wastewater 1,000 m^3/h Chemical Wastewater
Solid-Liquid WasteIncinerator	**Capacity:** 2.26 tons/h 0.85 tons/h Solid Waste 1.07 tons/h Treatment Sludge 0.34 tons/h Waste Oil
ort	Handling Amount: 2.7 million tons
Energy Production	Steam Production Unit **Capacity:** 1,200 tons/h XHS Electricity Production-Distribution **Installed Capacity:** 273 MW **Capacity Increases:** 2001 (TG4), 2007 (Gas Turbine), 2017 (Wind Turbine)

Milestones from Petkim's History

1965-1970

- Petkim Petrokimya A.Ş. was established with TL 250 million in capital.
- Construction of the Ethylene, Polyethylene, CA, VCM and PVC plants at the Yarımca Complex was completed and trial operations began.
- A decision was made to establish a second petrochemical complex in the Aliağa region.

1971-1975

- Production began at the Çanakkale Plastics Processing Plant.
- The DDB Plant within the Yarımca Complex was established and began operations.
- Petkim's capital was increased to TL 1.5 billion.
- Expansions at the Ethylene and LDPE plants within the Yarımca Complex were completed.
- The Carbon Black, Synthetic Rubbers (SBR-CBR), Styrene and Polystyrene plants at the Yarımca Complex began operations.

1976-1983

- Expansions of the VCM and PVC plants at the Yarımca Complex were completed. Caprolactam units began production.
- Due to the rapid growth of the Turkish automotive industry, Petlas Lastik Sanayi A.Ş. was established to produce tires as of 19 August 1976 under the management of Petkim.
- Petkim's capital was increased to TL 8 billion, TL 40 billion and finally TL 100 billion.
- Auxiliary plants and shared facilities at the Aliağa Complex were completed.
- Aliağa Kompleksi'nin yardımcı işletmeleri ve ortak tesisleri tamamlandı.

1984-1989

- Plants at the Aliağa Complex began production.
- The Aliağa and Yarımca complexes were converted into subsidiary companies; Alpet A.Ş. and Yarpet A.Ş.
- Petkim was brought within the scope of the state privatization program under the provisions of law number 3291 dated 28 May 1986.

1990-1995

- Petkim's capital was raised to TL 2 trillion in 1990 and TL 3 trillion in 1991.
- As a result of expansion and rehabilitation projects at the Aliağa Complex's LDPE, HDPE, PP and ACN plants in 1993 and the Yarımca Complex's PVC, PS, CB, SBR, CBR and BDX plants in 1995, a significant increase was achieved in Petkim's production capacity.

1996-1999

- Petkim obtained a TS-EN-ISO 9002 Quality Assurance Certificate.
- The Company's record keeping was converted from the Paid-up Capital System to the Authorized Capital System. The Company increased its capital to TL 117 trillion, on the basis of TL 114 trillion transferred from the Revaluation of Fixed Assets Fund.

2000-2004

- Chlorine Alkali production technology was changed to membrane type to achieve lower production cost and more HSE friendly plant. Investments increased chlorine production capacity from 75,000 tons/year to 100,000 tons/year.
- Capital was increased from TL 117,000 billion to TL 204,750 billion.
- As per the Privatization High Council's decree, the Yarımca Complex was sold to Tüpraş.
- The second expansion of the HDPE Plant, which increased production capacity from 66,000 tons/year to 96,000 tons/year, was completed in 2001.
- 10,000 tons were added to the PVC plant capacity.
- The Çanakkale Plastic Processing Plant was shut down; its equipment was transferred to the Aliağa Complex.
- The construction and installation of the Solid-Liquid Waste Incineration Unit began operations in 2003.
- Petkim's dry cargo jetty was opened for service to third parties.

2005-2007

- The expansion of the Ethylene, LDPE and PP plants was completed in 2005. The capacities of the plants increased from 400,000 tons/year to 520,000 tons/year for ethylene, from 190,000 tons/year to 310,000 tons/year for LDPE and from 80,000 tons/year to 144,000 tons/year for PP. This represents the largest investment program undertaken in the past 18 years.
- At the Aromatics Plant, PX capacity was increased from 100,000 tons/year to 136,000 tons/year, whilst benzene capacity was increased from 123,000 tons/year to 134,000 tons/year.
- As a result of a USD 90 million investment, the 57 MW gas turbine went into operation at the Steam Production and Electric Power Generation units in 2007. In the

steam boilers, in addition to fuel-oil, the use of environmentally friendly natural gas has started which also provided fuel flexibility for operations.
- Elsewhere, the use of an FFS Roll Film-producing co-extruder unit was started for Bag Production operations in 2007. With a view to replacing valve bags, FFS bag packaging was introduced gradually for all solid products.
- In addition, a privatization tender using the block sale method for the state-owned shares of Petkim, equivalent to a 51% stake in the Company, was announced. The tender, which was open to the public, took place on 5 July 2007. The sale of these shares to the second highest bidder, the SOCAR & Turcas Consortium, was approved by decision number 2007/63 of the Privatization High Council on 22 November 2007.

2008-2009

- On 30 May 2008, in a privatization tender again using the block sale method, 51% of Petkim's public shares were handed over to SOCAR & Turcas Consortium for USD 2.04 billion.
- A 1.3 million m^2 parcel of land owned by Petkim was allocated to the STAR Rafineri A.Ş. for the establishment of a raw materials refinery.
- Major improvements in productivity were realized by upgrading technology to increase feedstock flexibility. Petkim began cracking not only naphtha but also LPG.
- Within the scope of the Company's expansion plans, feasibility studies and detailed terminal plans were conducted for the Petkim Port.
- As a result of the Integrated Management System Certification Audit carried out by Turkish Standards Institute (TSI), the ISO 9001 Quality Management System was renewed. Petkim was granted the ISO 14001 Environmental Management System and TS 18001 Occupational Health and Safety Management System certifications.

2010

- On 23 June 2010, STAR Rafineri A.Ş. received the license for a 10 million ton capacity refinery at the Petkim Complex.
- In order to boost the efficiency of port operations, Petkim Limancılık Ticaret A.Ş. was established in November 2010.
- The enterprise Resource Planning Project (ERP) was launched on 1 October 2010 and all operational processes began being monitored through this initiative.
- Petkim's capital was increased via bonus issues from TL 204,750,000 to TL 1,000,000,000.
- Petkim also received approval for its license application to the Energy Market Regulatory Authority (EMRA) for the construction of a wind power plant on 15 December 2010, as part of the EMRA decision numbered 2922-16

2011

- The groundbreaking ceremony for the STAR Refinery located on the Petkim Peninsula was held.
- The Company also made further investments to expand the capacity of the LDPE-T Plant, increasing its capacity by 20%.
- In addition, the groundbreaking ceremony for the Heydar Aliyev Technical and Industrial Vocational High School took place.
- The Company's Atmospheric Nitrogen and Oxygen plant was handed over to French Air Liquide.
- Petkim's land in Yarımca was sold in a tender.
- An agreement to increase the capacity of Ethylene plant was also signed.
- Following the withdrawal of Turcas from the shareholding structure, 51% of Petkim shares were handed over to SOCAR Turkey Enerji A.Ş.

2012

- A preliminary agreement for operation of the container port was signed between Petlim Limancılık A.Ş., a 100% subsidiary of Petkim and APM Terminals, a Dutch-based company active in operation and management of container terminals. It will be built at Petkim production facilities by APMT.
- Following the expansion investment completed in August 2012, the capacity of the PA plant increased from 34,000 tons/year to 49,000 tons/year.
- In the National Awards of Quality, one of the most prestigious awards of Turkey, which was held in cooperation with TÜSİAD and KalDer, Petkim was awarded National Quality Success Award in the category of Large-scale Institutions.
- A project to modify and increase the capacity of the Ethylene and PTA plants received the "Strategic Investment Incentive Certificate."
- Petkim received first prize in the large manufacturers category of the "Energy Efficiency Increase in Industry Project" competition. This initiative is organized by the Ministry of Energy and Natural Resources, and comprises seven projects that provide TL 58 million/year profit and a reduction of 140,000 tons/year in CO_2 emissions.
- Also, by means of Petkim's contributions, the construction of the Heydar Aliyev Technical and Industrial Vocational High School was completed. Following completion, the school was handed over to the Aliağa Directorate of National Education.

Milestones from Petkim's History

2013

- Petkim was awarded with the grand prize in the Efficiency in Industry category of The National Energy Prizes contest.
- Petkim has been the first industrial institution to obtain ISO 50001 Energy Management System Certificate among the large-scale industrialists consuming energy more than 500,000 TEP.
- Petkim crowned its customer oriented efforts with TS ISO 10002 Customer Satisfaction Management System Certificate.
- In line with the integration targets, an operation agreement was signed on 22 February 2013 with APMT BV and APM Terminals for the operation of the Container Port by APM Terminalleri Liman İşletmeciliği A.Ş. (APM Terminals).
- Petkim Academy was established.
- Petkim was awarded with four prizes in Successful Industrial Enterprises Ceremony, which is held every year by the Aegean Region Chamber of Industry.
- Excavation works for the Petlim Container Port were begun.
- With exports worth USD 765,751,000, Petkim became the export leader of both the Aegean Region and the overall chemical industry in the region.

2014

- As part of the Petkim Wind Power Project, a final agreement was signed with Alstom.
- Following the purchase of 30% of shares worth USD 250 million, Goldman Sachs became a shareholder of Petlim Limancılık A.Ş., a 100% subsidiary of Petkim.
- Capacity at the Ethylene plant was increased by 13% to 588,000 tons/year, while the capacity at the PTA plant reached 105,000 tons/year having risen from 70,000 tons/year. As a consequence, Petkim's gross production capacity increased by 13%. The plant underwent a comprehensive maintenance program as part of the broader structure of the Company.
- The Company's Corporate Governance Rating rose to 9.01, following a study carried out by Kobirate.
- The Plastic Processing Plant came online at its new location.
- Petkim received the ISO 27001 Information Security Management System Certificate developed by TSI.
- Petkim became one of the 15 companies listed on the BIST Sustainability Index.

2015

- Conducting its activities based on its 45 years' R&D culture, Petkim's research center reached the status of R&D Center following the certification of the Ministry of Science, Industry and Technology on 13 January 2015. The center operates on an area of 1,200 m^2 consisting of 6 laboratories, a 400 m^2 pilot plant and offices, located at Petkim complex.
- Petkim celebrated its 50th year of operation with its employees, senior officials from Petkim and SOCAR, the business and media world and distinguished guests from Turkey and Azerbaijan in a series of events.
- The capacity of the PTA plant, which supplies raw materials to textiles and PET packaging production, was increased from 70,000 tons/year to 105,000 tons/year.
- Petkim Port received the "GreenPort Certificate" following an audit carried out by the Directorate General of Merchant Marine and TSI (Turkish Statistics Institute).
- Petkim was selected as one of Turkey's most preeminent digital companies. Accenture Turkey, which is evaluating the performance of digitalization in private sector companies at all stages from production to the customer, has implemented Digitalization Index. As a result of the work performed under a systematic approach and a scientific methodology, Petkim became the leader of the "Manufacture of Chemicals and Chemical Products" sector.
- Petkim received the first prize in the Industrial Energy Efficiency Project competition organized by the General Directorate of the Renewable Energy of Ministry of Energy (YEGM). In the contest, where the projects of industrial enterprises on increasing energy efficiency of their current systems evaluated, Petkim won the first place in the SEVAP-3 (50,001 TEP and higher) category, participating with total of 8 energy projects selected from the LDPE, Ethylene, Aromatics, ACN and LDPE-T plants.

2016

- On 6 December 2016 the first phase of the 800,000 TEU capacity Petkim Container Terminal was completed and it entered operation.
- The ACN plant broke a 31-year production record and was selected as "The Best Plant" among Petkim facilities.
- Petkim started to produce organoleptic lid types with nonwoven in High Density Polyethylene plant, supplying producers of bottle lids for fizzy liquids.
- Petkim received the "Aegean Region's Top Company that Has the Biggest Exports" and "Top Company in Chemistry Sector Having the Biggest Exports" awards in recognition of its exports, which reached USD 447 million in 2016.
- The Petkim Port was awarded the GreenPort Certificate for a second time, following checks conducted by the Ministry of Transport, Maritime Affairs and Communications Directorate General of the Merchant Marine and Turkish Standards Institute.
- TS ISO 31000 Risk Management Verification performed by Turkish Standards Institute (TSE) has been successfully completed and Petkim received the certificate.

2017

- Petkim received the "Biggest Exporter in the Aegean Region" and "Biggest Exporter in the Chemicals Industry" awards, in recognition of the USD 671 million of exports it realized in 2017.
- Reaching 100% capacity in the Ethylene Plant, a record high production of 3.42 million tons was achieved with a record 97% capacity utilization rate in all facilities as a whole.
- The installation of the Wind Farm project with 17 turbines and a mechanical power capacity of 51 MW was completed in 2017 and the system, with 25 MW electricity generation, was commissioned.
- The construction of the second phase of the Petlim Container Terminal was completed.
- Petkim's Corporate Transformation Program, "Petkim Benim" started in January 2017.
- The Digital Transformation initiation has got underway at Petkim. Accordingly, the Deputy Directorate General of Digitalization and Technology was established.

2018

- Petkim's first international bills worth USD 500 million listed on the Irish Stock Exchange.
- A stake sale and transfer agreement was signed with Socar Turkey to acquire an 18% indirect stake in the STAR Refinery.
- The planned maintenance stop Turnaround was scheduled to last for 63 days, but was successfully completed in 53 days.
- The digitalization project, the Ethylene Furnace Optimization Model (EFOM), a world class project in terms of its size, was launched.
- The official opening ceremony of the SOCAR Turkey Aliağa Administration Building was held with the attendance of the Presidents of both countries.
- The STAR Refinery was formally opened by the Presidents of the two countries.
- SOCAR Turkey's 1,453 hectare plot in Izmir Aliağa was declared as the first Special Industrial Region in Turkey.
- The Sponsorship contract with the Turkey Physically Disabled Sports Federation, BOCCIA National Team, was signed.
- The second phase of SOCAR Aliağa Terminal became operational.
- Message from the Chairman of the Board of Directors.

Message from the Chairman of the Board of Directors

On course to save Turkey's petrochemical sector from external dependence, the STAR refinery was completed with an investment cost of USD 6.3 billion.

VAGİF ALİYEV
The Chairman of the Board of Directors

Esteemed shareholders and business partners,

In 2018, the global economy maintained its growth trend.

Although the global economy did not achieve the desired level of growth, it did maintain its growth trend in 2018. However, a number of political developments, especially trade wars, took their toll on global risk perceptions. In addition to the volatile course of financial markets, the increase in commodity prices due to rising tariffs affected world trade, consequently leading to a contraction in economic activity, in turn suppressing the growth figures.

While the world economy is estimated to have grown by 3.5% in 2018, global trading volume declined to 3.8%, from 4.5% in 2017. Forecasts for 2019 suggest that growth will lose further momentum due to the rising protectionist tendencies.

In addition to gathering expectations of an impending slowdown in the global economy, the increase in oil supplies had a negative impact on oil prices in the final period of 2018. Having risen to USD 86.29/bbl during the year, the price of a barrel of Brent oil fell significantly in the fourth quarter. In spite of the decision to cut production taken by OPEC and non-OPEC producers, oil prices decreased to USD 49.93/bbl in December. This set the stage for a relatively positive backdrop for naphtha-based producers, whose margins had contracted on the back of the rising oil prices during the year.

In Turkey's economy, the volatility in financial markets in August 2018 sparked a fall in the value of the currency while interest rates and inflation increased. With domestic consumption and economic activity suppressed by the currency weakness and the rise in interest rates and inflation, a slowdown in industrial production and overall economic growth became evident in the second half of the year. The positive course in exports and tourism revenues - and thus the current account deficit - and the success in the implementation of the New Economic Program increase our hopes for the coming period.

A year of developments which will shape our future

The STAR Refinery, which we opened with great pride in 2018, also heralds a new beginning for our petrochemical industry and for Petkim.

The synergy, profitability, product standards and continuity that the STAR refinery, which was opened by the Presidents of Azerbaijan and Turkey, will bring to Petkim indicate gains for the sector and the economy.

The STAR refinery, which is expected to save Turkey's petrochemical sector from external dependency, was realized with an investment cost of USD 6.3 billion. The STAR Refinery will produce petroleum products such as diesel, jet fuel and LPG, which form one of the important components of our country's current account deficit, and 1.6 million tons of naphtha. The primary goals of the STAR Refinery, which will use more environmentally friendly, lower emission natural gas as its main fuel, are to increase production capacity, to create employment, to reduce the current account deficit through the savings in foreign currency that would otherwise have been spent on imports, and to contribute significantly to the economy of the country and the region through the increase in competitive clout.

On 19 October 2018, when The STAR refinery entered operation to great fanfare, marking the culmination the 10-year investment undertaken by SOCAR Turkey, which started with the announcement of its 1,453 hectare plot in Aliağa, İzmir as the country's first private industrial zone. The incentives and convenience that will be provided within this context will encourage us to extend our investments to the future, which will be the driving force in our decisions to step up the contributions we will provide to the country's economy.

One of the most important developments in 2018 was our breakthrough in digitalization. By taking the Industry 4.0 principles and best practices of the industry as a reference, we have implemented many IT projects in all of the companies in the SOCAR Turkey Group together with Petkim, to spur the digital transformation process.

With this initiative, which will enable the creation of Integrated and smart platforms as a result of the integration of industrial systems with business systems, we aim to achieve perfect decision-making processes through artificial intelligence and machine learning algorithms that will enable the use of big data, and to significantly increase operational excellence and production efficiency.

An organization that is strong and agile

One of the largest players of the industry as Turkey's only integrated petrochemical producer today, Petkim is also a company with high potential for development and that differentiates itself with its corporate culture. Our road to value creation and cultural transformation embodied in the "Petkim is Mine" (Petkim Benim) program marks the leap that will bring the Petkim organization to the future under the leadership of our human resources. The program will bring about being an agile organization with the most optimal processes.

At the great Petkim family, we say "We exist in the Future", with our belief in the power of knowledge and technology and our determination to succeed. I would like to thank all of our stakeholders, who will stand with us, for their support and trust.

With the most sincere love and respect,

Message from the General Manager

A year of transformation for Petkim

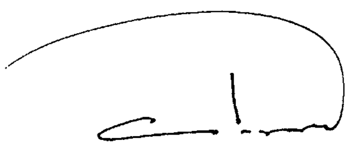
2018 was a year of transformation for us in many aspects, where we focused on increasing the efficiency of our production cycle and investments with our belief in the power of value-added production, despite the volatility in market conditions experienced by developing countries.

We successfully completed the planned big turnaround (maintenance stoppage) in 2018 in less than two months and earlier than had been planned. The turnaround is carried out on a regular basis every 4 years to increase the efficiency of our production facilities.

In a period of intense cyclical pressures, we increased our turnover by 27% YoY to TL 9.3 billion, despite the big turnaround. At the same time, we achieved our second highest ever earnings before interest, tax, depreciation and amortization (EBITDA) in USD terms in Petkim's history. We closed the year with EBITDA of TL 1,523 million and a net profit of TL 872 million.

In line with our strategy of expanding into new markets, we broke an all-time record by selling to 78 countries. The success we have achieved with our international sales, which amounted to USD 755 million, was crowned with two awards handed out by the Aegean Exporters Union. Petkim won the Exporter of the Year and the Exporter of the year in the Chemical Industry awards. Our strategy of focusing on key petrochemical markets such as India and Spain also played a part in this success.

ANAR MAMMADOV
General Manager



The digitalization project, which we carried out at the Ethylene Plant and that enables us to work at optimal production values, created a big impression as a big step that will support profitability throughout Petkim, while showcasing our ambitious approach to digitalization.

Moving forward with Digitalization, R&D and innovation...

2018 was a crucial year in terms of realizing our infrastructure work in digitalization, which is at the top of our agenda, and we took important steps in this direction. We started our Industry 4.0 journey with the use of advanced analytical applications and artificial intelligence in production. We have rolled out the artificial intelligence applications in the production and maintenance processes of our plants, while we have also included augmented and virtual reality technologies in the processes in our production, maintenance and occupational safety units.

We aim to ensure that Petkim is the most advanced digital company in Turkey and Azerbaijan by developing the digital thinking reflexes to take decisions based on data for our strategic goals and by accelerating our digital transformation investments with our determination to build a digital plant with all of Petkim's employees and in line with the company's culture.

We established the Petkim Digitalization Institute so the entire company would adopt the idea of digitalization so our employees could acquire skills related to artificial intelligence, machine learning, the use of big data and analytical tools. Our aim is for all Petkim employees to benefit from the training at this Institute.

Our improvement and optimization projects in the field of digitalization have also started to affect our net profitability positively. The digitalization project, which we carried out at the Ethylene Plant and that enables us to work with optimum production values, made an impression as a significant step that could affect the profitability of all Petkim and revealed our ambitious approach to digitalization.

We also aim to be the leader in Turkey and the world with our R&D and innovation activities. In this context, we are expanding our R&D and digitalization ecosystem. We have collaborated with the world-famous Massachusetts Institute of Technology (MIT), where we aim to further enhance Petkim's leading position and experience in the petrochemical industry with MIT's extensive experience in the implementation of global R&D and engineering projects and human resource infrastructure support. We have embarked on cooperation projects with the METU, ITU and Boğaziçi University in the fields of product and process development and we are determined to develop these collaborations.

The start of our Integration with the STAR Refinery

One of the important developments that will guide our future was the opening of the STAR Refinery. The STAR Refinery has gradually started to commission all units since it was opened in October with the attendance of the Presidents of Turkey and Azerbaijan. The high quality naphtha to be produced at the Refinery, which was planned to completely meet Petkim's needs, will also increase our efficiency. Within a short space of time, we will obtain all of our raw materials from the STAR Refinery. Thanks to the synergy generated with the STAR Refinery, Petkim is expected to benefit from lower logistics costs and increased raw material security, with sustainability in product specifications achieved and efficiency increased in aromatics production.

The first step in our integration with the STAR Refinery will take place at the beginning of 2019, with our first raw material purchases. We are working with our colleagues from SOCAR Turkey and the STAR Refinery in the process of the refinery-petrochemical integration. Our aim is to create a more efficient organization and to capture potential synergies based on common services and infrastructure that will arise from the operation of Petkim and the STAR Refinery as a single entity.

In addition to the operational partnership, Petkim signed an agreement to become an indirect shareholder in STAR Rafineri A.Ş. in 2018, and we carried out the second instalment payment of USD 240 million in September.

Our priority is people

We have generated USD 85 million of value for the Company with almost zero capital expenditure to date on the value creation axis of the Petkim is Mine transformation program, which we continued with the ultimate goal of sustaining the development of our performance. We aim to make sustainable use of this platform, where our employees share their ideas, create projects to increase our efficiency and to optimize the production and maintenance processes. The financial impact of the projects implemented in the program strengthens our hope for the future. This program bears special importance for us in terms of the cultural transformation, in which we aim to create a more agile, modern and digital company.

We direct our policies and practices in accordance with the awareness of the importance of providing all the opportunities for the development of our human resources and providing a modern working environment for our sustainability. In this context, with the opening of the SOCAR Turkey Aliağa Administration Building in 2018, a development that brings us great pleasure, we now have an office environment that is a beacon of the future with its technological infrastructure and working conditions.

Petkim not only adds value to Turkey's economy, but also to society through social responsibility. For many years, we have implemented a wide array of social responsibility projects in various areas such as education, the environment, sport, culture and the arts; however, our sponsorship of the Boccia National Team has a very special meaning and value for us. We believe that integrating people with severe disabilities into social life is one of the most important indicators of the level of development of a country. Contributing to this purpose in Turkey is also a source of great pride for us.

Moving to the future with confidence...

The year of 2019 bears special importance for us, as the year we will start to see the fruits of both our digitalization work and our integration work with the STAR Refinery. As part of the integration process, while we implement our inter-functional improvement projects that will create efficiency by reviewing all of our processes from end to end in line with the Petkim value chain, we will continue to work on implementing comprehensive plans that will sustain Petkim's record profitability and performance, building on the increasing growth it has demonstrated in recent years. With ever increasing excitement, dedication and passion with each passing day, we will carry the value we create for Petkim and Turkey forward.

I would like to extend my sincere thanks to all of our stakeholders.

Organization, Capital and Shareholding Structure of the Company

Capital and Shareholding Structure

Organizational Structure

The executive management of the Company consists of one General Manager and nine Assistant General Managers.

Name	Position
Anar Mammadov	General Manager
Riza Bozoklar	Assistant General Manager (Finance)
Ali Semih Şansal*	Assistant General Manager (Operations)
Dinçer Akbaba	Assistant General Manager (Projects and Maintenance)
Kanan Mirzayev	Assistant General Manager (Strategy and Business Development)
Khalig Mustafayev	Assistant General Manager (Business Support)
Levent Kocagül	Assistant General Manager (Human Resources)
Agshin Salimov	Assistant General Manager (Sales and Marketing)
Tolga Demirözü	Assistant General Manager (Supply Chain)
Murad Abdullayev	Assistant General Manager (Digitalization and Technology)

* Ali Semih Şansal was appointed to this position on 01.01.2019. The previous Assistant General Manager (Operations), Nihat Gürbüz, was appointed as General Manager Technical Consultant on 01.01.2019.

Capital and Shareholding Structure

Real and legal persons directly holding 5% or higher share or voting rights in the capital (other than the Privatization Administration)

Shareholder	Paid-in Capital (TL)	%
Socar Turkey Petrokimya A.Ş.	841,500,000.00	51.00
Directorate of Privatization Administration	0.01	0.0001
Traded on BIST (Publicly Held)	808,499,999.99	48.9999
Total	1,650,000,000.00	100.00

In 2018, the Company's issued capital was increased from TL 1,500,000,000 to TL 1,650,000,000 to be fully covered by internal sources as a bonus issue.

Information on Privileged Shares and Voting Rights of Shares

- Article 32 of the Company's Articles of Association stipulated that each share entitles its holder to one vote in General Assembly Meetings. Group C shares enjoy the privilege of making nominations to the Board of Directors.
- Furthermore, Board of Directors decisions passed in relation to matters specified in Article 15 of the Company's Articles of Association become valid if Group C shares cast affirmative votes.

Board of Directors

Vagif Aliyev
Chairman of the Board of Directors

Born in 1959, Vagif Aliyev graduated from Azerbaijan Civil Engineering Institute's Hydraulic Engineering program in 1981. Mr. Aliyev began his career in 1981 as an engineer at the Caspian Sea Oil & Gas Production Union's Azer Sea Oil Construction Trust and successfully took up many positions. In 2005, he was appointed as the Head of Investments at the State Oil Company of Azerbaijan Republic (SOCAR). He was appointed as a member of the Board of Directors of Petkim Petrokimya Holding A.Ş. in 2008, a member of the Board of Directors of SOCAR Turkey Enerji A.Ş in 2009 and a member of the Board of Directors of STAR Rafineri A.Ş. in 2012. He has been the Chairman of the Board of Directors of Petkim Petrokimya Holding A.Ş. since 2009, the Chairman of the Board of Directors of SOCAR Turkey Enerji A.Ş and STAR Rafineri A.Ş. since 2013. Vagif Aliyev is also a member of the Audit Committee and Risk Committee under the SOCAR Turkey Enerji A.Ş. Board of Directors.

David Mammadov
Vice Chairman of the Board of Directors

Born in 1955, David Mammadov graduated from the M. Azizbeyov Petroleum and Chemicals Institute, Azerbaijan, in 1980 with a Chemical Engineering degree. He began his career in 1976 as an Operator at the Baku Oil Refinery. He has been the Vice President in charge of refineries at the State Oil Company of Azerbaijan Republic (SOCAR) since 2005, a Member and the Vice Chairman of the Board of Directors of SOCAR Turkey Enerji A.Ş since 2007, a member of the Board of Directors of Petkim Petrokimya Holding A.Ş since 2008 and a member of the Board of Directors of STAR Rafineri A.Ş. since 2012. David Mammadov is also a member of the Early Detection of Risk Committee under the SOCAR Turkey Enerji A.Ş. Board of Directors.

Farrukh Gasimov
Board Member

Born in 1959, Farrukh Gasimov graduated with a law degree from Baku State University in 1981 and earned his Ph.D. from Moscow Public Studies and Law Institute in 1985. From 1985 to 1991, he served as a Lecturer and Associate Professor at the Baku Public Administration and Politics University. He has been Deputy Head of the Legal Department at SOCAR and a member on the Board of Directors of SOCAR Turkey Enerji A.Ş.since 2006, a member on the Board of Directors of Petkim Petrokimya Holding A.Ş. since 2009, and a member on the Board of Directors of STAR Rafineri A.Ş. since 2012. Farrukh Gasimov is also the Chairman of the Early Detection of Risk Committee and a member of the Corporate Governance Committee under the SOCAR Turkey Enerji A.Ş. Board of Directors.

Prof. Dr. Süleyman Gasimov
Board Member

Born in 1961, Süleyman Gasimov graduated from the Azerbaijan National Economic Institute (now Azerbaijan State Economic University) in 1982 and from Academy of Public Administration under the President of the Republic of Azerbaijan in 2003. He worked in various positions- accountant, economist, deputy chief accountant and chief accountant- in the oil and gas industry from 1982 to 1991. Between 1991-2003, he was a chief accountant at the Khazardenizneftgas (Caspian Sea Oil and Gas) Production Unit of Azerineft (Azeri Oil) Oil and Gas Production Department, Offshore Oil and Gas Production Unit. In 2004-2006, he was Chief of Division of Economics and Accounting Department of SOCAR, Deputy Chief of the Department and Chief of the Department. In 2006, Mr. Gasimov became the Company's Vice President responsible for economic issues. He was awarded the Taraggi (Progress) Medal in 2006 and the Shohrat (Glory) Order and second-degree Order of Labor in 2011. He has a Ph.D. in Economics and is the author of many scientific works and more than 40 scientific articles. He has been a Board Member at SOCAR Turkey Enerji A.Ş. since 2011, Petkim Petrokimya Holding A.Ş. since 2012 and at STAR Rafineri A.Ş. since 2014. Süleyman Gasimov is also the Chairman of the Audit Committee under the SOCAR Turkey Enerji A.Ş. Board of Directors.

İlhami Özşahin
Board Member

Born in Kastamonu in 1950, İlhami Özşahin graduated with a degree in Electric Engineering from İstanbul State Architecture Engineering Faculty. In 1976, Mr. Özşahin started his professional career at TEK as a System Operating Engineer, and in 1995 he was appointed as the TEAŞ Load Dispatching Department Chair. At the end of 2000 he was appointed as Counselor in the General Management of TEAŞ. From 1995 to 2000, he also served as Chair of the TEAŞ Environmental Department and Scientific Inspection and Efficiency Department. From 2002 to 2003, he served as Energy Specialist at the Energy Market Regulatory Authority, and in March 2003 he was appointed as General Manager and Board Chair in Türkiye Elektrik İletim A.Ş., retiring in 2009. Over the course of his career, he attended various domestic and overseas short-term education activities and received long-term educational training related to energy planning and coordination in Japan, and completed Energy Management studies in England. Mr. Özşahin still works as an independent consultant.

Board of Directors

Mehmet Bostan
Board Member - Independent

Born in 1971 in İstanbul, Mehmet Bostan graduated from İstanbul University, Faculty of Economics with a degree in international relations, and received his MBA from İstanbul Bilgi University. He began his career in 1995 and worked as a Corporate Banking Officer at Denizbank, Marketing Manager at BNP Ak Dresdner Bank, Manager at Türkiye Sınai Kalkınma Bankası, and last, Chief Representative of Turkey Operations at Dresdner Bank AG. Mehmet Bostan became Assistant General Manager of Finance at Güneş Sigorta in 2009. He then served as General Manager of Vakıf Emeklilik for six years. Between November 2016 and September 2017, he worked as the General Director of the Turkey Asset Management Fund while serving as Chairman of the Board. He was appointed as an Independent Member of the Turkcell Board of Directors by the CMB on 15 August 2013, and has carried out this duty until March 2018. He has been a Member of the Board of Directors of Petikim since June 2016 and a Member of the Board of Directors of Boğaziçi Ventures Technology Fund since October 2018.

* Mehmet Bostan complies with the requirements of Capital Markets Board's Corporate Governance Principles of independent board member. He does not have relationship of interest between Petkim Petrokimya Holding A.Ş. and its related parties.

Prof. Dr. Mehmet Ceylan
Board Member - Independent

Born in 1958 in Safranbolu, Mehmet Ceylan completed his secondary and high school education in Safranbolu and Karabük. He graduated with a degree in mechanical engineering from Konya State Engineering Architectural Academy (now Selçuk University) at the top of his class in 1979 and then his master's degree in the same field from İstanbul State Engineering and Architectural Academy (now Yıldız Technical University). He worked as an assistant and member of faculty at Zonguldak Karaelmas University from 1981 to 1985, and then graduated from the Middle East Technical University, School of Foreign Languages where he pursued his academic studies as a research associate. He transferred to State Planning Organization as an assistant specialist in 1986, where he was appointed as planning specialist in 1991. After successfully completing his second master's degree in economics at the Western Illinois University, USA, between 1989 and 1991, he returned to his position at the State Planning Organization. He embarked upon a political career with the local elections held on 18 April 1999. He served as Mayor of Safranbolu for one term. He was elected as a Member of the Parliament for the constituency of Karabük twice as a result of the general elections held on 3 November 2002 and 22 July 2007. As an MP, he served as a Member of the Planning and Budgeting Commission and the EU Harmonization Commission and as Vice President of the Turkey-EU Joint Parliamentary Commission during the 22nd term. During the 23rd term of the Parliament, he acted as Deputy President of the Foreign Affairs Commission and as a member of the NATO Parliamentary Assembly as a member of the parliament. For eight years, he presided the Turkey-Saudi Arabia Friendship Group, which he founded. After his duty as MP ended, he served as Deputy Minister of Development between 2011-2015 and as Deputy Minister of Environment and Urbanization between 2016-2018. He resigned from his duty as Deputy Minister as of 24 July 2018. He has been a Board Member at Petkim A.Ş. since 2016. Fluent in English, Mehmet Ceylan is married and has 3 children.

* Mehmet Ceylan complies with the requirements of Capital Markets Board's Corporate Governance Principles of independent board member. He does not have relationship of interest between Petkim Petrokimya Holding A.Ş. and its related parties.

Neslihan Tonbul
Board Member - Independent

Neslihan Tonbul completed her primary, secondary and high school education in USA and received her undergraduate degree at Rutgers University (New Jersey) in Economics and Political Sciences in 1981. Later she received her graduate degree at Tufts University Fletcher School of Law and Diplomacy in International Finance (M.A.L.D) in 1983. She worked at various international finance institutions in New York, London and Istanbul (The Irving Trust Company, The Bank of New York and BNY Mellon) in executive positions between1983 and 2008 and finally appointed as Regional Manager responsible for Middle East, Africa, Eastern Europe and Turkic Republics. She was selected as a member of Board of Directors in many leading companies and Holdings of turkey since 2008 and currently serves as a member of Board of Directors at TOFAŞ, Petkim, Alarko Holding and Vakıfbank AG. Recently she attended a program at Harvard Business School and specialized in Family Business Management at CFEG in Boston. She teaches classes on Family Business Management at Koç University Faculty of Economics and Administrative Sciences since 2017 as a faculty member. She is a member of American Research Institute in Turkey (ARIT), Young Presidents Organization (YPO) and Educational Volunteers Foundation of Turkey (TEGV) Board of Trustees and a founder member of Turkish- American Business Forum. She has been mentoring women entrepreneurs within EBRD since 2014. Ms. Tonbul has a good command of English, French and Azerbaijani and currently learning Italian and French. She has been a Board Member at Petkim A.Ş. since March 2018.

Osman Dinçbaş
Board Member - Independent

Osman Dinçbaş started his career as an audit assistant in Ernst Young Istanbul Office in 1984. He was transferred to Hartford Office in CT, USA then to New York Office of Ernst & Young and worked in the U.S.A for a total of three years. Upon returning to Turkey he was promoted to Audit Manager. In 1994, he was promoted to Audit Partner. In 1998, Dinçbaş was assigned as the Management Consulting Leader of the Turkish practice and he developed the MC business from zero to 60-consultant group specialized in ERP (Baan, SAP, Oracle), Business Process Reengineering and Risk Management services. In 2002, he was assigned as the Chief Operating Officer of Ernst Young Turkey, which had become a major Professional company with over 800 professionals in 4 cities in the Country. He also began to serve at the Executive Committee of Ernst Young Southeast Europe and performed as the People Leader for this Region. At the end of 2003, Dinçbaş was promoted to Managing Partner position of Turkish Practice and continued to perform in this role until the end of 2010. Then, for a year, he acted as the Markets Leader of the company, until he left Ernst & Young in January 2012, to start his own business. Dinçbaş served as a Board Member of Foreign Investment Association in Turkey (YASED), for 6 consequent years (3 terms). He was also the Chairman of the Turkish Chapter of U.S. based Junior Achievement for 8 years. Dinçbaş is also one of the founding members of the Turkish chapter of Endeavour. After leaving Ernst & Young, Dinçbaş was deeply involved in promoting and supporting new businesses, helping startups. He established "Early Stage Seeding Fund" investment vehicles in Turkey and Europe and supported several startups. Dinçbaş also started his boutique consulting services company, providing corporate governance and risk advisory services as well as strategic advisory services. In September, 2018, Dinçbaş has been assigned as the Deputy Minister at the Ministry of Treasury and Finance, in Ankara. He has been a Board Member at Petkim A.Ş. since December 2018.

*Osman Dinçbaş complies with the requirements of Capital Markets Board's Corporate Governance Principles of independent board member. He does not have relationship of interest between Petkim Petrokimya Holding A.Ş. and its related parties.

Declarations of Independence of Independent Board Members

I hereby stand for serving as an **"Independent Member"** on the Board of Directors of Petkim Petrokimya Holding A.Ş. (the Company) as per the criteria specified in the legislation, articles of association, and the Capital Markets Board of Turkey (CMB) Corporate Governance Principles set out in the Corporate Governance Communiqué (II-17.1) of the CMB enforced upon its publication in the Official Gazette issue 28871 dated 3 January 2014.

Within this context, I hereby declare for the information of the Company's Board of Directors, General Assembly, shareholders and all stakeholders as follows:

a) Neither I, nor my spouse, nor any relative of mine whether by blood or by marriage unto the second degree, have, within the most recent five years, entered into any employment relationship in an executive capacity involving major duties and responsibilities, or individually or jointly held more than 5% of the capital or voting rights or privileged shares, or established any commercial interest of a significant nature, with any corporate entity with which the Company, any company in which the Company has management control as per Turkish Financial Reporting Standards 10 or significant influence as per Turkish Accounting Standards 28, or any shareholder having management control or significant influence over the Company or any corporate entity in which these shareholders have management control,

b) I was neither a shareholder (5% and higher), nor have I worked in an executive capacity involving major duties and responsibilities for, and/or served as a member on the boards of directors of any company from/to which, under a contract, the Company purchased/sold services or products of material quantity during the period of time such services or products were being purchased or sold, and particularly of the firms performing the audit (including tax audit, legal audit and internal audit), rating and consultancy of the Company, in the past five years,

c) I possess the professional education, knowledge and experience for due performance of the duties I will assume in connection with being an independent board member,

d) I am considered to be a resident of Turkey for the purposes of the Income Tax Law (ITL) no. 193 dated 31 December 1960,

e) I possess strong ethical standards, professional credibility and experience that are necessary for making positive contributions to the Company's operations, maintaining my independence in possible conflicts of interest between the Company and its shareholders, and making decisions freely taking into consideration the rights of stakeholders,

f) I shall dedicate sufficient amount of time to be able to follow up the execution of the Company's affairs and to fully meet the requirements of the duties I undertake and to fulfill the representation duties on behalf of the company that I have been assigned by the Board of Directors,

g) I have not held a seat on the Company's Board of Directors for more than six years in the past ten years,

h) I am not serving as an independent board member in more than three companies controlled by the Company or by shareholders having management control over the Company, or in more than a total of five companies traded on the stock exchange.

i) I declare that I have not been registered and announced in the name of the legal entity elected as a member of the board of directors and will not be registered and announced.

15 February 2019
Name/Surname: Osman DİNÇBAŞ

I hereby stand for serving as an **"Independent Member"** on the Board of Directors of Petkim Petrokimya Holding A.Ş. (the Company) as per the criteria specified in the legislation, articles of association, and the Capital Markets Board of Turkey (CMB) Corporate Governance Principles set out in the Corporate Governance Communiqué (II-17.1) of the CMB enforced upon its publication in the Official Gazette issue 28871 dated 3 January 2014.

Within this context, I hereby declare for the information of the Company's Board of Directors, General Assembly, shareholders and all stakeholders as follows:

a) Neither I, nor my spouse, nor any relative of mine whether by blood or by marriage unto the second degree, have, within the most recent five years, entered into any employment relationship in an executive capacity involving major duties and responsibilities, or individually or jointly held more than 5% of the capital or voting rights or privileged shares, or established any commercial interest of a significant nature, with any corporate entity with which the Company, any company in which the Company has management control as per Turkish Financial Reporting Standards 10 or significant influence as per Turkish Accounting Standards 28, or any shareholder having management control or significant influence over the Company or any corporate entity in which these shareholders have management control,

b) I was neither a shareholder (5% and higher), nor have I worked in an executive capacity involving major duties and responsibilities for, and/or served as a member on the boards of directors of any company from/to which, under a contract, the Company purchased/sold services or products of material quantity during the period of time such services or products were being purchased or sold, and particularly of the firms performing the audit (including tax audit, legal audit and internal audit), rating and consultancy of the Company, in the past five years,

c) I possess the professional education, knowledge and experience for due performance of the duties I will assume in connection with being an independent board member,

d) I will not work in a public institution or organization on a full-time basis after being elected as a member, except for the position of lecturer in universities provided that such a position complies with the legislation they are bound to,

e) I am considered to be a resident of Turkey for the purposes of the Income Tax Law (ITL) no. 193 dated 31 December 1960,

f) I possess strong ethical standards, professional credibility and experience that are necessary for making positive contributions to the Company's operations, maintaining my independence in possible conflicts of interest between the Company and its shareholders, and making decisions freely taking into consideration the rights of stakeholders,

g) I shall dedicate sufficient amount of time to be able to follow up the execution of the Company's affairs and to fully meet the requirements of the duties I undertake and to fulfill the representation duties on behalf of the company that I have been assigned by the Board of Directors,

h) I have not held a seat on the Company's Board of Directors for more than six years in the past ten years,

i) I am not serving as an independent board member in more than three companies controlled by the Company or by shareholders having management control over the Company, or in more than a total of five companies traded on the stock exchange.

j) I declare that I have not been registered and announced in the name of the legal entity elected as a member of the board of directors and will not be registered and announced.

15 February 2019
Name/Surname: Mehmet BOSTAN

Declarations of Independence of Independent Board Members

I hereby stand for serving as an **"Independent Member"** on the Board of Directors of Petkim Petrokimya Holding A.Ş. (the Company) as per the criteria specified in the legislation, articles of association, and the Capital Markets Board of Turkey (CMB) Corporate Governance Principles set out in the Corporate Governance Communiqué (II-17.1) of the CMB enforced upon its publication in the Official Gazette issue 28871 dated 3 January 2014.

Within this context, I hereby declare for the information of the Company's Board of Directors, General Assembly, shareholders and all stakeholders as follows:

a) Neither I, nor my spouse, nor any relative of mine whether by blood or by marriage unto the second degree, have, within the most recent five years, entered into any employment relationship in an executive capacity involving major duties and responsibilities, or individually or jointly held more than 5% of the capital or voting rights or privileged shares, or established any commercial interest of a significant nature, with any corporate entity with which the Company, any company in which the Company has management control as per Turkish Financial Reporting Standards 10 or significant influence as per Turkish Accounting Standards 28, or any shareholder having management control or significant influence over the Company or any corporate entity in which these shareholders have management control,

b) I was neither a shareholder (5% and higher), nor have I worked in an executive capacity involving major duties and responsibilities for, and/or served as a member on the boards of directors of any company from/to which, under a contract, the Company purchased/sold services or products of material quantity during the period of time such services or products were being purchased or sold, and particularly of the firms performing the audit (including tax audit, legal audit and internal audit), rating and consultancy of the Company, in the past five years,

c) I possess the professional education, knowledge and experience for due performance of the duties I will assume in connection with being an independent board member,

d) I will not work in public institutions or organizations on a full-time basis after being elected as a member, except for the position of lecturer in universities provided that they comply with the legislation they are bound to,

e) I am considered to be a resident of Turkey for the purposes of the Income Tax Law (ITL) no. 193 dated 31 December 1960,

f) I possess strong ethical standards, professional credibility and experience that are necessary for making positive contributions to the Company's operations, maintaining my independence in possible conflicts of interest between the Company and its shareholders, and making decisions freely taking into consideration the rights of stakeholders,

g) I shall dedicate sufficient amount of time to be able to follow up the execution of the Company's affairs and to fully meet the requirements of the duties I undertake and to fulfill the representation duties on behalf of the company that I have been assigned by the Board of Directors,

h) I have not held a seat on the Company's Board of Directors for more than six years in the past ten years,

i) I am not serving as an independent board member in more than three companies controlled by the Company or by shareholders having management control over the Company, or in more than a total of five companies traded on the stock exchange.

j) I declare that I have not been registered and announced in the name of the legal entity elected as a member of the board of directors and will not be registered and announced.

12 February 2019
Name/Surname: Mehmet CEYLAN

Information on Outside Positions Held by the Members of the Board of Directors and Executives

Name - Surname	Title		Positions Outside the Company
SOCAR Turkey Petrokimya A.Ş. (Temsilcisi Vagif Aliyev)	Chairman	Non-executive	In-group/State Oil Company of Azerbaijan Republic, Head of Capital Management
David Mammadov	Vice Chairman	Non-executive	In-group/State Oil Company of Azerbaijan Republic, Vice President, Refinery
SOCAR Turkey Enerji A.Ş. (Temsilcisi Farrukh Gasimov)	Member	Non-executive	In-group/State Oil Company of Azerbaijan Republic, Vice President, Law
Süleyman Gasimov	Member	Non-executive	In-group/SOCAR Vice President, Economy
Neslihan Tonbul	Member	Non-executive	Out-group / University Lecturer and Board Member in various companies
Mehmet Ceylan	Member	Independent	-
Mehmet Bostan	Member	Independent	-
İlhami Özşahin	Member	Non-executive	Out-group/ Freelance Consultant
Osman Dinçbaş	Member	Independent	Out-group /Treasury and Finance Deputy Minister

Committees of Board of Directors

Audit Committee

Members	Title	Relationship with the Company	Dependent/ Independent	Duties in Other Committees
Mehmet Ceylan	Committee Chairman	Independent Member of Board of Directors (Non-Executive)	Independent	-
Mehmet Bostan	Committee Member	Independent Member of Board of Directors (Non-Executive)	Independent	Chairman of the Corporate Governance Committee

The Audit Committee acts with the consent of the Board and within the framework of the Board's working principles. The Audit Committee consists of two independent Board members.

The Audit Committee is responsible for ensuring the overall soundness of financial and operational activities; specifically, transparency of internal and independent auditing activities, efficiency of internal control system, analysis and election of independent auditing firm, compliance of financial statements of the Company to international accounting standards and prevailing legislation.

In 2018 the Audit Committee convened four times and submitted four reports to the Board of Directors.

Early Detection of Risk Committee

Members	Title	Relationship with the Company	Dependent/ Independent	Duties in Other Committees
Osman Dinçbaş	Committee Chairman	Independent Member of Board of Directors (Non-Executive)	Independent	None
Vagif Aliyev	Committee Member	Chairman of the Board of Directors	-	Corporate Governance Committee
Süleyman Gasimov	Committee Member	Member of Board of Directors (Non-Executive)	-	None

Made up of three members of the Board, the Chairman of the Risk Management Committee is an independent Board member. Operating principles of the Committee are defined by the Board of Directors resolution dated 29 June 2012, numbered 111-199. The existing Risk Management Committee's name has been changed as "Early Detection of Risk Committee" at the Company's Board of Directors meeting no: 103/184 held on 21 March 2012.

In 2018 the Early Detection of Risk Committee convened four times and submitted six reports to the Board of Directors.

Corporate Governance Committee

Members	Title	Relationship with the Company	Dependent/ Independent	Duties in Other Committees
Mehmet Bostan	Committee Chairman	Independent Member of Board of Directors (Non-Executive)	Independent	Audit Committee
Vagif Aliyev	Committee Member	Chairman of the Board of Directors	-	Early Detection of Risk Committee
Farrukh Gasimov	Committee Member	Member of Board of Directors (Non-Executive)	-	None
Neslihan Tonbul	Committee Member	Member of Board of Directors (Non-Executive)	-	None
Mustafa Çağatay	Committee Member	Manager of Investor Relations (Executive)	-	None

In accordance with the Article 11-2 of the Capital Markets Board Corporate Governance Communiqué (II-17.1), Investor Relations Manager Mr. Mustafa Çağatay was appointed as a member of the Corporate Governance Committee.

Made up of three members of the Board, the Chairman of the Corporate Governance Committee is an independent Board member.

Within the framework of the CMB's Communiqué Serial IV, No: 56 on Determination and Implementation of Corporate Governance Principles, article 4.5.1, it was decided that the duties of the Nomination Committee and Remuneration Committee will be carried out by the Corporate Governance Committee at the meeting of the Company's Board of Directors dated 21 March 2012 and numbered 103/184.

In 2018 the Corporate Governance Committee convened three times and submitted three reports to the Board of Directors.

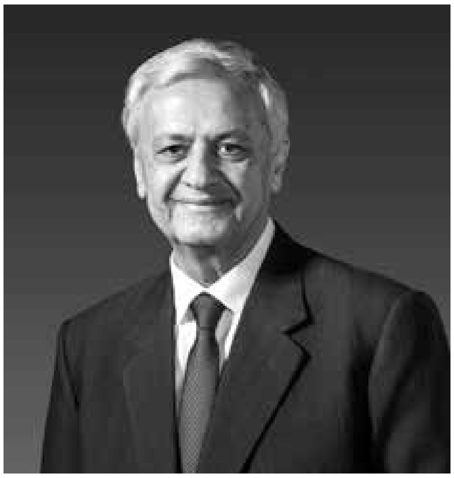
An Assessment of the Committees by the Board of Directors

It has been stated by the Board of Directors that the committees complied with their respective operating principles and held meetings at defined frequencies in the January-December 2018 period. The minutes on the outcomes of the meetings have been submitted to the Board of Directors. It has been established that the committees effectively fulfilled their functions.

Executive Management

Anar Mammadov
General Manager

Born in 1971 in Baku, Anar Mammadov graduated from Azerbaijan Medical Institute with a degree in medicine and received his degree in law from Baku State University. He received his Ph.D. in oil supply, logistics, and trading from the College of Petroleum Studies in England. He received his MBA from TRIUM Global Executive. Between 1995 and 1998, he managed Avista Company as a founder. Between 1998 and 2007, he worked at Milio International as Regional Director. He served as CEO of Arxiel Carbonexis (2007-2009), of SOCAR Georgia (2009-2014) and of SOCAR Greece (2014-2016). Anar Mammadov has more than 15 years of experience in the oil and energy industry. In September 2018, he was granted the Taraggi (Advancement) Medal given by the President of the Republic of Azerbaijan. Fluent in English, Russian and Turkish, Anar Mammadov is married and has 3 children.



Nihat Gürbüz
Assistant General Manager
Operations

Born in 1952 in the Evciler village of İvrindi, Balıkesir, Nihat Gürbüz graduated from the Ankara University Faculty of Chemical Engineering in 1975. Having worked as project, planning, and operations engineer at Sümerbank's chemicals and textile plants from 1975 to 1983, he transferred to Petkim Aliağa Petrochemicals Complex as a Production Engineer in 1983. He later served as Engineer, Chief Engineer, Assistant Manager, and Manager of Production at the VCM, PP, and Ethylene plants. Appointed as the Department Head responsible for production in the plants in 2004, Nihat Gürbüz worked as Production Group Manager responsible for production and maintenance between June 2008 and October 2011 and was appointed as Assistant General Manager of Operations in October 2011. Nihat Gürbüz, who has 43 years of professional experience, speaks English. He is married and has two children.

*As of 1 January 2019 he transferred from his position as the Assistant General Manager in Charge of Operations and appointed as CEO Technical Advisor.

Ali Semih Şansal
Assistant General Manager of Operations

Born in İzmir Karşıyaka in 1962, Ali Semih Şansal graduated from Ege University Department of Chemical Engineering in 1983. He started his career as production engineer at Özyurt Kimya Sanayi Company in 1984. In 1986, Mr. Şansal started working at Petkim Aromatics Plant as Production Engineer, and assumed various roles in the same plant such as Chief Engineer between 1995 and 2008, Head Engineer between 2008 and 2014. He was appointed as Manager in charge of Production at Aromatics and Glycol in 2015 and his assigned position was then expanded to include ACN Plant in August 2016. Mr. Şansal was appointed as the Assistant General Manager of Operations in January 2019. He has 32 years of professional experience and speaks English. Mr. Şansal is married and has one child.

Riza Bozoklar
Assistant General Manager
Financial Affairs

Born in 1969 in İzmir, Riza Bozoklar is a graduate of İzmir Saint Joseph College, İzmir Sciences High School and Boğaziçi University Industrial Engineering Department. He received his MBA from Bilgi University and completed Paris Essec University Delphi Management Program. He is currently preparing his dissertation for his Ph.D. degree in financial economics at Doğuş University. He has over 20 years of job experience in the industrial field; he has spent nearly 6 years working in Italy and France. After starting his career at the Italcementi Group, he worked as CFO within Fiat and Ata Holding groups, Delphi Automotive and finally of Çimko A.Ş., a joint venture of Sanko Holding and Barbetti. He has been serving as Assistant General Manager of Financial Affairs at Petkim since October 2013. Fluent in Italian, French and English, Riza Bozoklar is a CPA. He is married and has two children.

Kanan Mirzayev
Assistant General Manager
Strategy and Business Development

Born in 1987 in Azerbaijan, Kanan Mirzayev graduated from the Department of Finance at Azerbaijan State University of Economics and then received his master's degree in industrial enterprise management from the Aston University in the UK. He also holds an Executive Diploma in Management from the Chartered Management Institute in the UK and currently attending the Leadership Development program at Harvard Business School. He was an Operator and HSE Consultant at Azfen-Tekfen Consortium from August 2004 to August 2007, and HSE Engineer at SOCAR Rodan LLC from August 2008 to March 2009. He worked in the Finance Department at Interenergy LLC from May 2009 until November 2009, before working as a Quality Control Supervisor at Azeri Fugro JV from October 2009 until March 2010. He was an HSE Supervisor for the Baku Wind Energy Project at Gamesa between March 2010 and October 2011, Business Analyst in the Investment Department of SOCAR between October 2011 and June 2012, and Senior Business Analyst and Deputy CEO at SOCAR Energy Greece between June 2014 and October 2016. He has been appointed as Assistant General Manager of Strategy and Business Development at Petkim in October 2016. Fluent in English, Russian and Greek, Kanan Mirzayev is married and has two children.

Levent Kocagül
Assistant General Manager
Human Resources

Born in 1978 in Turgutlu, Manisa, Levent Kocagül graduated from Dokuz Eylül University with a degree in business administration in 2000. He worked as Human Resources Services Manager at Japan Tobacco International (JTI) from November 2001 to September 2007, and Human Resources Shared Services Manager at Coca-Cola İçecek (CCİ) from October 2007 to March 2016. He joined Petkim in May 2016 as Organizational Development Manager, where he became Assistant General Manager of Human Resources in November 2016, in which position he still serves. Additionally, he was appointed as the Chairman of the Board of Directors of Chemicals, Petroleum, Rubber and Plastics Industry Employers' Association of Turkey as of 5 September 2018 where he had been serving as Vice President of the Board of Representatives of Aegean Region since 2016. Fluent in English, Levent Kocagül is married and has two children.

Executive Management

Khalig Mustafayev
Assistant General Manager
Business Support

Born in 1971 in Baku, Azerbaijan, Khalig Mustafayev graduated from Baku State University, earning a degree in history in 1993 and in law in 2001; he acquired a degree in economics and management from Azerbaijan State Oil Academy in 2007. From 1993 until 2005, he worked in relation to protecting the public order in various units of the T.R. Ministry of the Interior. He then worked as Ata Holding Security and Surveillance Department Manager, SOCAR Security Department Internal Affairs Branch Manager (2006-2010), and as Assistant General Manager of Human Resources, Regime, and Information Technology at SOCAR Azerikimya (2010-2016). He has been appointed as Assistant General Manager of Business Support at Petkim in November 2016. Mr. Mustafayev was granted the 10th Year Medal for Ministry of State of Emergencies in 2015 and Taraggi (Advancement) Medal in 2017 given by the President of the Republic of Azerbaijan. Having more than 20 years of experience, Khalig Mustafayev speaks English and is fluent in Russian. He is married and has two children.

Agshin Salimov
Assistant General Manager
Sales and Marketing

Born in 1989 in Azerbaijan, Agshin Salimov graduated from the Department of Political Science and Public Administration at the Middle East Technical University. He received a degree of Executive Master in Energy Management at ESCP Europe Business School. He worked in international trade and energy companies in Azerbaijan, Switzerland and the UK, as an Operations Specialist, Commerce Officer, Senior Commerce Officer and Head of Commerce. He has been appointed as Assistant General Manager of Sales and Marketing at Petkim in November 2016. Agshin Salimov is fluent in English and Russian.

Murad Abdullayev
Assistant General Manager
Digitalization and Technology

Born in Baku in 1983, Mr. Murad Abdullayev graduated from the Department of Chemistry at the Baku State University and completed his Master's degree in the Chemistry Department of Sumgayit State University. He received MBA training at the INSEAD Business School in France In 2016. He worked as the Senior Science Research Officer at Alkan between 2003 and 2006, as an Auditor at Ernst & Young between 2006 and 2008, as Product Development Manager at Bakcell between 2008 and 2010, as a Senior Consultant at PwC between 2010 and 2012 and as a consultant at the Walgreens Boots Alliance between 2012 and 2015. Mr. Murad Abdullayev, who has been serving as the Strategy and Business Development Manager at Petkim since July 2017, was appointed as the Assistant General Manager of Technology and Digitalization in February 2018. Married with two children, Mr. Abdullayev is fluent in English, Russian and Turkish.

Dinçer Akbaba
Assistant General Manager of Projects and Maintenance

Born in Adana in 1976 Mr. Akbaba received his undergraduate degree at Yıldız Technical University Department of Mechanical Engineering in 1999 and Executive MBA at Sabancı University in 2017. He started his career at DAF Tırsan in 2001 as after sales service engineer and later served as production team leader in Ford Automotive Gölcük Plant between 2002 and 2006, as chief of maintenance in Akçansa Cement Çanakkale Plant between 2006 and 2010, as chief of maintenance and Bandırma Plant Manager at Enerjisa Energy Production between 2010 and 2018. Mr. Akbaba was appointed as Assistant General Manager of Projects and Maintenance at Petkim in March 2018. He is married. He is fluent in English and has an intermediate knowledge of German.

Tolga Demirözü
Assistant General Manager of Supply Chain

Born in Istanbul in1976, Mr. Demirözü completed his high school education at İstanbul Kadıköy Anadolu Lisesi. He received his undergraduate degree at Yıldız Technical University Department of Chemical Engineering in 1998 and graduate degree at the same university in Chemical Engineering in 2000. He started his career at Topkim Pharmaceuticals in 1999 as a production engineer. Between 2001 and 2007 he worked at Nestle and took part in supply chain projects and operations in Asia-Africa- Oceania regions. He worked as a strategy and operations consultant at Deloitte between 2007 and 2008. He served at various posts at BASF between 2008 and 2018, as Supply Chain Senior Consultant, Supply Chain & Information Systems Manager and Operations Director. During this period, he worked on developing and integrating supply chain strategies and operations; and establishing and managing end-to-end supply chain structures in emerging markets (Russia & CIS, Eastern Europe, Middle East and Africa). Mr. Demirözü serves as Assistant General Manager of Supply Chain at Petkim since 5 November 2018. He is married and has two children. He is fluent in English.

55 Production
56 Supply Chain
60 Sales and Marketing
62 R&D Center Activities
64 Digitalization and Technology

Average Number of Employees by Categories During the Reporting Period

2,493 (Excluding the members of the Board of Directors)

Information on Activities by the Company's Board Members Falling Under Non-Competition

The Company's Board members have not engaged in any activity falling under the prohibition of competition.

Financial Rights Provided to Board Members and Senior Executives

The remunerations provided to the members of the Board of Directors and the executives with administrative responsibility are explained on an aggregate basis - not on a personal basis - in the annual report, in footnote No:29 of our financial statements.

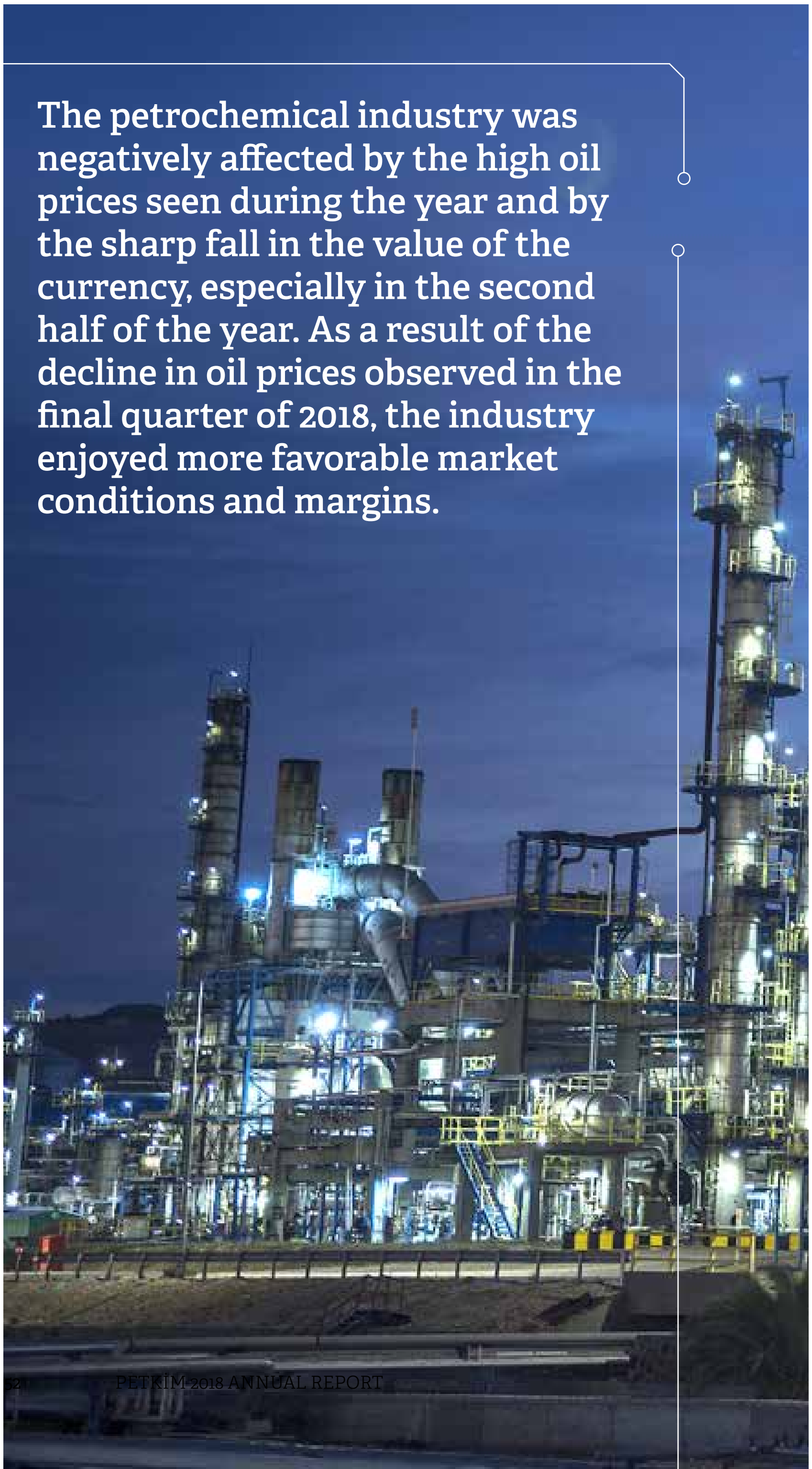
In 2018

TL 9.3 billion
Petkim's turnover in 2018

USD 755 million
Petkim's international sales in 2018

TL 872 million
Petkim's net profit in 2018

Main Developments in the Market in 2018



The petrochemical industry was negatively affected by the high oil prices seen during the year and by the sharp fall in the value of the currency, especially in the second half of the year. As a result of the decline in oil prices observed in the final quarter of 2018, the industry enjoyed more favorable market conditions and margins.

2018 was a year of heightened volatility and risks in the market due to the political developments and trade wars seen worldwide which came to the forefront with mounting protectionist measures, in addition to the developments occurring specifically in Turkey.

The impact of the steps taken by central banks in developed countries as part of their process of normalization was felt in 2018. Forecasts by Fed members that there would be three interest rate hikes in 2019 were later revised to two in the economic projections issued by the Fed in December, which had carried out four interest rate hikes during 2018. After the Fed's meeting in January 2019, the expectations converged on a probability that there would be no interest rate hikes at all. As of the year-end of 2018, the European Central Bank (ECB) ended its asset purchase program and lowered its economic growth and inflation forecasts. After these developments, a perception that the ECB would increase interest rates in the second half of 2019 started to form in the markets.

Capital flows to developing countries were more limited than in the previous year, and their financial indicators deteriorated. In our country, although the rating cuts made for Turkey by international rating agencies led to a spike in borrowing costs, there was no significant change in borrowing ability.

While the Turkish Lira lost more than 80% of its value against the US dollar in August compared to the end of the previous year, it ended 2018 with a loss of around 40% in value.

While the loss of momentum in domestic economic activity became more pronounced in the second half of the year, economic growth continued to slow in the third quarter of the year, with growth in the first nine months of 2018 standing at 4.5%. In parallel with the pressure created by domestic demand conditions, the contribution of consumption and investment expenditures decreased significantly, while net exports offered considerable support to growth on the back of the exchange rate movements.

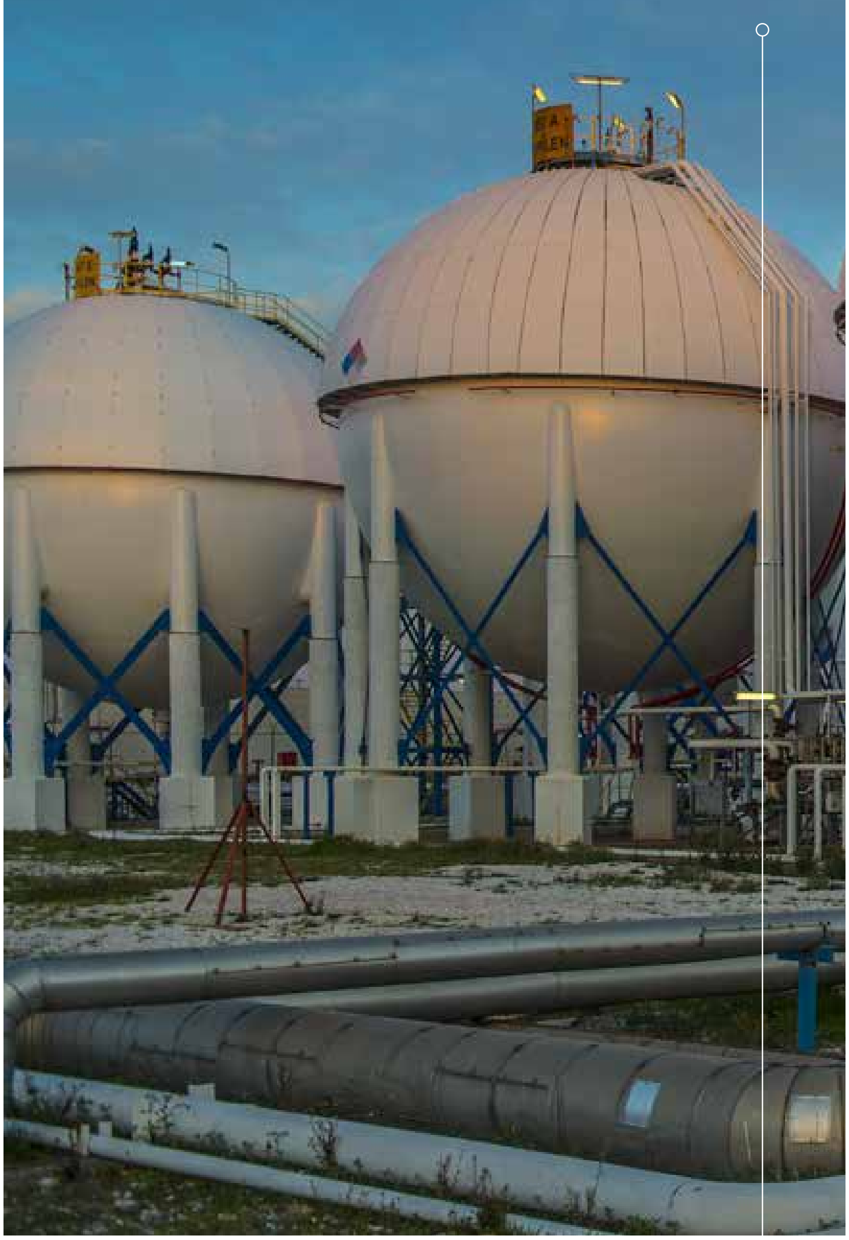
The fall in value of the Turkish lira in particular along with increased input costs put upward pressure on producer inflation. Due to the fall in oil prices and a recovery in the value of the currency, the PPI (producer price index) inflation ended the year at 33.64% with CPI (consumer price index) inflation coming in at 20.30%.

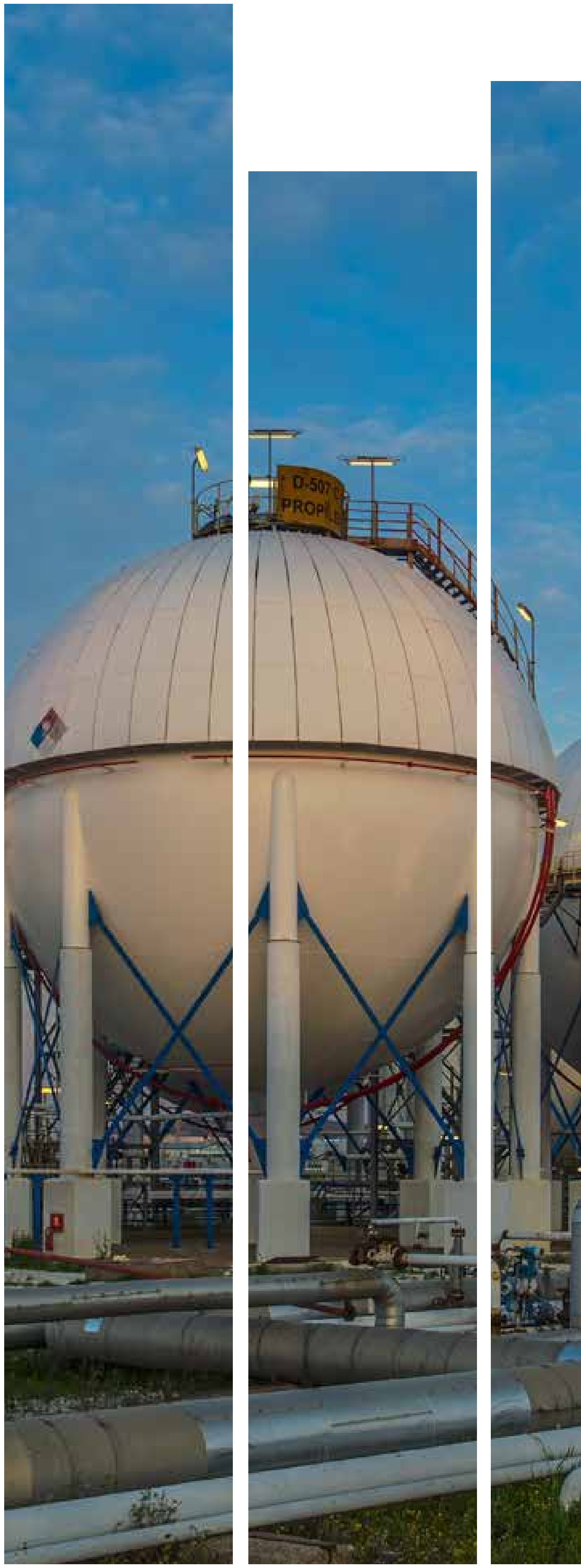
Expectations that there would be slowdown in the global economy, along with an increase in oil supplies, had a downward impact on oil prices in the last quarter of the year. The price of Brent crude oil, which started the year at USD 60/bbl and reached USD 87/bbl during the year, dropped significantly in the fourth quarter before declining to USD 50/bbl in December, despite the decision taken by OPEC and non-OPEC producers (OPEC +) to cut production.

The petrochemical industry was negatively affected by the high oil prices during the year and the weakness of the local currency, the value of which fell particularly sharply in the second half of the year. However, a result of the decline in oil prices observed in the last quarter of the year, the industry benefited from more favorable market conditions and margins. The cut in special consumption tax, implemented in the last quarter of 2018 and still in place, provided some limited support for demand for durable consumption goods, among sectors linked to the petrochemical industry, and thus production levels followed a horizontal course. On the other hand, production in the automotive sector decreased by 8.6%. Growth was estimated to have been around 5% in the plastics industry during 2018, which had recorded 10.2% volume growth in 2017.

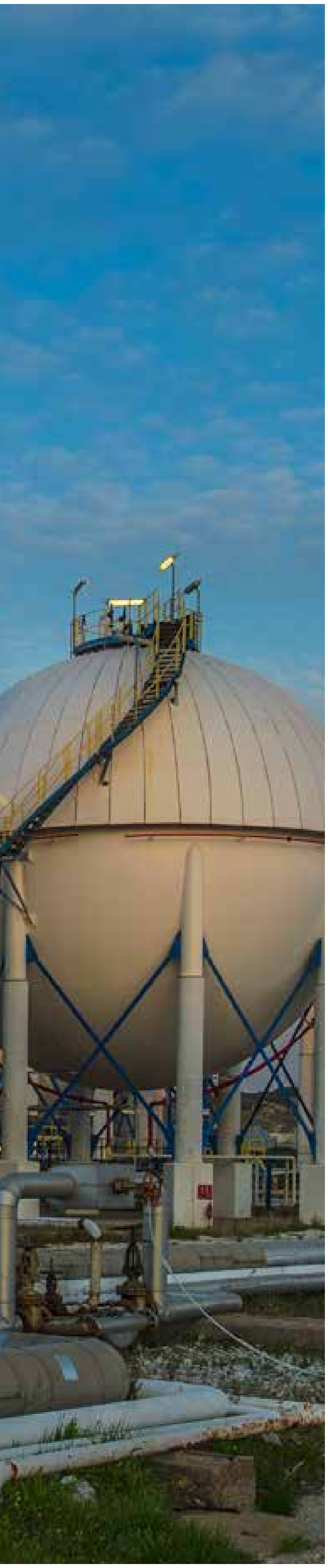
Petkim in 2018

The year 2018 was an important year for Petkim, in which a major maintenance stop (turnaround) was carried out.





Production



The year 2018 was an important year for Petkim, in which a major maintenance stop (turnaround) was carried out.

Sustained with the main principle of protecting the natural environment and using resources efficiently in production processes, operations were carried out in line with the program targets throughout the year.

Technical inspections and protective/preventive maintenance are carried out on a continuous basis in our facilities, but there is also a need for a general maintenance execution throughout the whole complex including factories, auxiliary enterprises and common facilities in the same period at intervals of approximately four years due to the integrated structure. Complex general maintenance was performed in the last quarter of 2018, with turnaround discipline, which is important for the stable operation of the facilities under optimal conditions for the sake of sustainable production.

The major maintenance stops at Petkim, started on 1 October, were initially scheduled to last for 63 days, but were completed in just 53 days, and the facilities were brought back into operation at the beginning of December.

While a total of 39 sub-industry firms were working in the field in general maintenance, the number of sub-industry workers reached 1,800 during the 12-day peak period, when operations of the auxiliary enterprises and the whole plant were stopped.

In this period, a different execution was launched for the major maintenance stop and a special maintenance team and Directorate was set up for the first time in Petkim, which were directly affiliated to the General Manager. This helped the Company work under a more systematic and more distinctive framework in addition to achieving cost advantages.

In 2018, Petkim's gross production amounted to 2,772,353 tons.

We continued improvement and efficiency activities.

Ongoing improvement and efficiency activities in factories continued without interruption in 2018. The first phase of the renewal of the 34.5 kV Electricity Distribution System was completed, while work continued in the second phase. To increase the security of the electrical system, the connection of the GT-5 Gas Turbine was transferred from 154 kV to 34.5 kV and a new 100 MVA transformer was planned to be commissioned in February 2019. The studies were initiated for the establishment of a new power plant with much higher efficiency and lower production costs than the existing power plant.

In the chlorine chain, significant improvements were achieved in the VCM factory furnaces and columns, resulting in improved process stability with energy savings. The Chlorine Alkali plant, which passed from a mercury system to a membrane cell system back in 2000, will switch to a bipolar system at the beginning of 2019, paving the way for an improvement in processes and energy savings.

In the LDPE-T plant a new type of pure base polymer (H7-2OT) was produced and provided to the market which is used for film extrusion, injection molding and blow molding film manufacturing.

Auxiliary Operating Units; Water production (Water Pre-treatment, Demineralized Water, Cooling Water), Waste Treatment and Disposal (Wastewater Treatment, Waste Incineration), Joint Pipe and Port Loading-Unloading activities have ensured the continuity of production in the Complex by meeting the requirements of the factories. In addition to the water requirements of the neighboring organizations, the external requirements for hazardous waste disposal were met in Petkim's waste incineration unit under the existing license.

Support continued to be extended to the activities of other SOCAR establishments that are being established in the Petkim Peninsula.

Energy efficiency projects defined for 2018 were carried out within the framework of the action plan. Over the last 10 years, unit energy consumption per product has decreased by 13%.

2,772,353 tons.

In 2018, Petkim's gross production amounted to 2,772,353 tons.

Supply Chain

In accordance with Petkim's supply chain and logistics policies, the Supply Chain Planning Department and Logistics Management units were merged under the same roof as the Supply Chain Planning and Logistics Management in December 2018, to provide more agile, leaner and more sustainable operations. This is planned to achieve efficiency and operational excellence targets more effectively and rapidly in end-to-end processes.

Efficiency and effectiveness increased by digitalization studies and improvements initiated in supply chain processes.

Within the scope of Supply Chain Planning and Logistics services;

- In 2018, a total of 778,428.72 tons of solid products were shipped from Petkim stores and 12 different shipment exit points, corresponding to a monthly average of 64,870 tons of solid product shipments.
- In 2018, 685,456 tons of solid products were packed in the scope of logistics packaging activities.
- In 2018, the total amount of CIP delivery shipments to local and international destinations amounted to 425,906 tons, while succeeding in 19,000 expedition organizations.
- A total of 79,633.96 tons of liquid product shipments were realized in 2018 from the Aliağa tank storages through the domestic highway. The CIP delivery rate increased by 50% compared to the previous year, with CIP delivery of 18,219.86 tons of liquid products.
- Programs to enhance ability and talent were initiated in 96 different titles within the scope of business development and digitalization studies to become the best technique warehouse in Turkey,
- As a result of the planning activities carried out in 2018, spare parts inventory cycle days were reduced from 993 days to 799 days.
- With the Plastic Pallet execution, which was initiated back in 2014, for the first time more plastic pallets were gathered than shipped in 2018 in a culmination of efforts which serve as an example for the zero waste efforts being undertaken by the Ministry of Environment and Urbanization.
- With the start of statistical methods usage in the material planning process, MRP infrastructure was formed and systematic planning activities were started.
- Necessary studies were initiated to monitor the incoming materials to the Company with RFID technology.
- Within the scope of the safe storage of chemicals, TGRS 510 and special requirements warehouse project were prepared within the framework of legal conditions.
- Work has been initiated to provide product traceability on digital platforms for all packaging, storage and loading processes.
- A second PTA BB filler machine and second PTA container filler weigher were established to meet the increasing demand for PTA more rapidly.
- In FFS products, the "1.375 kg/plt -> 1500 kg/plt transition project" which will increase its storage capacity by 9%, was brought to the final stage.
- Two pallet spinning machines were procured and installed to reduce vehicle waiting times for export shipments with wooden pallets.
- The barcode reading scales automation system was commissioned. This ensured that plates were matched with the plate reading system through accurate weighing processes, and to archive the records of vehicle images at the weighing time. An unmanned weighing system was commissioned with a scales automation system and Industry 4.0 compliant digital loadcell technology.
- For the Liquid Product orders delivered to customer addresses, shipments with fixed vehicles/isotanks got underway in 2018.

Within the scope of purchasing operations;

- In 2018, a total of 5,560 units were ordered with a total value of TL 2.37 billion in accordance with the Purchasing Regulation and procedures (excluding international raw materials, for example), 91% of which were provided by domestic suppliers.
- The procurement period was reduced as a result of improvements in the purchasing processes and procedures in a value-added manner. All incoming requests were linked to orders with an average of 16 days, and 85% of orders were placed on time.
- Turquality Certification and other audits of ISO certificates were successfully carried out.
- The company acted in cooperation with SOCAR Group companies, and costs were reduced by making joint tenders in areas which could create synergy.
- Purchasing activities were completed successfully for the material and service procurement requested in the planned maintenance stop during the year, without interrupting the stop process.
- The “File Tracking System” and “Contract Tracking System” were successfully implemented in order to follow up the purchase files more closely within the scope of digitalization.
- Within the context of localization, 314 materials were manufactured domestically for the first time, providing a benefit of TL 4,679,757. Significant benefits were achieved particularly by shortening the procurement period and the material procurement guarantee.

Petkim holds the “Status of Authorized Economic Operator (AEO)” document, which is the most prestigious status in terms of customs and foreign trade.

Within the scope of customs services;

The total savings achieved in the operational expenses of the work and transactions realized within the scope of 2018 activities amounted to TL 910,213.91.

- Although there was no direct operational expense of the Directorate, the savings provided by supporting the Company’s operational expenses amounted to TL 1,115,714.75.
- In 2018, the total number of import declarations for import transactions was 1,160, and the total number of export declarations for export transactions was 2,202.
- A total of six projects were developed as a result of the digitization studies, and a total of 2,222 man hours of savings were achieved on an annual basis.

Status of Authorized Economic Operator (AEO)

Petkim holds the “Status of Authorized Economic Operator (AEO)” document, which is the most prestigious status in terms of customs and foreign trade. The “Authorized economic operator” is an international status which provides a number of advantages and concessions in customs procedures to reliable companies that are able to fulfil their customs obligations successfully, have a system of record and order, operate with financial competence, safety and security standards and which are able to perform their own auto control. In addition to the operational benefits it provides, it also brings a competitive advantage in the market, given its international status.

As an importer and exporter, Petkim was the first company to receive this document from the Aegean Region Directorate;

- In contrast with the general practice, the Company was granted the status as a result of the studies led by the Directorate of Customs Services with the support of many internal units without receiving any external consultancy services.
- In view of requests from reputable companies located throughout the country, the Customs Services Directorate conducted workshops to convey the experience gained during the acquisition and maintenance of status.
- The Company started to place the Authorized Economic Operator (AEO) logo on its export invoices and mail signatures in order to raise awareness in its commercial activities, for both suppliers and customers.
- The Company pioneered the formation of a working group together with other firms having Authorized Economic Operator status in the Aegean Region within the Aegean Region Chamber of Industry to improve the AEO, cooperate in the addition of new regulations and to render requests made to the public more effective.

Within the scope of Port and Terminal services;

- A total of 592 ships arriving at the Petkim ports were provided with piloting, tugs, waste and refuse collection services, with the ports also managing the loading and unloading operations of 2,307,539 tons of liquid chemical cargo. A total of USD 6,198,542 in gross revenues was generated from these activities.
- The “Green Port” certificate held by the Petkim Port was renewed following a successful result from the inspection.

Supply Chain

Within the scope of quality assurance activities;

- In 2018, a total of 436,150 analytical studies were performed on 187,120 samples within the scope of Input, Process, Product, Packaging, Technical Support and R&D activities in the laboratories operating in accordance with the TS EN ISO/ IEC 17025 Laboratory Accreditation Standard.
- Four Lean Six Sigma projects related to process improvement and efficiency were carried out.
- Modern devices which meet world standards are used in the laboratory services, with the most advanced technological developments followed continuously. In this context, USD 205,999 was spent on the purchase of a total of 13 devices purchased in 2018. As of 2018, a total of 411 devices had been installed in the Quality Assurance Laboratories, with USD 15 million invested in the installed devices.
- In response to increasing demand from customers, a certification application was made to the Turkish Standards Institution for the NaOH (Caustic) product in July 2018. As a result of the inspections subsequently carried, the product was certified on 12 December 2018 in accordance with TS EN 896 Chemicals (used in drinking and potable water treatment), Sodium Hydroxide and TS 1865 Sodium Hydroxide (used in caustic soda industry) standards. Caustic became Petkim's first product to be certified by the Turkish Standards Institution.
- In accordance with the Communiqué on the Monitoring and Reporting of Greenhouse Gas Emissions published within the scope of Environmental Legislation, the analysis of Natural Gas and Fuel Gas inputs used as fuel in power plants were accredited by TURKAK in 39 parameters to cover the entire communiqué.
- Polymer/ plastic analysis was accredited by 16 parameters, taking into account the accredited testing demands from the packaging and polymer industries.
- Within the scope of Environmental Legislation, the Regulation on the Control of Water Pollution was accredited by 34 parameters.
- Within the scope of TS EN ISO/ IEC 17025 Laboratory Accreditation Standard, the Company participated in the international qualification test programs, which are indicators of the reliability and sustainability of the analyses conducted by the laboratories, with 136 parameters in 7 different matrixes (wastewater, polymer, gasoline, diesel, naphtha, mineral oil, natural gas).

Petkim Port providing handling and warehouse services

The Petkim Port was established in 1978 to carry out the unloading of factory montage materials brought by sea from other countries for the construction of the Aliağa Complex, the unloading of imported raw material inputs once the Complex became operational and the loading of export goods for sale. The Port started operation in 1985 to serve third parties in 2004. Dry cargo handling and warehouse services provided to third parties was suspended in 2013 due to the container port project. As of the end of 2018, the Port was continuing to serve Petkim over a 47,401 m^2 area.

The activities of the port include the unloading of liquid chemical raw materials required for the production in Petkim facilities from vessels and the transfer of these materials to the facilities through pipelines, the transfer of liquid chemical products manufactured in Petkim's facilities from the storage areas of the facilities to the pier through pipelines, and the loading of these materials to vessels.

The loading/unloading of general cargo and bulk cargo ships and oil product, chemicals and liquefied gas tankers can be carried out in the Port.

Petkim Port operates in accordance with national and international legislations and regulations.

The Port has three liquid cargo berths and piers and one dry cargo berth. The Port has a capacity for a ship of up to 25,000 DWT at Berth 2; 10,000 DWT vessels at Berth-3/1 and 3/2 and a 40,000 DWT vessel at Pier-5. The construction of one liquid cargo berth in the inner side of the new breakwater is planned. The loading/unloading of 25 different products can be carried out in the Port.

Docking and tug services provided to vessels through Pilotage and Tugs

The Pilotage and Tug Organization was established in 1979. The Organization provides docking and tug services to vessels on a 24/7 basis with 6 tugs, 3 mooring boats and 1 pilotage vessel.

The docking and tug services provided to vessels are carried out in accordance with the port's directives. Safety is a priority in the Petkim Pilotage and Tug Organization services. Therefore, the Company attaches great importance to the equipment used in its operations and quality, as well as their planned maintenance and modernization.

778,428.73 tons of solid product shipments from Petkim warehouses and 12 different shipping points

2,307,539 tons of liquid chemical loading and discharge operations from the Petkim Port

Aims of the “GreenPort” Project

- To form an integrated quality management system approach in the ports
- The protect and improve the quality of sea water around ports
- To reduce the environmental pollution resulting from vessel or port operations
- To maximize energy savings and maximize energy efficiency in port operations
- To decrease the volume of waste stemming from port operations by ensuring waste recycling
- To take necessary precautions for occupational health and safety in the port operations and ensure the sustainability of occupational health and safety

Sales and Marketing

Breaking an all-time record with sales to 78 countries

Crude oil prices in global markets followed a gradual upward trend until the last quarter of 2018, creating a negative conjuncture for naphtha-based producers. Global trade disputes, which erupted between the US and China before spreading to other countries, slowed global trade and economic growth. These developments squeezed profit margins in the petrochemicals industry. On the other hand, the domestic market was negatively affected by the attack on the currency in August. Petkim suspended production for approximately two months due to the planned major maintenance stop conducted every four years. Despite these negative developments, the Company demonstrated a high performance in its sales and marketing activities.

In 2018, Petkim's sales from production amounted to 1,535,000 tons, while commercial product sales amounted to 264,000 tons, corresponding to a total sales volume of 1.8 million tons. Despite the planned major maintenance stop, total sales increased to TL 9,315 million in 2018, marking an increase of 26.5% over the TL 7,364 million in 2017.

Sales were made to 78 different countries, breaking an all-time record and a result of the strategy of penetrating new markets. Petkim generated USD 755 million in revenues from international sales, and its success in exports was crowned with two awards from the Aegean Exporters Association; the "Exporter of the Year" award and the "Exporter in the Chemicals Industry" award in the region. In addition to penetrating new markets, the strategy of focusing on major petrochemicals markets also played a part in this export success. In this context, customer representation was established in India and Spain and 43 new customers were acquired in India and 22 in Spain.

Due to the planned maintenance stop (turnaround) period, which is performed once every four years, production was interrupted for about two months, while all customer orders were met thanks to optimal stock and commercial product purchase planning in the meantime. Petkim supported the government's "Total Fight against Inflation" campaign by discounting prices on some products and lowering interest rates on late charges.

In an effort to be closer to customers, the number of external warehouses was increased, especially in demand-intensive destinations. This brought advantages in terms of freight and a

The Company participated in the Turquality Support Program to deploy Petkim's brand power more effectively as Turkey's sole integrated domestic producer.

TL 9,315 million

Despite the planned major maintenance stop, total sales increased to TL 9,315 million in 2018, marking an increase of 26.5% over the TL 7,364 million in 2017.

very short supply time. Additionally, the Company was more focused on CIP sales delivered to customers' factories to provide better service to customers. To this end, the share of CIP sales delivered to customers' factories in total sales increased from 40% in 2017 to 47% in 2018.

The Company participated in the Turquality Support Program to deploy Petkim's brand power more effectively as Turkey's sole integrated domestic producer. It therefore aimed to increase the Company's success in exports to a higher level.

Continuing to offer new product types in line with the demands of customers and the market

The Customer Satisfaction Survey, which used to be conducted annually, started to be performed twice a year starting from 2018. As a result of the survey, the rate of at which customer expectations were met increased by 0.43% compared to 2017 to be realized at 89.86% in the first half of 2018. In addition, efforts were focused on improving issues which customers focus on and where satisfaction levels were relatively low.

The Company continued to meet customers by participating in local and international sector fairs and various events. Within this context, the Company attended to the second edition of PlastPak 2018, the largest fair in the Aegean Region, which was held with the collaboration of TUYAP, ASD and EGEPLASTER between 10-14 April 2018.

The Company focused its efforts in accordance with the feedback received from customers and the market, as well as new product demands. In this context, the PETILEN YY I457 and PETILEN YY I860 product types, which started to be produced in the HDPE plant, were completely retained in the market. As a new type, PETILEN H7-20T was introduced to the market at the LDPE-T plant. Efforts continue to retain this product in the market.

Continued activities on KKDİK Law

The Company contributed to efforts to informing sectoral non-governmental organizations and customers through training on the Registration, Evaluation, Authorization and Restriction of Chemicals (KKDİK) Law, known as Turkey's REACH, in addition to international regulations such as REACH and CLP.

R&D Center Activities

The Petkim R&D Center maintains its status as an R&D Center in accordance with the Commission Decision taken by the Ministry of Industry and Technology, having successfully completed its 3rd year of operation. In 2018, the Petkim R&D Center continued its activities with 22 full-time researchers consisting of Chemical Engineers, Chemists and Biologists, two of which hold a PhD and seven have a Master's degree.

In 2018, 29 projects were carried out, including two projects under the TÜBİTAK-TEYDEB status.

In 2018, 29 projects were carried out, including two projects under the TÜBİTAK-TEYDEB status. Additionally, a project application was submitted for one new TÜBİTAK-TEYDEB project. In 2018, an H2020 project (CARMOF) with the theme of "CO_2 capture" started to be undertaken, in which Petkim is also partnering, and another project (CO_2 Fokus) with the theme of "CO_2 capture/utilization" was also deemed worthy of European Commission funding. Six new H2020 project applications were made throughout the year.

A 63% portion of the total budget of the projects, which were carried out in the areas of new product development, creation of new application areas for products, improvement of product properties, energy and raw material efficiency in production processes and biological waste treatment in wastewater and drinking water, was funded through Petkim's own resources, while 37% of the amount was funded by TÜBİTAK and the Ministry of Science, Industry and Technology.

Strong collaborations, value-added projects

In 2018, in line with the objective of increasing the level of digitalization, Petkim attended the ILP (Industrial Liaison Program) hosted by the Massachusetts Institute of Technology (MIT), one of the best technical institutions in the world in

In 2018, 29 projects were carried out, including two projects under the TUBİTAK-TEYDEB status.

6 Laboratories

- Rheology
- Catalyzer
- Polymer Characterization
- Environment and Biotechnology
- Chemical Analysis
- Chromatography

the fields of R&D and chemistry. With this membership, which allows the transfer of information mutually for two years starting from August, Petkim has taken its place among the 250 global companies involved in the ILP program.

Within the context of improving collaborations between universities and industry, process development project cooperation protocols were signed with ITU, METU and Boğaziçi University to develop high performance polymers and create added value for the products. Within the context of the protocol, scholarship opportunities were provided to Master's and PhD students who will work in the research activities of the projects.

In 2018, one European and four Turkish patent applications were filed. The number of registered patents has reached seven with the inclusion of one registered European patent.

The Petkim R&D Center

The Petkim R&D Center, which has the benefit of 47 years of R&D background, was certified by the Ministry of Science, Industry and Technology on 13 January 2015 and attained the status of R&D center. The Petkim R&D Center, which is installed on an area of 1,200 m² in the Petkim campus, includes six laboratories, a 400 m² pilot facility and offices. The Petkim R&D Center continues its work in the petrochemical, materials, metallurgy and chemistry, plastic and packaging sectors with suppliers, customers and universities, and acts with a special focus on the vision of strengthening collaboration between academia and industry.

The Petkim R&D Center has Rheology, Catalyzer, Polymer Characterization, Environment and Biotechnology, Chemical Analysis and Chromatography laboratories. The R&D Center Pilot Plant is host to extensive equipment infrastructure with state-of-the-art technology that enables polymer processing, polymerization and chemical process operations to be carried out.

The Petkim R&D Center continues to carry out product development and improvement efforts aimed at improving efficiency in the use of energy and raw materials and activities aimed at cost reduction and protecting the environment with its strong team, advanced infrastructure and laboratories. Focusing on the development of high value-added technological products, Petkim also carries out patent acquisition and commercialization processes based on the results of its studies.

Digitalization and Technology

Petkim has taken significant steps in the digital conversion process that continued with the goal of becoming the most digital company in Turkey and Azerbaijan. The use of digital technologies in all functions, especially in production, is spreading, and projects aimed at improving production and energy efficiency, enhancing processes and increasing occupational safety are activated by keeping real-time data with big data, artificial intelligence and machine learning algorithms. In addition to these, in this process, where business conduct methods are converted to a digital form with data-based approaches, all employees adopting the digital thinking reflex gain importance as a cultural change equivalent to supporting the infrastructure with appropriate investments.

A wave of projects carried out with successful results in 2018, as digitalization efforts gain pace

In 2018, where the digitalization roadmap and strategy were determined in line with Petkim's vision, Petkim focused on the expansion of the digital culture throughout the whole company and many digitalization projects were put into operation.

A total of seven advanced analytical projects were completed in 2018, in which Petkim would gain a high financial benefit. Patent application processes were initiated for these projects.

Industry 4.0 and IoT based projects and, in particular, advanced analytical applications are realized with the help of Robotics, Automation and Digital technologies to carry Petkim forward and to transform it into a more efficient and profitable company.

With the Ethylene Furnace Optimization Model (EFOM), one of the most important projects carried out in 2018, the Ethylene plant, which is the main facility, was optimized to maximize Petkim's profitability. Within the scope of the project, 54 billion different scenarios are created by using artificial intelligence software with information such as material values, raw material properties, factory and furnace conditions etc. taken from the database every 15 minutes. Among these scenarios, the kiln operation parameters are determined and applied to the optimum efficiency by using the temperature, pressure and raw material calculation algorithm for each furnace.

Models that estimate both the equipment and process parameters as well as the market conditions, models that estimate the quality of the products without going to the laboratory and artificial intelligence applications that predict the prices of the products in the coming periods are being developed. One example of this is that within the scope of the LDPE-T instant Product Quality Estimation Project, the quality of the produced product can be estimated by examining data from the LDPE-T facility over the past few years with the developed artificial intelligence application. If the product quality falls short of the desired level, the facility is notified and the production settings are changed, preventing product losses.

Within the scope of the Process Simulation of the Factories Project, the "Digital Twins" of the factories are developed, which fully reflect the

Digitalization

Petkim stepped up the use of virtual reality technologies in fields such as OHSE, production, maintenance and quality control with the aim of remote support, training and inspection on a rolling 24/7 basis.

Digital Twins

Within the scope of the Process Simulation of the Factories Project, the "Digital Twins" of the factories are developed, which fully reflect the physical features and reactions of the factories.

physical features and reactions of the factories, and different production and investment scenarios are applied with simulations through "Digital Twins", without the need for testing in real life.

In order to maximize energy efficiency and increase production, advanced digital process control systems and real-time optimization applications are being brought into use, while work is also ongoing to rollout the APC and RTO applications to other facilities, having already been completed at the EO-EG Facility.

With the "Digital Factory" and "Digital Employee" objective, Petkim has started to integrate and extend the advanced technologies to business processes and stepped up the use of virtual reality technologies in fields such as OHSE, production, maintenance and quality control with the aim of remote support, training and inspection on a rolling 24/7 basis.

Digitalization work has been carried out on packaging lines with the intelligent control mechanism based on Industry 4.0 and supported by advanced analytics. This application is aimed at increasing customer satisfaction and improving the efficiency of equipment by performing live fault detection.

Petkim Digitalization Institute

Petkim aims not only to achieve digitalization of the processes, but also improve the competencies of its employees in this direction. While awareness of digitalization is increased within the whole organization, work is carried out to ensure that all business processes are approached with a digital mind-set.

Digitalization and Technology

In this regard, the Petkim Digitalization Institute was established and put into operation within the context of digital transformation process, in order to extend 'digitalization' awareness within the organization, to move to the data-based processes in business conducting methods and improve the digital and analytic competencies of employees.

The Institute operates in line with two main objectives:

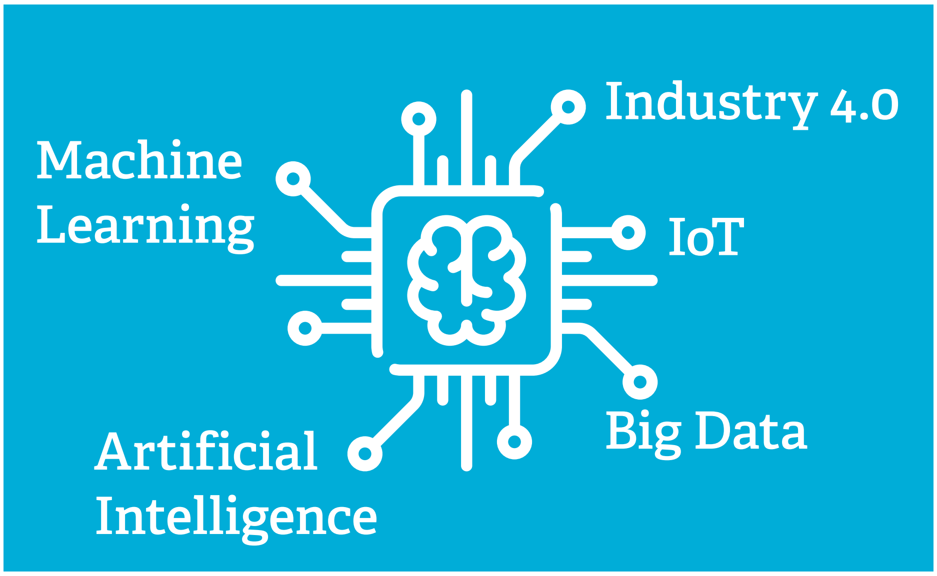
- To create digital awareness among all employees and ensure that employees adapt quickly to digitalization
- To raise and train employees who are experts in the field of digitalization and to produce digital projects such as machine learning and artificial intelligence.

Within the scope of 2019 training plan, digital and analytical awareness, robotics, process automation, advanced analytical modelling, machine learning and artificial intelligence training will be provided to employees.

Digitalization ecosystem

Another axis of the digitalization study is to implement a strong ecosystem through collaboration with national and international universities, techno-cities and start-ups.

Petkim's digitalization ecosystem grows day by day thanks to collaborations with Turkey's largest entrepreneurial networks, techno-cities, leading technology companies, start-ups and collaborations with universities, including the Massachusetts Institute of Technology (MIT).



Petkim's digitalization ecosystem grows day by day thanks to collaborations with Turkey's largest entrepreneurial networks, techno-cities, leading technology companies, start-ups and collaborations with universities, including the Massachusetts Institute of Technology (MIT).

Petkim's membership of the Industrial Liaison Program (ILP) carried out by the Massachusetts Institute of Technology's (MIT), one of the most outstanding technical institutions in the world in the fields of technology, R&D and chemistry, also bears importance in terms of projects in the fields of digital transformation and innovation, which constitute one of the Company's main strategies. Petkim has gained a strong solution partner with this collaboration. In this program, which was created with the objective of connecting and strengthening knowledge and technology on a mutual basis with companies around the world, Petkim will focus on specific research areas of strategic importance. While the first phase of the MIT-ILP membership is planned for two years, this period may be extended by mutual agreement in view of the needs of the projects to be carried out.

A wide array of digitalization projects are being developed together with start-ups in techno-cities. Thus, while contributing to the start-up ecosystem, this also plays a role in raising human resources of the future.

In addition to collaborations with universities such as METU, ITU and Bilkent, studies are carried out on sponsorship and scholarship support.

Information Security at global standards

Efforts to increase the Cyber Security maturity level have gained pace with a holistic approach within the framework of process, organization and technology both on business platforms and industrial platforms. The process of compliance with domestic and international quality standards for information security has been completed.

Digitalization and Technology

The short, medium and long term security requirements of the Company's information systems were determined by difference analysis, weakness analysis and safety scans through the Petkim Cyber Security Roadmap study.

Within the context of security of information systems, firewall - network topology improvement work, Sand Box malware blocking system deployment, the establishment of security information and event management (SIEM) system, the establishment of a white listing application, the application of disk encryption on all computers, data classification software installation, security audit and tightening work was carried out.

Eighteen firewalls were supplied and the changes were completed within the context of technology renewal of the firewalls used within the operational technology infrastructure.

Asset and risk tables were updated, existing policies and procedures were updated, new policies and procedures were published for the ISO 27001 Information Security Management System Management Review examination.

The Cyber security systems needed to provide end-to-end cyber security were established and the foundations of the Security Operations Center were laid. The Center will monitor cyber-attack attempts directed towards Petkim on a 24/7 basis.

Efforts to increase the Cyber Security maturity level have gained pace with a holistic approach within the framework of process, organization and technology both on business platforms and industrial platforms.

The Data Centre

The Data Centre, built to the highest standards, was put into service and provided uninterrupted service.

The Company aims to create a culture of information security with various information security awareness activities. A total of 1,081 personnel completed the Information Security Training through the Petkim Learning Management System (LMS). For the sake of orientation for new beginners, "Information Security Awareness Training" was prepared within the scope of digital academy for the upper management and implemented through in-class sessions.

Next year, medium-term projects determined in the Cyber Security Roadmap are planned to be completed with 7 different cyber security investment projects.

Data Center brought into service within the scope of Information Technologies.

In emergency and business continuity plans, studies aimed at minimizing interruptions and data losses were completed with infrastructure improvements at the data center within the context of IT based operations. The Data Center, built to the highest standards, was put into service and provided uninterrupted service.

Corporate Resource Planning (SAP) systems, in which all processes are carried out, and where modules and support systems are integrated, are hosted in the 24/7 Data Center. As such, most of the Company's IT needs are met through internal resources.

Server and Network infrastructures were upgraded to a capacity needed to meet the vision of digitalization. The internet infrastructure was fully backed up from three separate routes, providing uninterrupted service. IP Telephony and Digital Fax infrastructure was established.

All computers used at the factory site were exchanged.

Projects such as CRM, Production-Maintenance Integration and e-export were commissioned.

Training was received in the field of information security, and studies were initiated particularly in the area of information security in field networks.

The Process Architecture and Value Chain

In line with the operational excellence strategy and with the objective of utilizing resources more efficiently, the Petkim's process architecture was created in 2018 by comparing the processes in the sector and other sectors, and the Petkim Value Chain Project was activated. Within the scope of this project, interviews were carried out with 162 employees from 71 business units, existing processes were analyzed on an end-to-end basis and more than 300 processes were documented taking into account areas requiring improvement. Over the course of the project, more than 150 rapid acquisition and improvement opportunities were achieved, and a 3-year Petkim roadmap was constituted covering 50 project suggestions. As part of the Value Chain study, all of the Company's investment processes were reviewed and revised, and the whole process was digitalized.

Investments

Continuing its investments with the strategy encapsulated in the words 'tomorrow's projects are produced today', Petkim shapes its future with its investments, follows innovation, supports change and provides integration with SOCAR group companies.

In accordance with its investment strategy, in 2018 Petkim invested in projects that would ensure the continuity of the factories, increase their efficiency and directly affect profitability while carrying out integration projects with the STAR Refinery as well as OHSE, process safety and technology development projects.

In 2018, all investment processes were reviewed, revised and digitalized, with total investment spending amounting to TL 781 million.

Investments in 2018

Asset Performance Management Project

The Asset Performance Management System is a system supported by software installation, which monitors the performance of all of Petkim's assets, flagging up bottlenecks in equipment efficiency ratios and enabling more efficient evaluation of investments that will ensure the continuity of the facilities. With this project, developed by leading companies in their fields, the Petkim Asset Performance Management System will be carried out at the same standards as leading global companies, increasing the reliability of the facilities.

LDPE Plant

The mixing building foam sprinkler system installation and renovation of air conditioning fans (K445/A/B) will be completed in 2019. This investment will increase the level of occupational health and safety at the facility.

Plastic Processing Plant

Engineering studies have been completed by supplying equipment for the new masterbatch line in order to increase the diversity of additive masterbatch. The tender process for the installation and assembly has already been completed, while commissioning will be completed in 2019.

Efficient

The Asset Performance Management Project will pave the way for more efficient evaluation of investments, ensuring the continuity of the facilities.

Aromatics Plant

Within the scope of integrating the Aromatics Plant into the STAR Refinery, investments including the necessary line modifications that will provide opportunities for raw material quality standardization and for reducing storage costs have been completed by taking into consideration the potential synergies between petrochemicals facilities and the Refinery.

Ethylene Plant

The investment of the Sprinkler System was completed and put into service. Fire risks have been minimized and occupational safety standards have been improved.

The EO/EG (Ethylene Oxide/Ethylene Glycol) Plant

A contract was signed in 2018 regarding the APC (Advanced Process Control), and necessary studies were initiated. The APC system will be brought into service in 2019, and under the control of the system, this process will contribute to the continuity of production and bring energy savings.

A contract was signed in 2018 regarding the supply of the new chiller unit. The equipment will be put into service in 2019 after the completion of the installation work. This investment will help to improve energy efficiency.

The Chlorine Alkali Plant

The project to switch from monopolar technology to bipolar technology in electrolysis is aimed at saving energy, increasing process security and achieving savings in maintenance costs and durations. The engineering and equipment-materials for the project were procured in 2017, and installation work was completed in 2018. The commissioning work for the project will be carried out in the first quarter of 2019 and the investment will be completed.

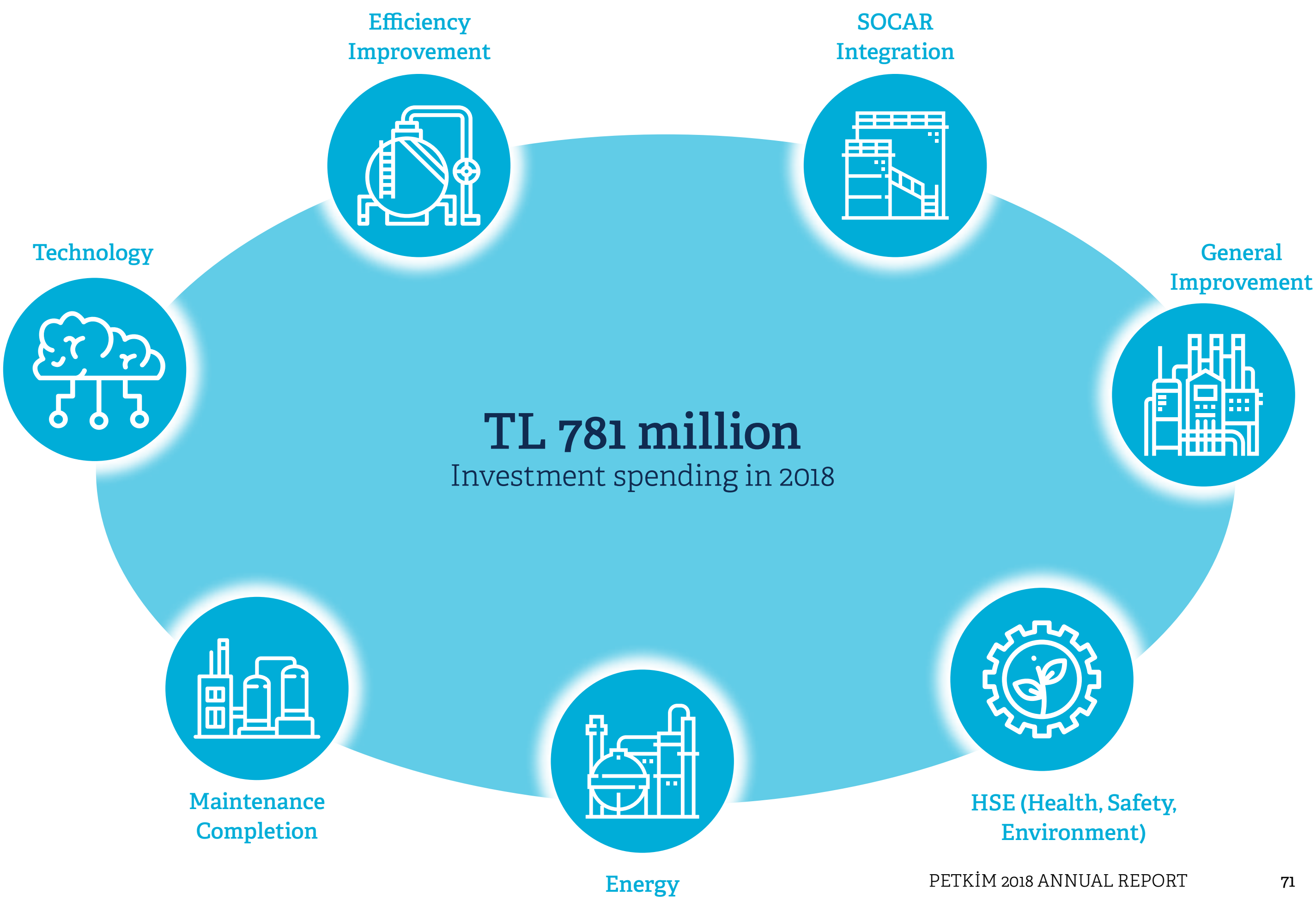
Pilot test studies in 2018 produced positive results for the transition to a more modern filtration system in order to prevent stoppages and production losses from the existing brine filtration system. The investment will be commissioned in 2019.

ACN Plant

In order to increase the energy efficiency of the plant and eliminate bottlenecks, two new heat exchangers were added to the system, the capacity of one heat exchanger was increased and planning and equipment procurement work was carried out for the two new heat exchangers to be added to the system.

New Waste Disposal Unit Investment

Necessary work was initiated regarding the New Waste Disposal Unit investment in accordance with the work to increase the capacities of existing plants and meeting the needs for other future investments. The new unit will comply with the latest standards and ensure that waste is purified in accordance with the technologies.



Sustainability

Petkim's Sustainability Vision

The petrochemicals sector is one of the main drivers of sustainable development. Industrially developed countries are, at the same time, the world's leading petrochemical producers. Petkim's products are used as raw materials in the most important sectors of Turkish manufacturing industry. This production and value-added chain is one of the key elements of sustainable development.

Aware of its responsibilities as a corporate citizen, Petkim has been operating without compromising the ethics of its stakeholders, transparently and honestly while it has increased the value it adds to the economy. In addition, the Company sets itself apart with a corporate identity whose concept of sustainability has adopted dedication and determination in all aspects in order to minimize the environmental impact of its activities. This is in accordance with the Company's vision of the future and to contribute to the environment, while always acting with sensitivity towards the occupational safety and health of workers and to provide the maximum contribution to society through social responsibility projects.

5th year in the BIST Sustainability Index

Having been included in the Borsa İstanbul's Sustainability Index in 2014, Petkim maintained its position following the review conducted in 2018, continuing its success.

Human Resources at Petkim

Continuously increasing and reinforcing its immense know-how with its competent human resources, Petkim offers unique intellectual capital. Petkim has been building an agile organization with human resources that are dynamic, open to development and focused on common targets.

Aware of its responsibilities as a corporate citizen, Petkim has been operating without compromising the ethics of its stakeholders, transparently and honestly while it has increased the value it adds to the economy.

5th year

Having included to the Borsa Istanbul Sustainability Index in 2014, Petkim continued its success and maintained its place in the Index as a result of a review held in 2018.

Human Resources Policy

Petkim's human resources policy aims to create a corporate culture that is fair, transparent and which recognizes employees' right to voice their opinions, offers employees the opportunity to reveal their potential, where every employee contributes to the future of Petkim by creating value and where every employee is valued. It aims to create a corporate culture that reflects the unique Petkim spirit with a high performance, which is focused on development, demonstrating strong and effective leadership in every arena, and with a workforce that is highly loyal, happy, productive, successful and healthy.

In order to attract, develop and maintain the most valuable talent towards this goal, Petkim adopts fair, transparent and integrated practices that are in accordance with trends in global human resources under three main headings, and develops them. Thus, the company aims achieve giant strides forward to become the most preferred employer and the best work place.

At Petkim, the human resources department acts with a management approach that works with all units in the spirit of a strategic business partner, constantly analyzing company and employee needs, creating value and adapting quickly to changing conditions.

I. Talent Acquisition Process

Based on the vision, mission and values of Petkim, all recruitment means are effectively used for placing the most suitable and competent candidates in existing positions. As a first source of recruitment, there is a section on Petkim's company website where vacant positions are announced and job applications can be made.

The Company also benefits from alternative recruitment resources such as kariyer.net and LinkedIn.

Competence-based interviews, potential analysis, technical interviews, talent tests as well as foreign language exams for some positions are also applied in the recruitment process.

Employees prepare for their new positions in collaboration with İşkur and university with the "Petrochemical Production Employee Training" course program that is organized before the taking up positions for blue collar workers at Petkim.

Petkim aims to contribute to the personal and professional development of the interns through its "Internship Development Program" that is developed for vocational high school and university interns. At the same time, internship announcements are published on Petkim's company website, and applications are received. The Intern employment process is also seen as a social responsibility approach for Petkim. In the recruitment processes for employees and interns, competency-based interviews, potential analysis, technical interviews, talent exams, case studies are implied in addition to foreign language exams if deemed necessary.

II. Talent Management Process

In the performance management system applied at Petkim, the goals are broken down from the top to bottom within the framework of a certain model so that everyone can work for the same objectives by determining the corporate and functional success indicators at the beginning of each year.

Sustainability

In order to focus not only on what is done, but also on "how" it is done in the implementation of goals and following up the behavior that feeds the Company culture, a framework of competence consisting of basic, functional and managerial competencies has been constructed and included in the performance management system.

A performance management system is implemented in which sustainable and successful performance is rewarded, where performance that is open to development is improved through the development program, and performance results are integrated with other human resources systems.

Additionally, the potential evaluation and backup activities, in which the potential of employees within their current roles are evaluated and the value they add is enhanced and supported through opportunities for development, were carried to the digital platform in accordance with our digital transformation vision.

III. Retention Process

One of the most important building blocks in the retention process is that employee loyalty is sustainable, something that is increased by Petkim's strong and long-lasting corporate culture which has shared by all its employees since Petkim's foundation. Trends in remuneration and benefit packages in the world, the country and the sector are followed closely, and a remuneration policy in accordance with these trends is applied. A system of reward, which rewards employee behavior that creates added value and appreciates their professional endeavors, is applied.

Working hours are adopted with the aim of protecting the work - life balance of employees, and efficient work is supported. For open positions, the evaluation process for internal candidates is actively carried out. An inter-departmental rotation program is also implemented with the aim of promoting the development of employees.

For new recruitment and job changes, a job adjustment and orientation program is implemented, which is structured within the framework of the job adjustment program.

There is no discrimination in the company and no complaints have ever been received from the employees concerning discrimination.

IV. Representative to Conduct Relations with Employees

There are Chief Representative and Representatives in the workplace, within the scope of Article 27, entitled "Assignment and Duties of the Trade Union Representative" of Law No: 6356, "Trade Unions and Collective Bargaining Agreement Law".

Workplace trade union representatives and the chief representative are responsible for listening to the wishes of the workers and resolving their complaints (limited to workplace issues), ensuring cooperation, a peaceful work environment and harmony between the worker and the employer, while looking out for the rights and interests of the workers, assisting in the implementation of the working conditions set out in the labor laws and the collective labor agreements.

Trade union representatives are authorized to express their opinions on issues related to occupational health and safety, to submit offers, to implement new technologies, to consider the effects of selected work equipment, the working environment and conditions concerning the health and safety of employees. Additionally, trade union representatives have the right to table suggestions to the employer and to ask the employer to take the necessary measures in order to eliminate the source of danger or reduce the risk arising from the danger. In accordance with the Regulation on Occupational Health and Safety Committees based on this Law, the chief representative and foreman representative also participate in the occupational health and safety committees, whose duty is to assess the hazards and precautions related to occupational health and safety and to inform the employer.

Developments in the number of employees

Working to a principle of investing in qualified human resources, Petkim is adding new employees in its organization in line with its needs and growth targets. In 2018, the average number of personnel working at Petkim stood at 2,493 in total, including 600 white-collar employees and 1,893 blue-collar employees. As of the year-end, the total number of employees stood at 2,559.

Increasing value being created through the "Petkim Is Mine" program

The value creation and cultural transformation program, known as "Petkim Benim", or "Petkim is Mine" launched in 2017 with the main objective of achieving better with a high performance culture, continued in 2018 with strong participation, speed and success.

Within the scope of this program, Petkim realizes projects that create added value through its agile organizational structure and takes firm steps towards achieving a high-performance culture.

"Petkim Is Mine"

More than 250 proposals were revealed and evaluated by the Program Management Office, of which 74 were presented, creating total value of USD 43 million.

In 2018, more than 370 employees had the opportunity to present their ideas under the heading of organizational culture and value creation. More than 250 proposals were revealed and evaluated by the Program Management Office, of which 74 were presented, creating total value of USD 43 million.

Within the scope of the Lean Six Sigma project studies initiated in 2018, 14 project leaders and project team members received 14-day green belt trainings. The Lean Six Sigma projects with high returns were implemented.

Fikrimce (Employee Suggestion System)

Evaluating the ideas of its employees sensitively and systematically, Petkim commissioned the employee suggestion system that is "Fikrimce (In my opinion)" in 2013. It aims to improve its business processes by effectively evaluating the know-how of its employees through this platform.

The Employee Suggestion System also attracted a high level of participation in 2018, with a total of 1,168 suggestions submitted into the system. Within the scope of the sustainability of the Employee Suggestion System, 39 idea assessment committee meetings were held to evaluate the ideas. A total of 506 people participated in the committee, including 162 different people from 37 separate departments. A net profit of TL 3.6 million was achieved for Petkim as a result of suggestions implemented in 2018.

The Petkim Award Is Mıne (Petkim Ödül Benim)

A rewarding platform, namely "The Petkim Award Is Mine" was set up, covering all members of the Petkim family, offering a platform which is educational, entertaining and full of opportunities. The Petkim Award Is Mine was established in order to ensure that all employees were involved in business processes, to win rewards through collecting points with fun-packed activities, and to raise awareness of the activities carried out within the organization. All employees are able to purchase gifts from the gift catalogue by learning and collecting points, which they earn by answering questions renewed every month through the "The Petkim Award Is Mine" Know-Win and Watch-Win applications. The application has so far attracted 29,809 visits and 2,931 reward orders made to the application which was established in July 2018. With the APPRECIATION module to be added in 2019, the platform will continue to be used and integrated with SOCAR.

Sustainability

The Petkim Academy and Training Activities

Petkim Academy;

- Serving the company's current and future strategies
- Development tools that address different learning styles and individual needs
- Guidance in Career Development

Petkim Academy adopts an approach to development shaped on the basis of implementing the programs in which the development activities and the competencies complement each other in the long term.

Training programs, which are provided under the categories of orientation, professional development, system training, personal development, leadership and mandatory trainings such as HSE, Information Security, Code of Conduct and Ethics, are carried out through the business partnerships provided with internal trainers and external companies.

Petkim Academy provided employees with 104,837 hours of training.

Petkim employees, who are in the process of a cultural transformation, were provided personal development training to facilitate their adaptation to the process and to develop their various competencies. In addition, English Speaking Clubs continued to be provided by a professional company at Petkim during working hours.

Petkim Academy organizes periodical seminars that will contribute to the development of its employees as well as their families. These seminars, which are held in 8 different topics and with 1,413 participants, are aimed at increasing the awareness of employees and sharing information about current trends as well as providing opportunities so their families could benefit from these developments.

Next Generation Program, which has been initiated by the Petkim Academy for the children of Petkim employees, is designed to support employees' children between the ages of 17 and 23. The program consists of a 6-day development adventure which aims to help children get one step ahead when they start their working life, and covers a wide array of topics such as leadership, communication, presentation skills, conflict management and cooperation.

Leadership Programs at Petkim

"Chemistry of Leadership" program was designed to support cultural change at Petkim. This program is aimed at raising leaders who will carry Petkim towards its vision for the future. 200 Petkim employees, who are in managerial or higher positions and who keep the values and principles of Petkim alive, are taking a part in the program.

The content, which differs according to the needs of supervisors and managers, includes practices going far beyond a classroom education, and takes participants on a 10-month development journey. 360-degree assessments are carried out and based on the assessment feedback, while the "Development Center" application covers some of these applications including Feedback, Development Planning, Learning by Living, Coaching, Class Training, Follow-up and Graduation.

The "Just Us (Biz Bize)" meetings are organized at Petkim with a motto of "everyone is the leader of their own life and has their own story to tell". The "Just Us" platform is where inspiring ideas and experiences can be shared freely, in line with Petkim's 12 Principles and Leadership Manifesto.

It aims to support a creative and participatory environment and inspire the participants. So far four different participants have shared their personal stories on this platform.

Occupational Health, Safety and Environment

SOCAR Turkey has a culture that adopts the best OHS-E (Occupational Health & Safety-Environment) practices of the industry, which forms the basis for the provision of occupational health & safety and environmental excellence. SOCAR Turkey aims to ensure that its work is always safe, reliable and efficient wherever it operates. Within this scope, the SAFE Management System consisting of 4 bases, 16 principles and 100 expectations was established by the SOCAR OHS-E Directorate. Petkim continues its activities under the SAFE Management System.

Occupational Health and Safety

Petkim ensures that all operations carried out by the Company are evaluated in terms of compliance with the legislation on occupational health and safety. The Company also ensures the constitution of occupational health and safety enforcement system, its registration, and association of these operations with integrated management systems and other processes.

Internal audits are planned and carried out within OHSAS 18001. An external audit is carried out each and every year by an external auditor. In addition, necessary actions are planned through updating occupational safety risks in the processes by third-party inspections.

At the end of each year, a fire drill plan for the next year is prepared by OHS-E. At least 13 scenarios (environment-fire, sabotage-fire, gas leak-fire, rescue-fire, evacuation) fire drills are carried out annually. Related factory managers and senior management representatives take part in the drills, and continuous improvement is provided.

The activities carried in 2018 regarding legal compliance, adaptation of the activities to the occupational health and safety systematics and recording and working in an integrated manner with other management systems are listed below:

- To improve the efficiency of OHS-C training, 4-hour practical OHS and fire training sessions were planned and included in the 16-hour compulsory education within the scope of the Training Plan. Accordingly, all employees were given training on subjects such as appropriate use of PPE, hot work, closed vessels, fire risks and interventions in the Training Implementation Zone which was set up within this scope. In addition, within the scope of Petkim Academy, employees at the Occupational Health, Safety and Environment Directorate were given training on tackling industrial fires, industrial First Aid, industrial rescue and working at height with support from international companies.

SAFE Management System

SAFE Management System was constituted by SOCAR OHS-E Directorate, consisting of 4 fundamentals, 16 principles and 100 expectations.

Sustainability

17%

After the work conducted within the framework of Occupational Health and Safety, the Accident Frequency Rate was reduced by 17% compared to 2017.

- After the work conducted within the framework of Occupational Health and Safety, the Accident Frequency Rate was reduced by 17% compared to 2017.
- In 2018, a total of 39,035 hot and closed vessel work permits were issued by the OHS -E personnel and no work accidents were recorded within the scope of these permits.

  A total of 324 periodic inspections were carried out by blue-collar personnel in 2018 in areas such as facilities, workshops, switch rooms, warehouses and laboratories on a monthly basis. 54 periodic audits were carried out by white-collar personnel within the six-month periods. The findings identified as a result of the audits were followed up under the SAP-HSE (Health-Safety & Environment) module.
- Within the framework of the Petkim Periodic Control Plan, which was prepared under Law No. 6331 on Occupational Health and Safety and the OHSAS 18001-Occupational Health and Safety standard, the follow-up and coordination of periodic controls was carried out. Review meetings were convened twice during the year under the presidency of the General Directorate of Businesses.
- The professional qualification certificates, which came into effect in 2018 within the scope of Law No: 6331 on Occupational Health and Safety, were requested from sub-industry employees and check-in documents were monitored on a daily basis, while Petkim employees were given vocational qualification training at the Petkim Academy to obtain the necessary documents.
- The HSE training achieved a 100% participation rate, with the training reorganized in accordance with the Regulation on the Procedures and Principles of Occupational Health and Safety Training of Employees, within the scope of Law No: 6331 on Occupational Health and Safety.
- The Risk Assessment Procedure was updated within the scope of the legislation and update work started in the entire field.
- Within the scope of the planned New Chemical Warehouse Project, the risks were determined, requirements were set out and full support provided during the work.
- Compact type escape masks were purchased for the use of personnel in the field in case any critical gas leakage occurred in the field, and training were was provided concerning its usage. In addition, the supply of masks by the sub-industry was provided.
- Awards were given for developing safe working culture within the scope of SOCAR SAFE.
- Within the scope of “0 Gas Project”, studies were initiated for the purchase of tailor-made gas detectors for work undertaken in the critical areas.
- The process of adapting occupational health and safety procedures to Petkim’s processes was initiated, which are prepared by SOCAR Turkey. Within this scope, working authorization, hazard analysis and risk management processes started to be implemented in the pilot regions.

- OHS-E boards in all factories were updated with the aim of extending the Occupational Health and Safety culture and operational discipline. In coordination with the Corporate Communications Department, short films about work accidents were prepared and published on Corporate TVs and in service vehicles.
- Traffic signs in the entire Petkim area which had been modified or damaged within the scope of STAR Refinery STAD piping lines and turnaround work were renewed. Additional signs were also put in place to increase awareness.
- By initiating the OHS-E observation card process, it was ensured that reporting would identify unsafe cases and near-miss incidents with the participation of all employees. The participation will be increased in 2019.
- Regarding the establishment of the Process Safety Directorate and management of the system, which is continuously mentioned in the reports prepared within the scope of Risk Survey conducted by insurance companies, a Process Safety Expert Engineer was employed and started to work in the scope of Process Safety.
- In the various work undertaken at the STAR Refinery, Petlim and Wind Farm projects, occupational health safety processes were carried out in a coordinated manner and technical safety service and fire services were provided in the common areas.
- The Safepass application was initiated for providing training regarding factory-specific risks for both sub-industry employees and visitors. Within this context, training was provided by the factory authorities regarding the risks of the field and specific short training videos about the factories were shared, prepared in cooperation with the Corporate Communication Department.
- In line with Petkim's policy on sustainability, the following activities were carried out to increase employees' degree of awareness on occupational health and safety:
  - Site visits were organized.
  - HSE (Health Security Environment) training programs were provided.
  - Contest organizations were held.
  - Health Security Environment Boards were set up.
  - Technique security videos were broadcast on the corporate TV channel.
  - HSE Bulletins were issued.

The HSE training achieved a 100% participation rate, with the training reorganized in accordance with the Regulation on the Procedures and Principles of Occupational Health and Safety Training of Employees, within the scope of Law on Occupational Health and Safety.

Sustainability

- Heat-resistant work clothes were provided to all employees to prevent work accidents in the chemicals sector.
- Vehicles found to be a potential danger during dangerous goods entry and exit checks were not permitted to enter through the PETKİM B Gate. The checks were conducted within the scope of the European Convention on the International Carriage of Dangerous Goods by Road in compliance with both ADR and OHS. No criminal proceedings were filed against the Company as a result of inspections carried out by the traffic police gendarmes and municipal police officers at roadside inspection stations. No accidents occurred during the filling and discharging operations.

- Work permits, inspection, control, firefighting services were provided within the scope of 1,000,000 man hours for the pipelines (pipe rack), channel and waste treatment disposal facility being constructed on the Petkim site within the scope of the STAR Refinery construction installation work. There was no significant incidence of work related accidents during this process.
- Work was carried out with the aim of sharing information and experience in order to ensure that OHS-E practices are always safe and efficient under the SAFE Management System. Within this scope, the OHS-E Bulletin started to be issued to provide useful information related to OHS-E and past work-related accidents.
- Events were organized with the participation of the General Manager in order to raise awareness within Petkim, within the scope of the OHS Week held on 15-16 May. Various gifts were given to participants as a souvenir of the day. During the events, earthquake seminars were organized in cooperation with the Prime Ministry Disaster and Emergency Situation Directorate.
- Within the scope of social responsibility efforts, 300 pupils from the Petkim Primary School and 200 pupils from the Gazi Secondary School received talks on work safety training as part of the activities held for Occupational Health and Safety week in 2018.

Environment and Waste Management Activities

As an organization that has succeeded in integrating sustainability into its deeply rooted production culture dating back half a century, Petkim has achieved significant progress in initiations such as optimum use of resources such as water, energy and raw materials, minimizing the environmental impact of its operations under a holistic and preventive environmental strategy, increasing the number of environmental R&D projects and raising the level of investment in environment areas.

Petkim's environmental activities are carried out in line with the Integrated Management System, which includes the ISO 9001 Quality Management System, the OHSAS 18001 Occupational Health and Safety Management System and the ISO 14001 Environmental Management System.

Continuously monitored environmental performance through environmental indicators which include water and waste water analysis, measurements of emissions, waste management, control of marine pollution, constant reviewing of environmental dimension analysis, the efficient and effective operation of the wastewater treatment plant and the hazardous waste incineration plant, the development of company-wide environmental culture, management of chemicals, monitoring greenhouse gas emissions, evidence the ambition to go beyond legal obligations in Petkim.

With the recruitment of two environmental engineers and one technician in 2018, the staff was strengthened and efforts were made to create an infrastructure for more effective control. In this context, studies were initiated on effective contractor management process, maintenance processes and environmental impact dimension assessment studies.

In particular, all engineering personnel who will work in the field during the planned large maintenance stop (turnaround) were given training on environmental management before they start work, as well as on-the-job environmental training when deemed

Petkim's environmental activities are carried out in line with the standards set out by the ISO 9001 Quality Management System, the OHSAS 18001 Occupational Health and Safety Management System and the Integrated Management System, which covers the ISO 14001 Environmental Management System.

necessary. In addition, all Petkim personnel on duty were given training in two stages as theoretical and practical.

ISO 14001 certification examination was passed and the document was renewed by Bureau Veritas, valid until 18 December 2021.

The Petkim Port received Green Port certificate for a 4th time.

Greenhouse gas emissions from Petkim's activities in 2017 were calculated in accordance with the Regulation on Monitoring Greenhouse Gas Emissions. The emission reports were verified by the verifying body and submitted to the Ministry of Environment and Urbanization.

Two joint sea pollution intervention drills were conducted with the participation of authorized agencies and other ports, in preparation for potential emergency situations in the Nemrut Bay, where the Petkim Port is located.

Energy Efficiency Studies

Regular production costs are reduced through ongoing efficiency enhancing and energy saving investments in existing plants, and this advantage is also reflected to the final product consumers.

The Efficiency Enhancing Project (EEP) on the application of a Variable Speed Driver to the H, G and F Cooling Water Tower fans was completed in 2018.

The EEP Project regarding the PP Factory Hot Oil Furnace is planned to be completed in March 2019 and work is being carried out on the new EEP project to be replace it.

Work on the EEP Projects is in progress at the AROM, LDPE-T and PTA Plants.

In December 2018, the measurements of EEP projects (3 projects) regarding the Cooling Towers Wing Design Change were taken, and EEP applications were submitted in January 2019.

Petkim Integrated Management System

The Petkim Integrated Management System consists of the following systems;

- ISO 9001:2015 Quality Management System
- ISO 14001:2015 Environmental Management System
- OHSAS 18001 Occupational Health and Safety Management System
- ISO 50001:2011 Energy Management System
- ISO 27001:2013 Information Technology Security Management System
- TS ISO 10002 Customer Satisfaction Management System
- TS ISO 31000 Risk Management Verification System
- GreenPort
- ISO 17025 Laboratory Accreditation System

In 2018, management systems certification studies continued in line with the objective of managing the processes and activities effectively and to a high level of quality.

Sustainability

The TS ISO 10002 Customer Satisfaction Management System and the TS ISO 31000 Risk Management Verification System inspections conducted by the Turkish Standards Institute on 12-16 November 2018 were completed successfully and the decision was taken to renew the existing system documents.

The ISO 9001:2015 Quality Management System, the ISO 14001:2015 Environmental Management System, the OHSAS 18001 Occupational Health and Safety Management System inspections conducted by Bureau Veritas on 26-30 November 2018 were completed successfully and the decision was taken to renew the existing system documents.

The ISO 50001 Energy Management System inspection conducted by Bureau Veritas on 18-21 December 2018 was completed successfully and decision was taken to renew the existing system documents.

The ISO 9001:2015 Quality Management System, ISO 14001:2015 Environmental Management System, the Occupational Health and Safety Management System inspections conducted by Turkish Standards Institute on 24-25 December 2018, only covering the Petkim Port, were completed successfully and the decision was taken to issue certification for the Petkim Port as well.

The "Greenport Recertification Inspection" conducted by 3 inspectors from the Ministry of Transport, the Marine and Communication General Directorate and the Turkish Standards Institute Izmir Region on 5-7 November 2018 were completed successfully, and the decision was taken to renew the certification of Petkim based on the Greenport Sectoral Criteria.

The Petkim Laboratory Accreditation System inspection conducted by TÜRKAK on 19 and 27 September 2018, working to the standards based on TS EN ISO/IEC 17025: 2012 General Conditions for Qualification of Experiment and Calibration Laboratories was completed successfully, and the decision was taken to renew the certification of the existing system and to expand the scope from 38 parameters.

The Turquality Preliminary Inspection study conducted by Deloitte on 3-4 September 2018 was completed successfully with the decision taken to admit Petkim into the Turquality program.

Following the ISO 9001:2015 Quality Management System inspection conducted by Bureau Veritas on 27 December 2018, the decision was taken to certificate the SOCAR Aliağa Terminal.

In 2018, within the scope of Integrated Management System, Petkim acted as the principal evaluator and evaluator at the EFQM (European Foundation For Quality Management) Europe and KalDer (Turkish Society for Quality) award processes.

A meaningful helping hand from Petkim for the lives of the handicapped...

As Turkey's first and only integrated petrochemicals company, Petkim continues to add value to the

community with its sense of social responsibility, as it does for the Turkish economy. Having supported the Boccia National Team in recent years with the aim of raising awareness of the participation of impaired individuals in social life and in order to contribute to the further development of the Boccia disability sport, Petikm became the official sponsor of the Boccia National Team after signing an agreement with the Turkish Sports Federation for the Physically Handicapped.

Petkim carries out a wide array of social responsibility projects in different fields such as education, the environment, sports, culture and the arts in a sustainable manner. The level of integration of the severely handicapped individuals into social life is one of the major indicators of the level of development of a country.

It is with this understanding that to be the official Sponsor of the Turkish Sports Federation for the Physically handicapped Boccia National Team has a special meaning for Petkim.

By collecting points in international tournaments, the Boccia National Team aims to represent Turkey at the Paralympic Games to be held in Tokyo, Japan in 2020. To reach this goal together with the Turkish Sports Federation for the Physically Disabled and the Boccia National Team will be a source of great pride for Petkim.

While increasing its high added value to the economy on one hand, Petkim carries on its operations, as a corporate citizen, with the awareness of its responsibilities to its stakeholders without compromising the ethical rules, transparency and honesty on the other.

Petikm became the official sponsor of the Boccia National Team after signing an agreement with the Turkish Sports Federation for the Physically Handicapped.

Boccia

BOCCIA is a game played by throwing or rolling colored balls towards a white target ball, known as the 'jack' at the closest possible distance. The players, doubles and teams whose balls are closest to the jack win the game. Initially designed for people with Cerebral Palsy disease, the game is currently played in more than 50 countries worldwide.

Those with the following conditions may take part in Paralympic Boccia;

- Cerebral Palsy disease,
- Muscular Dystrophies,
- Neurodegenerative diseases such as Multiple Sclerosis, ALS,
- High level spinal cord injuries, meningomyelocele,
- Other conditions affecting the whole body,
- Individuals that are Wheelchair dependent or have lost general muscle strength and coordination. All those over 15 years of age with the conditions stated above may play Paralympic Boccia.

Investor Relations

Petkim maintained its position in the Borsa İstanbul's Sustainability Index, in which it was first included in 2014, following reviews conducted in 2018 which recognized its production approach based on efficiency which respects the environment and society.

In January 2018, the Company successfully completed the sale of USD 500 million in 5-year maturity bonds in international markets and provided long-term financing to our Company.

Despite the instability and volatility in the financial markets in 2018, we maintained our high profitability and dividend efficiency. In 2018, Petkim shares performed in line with the BIST-100 Index.

The Capital Markets Board issued approval regarding the extension of the validity period of our Company's registered capital ceiling of TL 4 billion until 2022 and the necessary amendments were carried out to the articles of association accordingly.

During the Annual General Meeting of our Company held on 30 March 2018, the decision was taken to distribute a cash dividend of TL 540 million (gross 36%), and bonus shares amounting to TL 150 million, corresponding to 10% of our Company's issued capital. The necessary amendments were made to the articles of association regarding the bonus capital increase.

Petkim's Investor Relations Department works diligently to increase customer satisfaction and shareholder value through social responsibility, corporate governance and investor relations practices at international standards. The fulfillment of the obligations associated with Capital Markets Legislation, ensuring coordination in corporate governance practices and carrying out relations with shareholders are also gathered under the roof of this department. Investor Relations Department carries out a number of activities in Petkim, including ensuring compliance with the legislation, the articles of association and other in-house regulations regarding the use of shareholder rights, to take measures to ensure the exercise of rights, to report to the Board of Directors within the scope of the defined duties and to strengthen the compliance capacity of the Company with CMB legislation and the relations with investors, analysts and institutions that regulate capital markets.

A total of 52 material event disclosures were submitted to the KAP (Public Disclosure Platform) in 2018 within the framework of the CMB's "Communiqué on Principles Regarding Public Disclosure of Material Events".

The Investor Relations Department received a monthly average of 40 information requests by e-mail and telephone in 2018 and all requests were answered. In the same period, a total of 8 investor information meetings were organized including 4 analyst meetings and 4 teleconferences, and investors were informed of the Company's financial status, strategies and activities by the upper management.

Investor Relations Department
Tel: +90 232 616 12 40 /2501 -4438

E-mail:

yatirimci.iliskileri@petkim.com.tr

Petkim's 2018 Share Price Performance

Petkim Petrokimya Holding A.Ş. shares have been trading under the PETKM ticker on the BIST Star Market since 9 July 1990.

As of the end of 2018, the Company was included in the BIST 30 and BIST Sustainability indices. Petkim maintained its place in the "BIST Sustainability Index" in 2018, which includes companies that are traded at Borsa İstanbul and which currently have a high level of corporate sustainability performance.

In 2018, the Company share price fluctuated between a minimum of TL 3.86 and a maximum of TL 7.39. While the BIST 100 and BIST 30 indices decreased 20.8% and 19.6%, respectively, in value during 2018, Petkim's share price decreased by 24.9% in the same period. Petkim's shares declined by 5.1% relatively with the BIST 100 Index and 6.7% with the BIST 30 Index.

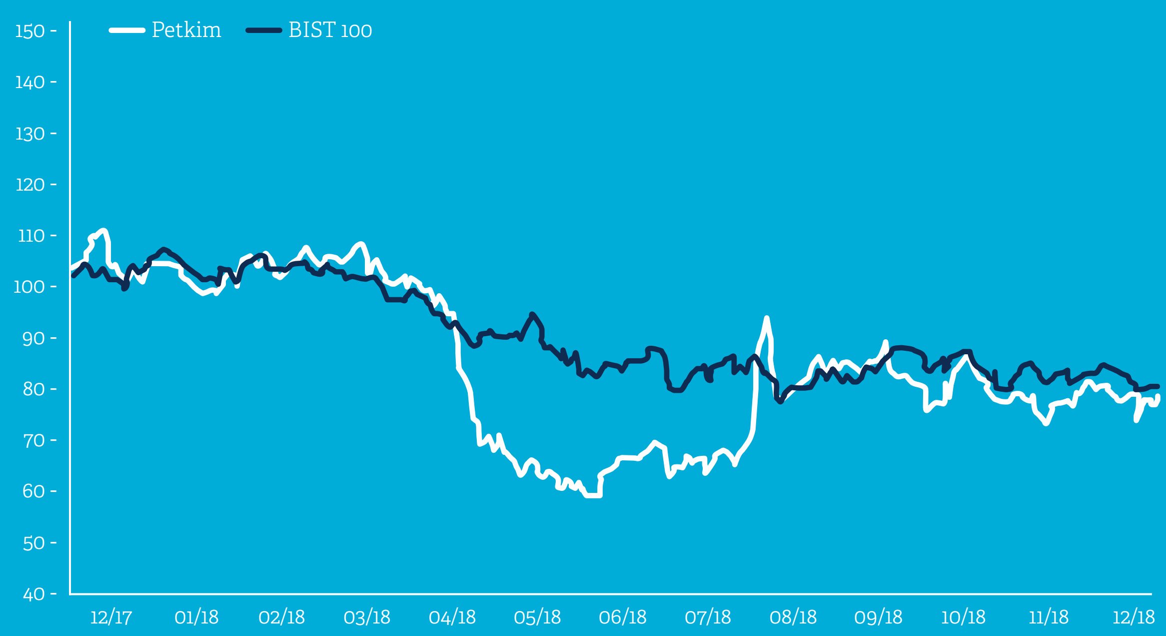
Reuters Code: PETKM.IS

Bloomberg Code: PETKM.IT

Date of Public Offering: 19.06.1990

Paid-in Capital: TL 1,650,000,000

Petkim's 2018 Share Price Performanc



Internal Audit Systems

Information is shared with the Audit Committee during its meetings held within the year to ensure healthy execution of the internal control mechanism. The Committee constantly supervises the operation and efficiency of the system, and communicates the issues relating to risk management and internal control mechanism and suggested solutions to the Board of Directors as and when necessary.

In addition to its activities in the corporate risk management, Internal Audit Department runs internal audit activities. Carrying out its business with a risk-focused and proactive approach, the unit particularly focuses on the most risky fields; shares the results with related departments, ensures that required action plans are made and follows up the improvements.

The Internal Audit Unit classifies its activities under four groups: compliance, operations, financial tables and specific audits. Compliance audits focus on the compliance of the Company with legal legislation as well as rules and principles set by the senior management. Operational controls include the monitoring efficiency of the Company's policies and activities, work flowcharts, organizational structure and improvement of internal control systems. The unit also controls and reports the compliance of financial tables to generally accepted accounting standards. Within the context of specific controls, a department, an issue or an incident is audited upon the request of top management or as a result of professional initiative of an auditor.

The corporate integrated management system is used in drawing up the Company's consolidated financial statements, and the Company's subsidiaries are also audited within the frame of the annual audit plan.

Information on the Company's Internal Control System and Internal Audit Activities and the Opinion of the Governing Body

Risk management and internal control procedures in relation to the Company's financial and operational activities have been brought to completion, and their execution and efficiency in accordance with the applicable capital market legislation and regulations are being followed up by the Internal Audit Department.

Information on Associates

Associates in which more than 5% of the capital is directly held

Subsidiaries, Financial Fixed Assets and Financial Investments

Company Name	Company's Field of Activity	Paid-in/Issued Capital (TL)	Share in Capital (%)
Petlim Limancılık Ticaret A.Ş.	Port operation services	150,000,000.00	70
Petkim Specialities Mühendislik Plastikleri San. ve Tic. A.Ş.	Engineering, plastics manufacturing	100,000.00	100
SOCAR Power Enerji Yatırımları A.Ş.	Energy	90,000,000.00	9.9

No changes occurred in the interests the Company owns in its associates and subsidiaries during 2018.

The Company has no cross-shareholding relationship with any other company.

Repurchased Own Shares by the Company

The Company did not repurchase any of its own shares during 2018.

Disclosure on Special Audit and Public Audit

Shareholders did not request a special audit under Article 438 of the Turkish Commercial Code. The Company undergoes independent audits for the full year at 12-month periods and interim independent audits at 6-month periods by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., the independent audit firm appointed by the General Assembly.

Lawsuits Filed Against the Company and Potential Results

There were no lawsuits filed against the Company, which may affect the Company's financial standing and operations as at 31 December 2018.

Disclosure of Administrative or Judicial Fines against the Company and/or Board of Directors Members

There were no fines of material nature imposed against the Company and/or members of its board due to practices that breach the provisions of legislation in 2018.

In 2014, the Company was issued with a demand for VAT payments and fines by the Customs Administration on the basis that Pygas, which was imported in 2014, had a Customs Tariff Statistics Position ("GTIP") Number including SCT (Special Consumption Tax). The Group appealed against the fines, and took the case to court as the appeal was rejected.

While these cases were continuing, a limited tax investigation into SCT was initiated by the Ministry of Finance in 2014 regarding the Pygas production based on the claims that Pygas has a GTİP number including SCT. Following the investigation, the Company was notified of a SCT penalty of TL 66,000, a tax loss penalty of TL 99,000 and overdue interest on 25 August 2017.

In the meantime, during 2017, two of the three ongoing cases related to the imported Pygas were resolved in favor of the Company given that the product does not have a GTİP number with SCT, whereas in the third case it was ruled that the product did include SCT, but the fine was ruled to be unfair. Subsequently, on 28 September 2017, the Regional Administrative Court ("Court of Appeal") ruled that the product did not have a GTİP number with SCT, and all cases were resolved in favor of the Company. The case was then referred to the Council of State.

However, following the notification related to the SCT covering tax losses and overdue interest, a new investigation was initiated by the Ministry of Finance of the Republic of Turkey regarding our use of Pygas for the years concerning 2013, 2015 and 2016. Following the investigation, in contrast with the results of the investigation conducted in 2014, the Ministry of Finance of the Republic of Turkey calculated the SCT loss and overdue interest to be 0.75% of the total amount, taking into account that the Group had the right to return at a rate of 99.25% of the total amount for the related period. Thus, TL 937 in original tax charges and TL 1,405 as a tax loss was accrued and notified to the Company for the years 2013, 2015 and 2016. With the inclusion of principal and interest payments, a total of TL 479 was paid for the notified tax and penalties by benefiting from Law No: 7143 on restructuring.

The calculation methodology for the original tax and tax loss by the Ministry of Finance of the Republic of Turkey for the years concerning 2013, 2015 and 2016 resulted in a charge that was 99.25% lower than the original tax and tax loss compared to the calculation for 2014. It was considered that the calculation methodology applied by the Ministry of Finance of the Republic of Turkey for the years 2013, 2015 and 2016 may serve as a precedent for the original tax charges and tax loss calculation for the year 2014, and this new development supports Petkim's anticipation that original tax charges and penalties for 2014's SCT would result in without leading to a major risk, through settlement and/or through lawsuits.

Following the confirmation by the Regional Administrative Court that Pygas did indeed have a GTİP number without SCT, the Company management and the legal consultants anticipate that the original tax charges and penalties notified by the Ministry of Finance of the Republic of Turkey would also result in settlement and/or lawsuits, without bearing a major financial risk.

Fines paid by the Company during the period are provided under the heading Compensation and Penalty Charges in Footnotes to Consolidated Financial Statements, Other Operating Expenses.

Assessment of Prior Period Targets and General Assembly Decisions

In view of the increasing profitability of the petrochemicals industry from the end of 2014, high profitability was targeted for 2018 on the back of maximum production and fast sales strategy. In line with this strategy, the Company registered a high level operating profitability through high capacity utilization ratio, production volume and turnover in 2018. In the final quarter of 2018, major maintenance (turnaround), which is performed once in every 4 years, was completed as planned and the production facilities were commissioned effectively and efficiently.

The actions as required by the decisions adopted in the Ordinary General Assembly meeting convened during 2018 have been carried out. There are no unfulfilled decisions.

Information on Extraordinary General Meetings

The Company did not call any Extraordinary General Meeting in 2018.

Relations with the Controlling Company

The Company did not engage in any transactions apart from those on an arms' length basis with its principal shareholder SOCAR Turkey Enerji A.Ş. and other group companies at the direction of the group companies, which would be to the benefit of other group companies and which would require equalization.

Risk management, oversight and audit activities are carried out taking into consideration the legislation provisions governing the Board of Directors and the committees set up thereunder. The report drawn up pursuant to Article 199 of the TCC in relation to 2018 activities within this context concluded as follows: "According to the conditions and circumstances known to us, a commensurate counter-performance was provided in all legal transactions Petkim Petrokimya Holding A.Ş. realized in 2018 with the controlling company or the subsidiaries specified in Article 199 of the TCC; there were no actions taken or avoided, nor the Company sustained any loss due to an action taken or avoided."

Conflicts of Interest between the Company and Firms from Which Services are Procured Such as Investment Advisory and Rating and Measures Adopted by the Company to Prevent Such Conflicts of Interest

No conflicts of interest arose between the Company and the firms from which services are procured such as investment advisory and rating.

Main Factors Affecting the Company's Performance, Material Changes in the Environment Where the Company Operates, Measures Adopted by the Company in Relation to Such Changes

Material changes in the environment where the Company operates and main factors affecting its performance are addressed in risk management activities, and controls are added as deemed necessary.

Expenses Incurred in Relation to Donations and Grants and Social Responsibility Projects

Donation to the Intern Students of Baku High School	92,771
Donation to Izmir Foundation for Culture and Arts	105,374
Donation to İzmir Provincial Education Directorate for Teachers' Day	49,814
Donation to Aliağa Security Services Support Association	380,000
Car Donation Due to Petkim Foundation Anniversary.	118,918
Donation to Izmir Provincial Directorate of Environment and Urbanization	20,000
Donation to the School Construction Project Works of the Ministry of National Education.	7,354,000
Donation to the Turkish Foundation for Combating Erosion Reforestation and the Protection of Natural Habitats (Tema Foundation)	250
TOTAL:	**8,121,127**

An Assessment of the Financial Standing by the Management

a) In 2018, the Company defined its strategy as maximizing production and sales in order to take optimum advantage of the positive circumstances in the petrochemicals industry. In the final quarter of 2018, the Company aimed to undertake the major maintenance (turnaround), which is performed once every 4 years. With the completion of the major maintenance as planned, the capacity utilization rate was realized at 78%. Our revenues amounted to TL 9,315 million with a 17% gross profit margin.

The Company planned to become an 18% indirect shareholder in STAR Rafineri A.Ş. in 2018 and a share purchase agreement was signed accordingly. A long-term financing method was adopted for the acquisition, which was secured with a USD 500 million bond issue.

The balance sheet composition, which is formed so as to minimize the effects of the economic conjuncture, was preserved and our risks were maintained at the minimum level thanks to our conservative approach to our financial risks.

b)

Key Financial Highlights

	2017	2018
Turnover (TL million)	7,364	9,315
Gross Profit Margin	25,2%	17%
EBITDA (TL million)	1,816	1,523
Debt/Equity	1.021	2.044

c) The Company's capital did not remain uncovered during the fiscal year. The Company enjoys a solid financial standing on the back of its profitability generated on its operations. Therefore, the Company did not see any need to improve its financial standing. With its performance following 2015, our Company has exhibited that it is capable of attaining high profitability levels by making optimum use of market conditions, provided that the positive conjuncture in the industry persists in the years ahead.

Profit Distribution Policy

With our Board of Directors' decision no: 3/10 taken on 25/02/2014, our Company's Profit Distribution Policy for 2013 and succeeding years were determined as follows

In the 37th Article "Determining the Profit", the 38th Article "Reserve Funds" and the 39th Article "Method and Timeframe for Profit Distribution" of the Articles of Association of our Company, profit distribution policy is specified in conformity with the relevant provisions of the Turkish Commercial Code and Capital Markets Board.

- Within this framework; as our Company's Profit Distribution Policy for 2013 and succeeding years; our Company has adopted the principle of distributing the maximum amount of dividends in cash in line with its medium and long term strategies and investment and financial plans, and by taking the market conditions and developments in the economy into consideration.
- In conformity with the 37th Article of the Articles of Association of our Company, the Company may distribute advance dividends.
- In the event that distributable profit is available in accordance with relevant communiqués, the profit distribution resolution is to be taken by the Board of Directors in the form of cash and/or shares and/or installments, as long as the amount is not below 50% of the distributable profit, within the framework of the provisions of Capital Markets Board and Turkish Commercial Code, and shall be submitted to the approval of General Assembly; and the distribution shall be completed within the legal time allotted.
- According to the Articles of Association of the Company, the amount to be determined by the General Assembly, not exceeding the 0.1% of distributable profits remaining after distribution of first dividend, shall be distributed to Board Members.
- A consistent policy shall be followed recognizing both the interests of the shareholders and the Company in the implementation of the Profit Distribution Policy.
- The date of distribution shall be decided by the General Assembly upon proposal of the Board. Profit distribution payments shall be completed within the legal time allotted. The relevant legislation, communiqués, and regulations of CMB shall be followed in regards to other profit distribution matters.
- In the event that the calculated "net distributable profit for the year" is below 5% of issued capital, no profit shall be distributed.
- When no profit is distributed, the Board of Directors shall inform the shareholders at the General Assembly meeting about the reasons and how the undistributed profits are to be allocated.

Risks and an Assessment by the Governing Body

Corporate Risk Management Practices

The Company conducts its operations in a transparent, accountable, fair and responsible manner. The Board of Directors sets up the internal control systems incorporating the risk management, information systems and processes for minimizing the risks that might have an impact on the Company's stakeholders and particularly its shareholders, by taking into consideration the feedback from the relevant Board of Directors committees, as well.

The Early Detection of Risk Committee makes proposals and suggestions to the Board of Directors regarding early detection and assessment of all kind of risks such as strategic, financial, operational and similar risks that might affect the Company, regarding calculation of their impact and probability, management and reporting of these risks in accordance with the corporate risk appetite of the Company; implementation of necessary measures in relation to identified risks, their consideration in decision-making mechanisms and creation and integration of efficient internal control systems along this line. In 2018, the Early Detection of Risk Committee presented six reports to the Board of Directors.

As a result of analyses and assessments made in risk evaluation process, the decisions are taken among four different risk attitudes: Accept, mitigate, transfer and avoid. The risks related to the Company are evaluated under four categories to systematically manage the corporate risk management activities: Strategic, financial, operational and external risks

Strategic Risks

Strategic risks are composed of sales, supply chain, investment, R&D and compliance risks, which can create an obstacle for Company's short, medium and long-term strategies.

The management of sales risks is a continuum. Within this framework, market analyses are completed; global capacities and competition in the sector are monitored. Therefore, the most appropriate sales strategies are determined in line with the target of maximum customer satisfaction.

Regarding supply chain risks, naphtha, the most important feedstock for the Company, is analyzed. Additionally, analyses are made to ensure effective management of supply processes of other raw materials, equipment and services.

In its domestic and international activities, the Company is subject to a series of laws and legislation. Within the framework of compliance risk, these laws and legislation are closely monitored; employees are informed through training activities and seminars and relative tables are periodically updated. The Company gets consultancy service when required in order to mitigate the risks that it may encounter.

Financial Risks

Within the scope of financial risks, the Company manages interest rate, currency, credit and liquidity risks. Closely monitoring the economic developments at national and international level, the Company takes necessary actions considering the possible impacts of economic developments on its assets and liabilities.

Regarding the management of interest rate risk, the quantities, terms and interest rates of interest-sensitive assets and liabilities are carefully monitored and balanced in favor of the Company.

The Company makes large amount of foreign currency transactions for its commodity sales and purchases. The related department closely monitors foreign currency transactions and targets to manage the currency risks through in-balance sheet transactions.

The Company attaches importance to asset-liability balance in the management of liquidity risk and monitors liquidity on daily basis to avoid maturity mismatch and payment problems. Systems that ensure facility of payment are actively used to make the collections easier through credit risk management policies. With this method, the Company guarantees its collections and increases the liquidity.

Operational Risks

Environment, work health and safety, human resources, information technologies and security risks are managed within the framework of operational risks. Basically targeting to manage the operations in a reliable manner, the works in this field also aim at preserving physical assets and being in compliance with laws and regulations.

Environmental risks as well as work health and safety risks are the fields that the Company attaches great importance by carefully considering the risks that may threat the environment and work health during its operations, continuously and carefully monitoring the laws and legislation and training its employees. In addition, emergency operations plans and drills are made in order to ensure effective response in emergencies. To control that the waste are in conformity with laws and legislation, sample analyses are made and monitored with daily and spot checks. The results of periodical audits done during the year and incident notification forms are evaluated to determine if environment and work health and safety risks arise due to the weaknesses in the processes and systems or human errors. The required improvements are made and thus the security of operations is increased.

The risks in the field of human resources are monitored to ensure the realization of the Company's targets and strategies, to maximize employee satisfaction and to enhance corporate loyalty. The works in this field are conducted with the Company's employee focused approach, which also takes place among the corporate values of Petkim. Professional knowledge and motivation of employees are increased by various training programs and social activities.

The Company uninterruptedly invests in information technologies. The risks that may arise in this field are managed either by its own employees or through external consultancy services received when required. During the periods of program changes and revisions, the advices of consultants are immediately put into practice. Backups are taken periodically and measures are taken to prevent loss of company information.

The Security Department uses aversive and preventive techniques in its actions and activities conducted in line with Security Management Standard and related laws and legislation. Effectively benefiting from technology as well, the Department has sufficient number of vehicles and equipment. The training and drills and exercises of security staff are periodically carried out and audited. The Company's assets are also secured with extensive insurance policies in addition to security measures.

External Risks

The Company also carries out activities against the risks stems from natural disasters, economic risks at national and international level as well as political risks.

Against natural disaster risks, emergency and business continuity plans are prepared and the employees are provided emergency response training periodically Periodical drills are done in the units. Additionally, all assets are insured against natural disaster risks.

Regarding the procurement of feedstock, the Company is largely dependent on imports. As such, economic and political situation in both domestic market and foreign countries, from which the feedstock is procured, are followed through national and international publications and the relevant studies are periodically updated.

Corporate Governance Principles Compliance Report

The Company operates under the company name Petkim Petrokimya Holding A.Ş. at the address of Siteler Mahallesi Necmettin Giritlioğlu Caddesi No: 6 Aliağa, and it is registered with Aliağa Trade Registry Directorate under the trade registry number 314. The Company has a branch at the address Vadistanbul Bulvar, Ayazağa Mah. Cendere Caddesi No: 109 D:E, 1D Blok, 34485 Sarıyer-İstanbul, and a representative office at the address of 121, Haydar Aliyev Avenue, SOCAR Tower, AZ 1029, Baku, Azerbaijan. The Company's website can be reached at www.petkim.com.tr.

In corporate governance practices, the Company makes the utmost effort to comply with the Corporate Governance Principles (the Principles) of the Capital Markets Board (CMB). In areas where compliance cannot be met, Petkim provides reasons for the failure to comply and announces precautions taken against potential conflicts of interest that could arise from non-compliance. The Company updates its annual report and website in compliance with the Principles and for the use of its stakeholders. Stakeholders can access detailed information via the corporate web site or direct their inquiries to the Investor Relations Department.

During the year 2018, 52 material event disclosures were made to Public Disclosure Platform (KAP) in accordance with the CMB's Communiqué on Public Disclosure of Material Events. No additional information was requested by the Capital Markets Board and BIST for the announcements made for material events. The Capital Markets Board has not imposed any sanctions on the Company caused by any non-compliance to material event disclosures. All of the Company's material event disclosures were made in a timely fashion.

There are no principles, which the Company is granted an exemption for and/or which the Company does not implement by reason of having obtained a clearance from the CMB.

a) Compulsory Principles that we fail to implement

• None.

b) Non-compulsory Principles

- The Company does not comply with the following principle: "1.5.2. Minority rights may be defined in the articles of association for shareholders holding less than one twentieth of the capital of the corporation. The scope of minority rights may be enlarged in the articles of association."

  Our Company's articles of association do not incorporate a provision granting minority rights also to shareholders holding less than one twentieth of the capital, or a provision enlarging the scope of minority rights. The requests of all shareholders are received via our Investor Relations Unit. In addition, information requests by all shareholders are fulfilled within the frame of the principle of equal information and in a manner to exclude insider information to the extent necessary. There are no plans to make any changes in the Company's future management practices within the frame of the said principle.

- The Company partially complies with the following principle: "4.2.8. Corporation's damage that may be caused due to the faults of the board of directors during the charge of their duties shall be insured for an amount exceeding 25% of the corporation's capital and this matter shall be disclosed at PDP."

  The Company has obtained a Directors' and Officers' Liability policy for the losses that the Board of Directors members may cause to the Company by reason of their faults during the performance of their duties; however, the insured amount does not exceed 25% of the Company's capital. The Company has considered an amount lower than the one stipulated in the said principle to be adequate in view of the existing risks, the Company's corporate structure and its business procedures. There are no plans to make any changes in the Company's future management practices within the frame of the said principle.

- The Company does not comply with the following principle: "4.3.9. Corporation shall determine a target rate provided that it is not less than 25% and a target time for membership of women in the board of directors and form a policy for this target. The Board of directors shall annually evaluate the progress in respect to achieving this target."

  The Company did not establish a policy in this context. A woman member has been appointed to the Company's Board of Directors in 2018. A major step has been taken with respect to the representation of women on the Board of Directors with this appointment. There are no plans to make any changes in the Company's future management practices within the frame of the said principle.

- The Company partially complies with the following principle: "4.4.7. Members of the board of directors shall allocate a reasonable time for the business of the corporation. In cases where the member of the board of directors is a manager or board member in another corporation or renders consultancy services to another corporation, in principal this situation should not cause a conflict of interest and the member shall not hinder his/her duty in the corporation. Within this context, external duties that the member conducts shall be conditional on certain rules or become limited. The external duties conducted by the member of the board of directors and the grounds thereof shall be submitted for the shareholders' information, by distinguishing either such corporation is intragroup or out of the group, together with the agenda item regarding election, at the general assembly meeting in which the election is discussed."

No restrictions are applied to external positions to be undertaken by the Board of Directors in other corporations. The investors are informed about the external duties undertaken by the Board members, primarily through annual reports. Board members allocate sufficient time to the Company's affairs as required by their respective duties. There are no plans to make any changes in the Company's future management practices within the frame of the said principle.

- The Company partially complies with the following principle: "4.5.5. It shall be noted that any member of the board of directors shall not have a duty in more than one committee."

  Each Board member cannot be assigned to one committee only, due to the requirement that all committees should include an independent Board member and that the Audit Committee must consist exclusively of independent members under the Principles. Committee members are able to allocate sufficient time for the duties and activities of the respective committees. There are no plans to make any changes in the Company's future management practices within the frame of the said principle.

- "4.5.7. Committees may benefit from the opinions of the independent specialists on matters that they find necessary with regard to their activities. The fee of the consultancy services required by the committees shall be paid by the corporation. However in this case, information as to the person/institution that the service is purchased and as to whether this person/institution has any relation with the corporation shall be stated in the annual report."

  The Committees did not receive consultancy service from third parties in 2018. There are no plans to make any changes in the Company's future management practices within the frame of the said principle.

- The Company partially complies with the following principle: "4.6.1. The Board of directors shall be responsible for the corporation's achievement of its targets on operational and financial performance designated and disclosed to the public. Evaluation as to whether the corporation has achieved its targets on operational and financial performance disclosed to public or not, and if not achieved, reasoning thereof shall be included in the annual report. The board of directors shall undertake self-criticism and performance evaluation on the basis of both the board, the member and the executive. Members of the board of director and executives shall be either awarded or discharged subject to these evaluations."

  The Board of Directors evaluated whether the Company has achieved its targets on operational and financial performance. These assessments are covered in the annual reports. The Board of Directors does not undertake any specific activity with respect to self-assessment of its own performance. There are no plans to make any changes in the Company's future management practices within the frame of the said principle.

- The Company partially complies with the following principle: "4.6.5. Remunerations provided for members of the board of directors and executives and all other benefits provided shall be disclosed via the annual report to the public. Principally, public disclosure shall be made on the basis of the persons."

  Remunerations provided to the members of the Board of Directors and executives with administrative responsibility are disclosed not individually but collectively in the financial statement footnote: 29. There are no plans to make any changes in the Company's future management practices within the frame of the said principle.

There are no conflicts of interests arising from not fully complying with these principles.

There are no plans to make any changes in the Company's future management practices within the frame of the said principles. The matter shall be considered if and when there is such a plan.

Corporate Governance Practices

The Company's website provides up-to-date information and is effectively used as a public disclosure tool.

Annual report was reviewed and necessary revisions were made in terms of fully complying with the principles.

At the General Assembly, the rules on the following issues were abided by: provision of information as concerns the candidates to Board membership, the announcement of the agenda and relevant information documents at least three weeks prior to the Assembly, provision of information on privileged shares, participation of managers at the meeting, invitation of the media and stakeholders to the meeting, open voting via raising hands and the announcement of this procedure to partners, and the publication of examples of power of attorney documents.

Corporate Governance Compliance Report (CRF) and Corporate Governance Information Form (CGIF) templates that our Company has drawn up in accordance with the principles and procedures set out in the CMB's resolution no. 2/49 dated 10 January 2019 have been sent to the address www.kap.org.tr.

Principles of the Board of Directors' Activities

Board of Directors is structured in a manner that will create maximum impact and effectiveness. In this issue, utmost attention is paid to comply with the Law, CMB Regulations and Decisions. Principles regarding this issue are specified in the Articles of Association of our Company.

The Board of Directors is formed of nine members, three of which are independent members. One woman member serves on the Board of Directors.

The procedures for the Board meetings are defined in Article 15 of the articles of association. The Board of Directors does not utilize electronic portal.

Meetings of the Board of Directors in which there is physical participation are held at the Company headquarters or at another suitable location. Board of Directors convenes -with the attendance of at least 5 (five) members- The Board of Directors of the Company convened 4 times in 2018 with physical participation. Average attendance ratio in meetings is 89%. The Board of Directors resolves with the affirmative vote of five members. Pursuant to the articles of association, information and documents relevant to the Board meetings are made available to the members three days in advance of the related meeting.

In 2018, there were no administrative and/or judicial sanctions of a material nature imposed against the members of the governing body on account of practices that are contradictory to the provisions of the legislation.

There is a Directors' and Officers' Liability policy for the losses that the Board of Directors members may cause to the Company by reason of their faults during the performance of their duties; the insured amount does not exceed 25% of the capital.

Remunerations provided to the members of the Board of Directors and executives with administrative responsibility are disclosed not individually but collectively in the financial statement footnote: 29.

Changes to the Articles of Association

In order to obtain an extension for the validity of the Company's authorized capital, "Article 6 - Capital" of the Company's articles of association has been amended; the said amendment has been ratified in the General Meeting convened on 30 March 2018 and registered on 06 April 2018. The amended text is provided in App. 1.

App. 1/Amended Text for the Articles of Association

OLD VERSION	NEW VERSION
CAPITAL:	**CAPITAL:**
Article 6- The Company has adopted the registered capital system in conformity with the provisions of the Capital Market Law with number 2499 and has passed to this system as per the permission of the Capital Markets Board dated 07.12.1998 and with number 11838. The upper limit permit issued by the Capital Markets Board for registered capital is valid for the years between 2013-2017 (5 years). Even if the upper limit permit given is not reached by the end of year 2017, in order for the Board of Directors to be able to adopt a resolution for capital increase after 2017, it is mandatory that an authorization is given in the General Meeting for the upper limit permitted before or a new upper limit by means of getting a permit from the Capital Market Board. If the aforementioned authorization is not taken, capital increase cannot be made with the decision of the Board of Directors. a) Registered Capital: The Registered capital of the company is 4,000,000,000 (four billion) Turkish Liras. This capital has been divided into 400,000,000,000 (four hundred billion) shares each having a nominal value of 1 (One) Kurush. b) Issued Capital: The issued capital of the company is 1,500,000,000 (one billion five hundred and fifty million) Turkish Liras, divided into 150,000,000,000 (one hundred fifty billion) shares, each having a nominal value of 1 (One) Kurush. All the capital has been paid in. c) The Board of Directors shall be authorized to increase the issued capital for years 2013-2017 when it deems appropriate, on condition that the provisions of the Capital Market Law are adhered to and that such increase is within the upper limit for registered capital. The shares constituting the capital will be followed up within the framework of the shares representing capital.	Article 6- The Company has adopted the registered capital system in conformity with the provisions of the Capital Market Law with number 2499 and has passed to this system as per the permission of the Capital Markets Board dated 07.12.1998 and with number 11838. The upper limit permit issued by the Capital Markets Board for registered capital is valid for the years between 2018-2022 (5 years). Even if the upper limit permit given is not reached by the end of year 2022, in order for the Board of Directors to be able to adopt a resolution for capital increase after 2022, it is mandatory that an authorization is given in the General Meeting for the upper limit permitted before or a new upper limit by means of getting a permit from the Capital Market Board. If the aforementioned authorization is not taken, capital increase cannot be made with the decision of the Board of Directors. a) Registered Capital: The Registered capital of the company is 4,000,000,000 (four billion) Turkish Liras. This capital has been divided into 400,000,000,000 (four hundred billion) shares each having a nominal value of 1 (One) Kurush. b) Issued Capital: The issued capital of the company is 1,500,000,000 (one billion five hundred and fifty million) Turkish Liras, divided into 150,000,000,000 (one hundred fifty billion) shares, each having a nominal value of 1 (One) Kurush. All the capital has been paid in. c) The Board of Directors shall be authorized to increase the issued capital for years 2018-2022 when it deems appropriate, on condition that the provisions of the Capital Market Law are adhered to and that such increase is within the upper limit for registered capital. The shares constituting the capital will be followed up within the framework of the shares representing capital.

Changes to the Articles of Association

“Article 6 - Capital” and “Article 9 - Share Certificates” of the Company’s articles of association have been amended due to the fact that the Company’s issued capital has been increased from TL 1,500,000,000 to TL 1,650,000,000, which has been covered totally from internal resources. The said amendment has been registered on 26 June 2018. The amended text is provided in App. 2.

App. 2/ Amended Text for the Articles of Association

OLD VERSION	NEW VERSION
CAPITAL:	**CAPITAL:**
Article 6- The Company has adopted the registered capital system in conformity with the provisions of the Capital Market Law with number 2499 and has passed to this system as per the permission of the Capital Markets Board dated 07.12.1998 and with number 11838.	Article 6- The Company has adopted the registered capital system in conformity with the provisions of the Capital Market Law with number 2499 and has passed to this system as per the permission of the Capital Markets Board dated 07.12.1998 and with number 11838.
The upper limit permit issued by the Capital Markets Board for registered capital is valid for the years between 2018-2022 (5 years). Even if the upper limit permit given is not reached by the end of year 2022, in order for the Board of Directors to be able to adopt a resolution for capital increase after 2022, it is mandatory that an authorization is given in the General Meeting for the upper limit permitted before or a new upper limit by means of getting a permit from the Capital Market Board. If the aforementioned authorization is not taken, capital increase cannot be made with the decision of the Board of Directors.	The upper limit permit issued by the Capital Markets Board for registered capital is valid for the years between 2018-2022 (5 years). Even if the upper limit permit given is not reached by the end of year 2022, in order for the Board of Directors to be able to adopt a resolution for capital increase after 2022, it is mandatory that an authorization is given in the General Meeting for the upper limit permitted before or a new upper limit by means of getting a permit from the Capital Market Board. If the aforementioned authorization is not taken, capital increase cannot be made with the decision of the Board of Directors.
a) Registered Capital: The Registered capital of the company is 4,000.000,000 (four billion) Turkish Liras. This capital has been divided into 400,000,000,000 (four hundred billion) shares each having a nominal value of 1 (One) Kurush.	a) Registered Capital: The Registered capital of the company is 4,000,000.000 (four billion) Turkish Liras. This capital has been divided into 400,000,000,000 (four hundred billion) shares each having a nominal value of 1 (One) Kurush.
b) Issued Capital: The issued capital of the company is 1,500,000,000 (one billion five hundred and fifty million) Turkish Liras, divided into 150,000,000,000 (one hundred fifty billion) shares, each having a nominal value of 1 (One) Kurush. All the capital has been paid in.	b) Issued Capital: The issued capital of the company is 1,650,000,000 (one billion six hundred and fifty million) Turkish Liras, divided into 165,000,000,000 (one hundred sixty five billion) shares, each having a nominal value of 1 (One) Kurush. All the capital has been paid in.
c) The Board of Directors shall be authorized to increase the issued capital for years 2018 - 2022 when it deems appropriate, on condition that the provisions of the Capital Market Law are adhered to and that such increase is within the upper limit for registered capital.	c) The Board of Directors shall be authorized to increase the issued capital for years 2018 - 2022 when it deems appropriate, on condition that the provisions of the Capital Market Law are adhered to and that such increase is within the upper limit for registered capital.
The shares constituting the capital will be followed up within the framework of the shares representing capital.	The shares constituting the capital will be followed up within the framework of the shares representing capital.
SHARE CERTIFICATES:	**SHARE CERTIFICATES:**
Article 8- The shares of the company have been divided into two groups as A and C Groups and they have been distributed to the shareholders pro rata to their shareholdings as shown herein below:	Article 8- The shares of the company have been divided into two groups as A and C Groups and they have been distributed to the shareholders pro rata to their shareholdings as shown herein below:

SHARE GROUP	SHAREHOLDER	SHARE TYPE	NUMBER OF SHARES	SHARE AMOUNT (TL)
A	SOCAR Turkey Petrokimya A.Ş.	Bearer	76,500,000,000.25	765,000,000.00
A	OTHERS	Bearer	65,517,647,835.22	655,176,478.35
A	SOCAR Turkey Enerji A.Ş.	Bearer	7,982,352,163.53	79,823,521.64
C	DIRECTORATE OF PRIVATIZATION ADMINISTRATION	Bearer	1	0.01
Total			150,000,000,000.00	1,500,000,000.00

SHARE GROUP	SHAREHOLDER	SHARE TYPE	NUMBER OF SHARES	SHARE AMOUNT (TL)
A	SOCAR Turkey Petrokimya A.Ş.	Bearer	84,150,000,000.28	841,500,000.00
A	OTHERS	Bearer	80,849,999,998.72	808,499,999.99
C	DIRECTORATE OF PRIVATIZATION ADMINISTRATION	Bearer	1	0.01
Total			165,000,000,000.00	1,650,000,000.00

Agenda

AGENDA OF THE ORDINARY GENERAL ASSEMBLY MEETING OF

PETKİM PETROKİMYA HOLDİNG A.Ş.

RELATED TO 2018 ACTIVITY YEAR

1. Opening and composition of the Meeting Presidency,
2. Reading, discussion and approval of the Activity Report of the Board of Directors for activity year of 2018,
3. Reading the report of the Auditor pertaining to activity year of 2018,
4. Reading, discussion and approval of the financial statements pertaining to activity year of 2018,
5. Release of the Chairman and members of the Board of Directors on account of their activities and accounts for activity year of 2018,
6. Discussion of the proposal of the Board of Directors on the usage of the profit pertaining to the activity year of 2018,
7. Submitting the election of the new Board Members for a vacant position to the approval of the General Assembly in accordance with Article 11 of the Articles of Association of the Company and Article 363 of TCC,
8. Re-election or replacement of the members of the Board of Directors, whose terms of office have expired and determination of their term
9. Determination of the monthly gross remunerations to be paid to the members of the Board of Directors,
10. Approval of the election of the Independent Audit Firm by the Board of Directors pursuant to Turkish Commercial Code and Capital Markets legislation,
11. Informing the Shareholders on the aid and donations granted by our Company within the activity year of 2018,
12. Taking a resolution on the limit of aid and donation of our Company that will be made until 2019 Ordinary General Assembly Meeting pursuant to the Article 19/5 of the Capital Markets Law
13. Informing the General Assembly regarding respective transactions of the persons mentioned in the clause (1.3.6) of "Corporate Governance Principles" which is annexed to Communiqué of the Capital Markets Board "Corporate Governance" numbered (II-17.1),
14. Granting the Members of the Board of Directors authorization to perform the transactions stated in Articles 395 and 396 of Turkish Commercial Code,
15. Informing the General Assembly with regard to the guarantees, pledges and mortgages given by the Company in favor of third parties in 2018 and of any benefits or income thereof, pursuant to Clause 12/4 of Communiqué of the Capital Markets Board "Corporate Governance" numbered (II-17.1),
16. Wishes and closing.

Profit Distribution Table

PETKİM PETROKİMYA HOLDİNG A.Ş.
PROFIT DISTRIBUTION TABLE FOR 2018 TO BE SUBMITTED FOR THE APPROVAL OF THE ORDINARY GENERAL ASSEMBLY (TL

	According to Capital Market Regulations	According to Legal Records
DISTRIBUTION OF CURRENT PERIOD PROFIT		
1) Paid In/ Issued Capital	1,650,000,000.00	1,650,000,000.00
2) Total Legal Reserve Funds (Per Legal Records)	310,644,252.06	310,644,252.06
Information on privileges in profit distribution if any in the Articles of Association		
3) Current Period Profit	1,024,539,000.00	1,121,209,441.52
4) Taxes Payable	(152,866,000.00)	(125,936,361.52)
5) NET PROFIT	**871,673,000.00**	**995,273,080.00**
6) Previous Years Losses	-	-
7) First Legal Reserves	19,355,747.94	19,355,747.94
8) NET DISTRIBUTABLE PROFIT FOR THE PERIOD	**852,317,252.06**	**975,917,332.06**
9) Donations Made During The Year	8,121,126.72	8,121,126.72
10) NET DISTRIBUTABLE PROFIT ADDED DONATIONS	860,438,378.78	984,038,458.78
11) First Dividend to Shareholders	462,000,000.00	
- Cash	-	
- Bonus	462,000,000.00	
12) Dividend to Privileged Shareholders	-	
13) Dividend to Board Members and Employees, etc.	-	
14) Dividend to Redeemed Shareholders	-	
15) Secondary Dividend to Shareholders	-	
16) General Legal Reserves	-	
17) Statutory Reserves	-	-
18) Special Reserves	-	-
19) EXTRAORDINARY RESERVES	390,317,252.06	513,917,332.06
20) Other Resources Payable		
- Previous Years Profit	-	-
- Extraordinary Reserves	-	-
- Other Distributable Reserves As Per the Law And the Articles of Association	-	-
Earnings Per Share (Krş)	0.5283	
Earnings Per Share (Krş) (Gross)	0.2800	

INFORMATION ON DIVIDEND RATIO

Information on Dividend Ratio

	Group	Total Dividend Amount TL		Dividend to 1 Krş Nominal Shares	
		Cash TL	Bonus TL	Amount Krş	Ratio %
GROSS	A				
	SOCAR Turkey Petrokimya A.Ş.	-	235,620,000.00	0.280000	28,000
	Others (Publicly Held Shares)	-	226,380,000.00	0.280000	28,000
	C				
	Directorate of Privatization Administration	-	0.00	0.280000	28,000
	Total:	-	462,000,000.00		
NET	A				
	SOCAR Turkey Petrokimya A.Ş.	-	235,620,000.00	0.280000	28,000
	Others (Publicly Held Shares)	-	226,380,000.00	0.280000	28,000
	C				
	Directorate of Privatization Administration	-	0.00	0.280000	28,000
	Total:	-	462,000,000.00		

THE RATIO OF DIVIDEND DISTRIBUTED OVER NET DISTRIBUTABLE PROFIT ADDED DONATIONS

Dividend Distributed to Shareholders (TL)	The Ratio of Dividend Distributed Over Net Distributable Profit Added Donations (%)
462,000,000.00	53.69

Statements of Responsibility

BOARD OF DIRECTORS RESOLUTION ON THE APPROVAL OF FINANCIAL STATEMENTS

DECISION DATE: 1 MARCH 2019

DECISION NO: 2019 - 10

1 MARCH 2019

STATEMENT OF RESPONSIBILITY PURSUANT TO CAPITAL MARKETS BOARD COMMUNIQUÉ SERIAL: II-14.1, SECTION TWO, ARTICLE 9

We hereby declare that;

a) We have examined the consolidated balance sheet, statement of profit or loss, statement of cash flows and statement of changes in equity and notes to the consolidated financial statements for the period ended 31 December 2018;

b) The consolidated financial statements do not contain any misrepresentation of the facts in material aspects or any omissions that may turn out to be misleading as of the date of the disclosure based on the information we have obtained in the scope of our duty and responsibility in the organization;

c) The financial statements drawn up pursuant to the CMB Communiqué Serial: II-14.1 present a fair and true view of the and the organization's assets, liabilities, financial position and profit&loss, together with those subject to consolidation, based on the information we have obtained in the scope of our duty and responsibility in the organization;

Sincerely,

Anar MAMMADOV
General Manager

Mehmet CEYLAN
Chairman of the Audit Committee

Mehmet BOSTAN
Member of the Audit Committee

Statements of Responsibility

BOARD OF DIRECTORS RESOLUTION ON THE APPROVAL OF THE ANNUAL REPORT

DECISION DATE: 7 MARCH 2019

DECISION NO.: 2019 - 14

7 MARCH 2019

STATEMENT OF RESPONSIBILITY PURSUANT TO CAPITAL MARKETS BOARD COMMUNIQUÉ SERIAL: II-14.1, SECTION TWO, ARTICLE 9

We hereby declare that;

a) We have examined the Board of Directors' Annual Report for the period ended 31 December 2018, the Corporate Governance Compliance Report (CRF) and the Corporate Governance Information Form (CGIF) stated in the CMB Resolution no. 2/39 dated 10 January 2019;

b) The Annual Report, CRF and CGIF do not contain any misrepresentation of the facts in material aspects or any omissions that may turn out to be misleading as of the date of the disclosure based on the information we have obtained in the scope of our duty and responsibility in the organization;

c) CRF and CGIF present a true and fair view, and the Annual Report drawn up pursuant to the CMB Communiqué Serial: II-14.1 presents a fair view of the development and performance of the business and the financial position, major risk exposure and uncertainties of the organization, including those subject to consolidation, based on the information we have obtained in the scope of our duty and responsibility in the organization;

Sincerely,

Anar MAMMADOV General Manager	Mehmet CEYLAN Chairman of the Audit Committee	Mehmet BOSTAN Member of the Audit Committee

Audit Committee Reports

To the Board of Directors of Petkim Petrokimya Holding A.Ş.

01.01.2018-31.12.2018 Accounting Period Financial Statements

The independently audited comparative consolidated financial statements, (in comparison with previous period's financials) prepared for the accounting period of 01.01.2018-31.12.2018, in compliance with the Turkish Accounting Standards and the Turkish Financial Reporting Standards ("TAS" and "TFRS") published by the Public Oversight Authority and the Turkish Accounting and Auditing Standards Board within the scope of the Communiqué (Serial: II, No: 14.1) of Capital Markets Board ("CMB"), and prepared in compliance with the presentation principles that were determined with the Decision (dated 07.06.2013, No: 20/670) of CMB and announced in the weekly CMB Bulletin (dated 07.06.2013, No: 2013/19), was audited by getting the opinions of the executives who are responsible for the preparation of the Company's financial statements.

Limited within the scope of the information we have and we have been given, our opinion relating to this financial statements, were presented to the executives who have responsibility in the preparation of the financial statements. Within the framework of this opinion, we have reached a conclusion that this financial statements; truly reflects the facts regarding the Company's activity results and does not contain any significant deficiency that may cause misleading results, and complies with the CMB regulations.

Sincerely,

2 March 2018

Audit Committee

Chairman of the Audit Committee Mehmet CEYLAN	Member of the Audit Committee Mehmet BOSTAN

Audit Committee Reports

To the Board of Directors of Petkim Petrokimya Holding A.Ş.

01.01.2018-31.12.2018 Accounting Period Annual Activity Report

The independently audited comparative consolidated financial statements, (in comparison with previous period's financials) prepared for the accounting period of 01.01.2018-31.12.2018, in compliance with the Turkish Accounting Standards and the Turkish Financial Reporting Standards ("TAS" and "TFRS") published by the Public Oversight Authority and the Turkish Accounting and Auditing Standards Board within the scope of the Communiqué (Serial: II, No: 14.1) of Capital Markets Board ("CMB"), and prepared in compliance with the presentation principles that were determined with the Decision (dated 07.06.2013, No: 20/670) of CMB and announced in the weekly CMB Bulletin (dated 07.06.2013, No: 2013/19), was audited by getting the opinions of the executives who are responsible for the preparation of the Company's financial statements.

Limited within the scope of the information we have and we have been given, our opinion relating to this financial statements, were presented to the executives who have responsibility in the preparation of the financial statements. Within the framework of this opinion, we have reached a conclusion that this financial statements; truly reflects the facts regarding the Company's activity results and does not contain any significant deficiency that may cause misleading results, and complies with the CMB regulations.

Sincerely,

Chairman of the Audit Committee
Mehmet CEYLAN

Member of the Audit Committee
Mehmet BOSTAN

Convenience Translation Into English of Independent Auditor's Report on the Board of Directors' Annual Report Originally Issued in Turkish

To the General Assembly of Petkim Petrokimya Holding A.Ş

1. Opinion

We have audited the annual report of Petkim Petrokimya Holding A.Ş (the "Company") and its subsidiaries (collectively referred to as the "Group") for the 1 January - 31 December 2018 period.

In our opinion, the financial information and the analysis made by the Board of Directors by using the information included in the audited financial statements regarding the Group's position in the Board of Directors' Annual Report are consistent and presented fairly, in all material respects, with the audited full set consolidated financial statements and with the information obtained in the course of independent audit.

2. Basis for Opinion

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

3. Our Audit Opinion on the Full Set Consolidated Financial Statements

We expressed an unqualified opinion in the auditor's report dated 1 March 2019 on the full set consolidated financial statements for the 1 January - 31 December 2018 period.

4. Board of Director's Responsibility for the Annual Report

Group management's responsibilities related to the annual report according to Articles 514 and 516 of Turkish Commercial Code ("TCC") No. 6102 and Capital Markets Board's ("CMB") Communiqué Serial II, No:14.1, "Principles of Financial Reporting in Capital Markets" (the "Communiqué") are as follows:

Convenience Translation Into English of Independent Auditor's Report on the Board of Directors' Annual Report Originally Issued in Turkish

a) to prepare the annual report within the first three months following the balance sheet date and present it to the general assembly;

b) to prepare the annual report to reflect the Group's operations in that year and the financial position in a true, complete, straightforward, fair and proper manner in all respects. In this report financial position is assessed in accordance with the financial statements. Also in the report, developments and possible risks which the Company Group may encounter are clearly indicated. The assessments of the Board of Directors in regards to these matters are also included in the report.

c) to include the matters below in the annual report:

- events of particular importance that occurred in the Company after the operating year,
- the Group's research and development activities,
- financial benefits such as salaries, bonuses, premiums and allowances, travel, accommodation and representation expenses, benefits in cash and in kind, insurance and similar guarantees paid to members of the Board of Directors and senior management.

When preparing the annual report, the Board of Directors considers secondary legislation arrangements enacted by the Ministry of Trade and other relevant institutions.

5. Independent Auditor's Responsibility in the Audit of the Annual Report

Our aim is to express an opinion and issue a report comprising our opinion within the framework of TCC and Communiqué provisions regarding whether or not the financial information and the analysis made by the Board of Directors by using the information included in the audited financial statements in the annual report are consistent and presented fairly with the audited consolidated financial statements of the Group and with the information we obtained in the course of independent audit.

Our audit was conducted in accordance with the TSAs. These standards require that ethical requirements are complied with and that the independent audit is planned and performed in a way to obtain reasonable assurance of whether or not the financial information and the analysis made by the Board of Directors by using the information included in the audited financial statements in the annual report are consistent and presented fairly with the audited consolidated financial statements and with the information obtained in the course of audit.

PwC Bağımsız Denetim ve

Serbest Muhasebeci Mali Müşavirlik A.Ş.

Çağlar Sürücü, SMMM

Partner

İstanbul, 7 March 2019

Convenience translation into english of financial statements originally issued in turkish

Petkim Petrokimya Holding Anonim Şirketi and Its Subsidiaries

Consolidated Financial Statements as at 31 December 2018 Together with Independent Auditors' Report

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

To the General Assembly of Petkim Petrokimya Holding A.Ş.

A. Audit of the Consolidated Financial Statements

1. Opinion

We have audited the accompanying consolidated financial statements of Petkim Petrokimya Holding A.Ş. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements comprising a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with Turkish Financial Reporting Standards ("TFRS").

2. Basis for Opinion

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

3. Key Audit Matters

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

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Key Audit Matter	*How our audit addressed the key audit matter*
Contingent liabilities and disclosures related to tax proceedings (See Note 31). There are tax proceedings against the Group related to the special consumption tax ("SCT") practices for a product that the Group uses in its production processes. For the inspection related to transactions in 2014, as explained in detail in Note 31, the total of tax base, penalty and interest levied by the Ministry of Finance to the Group amounts to TRY165 million, and there are significant judgements regarding whether a provision should be recognized in relation to the tax proceedings according to related TFRS requirements such as the product does not have a Customs Tariff Statistics Position ("CTSP") number subject to SCT and even if it had, calculated SCT should be significantly lower than the amount claimed. As a result of the technical judgements as disclosed in Note 31, no provision has been recognized in the consolidated financial statements as of 31 December 2018. We focused on this issue during our audit work and identified this issue as a key audit matter due to the following reasons: - As a result of the assessments performed by the Group management, there is possibility that the impact of this matter could have a material impact on the Group's consolidated financial statements as of 31 December 2018. - Due to the complex processes specific to the petrochemical industry, assessment regarding whether the product is subject to SCT requires technical examination and assessment by considering the composition of the product. The Group management used tax and legal experts in the evaluation of the matter for not recognizing any provision for this complex issue. - Involvement of tax law experts in the audit process regarding the issue.	For the ongoing tax proceedings , we had meetings with Group's top management and tax specialists; obtained their assessments and opinions and performed the following audit procedures, with the involvement of our tax law specialists in the audit process: • We had meetings with the top management of the Group with the involvement of our tax experts to evaluate the Group management's opinions and judgements on the issue and current SCT practices. • We obtained letters from the lawyers of the Group regarding ongoing cases and our own experts reviewed their opinions. • We conducted interviews with the internal legal counsels of the Group and we obtained their evaluations regarding the ongoing cases. Our tax specialists also participated in those meetings and after reviewing the case records, they shared their risk assessment with the audit team. Opinions of our own experts also supported the opinions of the Group management. • We considered similar examples as benchmarks with our tax experts in order to make an assessment regarding the probability of realization of the mentioned risk amount. The result of this considerations also supported the opinions of the Group management. • Appropriateness and sufficiency of disclosures in the consolidated financial statement notes as per relevant accounting standards were evaluated. As a result of our work, we did not identified any significant findings in the audit procedures regarding the contingent liabilities and disclosures related to these continuing tax proceedings

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

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

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

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

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

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

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

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

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

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

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

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5. Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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

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

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

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

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

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

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

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B. Other Responsibilities Arising From Regulatory Requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No. 6102 and that causes us to believe that the Company's bookkeeping activities concerning the period from 1 January to 31 December 2018 period are not in compliance with the TCC and provisions of the Company's articles of association related to financial reporting.

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

3. In accordance with subparagraph 4 of Article 398 of the TCC, the auditor's report on the early risk identification system and committee was submitted to the Company's Board of Directors on 1 March 2019.

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

Çağlar Sürücü, SMMM
Partner

İstanbul, 1 March 2019

Convenience Translation Into English Of Financial Statements Originally Issued in Turkish Petkim Petrokimya Holding Anonim Şirketi and Its Subidiaries

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Petkim Petrokimya Holding Anonim Şirketi and Its Subidiaries

Consolidated Balance Sheet as At 31 December 2018

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

	Notes	Audited 31 December 2018	Audited 31 December 2017
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	3.009.408	1.460.449
Trade receivables		1.194.398	918.838
- Trade receivables from related parties	29	168.543	-
- Trade receivables from third parties	7	1.025.855	918.838
Other receivables		5.226	837.367
- Other receivables from related parties	29	3.043	833.339
- Other receivables from third parties	8	2.183	4.028
Inventories	5	1.129.581	893.579
Prepaid expenses		2.562.435	35.670
- Prepaid expenses to third parties	15	36.011	30.221
- Prepaid expenses to related parties	29	2.526.424	5.449
Derivative instruments	18	1.129	-
Other current assets		60.866	62.501
- Other current assets to third parties	17	60.866	62.501
Current income tax assets	20	31.925	-
TOTAL CURRENT ASSETS		**7.994.968**	**4.208.404**
NON - CURRENT ASSETS			
Financial investments	6	8.910	8.910
Other receivables		109.745	75.290
- Other receivables from related parties	29	109.745	75.290
Investment properties	10	1.476	1.470
Property, plant and equipment	11	4.085.395	3.172.393
Intangible assets	12	27.793	23.614
Prepaid expenses		72.110	46.358
- Prepaid expenses to third parties	15	52.115	25.270
- Prepaid expenses to related parties	29	19.995	21.088
Derivative financial instruments	18	624	-
Deferred income tax assets	20	270.900	237.963
Other non-current assets		15.885	14.453
- Other non-current assets related to third parties	17	15.885	14.453
TOTAL NON - CURRENT ASSETS		**4.592.838**	**3.580.451**
TOTAL ASSETS		**12.587.806**	**7.788.855**

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

Convenience translation into english of financial statements originally issued in turkish

Petkim Petrokimya Holding Anonim Şirketi and Its Subidiaries

Consolidated Balance Sheet as At 31 December 2018

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

	Notes	Audited 31 December 2018	Audited 31 December 2017
LIABILITIES			
CURRENT LIABILITIES			
Short-term borrowings		2.784.469	1.428.313
- Short-term borrowings from third parties		2.784.469	1.428.313
- Bank borrowings	9	1.261.339	630.422
- Other financial liabilities	9	1.523.130	797.891
Short-term portion of long-term borrowings		234.491	174.250
- Short-term portion of long-term borrowings from third parties		234.491	174.250
- Bank borrowings	9	170.377	174.250
- Bonds issued	9	64.114	-
Derivative instruments	18	13.954	-
Trade payables		697.145	540.279
- Trade payables to related parties	29	55.336	30.044
- Trade payables to third parties	7	641.809	510.235
Payables related to employee benefits	16	10.062	6.828
Other payables		48.712	38.096
- Other payables to related parties	29	25.302	29.049
- Other payables to third parties	8	23.410	9.047
Deferred revenue		23.519	40.805
- Deferred revenue from related parties	29	1.495	4.176
- Deferred revenue from third parties	14	22.024	36.629
Short term provisions		33.119	40.660
- Provision for employee benefits	16	30.051	19.730
- Other short term provisions	31	3.068	20.930
Current tax liabilities	20	-	68.417
Other current liabilities		16.640	9.259
- Other current liabilities related to third parties	17	16.640	9.259
TOTAL CURRENT LIABILITIES		**3.862.111**	**2.346.907**
NON-CURRENT LIABITIES			
Long term financial liabilities		4.306.321	1.349.502
- Long term financial liabilities from third parties		4.306.321	1.349.502
- Bank borrowings	9	1.681.996	1.349.502
- Bonds issued	9	2.624.325	-
Derivative financial instruments	18	-	6.739
Deferred revenue		178.668	136.064
- Deferred revenue from related parties	29	178.668	5.095
- Deferred revenue from third parties	14	-	130.969
Long term provisions		105.770	95.565
- Provision for employee termination benefits	16	105.770	95.565
TOTAL NON - CURRENT LIABILITIES		**4.590.759**	**1.587.870**
TOTAL LIABILITIES		**8.452.870**	**3.934.777**

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Petkim Petrokimya Holding Anonim Şirketi and Its Subidiaries

Consolidated Balance Sheet as At 31 December 2018

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

	Notes	Audited 31 December 2018	Audited 31 December 2017
EQUITY			
Equity attributable to owners of the parent company		**4.090.300**	**3.793.931**
Share capital	19	1.650.000	1.500.000
Adjustment to share capital	19	238.988	238.988
Share premium		64.188	214.188
Other comprehensive income/ (expense) not to be reclassified to profit or loss			
- Actuarial loss arising from defined benefit plan		(29.607)	(27.291)
Other comprehensive (expense) / income to be reclassified to profit or loss		(39.556)	(6.569)
- Currency translation differences		(29.645)	(2.795
- (Loss) / Gain on cash flow hedges		(9.911)	(3.774
Restricted reserves		310.644	192.599
Retained earnings		1.023.971	280.057
Net profit for the period / year		871.672	1.401.959
Non-controlling interest		**44.636**	**60.147**
TOTAL EQUITY		**4.134.936**	**3.854.078**
TOTAL LIABILITIES AND EQUITY		**12.587.806**	**7.788.855**

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

Convenience translation into english of financial statements originally issued in turkish

Petkim Petrokimya Holding Anonim Şirketi and Its Subidiaries

Consolidated Statement of Profit or Loss and Other Comprehensive Income for The Periods 1 January- 31 December 2018 and 2017

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

	Notes	Audited 1 January - 31 December 2018	(*) Audited 1 January - 31 December 2017
PROFIT OR LOSS			
Revenue	21	9.314.717	7.363.824
Cost of sales	21	(7.735.757)	(5.505.864)
GROSS PROFIT		**1.578.960**	**1.857.960**
General administrative expenses	22	(243.759)	(175.600)
Selling, marketing and distribution expenses	23	(77.586)	(59.440)
Research and development expenses	24	(22.303)	(17.168)
Other operating income	25	447.985	230.774
Other operating expense	25	(499.521)	(182.678)
OPERATING PROFIT		**1.183.776**	**1.653.848**
Income from investing activities	26	22.827	42.466
Expense from investing activities	26	(264)	(105)
OPERATING PROFIT BEFORE FINANCIAL INCOME/ (EXPENSE)		**1.206.339**	**1.696.209**
Financial income	27	2.408.338	647.614
Financial expenses	27	(2.610.877)	(682.728)
PROFIT BEFORE TAX FROM CONTINUED OPERATIONS		**1.003.800**	**1.661.095**
Tax expense from continuing operations		**(167.538)**	**(271.651)**
- Current tax expense	20	(125.936)	(248.526)
- Deferred tax expense	20	(41.602)	(23.125)
PROFIT FOR THE PERIOD CONTINUED OPERATIONS		**836.262**	**1.389.444**
DISTRIBUTION OF INCOME/(EXPENSE) FOR THE PERIOD			
- Non-controlling interest		(35.410)	(12.515)
- Owners of the parent company		871.672	1.401.959
Earnings Per Share			
- Earnings per Kr 1 number of 1 shares from continued operations	28	0,5283	0,8497

(*) See Note 2.4 for prior year reclassifications.

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

Convenience translation into english of financial statements originally issued in turkish

Petkim Petrokimya Holding Anonim Şirketi and Its Subidiaries

Consolidated Statements of Changes in Shareholders' Equity for The Periods 1 January- 31 December 2018 And 2017

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

			Other comprehensive (expense) / income not to be reclassified to profit or loss	Other comprehensive (expense) / income to be reclassified to profit or loss	
	Share capital	**Adjustment to share capital**	**Actuarial loss arising from defined benefit plan**	**(Loss) / gain on cash flow hedges**	**Currency translation differences**
1 January 2017	**1.500.000**	**238.988**	**(24.695)**	**572**	**-**
Transfers	-	-	-	-	-
Total comprehensive income	-	-	(2.596)	(4.346)	(2.795)
- Other comprehensive income	-	-	(2.596)	(4.346)	(2.795)
- Net profit for the period	-	-	-	-	-
Dividend paid	-	-	-	-	-
31 December 2017	**1.500.000**	**238.988**	**(27.291)**	**(3.774)**	**(2.795)**
1 January 2018	**1.500.000**	**238.988**	**(27.291)**	**(3.774)**	**(2.795)**
Transfers	150.000	-	-	-	-
Total comprehensive income	-	-	(2.316)	(6.137)	(26.850)
- Other comprehensive income	-	-	(2.316)	(6.137)	(26.850)
- Net profit for the period	-	-	-	-	-
Dividend paid	-	-	-	-	-
31 December 2018	**1.650.000**	**238.988**	**(29.607)**	**(9.911)**	**(29.645)**

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

Share premium	Restricted reserves	Net profit for the period	Retained earnings	Equity attributable to owners of the parent company	Non-controlling interests	Total equity
214.188	**104.958**	**725.786**	**241.912**	**3.001.710**	**67.730**	**3.069.439**
-	35.141	(725.786)	690.645	-		
-	-	1.401.959	-	1.392.222	(7.583)	1.384.639
-	-	-	-	(9.737)	4.932	(4.805)
-	-	1.401.959	-	1.401.959	(12.515)	1.389.444
-	52.500	-	(652.500)	(600.000)	-	(600.000)
214.188	**192.599**	**1.401.959**	**280.057**	**3.793.931**	**60.147**	**3.854.078**
214.188	**192.599**	**1.401.959**	**280.057**	**3.793.931**	**60.147**	**3.854.078**
(150.000)	71.545	(1.401.959)	1.330.414	-	-	-
-	-	871.672	-	836.369	(15.511)	820.858
-	-	-	-	(35.303)	19.899	(15.404)
-	-	871.672	-	871.672	(35.410)	836.262
-	46.500	-	(586.500)	(540.000)	-	540.000
64.188	**310.644**	**871.672**	**1.023.971**	**4.090.300**	**44.636**	**4.134.936**

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Petkim Petrokimya Holding Anonim Şirketi and Its Subidiaries

Consolidated Statement of Profit or Loss And Other Comprehensive Income for The Periods 1 January- 31 December 2018 And 2017

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

	Notes	Audited 1 January - 31 December 2018	Audited 1 January - 31 December 2017
OTHER COMPREHENSIVE (LOSS)/INCOME			
Items to be reclassified to Profit or Loss		**(13.088)**	**(2.209)**
Currency translation differences		(8.719)	1.588
Other comprehensive (loss)/income related with cash flow hedges		(5.461)	(4.746)
Tax relating to (loss)/gain on cash flow hedge		1.092	949
Items not to be reclassified to Profit or Loss		**(2.316)**	**(2.596)**
Defined benefit plans remeasurement Earnings/(losses)		(2.895)	(3.245)
Taxes relating to remeasurements of defined benefit plans		579	649
OTHER COMPREHENSIVE INCOME		**(15.404)**	**(4.805)**
TOTAL COMPREHENSIVE INCOME		**820.858**	**1.384.639**
Attributable to:			
Non-controlling interests		(15.511)	(7.583)
Owners of parent company		836.369	1.392.222

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

Convenience translation into english of financial statements originally issued in turkish

Petkim Petrokimya Holding Anonim Şirketi and Its Subidiaries

Consolidated Statements of Cash Flows for The Periods 1 January- 31 December 2018 and 2017

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

	Notes	Audited 1 January - 31 December 2018	Audited 1 January - 31 December 2017
A. Cash flows from operating activities:		**1.325.061**	**1.171.670**
Net profit for the year (I)		836.262	1.389.444
Adjustments related to reconciliation of (II) net profit (loss) for the year:		**1.043.114**	**520.290**
Adjustments for depreciation and amortization	11	242.330	168.598
Adjustments for impairments/ reversals			
- Adjustments for impairment of inventories	5	31.637	679
- Adjustments for other impairment		-	(22.699)
Adjustments for provisions			
- Adjustments for provision employee benefits		55.932	41.004
- Adjustments for provision legal cases	31	(134)	1.819
- Adjustments for other provisions		(17.994)	24.174
Adjustments for interest income/ (expense)			
- Adjustments for interest income	27	(224.293)	(86.186)
- Adjustments for interest expense	27	301.738	95.252
Adjustments for unrealized foreign currency translation differences		487.908	49.954
Adjustments for tax income/ losses	20	167.538	271.651
Adjustments for gain/ losses on sale of property, plant and equipment	26	(3.150)	(24.222)
Adjustments for income from government incentives		1.602	266
Changes in working capital (III)		**(289.826)**	**(510.519)**
Adjustments related to (increase)/decrease in trade receivables		(269.665)	(278.832)
Adjustments related to (increase)/decrease in other receivables		39.376	(53.417)
Adjustments related to (increase)/decrease in inventory		(252.380)	(280.053)
(Increase)/decrease in prepaid expenses		18.945	(11.201)
Adjustments for increase/(decrease) in trade payables		171.627	131.818
Adjustments for increase/(decrease) in other payables from operating activities		17.995	645
Increase/(decrease) in payables related to employee benefits		8.355	(18.602)
Adjustments for increase/(decrease) in deferred revenue		(24.080)	(877)
Cash flows from operating activities (I+II+III)		**1.589.550**	**1.423.524**
Employee benefits paid		(38.211)	(22.880)
Income taxes (paid)	20	(226.278)	(228.974)
B. Cash flows from investing activıties		**(2.462.428)**	**(765.575)**
Cash outflows from purchases of property, plant and equipment		(767.120)	(446.678)
Proceeds from sale of property, plant and equipment		442	(509)
Advances given and payables to related parties	29	(2.721.651)	(355.077)
Proceeds from related party advances and payables	29	1.062.819	-
Other cash advances and payables given		(36.918)	36.689
C. Cash flows from financing activities		**2.306.694**	**(201.439)**
Proceeds from borrowings	9	1.368.166	1.595.100
Repayments of borrowings	9	(862.765)	(1.275.913)
Proceeds from bonds issued	9	1.869.002	-
Proceeds from other financial liabilities	9	1.401.129	1.018.816
Repayments of other financial liabilities	9	(922.534)	(930.588)
Interest received		213.207	85.486
Interest paid		(219.511)	(94.340)
Dividends paid		(540.000)	(600.000)
D. Net increase / (decrease) in cash and cash equivalents before foreign currency translation differences (A+B+C)		**1.169.327**	**204.656**
E. Effect of currency translation differences on cash and cash equivalents		**379.632**	**(11.395)**
Net increase / (decrease) in cash and cash equivalents (D+E)		**1.548.959**	**193.261**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**4**	**1.460.449**	**1.267.188**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**3.009.408**	**1.460.449**

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

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Petkim Petrokimya Holding Anonim Şirketi and Its Subidiaries

Notes to The Condensed Consolidated Financial Statements for The Period Ended 31 December 2018

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

NOTE 1 - GROUP'S ORGANISATION AND NATURE OF OPERATIONS

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

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

- To establish and to operate factories, plants in Turkey home or abroad in relation to the petro-chemistry, chemistry and such other industrial sectors,
- To process and to treat the raw materials and supplementary/auxiliary substances, materials and chemicals necessary for the production of petrochemicals, chemicals and such other materials/substances by procuring such materials/substances either from Turkey or abroad, to produce such materials/substances, and to carry out and to perform the domestic and international trading thereof,
- In accordance with the Law 4628 on the Electricity Market, and the related legislation thereto, to establish power plants as per the auto-producer's license in order to meet its own need for electricity and heat/thermal energy at first, to generate electricity and heat/thermal energy, to sell the generated electricity and heat/thermal energy and/or the capacity to other legal persons holding the requisite licenses or to the eligible consumers as per the mentioned legislation in case of any surplus production, and to carry out and to perform the activities in relation to the obtainment of any and all kinds of equipment and fuel in relation to the electricity power/ generating plant provided that such activities are not of commercial nature,
- To carry out and to perform the activities in relation to the importation or purchase from domestic resources, of natural gas on wholesale and retail basis, utilization, storage of natural gas imported and purchased, in accordance with the legislation thereto,
- To carry out and to perform pilotage, trailer and mooring activities, to operate ports, cruise ports, passenger terminals, seaports, docks, harbors, berths, liquid fuel/liquefied petroleum pipeline and buoy systems, and such other similar onshore facilities/plants, and to be involved in port management activities, to offer port, agency, provision, bunkering services, and to provide that such services are offered by third parties either by way of leasing or such other methods when required, and to purchase, to have built and to lease, to sell the necessary vessels/naval platforms, and to establish either domestic or international partnerships in relation thereto, to operate warehouses, and to offer warehousing services,
- To support and to donate to the foundations, associations, educational institutions, which have been established for social purposes, and to such other persons, institutions and organizations in accordance with the principles prescribed by the Capital Markets Board.

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

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

As of 31 December 2018 and 31 December 2017 the ultimate shareholder of the Company is State Oil Company of Azerbaijan Republic ("SOCAR").

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

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

These consolidated financial statements were approved to be issued by the Board of Directors on 1 March 2019 and signed by Mr. Anar Mammadov, General Manager and Mr. Rıza Bozoklar, Vice President of Finance, on behalf of the Board of Directors.

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

Siteler Mh. Necmettin Giritlioğlu Cd. No: 6 35800 Aliağa/İZMİR

As of 31 December 2018, the Company's subsidiaries ("subsidiaries") the Company and its subsidiaries (hereinafter collectively referred to as the "Group") and their respective operating segments are as follows:

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

As of 31 December 2018, the average number of employees working for the Group is 2.493 (31 December 2017: 2.425). The details of the employees as of 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
Union (*)	1.917	1.877
Non - union (**)	642	587
	2.559	**2.464**

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

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT

2.1 Basis of Presentation

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

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

In addition, the Group arranged its consolidated financial statements prepared as per the TCC within the framework of the accounting policies determined under Note 2.5 in order to provide accurate presentation of legal records in line with TAS. The Group carried out the required adjustments and classifications considering the reporting formats in Financial Statement Formats and Guidance issued by the POAASA.

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

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

2.2 Amendments in Turkish Financial Reporting Standards

a) Standards, amendments and interpretations applicable as at 31 December 2018:

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

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

- **Annual improvements 2014-2016;** effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:
- TFRS 1, 'First time adoption of TFRS', regarding the deletion of short-term exemptions for first-time adopters regarding TFRS 7, TAS 19 and TFRS 10,
- TAS 28, 'Investments in associates and joint venture' regarding measuring an associate or joint venture at fair value.

b) Standards, amendments and interpretations that are issued but not effective as at 1 January 2019:

- **TFRIC 22, 'Foreign currency transactions and advance consideration';** effective from annual periods beginning on or after 1 January 2018. This TFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.
- **Amendment to TFRS 9, 'Financial instruments';** effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.

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

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

2.2 Amendments in Turkish Financial Reporting Standards (Continued)

b) Standards, amendments and interpretations that are issued but not effective as at 1 January 2019 (Continued)

- **Amendment to TAS 28, 'Investments in associates and joint venture';** effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using TFRS 9.
- **TFRS 16, 'Leases';** effective from annual periods beginning on or after 1 January 2019. This standard replaces the current guidance in TAS 17 and is a 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. For lessors, the accounting stays almost the same. However, since the guidance on the definition of a lease is updated (as well as the guidance on the combination and separation of contracts), lessors could also be affected by the new standard. 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.

i. Group as lessee

The Group will recognize asset and a liability for the right of use arising from the operational lease agreements in the consolidated financial statements. The mentioned accounting may be changed due to the nature of operational leasing expenses, depreciation of right of use of assets and interest expenses related to the lease liability. Previously, the Group recognized the operational lease expenses as the asset and / or liability in the financial statements when there was a difference between the straight-line method and the difference between the actual lease payments and the expense recognized.

ii. Group as lessor

The Group does not expect any significant impact in the accounting of the leases, for which the Group is lessor.

iii. Transition

On transition to TFRS 16, the Group elected to apply practical expedient to grandfather the assessment of which transitions are leases. It applied TFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under TAS 17 and TFRIC 4 were not reassessed for whether there is a lease.

Leases of property, plant and equipment where the group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Leases other than those will continue to be classified as operating leases. Finance leases were capitalized at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. As of 1 January 2019, as the first transition to TFRS 16, the Group will recognize asset and liability in the consolidated financial statements for the right of use arising from lease obligation. The right to use asset will be determined by also considering the effects of certain matters in the standard, if any, on the initial measurement amount of the lease. The Group will amortize the right to use from the effective date of the lease until the end of the useful life of the related asset At transition, lease liabilities will be measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at 1 January 2019.

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

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

2.2 Amendments in Turkish Financial Reporting Standards (Continued)

b) Standards, amendments and interpretations that are issued but not effective as at 1 January 2019: (Continued)

Significant income and expenses of the Group arising from operational leases are disclosed in Note 31. The Group will account these leasing agreements as of 1 January 2019 in accordance with TFRS 16. During the application of TFRS 16, borrowing interest rates disclosed in Note 9 will also be used. As of the date of this report, studies are in progress to quantify the effects of TFRS 16 on consolidated financial statements and this standard change is not expected to have a significant impact on the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows.

- **TFRIC 23, 'Uncertainty over income tax treatments';** effective from annual periods beginning on or after 1 January 2019. This TFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The TFRS IC had clarified previously that TAS 12, not TAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. TFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. TFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

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

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

- **Amendments to TAS 19, 'Employee benefits' on plan amendment, curtailment or settlement';** effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:
- use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and
- recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

- **Amendments to TAS 1 and TAS 8 on the definition of material;** effective from Annual periods beginning on or after 1 January 2020. These amendments to TAS 1, 'Presentation of financial statements',and TAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other TFRSs:
- use a consistent definition of materiality throughout TFRSs and the Conceptual Framework for Financial Reporting;
- clarify the explanation of the definition of material; and
- ncorporate some of the guidance in TAS 1 about immaterial information.

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

2.2 Amendments in Turkish Financial Reporting Standards (Continued)

b) Standards, amendments and interpretations that are issued but not effective as at 1 January 2019: (Continued)

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

The Group is assessing the impact of the amendments on it operations and shall apply amendments when they become effective.

2.3 Basis of consolidation

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

a) Subsidiaries

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

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

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

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

The table below sets out all subsidiaries included in the scope of consolidation together with the related voting rights and effective ownership rates at 31 December 2018 and 2017;

Subsidiaries	**Direct or Indirect Control Shareholding rates of the Group (%)**	
	31 December 2018	**31 December 2017**
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 CONSOLIDATED FINANCIAL STATEMENT (Continued)

2.3 Basis of consolidation (Continued)

b) Foreign currency translation

i) Functional and presentation currency

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

ii) Transactions and balances

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

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

Upon the change in functional currency of Petlim as US Dollars as of 1 January 2017, in accordance with the transition provisions of TMS 21, "Effects of Changes in Foreign Exchange", the financial statements of Petlim have been converted to US Dollars with the exchange rate as of 1 January 2017.

As of 31 December 2018, Petlim's assets and liabilities are translated into TL from the foreign exchange rate at the date of that balance sheet date. The income and expenses of Petlim are translated into TL at the average exchange rate. The effects of conversion of opening net assets of Petlim and the differences arising from the exchange rates at the average exchange rates and balance sheet dates are recognized in "currency translation differences" in other comprehensive income.

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

The end of the period:	**31 December 2018**	**31 December 2017**
Turkish Liras / US Dollars	5,2609	3,7719

Average:	**31 December 2018**	**31 December 2017**
Turkish Liras / US Dollars	4,0845	3,6443

2.4 Comparative information and correction of prior period financial statements

The Group prepared its consolıdated financial statements on a comparative basis with the preceding financial period, which enables determination of trends in financial position and performance. The Group prepared its balance sheet at 31 December 2018 on a comparative basis with balance sheet at 31 December 2017; and statements of profit or loss comprehensive income, cash flows and changes in equity for the period of 1 January - 31 December 2018 on a comparative basis with financial statements for the period of 1 January - 31 December 2017. 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.

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

2.4 Comparative information and correction of prior period financial statements (Continued)

As of 31 December 2018, the Group management reclassified non-recurring operational and managerial consultancy expenses amounting to TL25.338, which were classified as general administrative expenses as of 31 December 2017, as other operating expense in the consolidated statement of income.

Transition to TFRS 15 "Revenue from contracts with customers"

Group has applied TFRS 15 "Revenue from contracts with customers", which has replaced TMS 18, by using cumulative effect method on the transition date, 1 January 2018. In accordance with this method, no impact of transition for cumulative effect related to the transition of TFRS 15 has been made on retained earnings on the first application date.

Effects of the transition to TFRS 15 on consolidated financial statements as of 31 December 2018 are as follows:

	Balance before new standards applied	Adjustments (*)	Reported
Consolidated statement of Profit or Loss and Other Comprehensive Income			
Revenue	9.247.283	67.434	9.314.717
Other operating income and expense	515.419	(67.434)	447.985

(*) Impact of adjustments of unearned credit finance income.

Transition to TFRS 9 "Financial instruments"

In accordance with this method changes related to the classification of financial assets and liabilities are as follows and these changes in the classification do not result in changes in measurement of assets.

Financial assets	Original classification under TMS 39	New classification under TFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost
Financial instruments	Available for sale financial assets	Fair value through other comprehensive income
Trade and other receivables	Loans and receivables	Amortized cost
Derivative instruments	Fair value through statement of profit or loss	Fair value through statement of profit or loss

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

2.4 Comparative information and correction of prior period financial statements (Continued)

Financial liabilities	Original classification under TMS 39	New classification under TFRS 9
Borrowings	Amortized cost	Amortized cost
Other financial liabilities	Amortized cost	Amortized cost
Trade and other payables	Amortized cost	Amortized cost
Derivative instruments	Fair value through other comprehensive income	Fair value through other comprehensive income

2.5 Significant accounting policies

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

a. Inventories

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

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

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

b. Property, plant and equipment

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

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

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

2.5 Significant accounting policies (Continued)

b. Property, plant and equipment (Continued)

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

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

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

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

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

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

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

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

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

2.5 Significant accounting policies (Continued)

c. Intangible assets

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

The estimated useful lives of intangible assets are as follows:

	Useful life
Rights and software	3-15 years

d. Investment properties

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

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

e. Impairment of assets

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

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

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

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

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

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

2.5 Significant accounting policies (Continued)

f. Financial instruments

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

g Financial assets carried at amortized cost

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

Impairment

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

ii. Financial assets carried at fair value

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

Financial assets carried at fair value through profit or loss

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

Financial assets carried at fair value through other comprehensive income

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

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

2.5 Significant accounting policies (Continued)

Trade receivables

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

Cash and cash equivalents

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

Financial liabilities

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

Financial payables

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

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

2.5 Significant accounting policies (Continued)

Trade payables

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

Other financial liabilities

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

h Borrowing costs

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

i Government grants

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

j. Statement of cash flow

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

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

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

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

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

2.5 Significant accounting policies (Continued)

k. Related parties

Parties are considered related to the Group if

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

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

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

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

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

l. Taxation and deferred income taxes

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

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

2.5 Significant accounting policies (Continued)

l. Taxation and deferred income taxes (Continued)

Current tax

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

Deferred tax

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurementof deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

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

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

2.5 Significant accounting policies (Continued)

l. Taxation and deferred income taxes (Continued)

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

m. Employee benefits

Defined benefit plans

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

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

Defined contribution plan

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

Unused vacation

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

n. Provisions

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

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

2.5 Significant accounting policies (Continued)

o. Contingent assets and liabilities

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

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

p. Revenue recognition

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

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

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

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

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

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

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

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

2.5 Significant accounting policies (Continued)

p. Revenue recognition (Continued)

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

Revenue from port operation

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

r. The effects of foreign exchange rate changes

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

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

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

- Exchange differences considered as the correction item in the interest costs on the debts associated with the assets built for the purpose of future use and indicated in foreign currency and included in the cost of such assets,
- Exchange differences resulted from the transactions realized for the purpose of financial protection against the risks rising from foreign currency.

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

2.5 Significant accounting policies (Continued)

s. Operating lease

The Group as the lessee

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

The Group as the lessor

Assets leased out under operating leases are classified under property, plant and equipment in the consolidated balance sheet and rental income is recognized on a straight-line basis over the lease term.

t. Share capital and dividends

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

u. Share premiums

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

v. Subsequent events

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

y. Earnings per share

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

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

2.5 Significant accounting policies (Continued)

z. Segment reporting

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

aa. Offsetting

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

2.6 Significant accounting estimates, judgments and assumptions

a) Provision for lawsuits

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

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

The Group determines useful lives of tangible and intangible assets and investment properties in line with opinions of technical experts and recognizes depreciation and amortization expenses during aforementioned useful lives. The Group reviews useful lives of assets subject to aforementioned depreciation in each reporting period and it is estimated that there exist no situation requiring any adjustment in useful lives as of 31 December 2018.

c) Deferred income tax assets

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

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

2.6 Significant accounting estimates, judgments and assumptions (Continued)

d) Provision for employee benefits

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

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

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

NOTE 3 - SEGMENT REPORTING

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

The operating segment of the Group are as follows;

- Petrochemical
- Port

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NOTE 3 - SEGMENT REPORTING (Continued)

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

a) Revenue

	31 December 2018	31 December 2017
Petrochemical	9.169.627	7.276.770
Port	145.092	87.069
Total before eliminations and adjustments	**9.314.719**	**7.363.839**
Consolidation eliminations and adjustments	(2)	(15)
	9.314.717	**7.363.824**

b) Operating profit/(loss)

	31 December 2018	31 December 2017
Petrochemical	1.117.280	1.625.303
Port	50.998	11.232
Total before eliminations and adjustments	**1.168.278**	**1.636.535**
Consolidation eliminations and adjustments	15.498	17.313
Operating profit	**1.183.776**	**1.653.848**
Financial (expenses)/income, net	(202.539)	(35.114)
Income from investing activities, net	22.563	42.361
Profit before tax from continued operations	**1.003.800**	**1.661.095**
Tax expense	(167.538)	(271.651)
Profit for the period	**836.262**	**1.389.444**

c) Total assets

Petrochemical	11.583.892	6.891.966
Port	2.124.320	1.527.342
Total before eliminations and adjustments	**13.708.212**	**8.419.308**
Consolidation eliminations and adjustments	(1.120.406)	(630.453)
	12.587.806	**7.788.855**

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NOTE 3 - SEGMENT REPORTING (Continued)

d) Total liabilities

Petrochemical	7.243.428	2.940.164
Port	1.984.915	1.336.229
Total before eliminations and adjustments	**9.228.343**	**4.276.393**
Consolidation eliminations and adjustments	(775.473)	(341.616)
	8.452.870	**3.934.777**

NOTE 4 - CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Banks	3.006.484	1.460.449
- Demand deposits	7.188	16.526
- Turkish Liras	2.261	4.581
- Foreign currency	4.927	11.945
- Time deposits	2.999.296	1.443.923
- Turkish Liras	137.718	459.830
- Foreign currency	2.861.578	984.093
Other	2.924	-
	3.009.408	**1.460.449**

The weighted average effective interest rates of USD and Euro time deposits are 5,32 and 2,08% per annum (31 December 2017: USD 4,59%, Euro 1,64%).

As of 31 December 2018, the TL dominated time deposits consist of overnight deposits and the weighted average effective interest rate is 22,88% and 23,66% per annum. (31 December 2017: 14,78% and 15,14%). The Group has no blocked deposits as of 31 December 2018 (31 December 2017: None).

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NOTE 5 - INVENTORIES

	31 December 2018	31 December 2017
Raw materials	273.514	261.721
Work-in-progress	334.646	187.455
Finished goods	310.783	236.956
Trade goods	52.738	45.883
Goods in transit	130.836	115.474
Other inventories	60.379	47.766
Less: Provision for impairment on inventories	(33.315)	(1.678)
	1.129.581	**893.579**

Movements of provision for impairment on inventory for the periods ended 31 December 2018 and 2017 were as follows:

	2018	2017
1 January	**(1.678)**	**(999)**
Net current period (expense)/income	(31.637)	(679)
31 December	(33.315)	(1.678)

Cost of the raw materials and trade goods included in the cost of sales for the period 1 January - 31 December 2018 amounts to TL6.779.604 (1 January - 31 December 2017: TL4.721.310).

NOTE 6 - FINANCIAL INVESTMENTS

	Shareholding 31 December 2018		31 December 2017 Shareholding	
	Amount	**rate (%)**	**Amount**	**rate (%)**
SOCAR Power Enerji Yatırımları A.Ş	8.910	9,90	8.910	9,90
	8.910		**8.910**	

TL8.910.000 shares having a nominal price of TL0.001 per share corresponding to 9,9% of capital of SOCAR Power Enerji Yatırımları A.Ş. (SOCAR Power) (TL8.910) owned by SOCAR Turkey Elektrik Yatırımları Holding A.Ş (Power Holding), which is a subsidiary of controlling shareholder of the Group, SOCAR Turkey Enerji A.Ş., in Socar Power are purchased by the Group on January 26, 2015. As of 31 December 2018 and 2017, the cost of financial assets approximates to its fair value.

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NOTE 7 - TRADE RECEIVABLES AND PAYABLES

a) Short - term trade receivables from third parties

	31 December 2018	**31 December 2017**
Trade receivables	1.047.855	941.104
Provision for doubtful trade receivables (-)	(22.000)	(22.266)
	1.025.855	**918.838**

The maturity of trade receivables as of 31 December 2018 and 31 December 2017 are as follows:

Overdue receivables	18.637	28.338
The trade receivables that are not overdue are as stated below:		
0 to 30 days due	374.658	390.165
31 to 60 days due	226.020	198.562
61 to 90 days due	209.117	138.312
More than 91 days due	197.423	163.461
	1.025.855	**918.838**

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

Letters of guarantee received for trade receivables

The Group's receivables mainly arise from sales of thermoplastics and fiber materials. As of December 31, 2018, total amount of letters of guarantee received and bank guarantees within the context of direct order collection system ("DOCS") from domestic and foreign customers are amounting to TL2.032.063 (31 December 2017: TL1.394.024) (Note 31).

	2018	**2017**
1 January	**(22.266)**	**(15.820)**
Provision for doubtful trade receivables	(338)	(6.774)
Write-offs	604	328
31 December	**(22.000)**	**(22.266)**

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NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

b) Trade payables

	31 December 2018	31 December 2017
Trade payables	641.809	510.235
	641.809	**510.235**

Average maturity for trade payables other is 16 days as of 31 December 2018 (31 December 2017: 15 days).

NOTE 8 - OTHER RECEIVABLES AND PAYABLES

a) Other short term receivables:

	31 December 2018	31 December 2017
Receivables from third parties	1.710	1.797
Other	1.407	3.165
	3.117	**4.962**
Provision for other doubtful receivables (-)	(934)	(934)
	2.183	**4.028**

b) Other short term payables:

Deposits and guarantees received	12.957	6.641
Other	10.453	2.406
	23.410	**9.047**

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NOTE 9 - BORROWINGS AND BORROWING COSTS

	31 December 2018	31 December 2017
Short-term borrowings	1.261.339	630.422
Short-term portions of long-term borrowings (*)	170.377	174.250
Bonds issued (***)	64.114	-
Other financial liabilities (**)	1.523.130	797.891
Short term financial liabilities	**3.018.960**	**1.602.563**
Long term borrowings (*)	1.681.996	1.349.502
Bonds issued issued (***)	2.624.325	-
Long term borrowings	**4.306.321**	**1.349.502**
Long term financial liabilities	**7.325.281**	**2.952.065**

(*) Certain provisions concerning the long-term loan agreement for the container terminal investment of Petlim may possibly be deemed to have been breached due to the fact that all formal procedures for the completion of the port have not been completed yet and the shareholding structure of the company operating the port has changed. Currently, there is no dispute with the relevant finance institution concerning the loan in question. With the second phase of the terminal expected to be commissioned in short term and by obtaining an official waiver of the financial institution on the relevant provisions of the agreement,compliance with TMS 1 is achieved. Therefore, the Group classified the loan amounting to TL998.315, equivalent to USD 189.7 million as long term liability, considering the relevant provisions of TMS 1, as there is an explicit written legal document that prevents the withdrawal of the loan.

(**) Other financial liabilities consist of letters of credits arising from naphtha purchases. The average maturity of letter of credits to maturity is 95 days as of 31 December 2018 (31 December 2017: average maturity 186 days).

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

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NOTE 9 - BORROWINGS AND BORROWING COSTS (Continued)

	Effective weighted average Interest rate p.a. (%)		Original currency		TL equivalent	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Short - term borrowings:						
TL borrowings	No Interest	12,80	16.108	343.758	16.108	343.758
USD borrowings	Libor + 0,50 + 0,65	Libor + 0,65	221.152	76.000	1.163.461	286.664
Euro borrowings	Libor + 0,50	-	13.565	-	81.770	-
Short - term portions of long-term borrowings:						
USD borrowings	Libor + 4,67 - 4,26	Libor + 4,67 - 4,26	10.631	28.647	55.929	108.054
Euro borrowings	Euribor + 0,6 + 3,00 – 1,64	Euribor + 0,6 + 3,00 – 1,64	18.986	14.660	114.448	66.196
Bond issued	5,88	-	12.187	-	64.114	-
Total short - term borrowings					**1.495.830**	**804.672**
Long - term borrowings:						
USD borrowings	Libor + 4,67 - 4,26	Libor + 4,67 - 4,26	215.196	225.891	1.132.124	852.038
Euro borrowings	Euribor + 0,6 +3,00 - 1,64	Euribor + 0,6 + 3,00 – 1,64	91.220	110.168	549.872	497.464
Bond issued	5,88	-	498.836	-	2.624.325	-
Total long - term borrowings					**4.306.321**	**1.349.502**
Total borrowings					**5.802.151**	**2.154.174**

The redemption schedule of long-term bank borrowings as of 31 December 2018 and 31 December 2017 is as follows:

	31 December 2018
2020	174.808
2021	201.274
2022	218.618
2023	2.831.274
2024	225.618
2025 and over	654.729
	4.306.321

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NOTE 9 - BORROWINGS AND BORROWING COSTS (Continued)

	31 December 2017
2019	125.042
2020	129.040
2021	148.232
2022	160.293
2023	151.478
2024 and over	635.417
	1.349.502

Fair values of the short-term bank borrowings and other financial liabilities approximate their carrying values due to their short-term nature and long-term borrowings due to having floating interest rate updated with market conditions.

As of 31 December 2018, the collaterals given by the Group against US Dollar and Euro loans held are explained in Note 31. The Group is subject to some key performance indicators to for the bonds issued and the Group has met those indicators as of 31 December 2018.

Movements of financial liabilities are as of 31 December 2018 and 31 December 2017 as follows:

	2018	**2017**
1 January	**1.491.617**	**2.392.163**
Proceeds from financial liabilities	4.638.297	2.613.916
Repayments of financial liabilities	(1.785.299)	(2.206.501)
Changes in foreign exchange	1.441.371	149.111
Changes in interest accrual	78.843	3.377
Less: Cash and cash equivalents	(3.009.408)	(1.460.449)
31 December	**2.855.421**	**1.491.617**

NOTE 10 - INVESTMENT PROPERTIES

	31 December 2018	**31 December 2017**
Land	1.476	1.470
	1.476	**1.470**

30 years right of construction of the land, that is 1.969.478,40 m2, is given to the Star Rafineri A.Ş. ("STAR") by Group. The annual cost of the land, that is located in Aliağa district Arapçiftliği, is USD 5.1 million and the cost will be increased at the rate of Libor + 1% each year. 30 years right of construction of the land, that is 11.017.36 m2, is given to a third party by the Group.

According to the valuation report of a real estate appraisal company authorized by the CMB prepared for STEAŞ, the market value of the land has been determined as TL 378.125 in the year 2013.

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2018	Additions	Transfers	Disposals	Foreign currency translation differences	31 December 2018
Cost:						
Land	13.501	-	2.738	(23)	-	16.216
Land improvements	177.686	-	28.047	-	764	206.498
Buildings	171.743	-	15.818	-	236	187.797
Machinery and equipment	6.862.864	-	548.953	(3.535)	-	7.408.282
Motor vehicles	11.512	-	197	(81)	-	11.628
Furniture and fixtures	98.178	-	27.063	(899)	181	124.523
Other fixed assets	996	-	-	-	-	996
Leasehold improvements	671	-	-	-	-	671
Assets subject to operating lease (**)	663.032	-	566.597	-	395.027	1.624.656
Construction in progress (*)	963.829	768.655	(1.199.195)	(8.147)	30.388	555.530
	8.964.012	**768.655**	**(9.782)**	**(12.685)**	**426.596**	**10.136.797**
Accumulated depreciation:						
Land improvements	(90.896)	(6.552)	-	-	(119)	(97.567)
Buildings	(106.681)	(4.140)	-	-	(98)	(110.919)
Machinery and equipment	(5.504.853)	(186.296)	-	3.472	-	(5.687.677)
Motor vehicles	(8.893)	(932)	-	67	-	(9.758)
Furniture and fixtures	(57.109)	(9.205)	-	557	(130)	(65.887)
Other fixed assets	(996)	-	-	-	-	(996)
Leasehold improvements	(634)	(37)	-	-	-	(671)
Assets subject to operating lease	(21.558)	(45.196)	-	-	(11.173)	(77.927)
	(5.791.620)	**(252.358)**	-	**4.096**	**(11.520)**	**(6.051.402)**
Net book value	**3.172.393**					**4.085.395**

(*) Construction in progress mainly consist of investments related to facility improvements.
(**) Consist of Petlim port leased to a third party.

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2017	**Additions**	**Transfers**	**Disposals**	**Foreign currency translation differences**	**31 December 2017**
Cost:						
Land	13.522	-	-	(44)	23	13.501
Land improvements	115.727	-	61.831	-	129	177.687
Buildings	171.617	-	87	-	39	171.743
Machinery and equipment	6.560.806	-	311.918	(9.860)	-	6.862.864
Motor vehicles	12.513	-	822	(1.823)	-	11.512
Furniture and fixtures	91.566	-	18.065	(11.483)	30	98.178
Other fixed assets	996	-	-	-	-	996
Leasehold improvements	671	-	-	-	-	671
Assets subject to operating lease (**)	536.666	-	87.830	-	38.536	663.032
Construction in progress (*)	966.568	467.393	(486.132)	(15.425)	31.425	963.829
	8.470.652	**467.393**	**(5.579)**	**(38.635)**	**70.182**	**8.964.013**
Accumulated depreciation:						
Land improvements	(87.815)	(3.072)	-	-	(9)	(90.896)
Buildings	(102.922)	(3.745)	-	-	(14)	(106.681)
Machinery and equipment	(5.373.701)	(140.978)	-	9.826	-	(5.504.853)
Motor vehicles	(9.649)	(958)	-	1.714	-	(8.893)
Furniture and fixtures	(62.188)	(6.374)	-	11.473	(20)	(57.109)
Other fixed assets	(996)	-	-	-	-	(996)
Leasehold improvements	(589)	(45)	-	-	-	(634)
Assets subject to operating lease	(1.533)	(19.122)	-	-	(903)	(21.558)
	(5.639.393)	**(174.296)**	-	**23.013**	**(946)**	**(5.791.620)**
Net book value	**2.831.259**					**3.172.393**

(*) The ongoing investments mainly consist of investment in port investment.
(**) Consists of rented port investment.

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group has compared the investment loans in foreign currencies with investment loans in the same terms and conditions denominated in TL and no borrowing costs capitalized in 2018 (31 December 2017: TL15.091).

Depreciation charges amounting to TL257.996 for the year ended 31 December 2018 (31 December 2017: TL178.666) were allocated to cost of sales by TL222.073 (31 December 2017: TL157.433) to idle capacity expenses by TL15.666 (31 December 2017: TL10.068), to general administrative expenses by TL14.961 (31 December 2017: TL8.789), to marketing, selling and distribution expenses by TL2.246. (31 December 2017: TL1.395), and to research and development expenses by TL3.050 (31 December 2017: TL981).

As of 31 December 2018, Petlim Limancılık Ticaret A.Ş. has given 1st degree mortgage in favor of Akbank T.A.Ş. on its land amounting to USD 350 million on the date of 20 November 2015 (31 December 2017: USD350 million).

NOTE 12 - INTANGIBLE ASSETS

	1 January 2018	Additions	Transfers	Foreign Currency differences	31 December 2018
Cost:					
Rights and software	31.291	-	7.145	58	38.494
Capitalized development costs	11.500	-	2.637	-	14.137
	42.791	**-**	**9.782**	**58**	**52.631**
Accumulated amortization:					
Rights and software	(16.058)	(2.820)	-	(22)	(18.901)
Capitalized development costs	(3.119)	(2.818)	-	-	(5.937)
	(19.177)	**(5.638)**	**-**	**(22)**	**(24.838)**
Net book value	**23.614**				**27.793**

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NOTE 12 - INTANGIBLE ASSETS (Continued)

	1 January 2017	Additions	Transfers	Foreign Currency differences	31 December 2017
Cost:					
Rights and software	29.635	-	1.646	10	31.291
Capitalized development costs	7.567	-	3.933	-	11.500
	37.202	**-**	**5.579**	**10**	**42.791**
Accumulated amortization:					
Rights and software	(13.890)	(2.166)	-	(3)	(16.058)
Capitalized development costs	(914)	(2.205)	-	-	(3.119)
	(14.803)	**(4.371)**	**-**	**(3)**	**(19.177)**
Net book value	**22.399**				**23.614**

NOTE 13 - GOVERNMENT GRANTS

As of 31 December 2018, government grants consist of research and development incentives granted from TÜBİTAK amounting to TL2.413 (31 December 2017: TL2.109) and TL304 (31 December 2017: TL377) of that incentives grant has been presented in income statement. Investment incentives that of the Group are disclosed in Note 20.

NOTE 14 - DEFERRED REVENUE

a) Short term deferred revenue

	31 December 2018	31 December 2017
Advances received	20.121	34.590
Deferred revenue	1.903	2.039
	22.024	36.629

b) Long term deferred revenue

Deferred revenue (*)	-	130.969
	-	130.969

(*) Based on the operating agreement between the Company and APM Terminalleri Liman İşletmeciliği A.Ş. ("APM Terminalleri") dated 22 February 2013, upfront payments of USD 33 million were received as part of the total operating fee throughout the lease term of the port. The Group defers the upfront payments and realized respective revenue on a straight line basis. In accordance with the share transfer dated 26 December 2018, since all of the shares of APMT were acquired by STEAŞ, the related prepayment amounts were classified as deferred revenue from related parties to related party balances (Note 29).

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NOTE 15 - PREPAID EXPENSES

a) Short - term prepaid expenses

	31 December 2018	31 December 2017
Advances given for inventory	25.153	8.697
Advances given for customs procedures	2.169	11.088
Prepaid rent, insurance and other expenses	8.689	10.436
	36.011	**30.221**

b) Long - term prepaid expenses

Advances given for property, plant and equipment	45.270	8.155
Prepaid rent, insurance and other expenses	6.845	4.343
Advances given for customs procedures	-	12.772
	52.115	**25.270**

NOTE 16 - EMPLOYEE BENEFITS

a) Liabilities for employee benefits

	31 December 2018	31 December 2017
Social security contribution	8.598	6.339
Due to personnel	1.463	489
	10.062	**6.828**

b) Short - term employee benefits:

Provision for bonus premium	24.500	14.970
Provision for seniority incentive bonus	5.551	4.760
	30.051	**19.730**

c) Long - term employee benefits:

Provision for employment termination benefits	82.718	79.164
Provision for unused vacation rights	16.702	11.491
Provision for seniority incentive bonus	6.350	4.910
	105.770	**95.565**

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NOTE 16 - EMPLOYEE BENEFITS (Continued)

Provision for unused vacation:

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

	2018	2017
1 January	**11.491**	**8.867**
Changes in the period, net	5.211	2.624
31 December	**16.702**	**11.491**

Provision for employment termination benefits:

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

The amount payable consists of one month's salary limited to a maximum ceiling of TL5.434,42 for each year of service as of 31 December 2018 (31 December 2017: TL4.732,48).

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 December 2018	31 December 2017
Net discount rate (%)	5,00	4,39
Probability of retirement (%)	100,00	100,00

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of TL6.017,60 which is effective from 1 January 2019, has been taken into consideration in the calculation of employment termination benefits of the Group (1 January 2018: TL5.001,76).

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NOTE 16 - EMPLOYEE BENEFITS (Continued)

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

	2018	2017
1 January	**79.164**	**79.217**
Interest cost	9.262	9.266
Payments during the period	(14.409)	(12.422)
Service cost	6.974	6.348
Actuarial (gain)/loss	2.444	(3.245)
31 December	**82.718**	**79.164**

Sensitivity analysis of the assumptions, that are used in order to calculate the provision of the employment termination benefit as 31 December 2018 and 2017, are follows:

	31 December 2018 Net discount rate		31 December 2017 Net discount rate	
Sensitivity analysis	**100 Basis point increase**	**100 Basis point decrease**	**100 Basis point increase**	**100 Basis point decrease**
Rate	6,00	4,00	5,39%	3,39%
Change in liability of employment Termination benefit	(5.653)	6.678	(5.794)	4.361

Provision for seniority incentive bonus:

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

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

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

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NOTE 16 - EMPLOYEE BENEFITS (Continued)

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

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

	31 December 2018	31 December 2017
Net discount rate (%)	5,00	4,39
Used rate related to retirement probability (%)	100,00	100,00

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

	2018	2017
1 January	**9.670**	**5.841**
Interest cost	1.131	683
Payments during the period	(6.325)	(3.967)
Service cost	6.974	7.113
Actuarial (gain)/loss	451	-
31 December	**11.901**	**9.670**

NOTE 17 - OTHER ASSETS AND LIABILITIES

a) Other current assets

	31 December 2018	31 December 2017
Value added tax ("VAT") receivable	60.087	61.227
Other	779	1.274
	60.866	**62.501**

b) Other non - current assets

Spare parts	15.867	14.334
Other	18	119
	15.885	**14.453**

c) Other liabilities

Taxes and funds payable and other deductions	16.525	8.577
Other	115	682
	16.640	**9.259**

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NOTE 18 - DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2018			31 December 2017		
		Fair value (TL)			Fair value (TL)	
	Nominal contract amount (TL)	Assets	(Liabilities)	Nominal contract amount (TL)	Assets	(Liabilities)
Foreign currency forward transactions	152.866	1.129	(3.027)	-	-	-
Purchase and sale of futures	-	-	-	-	-	-
Emtia swap contract	114.718	-	(10.927)	-	-	-
Interest rate swap – transactions (*)	41.534	624	-	18.086	-	(6.739)
		1.753	**(13.954)**	**18.086**	**-**	**(6.739)**

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

NOTE 19 - EQUITY

The shareholders of the Company and their shareholdings as of 31 December 2018 and 31 December 2017 were as follows:

	31 December 2018		31 December 2017	
Shareholder:	**Amount**	**Share (%)**	**Amount**	**Share (%)**
A Socar Turkey Petrokimya A.Ş.	841.500	51,00	765.000	51,00
A Publicly traded and other	808.500	49,00	735.000	49,00
C Privatization Administration	-	0,01	-	0,01
Total paid share capital	**1.650.000**	**100**	**1.500.000**	**100**
Adjustment to share capital	238.988		238.988	
Total share capital	**1.888.988**		**1.738.988**	

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

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NOTE 19 - EQUITY (Continued)

With General Assembly meeting decision dated 30 March 2018, the issued capital was increased from TL1.500.000 to TL1.650.000 by TL 150.000 within the registered capital ceiling of TL4.000.000. All of the capital increase has been transferred from the premiums related to the shares to the capital account. The increased capital of TL150.000 has been issued to the shareholders of the 7th Serial, Group A shares in a proper manner. Approved and issued capital of the Company consist of 164.999.999.999 Group A shares, each of them having a registered nominal price of 1Kr, and 1 Group C preferred stock belonging to Management (December 31, 2017 - 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).

Capital of the Company is composed of all registered shares.

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

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

Dividend distribution

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

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

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

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NOTE 19 - EQUITY (Continued)

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

- In line with the determination of Profit Distribution Policy in 2013 and in the forthcoming years; the Company, in principle, accepts to distribute profits in cash to shareholders at the maximum level without disregarding its medium term and long term strategies, investment and financial plans, market conditions, and economic developments.
- According to the Article numbered 37 of Association of the Company, dividends in advance can be distributed.
- In the event that distributable profit is available in accordance with relevant communiqués, the Profit Distribution resolution to be taken by the Board of Directors in the form of cash and/or shares and/or installments as long as the amount is not below than 50% of the distributable profit within the frame of the provisions of Capital Market Legislation and Turkish Commercial Code shall be submitted to the approval of General Assembly; and the distribution shall be completed within legal terms.
- According to the Articles of Association of the Company, the amount to be determined by the General Assembly, not exceeding the 0,1% of distributable profits remaining after distribution of first dividend shall be distributed to Board Members.
- A consistent policy shall be followed between the benefits of the shareholders' and the company in the application of Profit Distribution Policy.
- The date of distribution shall be decided by General Assembly upon proposal of the Board. Profit distribution payments shall be completed within legal terms. For other methods of profit distribution, relevant legislation, communiqués, and regulations of CMB shall be followed.
- In the event that calculated "net distributable profit for the year" is below 5% of issued capital, no profit shall be distributed.
- When no profit is distributed, the Board of Directors shall inform the shareholders at General Assembly meeting about the reasons and how the undistributed profits would be allocated.

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

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

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

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

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

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NOTE 19 - EQUITY (Continued)

In the Ordinary General Assembly dated on March 30, 2018, it is decided that profit of the year 2017 amounting to TL540.000 (2016: TL600.000) to be distributed in cash dividends (each with a nominal value of 1 Kr 100 (the kr 1 amount) gross per share dividend: TL0,36) and there is a capital increase amounting to TL 150.000 from share premiums. Such dividend payment was completed by December 31, 2018.

NOTE 20 - TAX ASSETS AND LIABILITIES

a) Corporate tax:

Current tax liabilities at 31 December 2018 and 31 December 2017 are summarized below:

	31 December 2018	31 December 2017
Calculated corporation tax	125.936	248.526
Less: Prepaid taxes (-)	(157.861)	(180.109)
Total corporation tax liability	**(31.925)**	**68.417**

Tax expenses included in the income statement for the condensed consolidated periods ended 31 December 2018 and 2017 are summarized below:

	1 January - 31 December 2018	1 January - 31 December 2017
Deferred tax expense	(41.602)	(23.125)
Current period tax expense	(125.936)	(248.526)
Total tax expense	**(167.538)**	**(271.651)**

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

In Turkey, the corporate tax rate is 22% for 2018 (2017: 20%). Institutions tax rate is applied to the tax base that will result in deducting expenses not included in the deduction according to the tax legislation of the corporation's commercial income, deduction in the tax laws (exemption of participation profits, exception of investment discount etc.) and discounts (such as R&D discount). No further tax is payable unless the profit is distributed (except for the withholding tax at the rate of 19.8% calculated and paid on the exemption amount utilized in case of investment reduction exemption utilized under Article 61 of the Income Tax Law).

b) Deferred taxes

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

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

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NOTE 20 - TAX ASSETS AND LIABILITIES (Continued)

Details of cumulative temporary differences and the resulting deferred income tax assets and liabilities provided as of 31 December 2018 and 31 December 2017 are as follows:

	Taxable Temporary Differences		Deferred Income Tax Assets/(Liabilities)	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Difference between the carrying values and tax bases of property, plant, equipment and intangible assets	(99.163)	(201.665)	(19.833)	(40.333)
Deferred revenue related to the port rental agreement	(6.556)	-	(1.311)	-
Other	(4.468)	(3.338)	(893)	(668)
Deferred income tax liabilities	**(110.187)**	**(205.003)**	**(22.037)**	**(41.001)**
Unused investment incentives	888.885	894.457	236.079	239.803
Provision for employee benefits	135.816	115.290	27.163	23.058
Deferred revenue related to the Port rental agreement	-	35.478	-	7.096
Carry forward tax losses	21.976	-	4.395	-
Fair value difference of derivative financial instruments	13.954	2.933	2.791	1.483
Inventory provision	33.315	1.678	6.663	369
Rent allowance fee	4.309	4.476	862	895
Provision for legal cases	3.068	3.202	614	640
Other	71.850	32.748	14.370	5.620
Deferred income tax assets	**1.173.173**	**1.090.262**	**292.937**	**278.964**
Deferred tax assets / (liabilities) - net			**270.900**	**237.963**

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NOTE 20 - TAX ASSETS AND LIABILITIES (Continued)

The reconciliations of the taxation on income for the years ended December 31, 2018 and 2017 were as follows:

	1 January - 31 December 2018	**1 January - 31 December 2017**
Profit before tax	**1.003.800**	**1.661.095**
Statutory tax rate	22%	20%
Calculated tax expense based on effective tax rate	(220.836)	(332.219)
Reconciliation between the tax provision and calculated tax:		
Effect of unused tax losses for which no deferred tax asset was recognized	-	(2.661)
Utilised investment incentives during the year	53.029	52.883
Income exempt from tax	3.882	8.356
Non-deductible expense	(3.978)	(3.410)
Adjustments with no tax effects	-	3.442
Other	365	1.958
Total tax expense reported in the profit or loss statement	**(167.538)**	**(271.651)**

The movement of deferred income tax is as follows:

	2018	**2017**
1 January	**237.963**	**244.964**
Recognized in the profit or loss statement	(41.602)	(23.125)
Recognized in other comprehensive income	1.671	1.598
Foreign currency translation differences	72.868	14.526
31 December	**270.900**	**237.963**

The Group obtained a strategic investment incentive certificate from TC Ministry of Economy for PTA capacity increase project on January 4, 2013. The Group will be able to deduct 50% of the expenditures within the investment period that are in the scope of the investment incentives, from tax base, up to 90% as deduction from corporate tax. The Group has TL240.878 unused investment incentive within the scope of strategic investment incentive certificate at of December, 31, 2018. In this context, as of December 31, 2018 the Group has recognized deferred tax assets, that can be used in following periods, amounting to TL35.129

As a result of request from TC Ministry of Economy for RES investment, the project was included in the scope of the strategic incentive certificate for the request made in April 20, 2015. The Group will be able to deduct 22.2% of the expenditures within the investment period that are in the scope of the investment incentives, from tax base, up to 90% as deduction from corporate tax. The group has TL33.300 unused investment incentive within the scope of strategic investment incentive certificate as of December 31, 2018. In this context, as of December 31, 2018, the Group has recognized deferred tax asset, that can be used in following periods, amounting to TL1.214.

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NOTE 20 - TAX ASSETS AND LIABILITIES (Continued)

The Group has obtained regional investment incentive certificates from T.C. Ministry of Economy for factory modernization investment at the date of June 15, 2012. The Group will be able to deduct 50% of the expenditures within the investment period that are in the scope of the investment incentives, from tax base, up to 15% deduction from corporate tax. The group has TL249.450 unused investment incentive within the scope of strategic investment incentive certificate as of December 31, 2018. In this context, as of December 31, 2018, the Group has recognized deferred tax asset, that can be used in following periods, amounting to TL6.462.

The Group has obtained large scale of investment incentive certificate from T.C. Ministry of Economy for port project investments at the date of November 20, 2014. The Group will be able to deduct 25% of the expenditures within the investment period that are in the scope of the investment incentives, from tax base, up to 50% as deduction from corporate tax. The Group has TL773.096 unused investment incentives within the scope of the port project investment certificate. In this context, as of December 31, 2018, the Group has recognized deferred tax asset, that can be used in following periods, amounting to TL193.274.

As a result of projections made as of December 31, 2018, total investment expenditures made within the scope of total investment incentive documents foreseen to be used in deduction of expected future financial income amounted to TL888.885 (31 December 2017: TL894.457).

NOTE 21 - REVENUE AND COST OF SALES

	1 January - 31 December 2018	1 January - 31 December 2017
Domestic sales	5.758.811	4.726.839
Export sales	3.797.455	2.754.187
Other sales	76.748	39.960
Sales discounts (-)	(318.297)	(157.162)
Net sales	**9.314.717**	**7.363.824**
Direct raw materials and supplies	(5.396.480)	(3.942.756)
Cost of trade goods sold	(1.383.124)	(778.554.)
Energy	(479.824)	(381.284)
Labour costs	(323.765)	(251.301)
Depreciation and amortization	(222.073)	(150.850)
Changes in work in progress and finished goods	221.018	117.604
Other	(151.509)	(118.723)
Cost of sales	**(7.735.757)**	**(5.505.864)**

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NOTE 22 - GENERAL ADMINISTRATIVE EXPENSES

	1 January - 31 December 2018	**1 January - 31 December 2017**
Personnel expense	(113.058)	(76.801)
Outsourced services	(66.976)	(49.184)
Depreciation and amortization	(14.961)	(8.789)
Taxes, funds and fees	(11.360)	(6.737)
Energy expenses	(10.629)	(10.663)
Other	(26.775)	(23.426)
	(243.759)	**(175.600)**

NOTE 23 - MARKETING, SELLING AND DISTRIBUTION EXPENSES

	1 January - 31 December 2018	**1 January - 31 December 2017**
Outsourced services	(40.160)	(33.591)
Personnel expense	(23.715)	(14.896)
Depreciation and amortization	(2.246)	(1.395)
Other	(11.465)	(9.558)
	(77.586)	**(59.440)**

NOTE 24 - RESEARCH AND DEVELOPMENT EXPENSES

	1 January - 31 December 2018	**1 January - 31 December 2017**
Personnel expense	(15.102)	(11.644)
Outsourced services	(1.591)	(1.248)
Depreciation and amortization	(3.050)	(981)
Other	(2.560)	(3.295)
	(22.303)	**(17.168)**

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NOTE 25 - OTHER INCOME/ EXPENSES FROM OPERATING ACTIVITIES

a) Other operating income:

	1 January - 31 December 2018	1 January - 31 December 2017
Foreign exchange gains	380.593	110.405
Term sales income	35.163	57.951
Rent income	13.160	10.756
Reversal of impairment on advances given	-	31.807
Other	19.069	19.855
	447.985	**230.774**

b) Other operating expenses

	1 January - 31 December 2018	1 January - 31 December 2017
Foreign exchange losses	(308.992)	(88.194)
Consultancy expenses	(60.250)	(25.338)
Term purchase expense	(43.825)	(16.153)
Provision for doubtful receivables	(339)	(9.361)
Other	(86.115)	(43.632)
	(499.521)	**(182.678)**

NOTE 26 - INCOME / (EXPENSES) FROM INVESTMENT ACTIVITIES

a) Income from investment activities

	1 January - 31 December 2018	1 January - 31 December 2017
Rent income	19.677	18.244
Gain on sale of property, plant and equipment	3.150	24.222
	22.827	**42.466**

b) Expenses from investment activities

	1 January - 31 December 2018	1 January - 31 December 2017
Other	(264)	(105)
	(264)	**(105)**

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NOTE 27 - FINANCIAL INCOME / EXPENSES

a) Finance income

	1 January - 31 December 2018	1 January - 31 December 2017
Foreign exchange gains	2.180.848	556.410
Interest income	224.292	86.186
Other	3.198	5.018
	2.408.338	**647.614**

b) Finance expense

Foreign exchange loss	(2.243.934)	(566.312)
Interest expense	(301.738)	(95.252)
Commission expense	(49.520)	(6.230)
Interest expense on employee benefits	(9.262)	(9.951)
Other	(6.423)	(4.983)
	(2.610.877)	**(682.728)**

NOTE 28 - EARNINGS PER SHARE

	1 January - 31 December 2018	1 January - 31 December 2017
Net profit for the period of the equity holders of the parent	871.672	1.401.959
Weighted average number of shares with nominal value of Kr l each (thousand)	165.000	165.000
Earnings per share (Kr)	**0,5283**	**0,8497**

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NOTE 29 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Summary of the intercompany balances as of 31 December 2018 and 31 December 2017 and significant intercompany transactions during the period were as follows:

i) Balances with related parties

a) Short - term trade receivables from related parties:

	31 December 2018	31 December 2017
SOCAR Aliağa Liman İşletmeciliği A.Ş. (2)(*) (formerly "APM Terminalleri Liman İşletmeciliği A.Ş.")	168.543	-
	168.543	**-**

(*) According to share transfer agreement as of 26 December 2018, all shares of APMT acquired by STEAŞ.

b) Short - term other receivables from related parties:

	31 December 2018	31 December 2017
STEAŞ (1)	1.409	541.652
SCR Gayrimenkul A.Ş. (2)	923	68.432
SOCAR Turkey Akaryakıt Depolama A.Ş. (2)	180	-
STAR (2)	506	-
SOCAR Aliağa Liman İşletmeciliği A.Ş. (2)	24	
TANAP Doğalgaz İletişim A.Ş. (2)	1	5
SOCAR Turkey Petrokimya A.Ş. (1)	-	223.250
	3.043	**833.339**

c) Long - term other receivables from related parties:

	31 December 2018	31 December 2017
SOCAR Power Enerji Yatırımları A.Ş. (2)	109.745	75.290
	109.745	**75.290**

Revenue from Socar Power Enerji Yatırımları A.Ş. consist from land sale and rent receivable amounting to TL86.082, interest and other receivables amounting to TL23.663.

d) Short - term trade payables to related parties:

	31 December 2018	31 December 2017
STEAŞ (1)	45.330	29.559
Azoil Petrolcülük A.Ş. (2)	419	408
SOCAR Turkey Akaryakıt Depolama A.Ş. (2)	90	77
Socar Turkey Petrol Ener. Dağ. A.Ş. (2)	7.316	-
Petrokim Trading Ltd. ("Petrokim") (2)	-	-
SCR Gayrimenkul A.Ş. (2)	6	-
STAR (2)	2.175	-
	55.336	**30.044**

Short term trade payables to related parties are mainly consist of engineering services, consultancy and trade goods purchases. Average maturity of short term trade payables is 29 days. (31 December 2017: 6 days.).

(1) Shareholders of the Company

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

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

e) Other payables to related parties:

STEAŞ [1]	25.215	-
STAR [2]	-	28.962
Due to shareholder [1]	87	87
	25.302	**29.049**

f) Short - term deferred revenue from related parties

STAR [2]	1.495	4.176
	1.495	**4.176**

g) Long - term deferred revenue from related parties

SOCAR Aliağa Liman İşletmeciliği A.Ş. [2]	174.527	-
STAR [2]	4.141	5.095
	178.668	**5.095**

h) Short - term prepaid expense to related parties

STEAŞ[1] [*]	2.525.317	50
STAR [2]	1.107	5.399
	2.526.424	**5.449**

i) Long - term prepaid expense to related parties

	31 December 2018	31 December 2017
STAR [2]	19.892	20.999
STEAŞ[1]	103	89
	19.995	**21.088**

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

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

ii) Transactions with related parties

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

	1 January - 31 December 2018	**1 January - 31 December 2017**
SOCAR Turkey Petrokimya A.Ş. (1)	152.680	5.129
STEAŞ (1)	148.003	46.131
SOCARPowerEnerjiYatırımları A.Ş. (2)	33.031	8.223
SCR Gayrimenkul A.Ş. (2)	10.151	29.473
STAR (2)	5.231	4.997
SOCAR Turkey Akaryakıt Depolama A.Ş. (2)	971	19
Socar Turkey Petrol Ener. Dağ. (2)	(3.524)	(599)
Azoil Petrolcülük A.Ş. (2)	(6)	3
Petrokim (2)	-	139
Socar Gaz Ticareti A.Ş. (2)	-	(162)
	346.537	**93.353**

The Group has interest income for TL receivables with the rates of 27,63% and 27,65%, interest income for US Dollar receivables with the rates of 5,5% and 8,3% from SOCAR Power Enerji A.Ş. The Group has interest income from SOCAR Turkey Enerji A.Ş. with a rate of 32,25% for TL receivables. The breakdown of income from STAR is as follows; TL141 is foreing exchange gain, TL5.090 other income and the breakdown of income from STEAŞ is as follows;TL4.739 interest income,TL142.685 foreign exchange gain and TL579 other income. Income from SOCAR Power Enerji Yatırımları A.Ş. consists of TL24.974 foreign exchange gain and TL8.075 interest income. Income from SOCAR Turkey Petrokimya A.Ş. consists of TL 15.28 interest income and TL137.652 foreign exchange gain.

b) Service and rent purchases from related parties:

	1 January - 31 December 2018	**1 January - 31 December 2017**
STEAŞ(1)	43.623	36.071
STAR (2)	20.592	43.191
Other(2)	122	67
	64.337	**79.329**

The rent and service purchases from STAR consist of rent for naphtha tank amounting to TL16.271, engineering and other services purchases amounting to TL4.321. The service purchases from STEAŞ consist of labor cost charges of STEAŞ personnel amounting to TL8.149 and other services purchases amounting to TL35.474.

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

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

c) Product purchase from related parties:

SOCAR Turkey Petrol Enerji Dağıtım A.Ş.(2)	210.674	30.392
Socar Trading SA. (2)	40.427	-
Azoil Petrolcülük A.Ş. (2)	2.747	1.949
Petrokim (2)	-	333.601
SOCAR Turkey Petrokimya A.Ş. (1)	-	330.440
SOCAR Logistics DMCC(2)	-	52.973
	253.848	**749.355**

Purchases made by related parties during the period ended 31 December 2018 consist of commercial products and fuel purchases.

d) Product and service sales to related parties:

	1 January - 31 December 2018	**1 January - 31 December 2017**
STAR (2)	32.824	5.068
STEAŞ (1)	346	212
SOCAR Turkey Akaryakıt Depolama A.Ş. (2)	401	8
	33.571	**5.288**

e) Rent income from related parties:

STAR (2)	24.957	23.105
SOCAR Turkey Akaryakıt Depolama A.Ş. (2)	568	331
Socar Power Enerji Yatırımları A.Ş. (2)	-	9
	25.525	**23.445**

f) Key management compensation:

i. Key management compensation - short term:

Payments for salary and seniority incentives	21.550	13.657

(1) Shareholders of the Company
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i NOTE 29 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

ii. Key management compensation - long term:

Provision for unused vacation	1.621	777
Provision for employment termination benefits	250	169
Provision for seniority incentives	-	92
	1.871	**1.038**
	23.421	**14.695**

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

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

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

NOTE 30 - COMMITMENTS

As of July 25, 2014, the Group has signed a contract with STAR Rafineri A.Ş. whose main shareholder is SOCAR Turkey Enerji A.Ş. which is main shareholder of Petkim in the direction of purchasing naphtha approximately amounting to 1.600.000 tons per year and xysilen amounting to 270.000 tons per year for 20 years from STAR Rafineri which will be landed at Petkim Peninsula in order to ensure supply security and reduce costs. In addition, the Group has signed a cooperation contract with STAR Rafineri A.Ş. at the mentioned date and accordance with that contract the Group is going to sell steam for 20 years and serve solid and hazardous waste disposal, supply of workers on temporary duty and security services to STAR Rafineri which will be established by STAR Rafineri A.Ş. at Petkim Peninsula.

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NOTE 31 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

a) Short - term provisions:

	31 December 2018	31 December 2017
Provision for legal cases	3.068	3.202
Other	-	17.728
	3.068	**20.930**

b) Guarantees received:

Bank guarantees within the context of DOCS	946.920	633.725
Letters of guarantee received from customers	551.916	439.350
Receivable insurance	479.635	184.814
Letters of guarantee received from suppliers	263.916	144.219
Letters of credit	51.592	134.134
Mortgages	2.000	2.000
	2.295.979	**1.538.242**

c) Guarantees given:

Mortgages given to banks	2.069.233	1.204.129
Mortgage given to banks (*)	1.009.468	799.643
Custom offices	42.099	69.254
Other	134.997	91.310
	3.255.797	**2.164.336**

(*) Mortgage amounting to USD350 million is related with the borrowing for port investment amounting to USD 192 million as of 31 December 2018.

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

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

	31 December 2018	**31 December 2017**
A. Total amount of CPMs given for the Company's own legal personality	2.246.329	1.364.694
B. Total amount of CPMs given on behalf of fully consolidated companies (*)	1.009.468	799.643
C. Total amount of CPMs given for continuation of its economic activities on behalf of third parties		-
D. Total amount of other CPMs		
i. Total amount of CPMs given on behalf of the majority shareholder	-	-
ii. Total amount of CPMs given to on behalf of other group companies which are not in scope of B and C		-
iii. Total amount of CPMs given to on behalf of third parties which are not in scope of C		-
	3.255.797	**2.164.336**

(*) Petlim Limancılık Ticaret A.Ş., which the group owns its 70% shares, has signed a project finance credit agreement with a financial institution at an amount of USD 212 million which has 13 years maturity with the first 3 years no repayment period, for the external funding of the container port project. 1.009.000 of this facility has been utilized as of 31 December 2018. Petkim has guaranteed the loan repayment and its shares in Petlim Limancılık Ticaret A.Ş. amounting TL105 million has been pledged. The project has financial ration liabilities that are valid during the operating period. On 20 November 2015, a mortgage amounting to USD350 million was established on Petlim's land sold by Petkim at a price of TL5.650.

d) Ongoing cases and investigations

The Customs Administration levied an incremental VAT charge and fine amounting to TL1.413 on the Group in 2014, with the claim that the customs tariff statistical position of Pygas, which was imported by the group in 2014, requires SCT. The Group objected to the VAT charge and fine, then started legal proceedings when its objection was rejected by the Customs Administration.

While these lawsuits were in process, the Turkish Ministry of Finance started a limited tax inspection for the 2014 SCT with the claim that the customs tariff statistical position of Pygas requires SCT. As a result of this inspection, the Group was notified on 25 August 2017 of the imposition of a tax charge amounting TL99 thousand and penalty and interest of TL66 thousand. At the same time during 2017, two of the three ongoing lawsuits at local tax courts related to the imported Pygas were concluded in favour of the Group, with the conclusion that the product customs tariff statistical position does not require SCT. In the third lawsuit it was ruled that the product does require SCT but that the penalty amount was unfair. Subsequently on 28 September 2017 all the lawsuits which were heard at the Regional Administrative Court (the "Court of Appeals") were concluded in favour of the Group with rulings that the product's customs tariff statistical position does not require SCT, and a lawsuit was filed with the Council of State by the Customs Administration.

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

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

d) Ongoing cases and investigations (Continued)

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

The Group management and the Group legal consultants estimate that since the Court of Appeals has ruled that the customs tariff statistical position of Pygas does not require SCT, the tax principal and penalty communicated by the Turkish Ministry of Finance will then be concluded with a settlement and/or litigation in a way that does not constitute any material financial risk. Thus, no provision has been recognised in the consolidated financial statements as of 31 December 2018.

e) Operational leases

Annual income plans and amounts (not discounted) regarding to the operational lease income, which are not recognized in the consolidated financial statements of the Group as of 31 December 2018 and 31 December 2017 are as follows:

0-5 year	608.815	424.505
5-10 year(s)	640.561	441.457
10 years and more	2.710.140	1.980.682
Total	**3.959.516**	**2.846.644**

f) Operational lease expenses:

According to lease agreements with T.C. Ministry of Environment and Urbanization of the General Directorate of National Real Estate and T.C. Ministry of Agriculture and Forestry from the General Directorate of Forestry, The Group rented area of land investment in the year 2014 for 32 years and rent expense related to those agreements is amounting to TL16.126 for the year 2018 (2017: TL15.533).

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

a) Credit risk:

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

The credit risk exposure in terms of financial instruments as of December 31, 2018 and 2017 were as follows:

	31 December 2018				31 December 2017		
	Other receivables From related parties	**Receivables from related parties**	**Trade Receivables(1)**	**Cash and cash equivalents**	**Receivables from related parties**	**Trade Receivables(1)**	**Cash and cash equivalents**
Maximum amount of credit risk exposed as of reporting date (A+B+C+D+E) (2)	**112.788**	**168.543**	**1.025.855**	**3.009.408**	**908.629**	**918.838**	**1.460.449**
- The part of maximum credit risk covered with guarantees etc	-		(971.119)	-	-	(812.145)	-
A . Net book value of financial assets neither past due nor impaired (3)	112.788	168.543	1.007.218	3.009.408	908.629	890.500	1.460.449
B. Net book value of financial assets whose conditions are renegotiated otherwise will be classified as past due or impaired (3)	-		-	-	-	-	-
C. Net book value of assets past due but not impaired but not impaired (4)	-		18.637	-	-	28.338	-
- The part covered by guarantees etc	-		(12.038)	-	-	(21.693)	-
D. Net book value of assets impaired				-		-	
- Past due (gross book value)	-		22.000	-	-	22.266	-
- Impairment amount	-		(22.000)	-	-	(22.266)	-
- The part of net value covered with guarantees etc	-		-	-	-		-
E. Off-balance items exposed to credit risk	-		-	-	-	-	-

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

31 December 2018	**Receivables**		
	Related parties	**Third parties**	**Total**
1-30 days overdue	-	12.066	12.066
1-3 months overdue	-	6.229	6.229
3 months and over	-	342	342
The part covered by the guarantees	-	(12.038)	(12.038)
		6.599	**6.599**

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

31 December 2017	**Receivables**		
	Related parties	**Third parties**	**Total**
1-30 days overdue	-	9.213	9.213
1-3 months overdue	-	18.872	19.125
3 months and over	-	253	-
The part covered by the guarantees	-	(21.693)	(21.693)
		6.645	**6.645**

b) Liquidity Risk

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

The ability to fund the existing and prospective debt requirements is managed by maintaining the availability of fund providers' lines from high-quality lenders. In order to maintain liquidity, the Group management closely monitors the collection of trade receivables on time in order to and to prevent any financial burden that may result from late collections and arranges cash and non-cash credit lines with banks for the use of the Group. The Group's financial liabilities and liquidity analysis into relevant maturity groupings based on the remaining period as of December 31, 2018 and 2017 are as follows:

	31 December 2018				
	Value carried	**Total cash outflow (=I+II+III)**	**Less than 3 months (I)**	**3 months- 1 year (II)**	**1 - 5 years above (III)**
Contract due date:					
Bank credits	3.113.712	3.620.951	446.765	1.081.943	2.092.243
Other financial liabilities	1.523.130	1.536.696	635.743	900.953	-
Bond issued	2.688.439	3.315.760	75.278	75.273	3.165.209
Trade payables	641.809	645.098	645.098	-	-
Due to related parties	80.638	80.638	80.638	-	-
	8.047.728	**9.199.143**	**1.883.522**	**2.058.169**	**5.257.452**

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

b) Liquidity Risk (Continued)

	31 December 2017				
	Value carried	Total cash outflow (=I+II+III)	Less than 3 months (I)	3 months-1 year (II)	1 - 5 years above (III)
Contract due date:					
Bank credits	2.154.174	2.511.496	264.062	608.167	1.639.267
Other financial liabilities	797.891	807.020	75.194	731.826	-
Trade liabilities	540.279	545.194	545.194	-	-
Due to related parties	59.093	59.093	59.093	-	-
	3.551.437	**3.922.803**	**943.543**	**1.339.993**	**1.639.267**

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

	31 December 2018				
	Value carried	Total cash outflow (=I+II+III)	Less than 3 months (I)	3 months-1 year (II)	1 - 5 year above (III)
Contract due date:					
Derivative financial instruments	(13.330)	(171.212)	(152.868)	(18.968)	624

	31 December 2017				
	Value carried	Total cash outflow (=I+II+III)	Less than 3 months (I)	3 months-1 year (II)	1 - 5 year above (III)
Contract due date:					
Derivative financial instruments	(6.739)	(6.163)	-	-	(6.163)

c) Market risk

Foreign exchange risk

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

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

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

Foreign currency position

	31 December 2018				31 December 2017			
	TL Equivalent	**US Dollar**	**Euro**	**Other**	**TL Equivalent**	**US Dollar**	**Euro**	**Other**
1. Trade receivables	678.105	105.696	20.247	-	493.826	99.357	26.367	-
2a. Monetary financial assets (Cash, bank accounts included)	5.399.250	972.726	45.454	7.838	1.673.012	421.153	18.631	332
2b. Non-monetary financial assets	-	-	-	-	-	-	-	-
3. Current assets (1+2)	**6.077.355**	**1.078.422**	**65.701**	**7.838**	**2.166.839**	**520.511**	**44.999**	**332**
4. Trade receivables	-	-	-	-	-	-	-	-
5a. Monetary financial assets	750.365	142.631	-		385.307	102.152	-	-
5b. Non-monetary financial assets	-	-	-	-	-	-	-	-
6. Other	-	-	-	-	-	-	-	-
7. Non-current assets (4+5+6)	**750.365**	**142.631**	**-**	**-**	**385.307**	**102.152**	**-**	**-**
8. Total assets (3+7)	**6.827.720**	**1.221.053**	**65.701**	**7.838**	**2.552.145**	**622.663**	**44.999**	**332**
9. Trade payables	488.770	66.746	9.050	75.030	442.004	107.144	5.755	11.170
10. Financial liabilities	2.993.693	531.749	32.551	-	1.182.920	296.064	14.660	-
11a. Monetary other liabilities	-	-	-	-	-	-	-	-
11b. Non-monetary other liabilities	-	-	-	-	-	-	-	-
12. Short-term liabilities (9+10+11)	**3.482.463**	**598.495**	**41.601**	**75.030**	**1.624.924**	**403.2078**	**20.415**	**11.170**
13. Trade payables	-	-	-	-	-	-	-	-
14. Financial liabilities	3.314.131	525.434	91.220	-	625.745	34.010	110.168	-
15a. Monetary other liabilities	-	-	-	-	-	-	-	-
15b. Non-monetary other liabilities	-	-	-	-	-	-	-	-
16. Long-term liabilities (13+14+15a+15b)	**3.314.131**	**525.434**	**91.220**	**-**	**625.745**	**34.010**	**110.1678**	**-**
17. Total liabilities (12+16)	**6.796.594**	**1.123.929**	**132.821**	**75.030**	**2.250.669**	**437.217**	**130.583**	**11.170**
18. Net (liability)/asset contract value of derivative instruments (18a-18b)	**152.866**	**34.786**	**(5.000)**	**-**	**-**	**-**	**-**	**-**
18a. Amount of asset contract value of derivative instruments	183.006	**34.786**	-	**-**	**-**	**-**	**-**	**-**
18b. Amount of liability contract value of derivative instruments	(30.140)	-	**(5.000)**	**-**	**-**	**-**	**-**	**-**
19. Net foreign (liability) / asset position (8-17+19)	**31.126**	**97.124**	**(67.120)**	**(67.191)**	**301.476**	**185.445**	**(85.585)**	**(10.838)**
20. Net foreign currency (liability) / asset Position of monetary items (TFRS 7.B23) (=1+2a+4+5a-9-10-11a-13-14-15a)	**31.126**	**97.124**	**(67.120)**	**(67.191)**	**301.476**	**185.445**	**(85.585)**	**(10.838)**
21. Total fair value of financial instruments used for foreign currency hedging	**(1.898)**	**(575)**	**187**	**-**	**-**	**-**	**-**	**-**
22. Hedged amount for foreign currency assets	**183.006**	**34.786**	**-**	**-**	**-**	**-**	**-**	**-**
23. Hedged amount for foreign currency liabilities	**(30.140)**	**-**	**(5.000)**	**-**	**-**	**-**	**-**	
24. Export	**3.611.200**	**445.755**	**246.938**	**38.163**	**2.659.400**	**393.775**	**291.273**	**19.132**
25. Import	**5.764.669**	**1.114.524**	**55.666**	**85.919**	**4.121.330**	**1.048.872**	**68.073**	**350.883**

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

Table of sensitivity analysis for foreign currency risk

31 December 2018

	Profit/(Loss)		**Equity**	
	Appreciation of foreign currency	**Depreciation of foreign currency**	**Appreciation of foreign currency**	**Depreciation of foreign currency**
Change of USD by 10% against TL:				
1- Asset/(Liability) denominated in USD - net	51.096	(51.096)	51.096	(51.096)
2- The part hedged for USD risk (-)	-		18.301	(18.301)
3- USD effect - net (1+2)				
Change of EUR by 10% against TL:	**51.096**	**(51.096)**	**69.397**	**(69.397)**
4- Asset/(Liability) denominated in EUR - net	(40.460)	40.460	(40.460)	40.460
5- The part hedged for EUR risk (-)	-	-	(3.014)	3.014
6- EUR effect - net (4+5)	**(40.460)**	**40.460**	**(43.474)**	**43.474**
Change of other currencies by 10% against TL:				
7- Assets/(Liabilities) denominated in other foreign currencies – net	(7.523)	7.523	(7.523)	7.523
8- The part hedged for other foreign currency risk (-)	-	-	-	-
9- Other foreign currency effect - net (7+8)	**(7.523)**	**7.523**	**(7.523)**	**7.523**
Total (3+6+9)	**3.113**	**(3.113)**	**18.400**	**(18.400)**

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

Table of sensitivity analysis for foreign currency risk (Continued)

31 December 2017

	Profit/(Loss)		Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Change of USD by 10% against TL:				
1- Asset/(Liability) denominated in USD - net	69.948	(69.948)	69.948	(69.948)
2- The part hedged for USD risk (-)	-	-	-	-
3- USD effect - net (1+2) Change of EUR by 10% against TL:	**69.948**	**(69.948)**	**69.948**	**(69.948)**
4- Asset/(Liability) denominated in EUR - net	(38.646)	38.646	(38.646)	38.646
5- The part hedged for EUR risk (-)	-	-	-	-
6- EUR effect - net (4+5)	**(38.646)**	**38.646**	**(38.646)**	**38.646**
Change of other currencies by 10% against TL:				
7- Assets/(Liabilities) denominated in other foreign currencies - net	(1.155)	1.155	(1.155)	1.155
8- The part hedged for other foreign currency risk (-)	-	-	-	-
9- Other foreign currency effect - net (7+8)	**(1.155)**	**1.155**	**(1.155)**	**1.155**
Total (3+6+9)	**30.148**	**(30.148)**	**30.148**	**(30.148)**

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Petkim Petrokimya Holding Anonim Şirketi and Its Subidiaries

Notes to The Condensed Consolidated Financial Statements for The Period Ended 31 December 2018

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

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

The Group's interest rate position as of December 31, 2018 and 2017 is presented below:

	31 December 2018	**31 December 2017**
Financial instruments with fixed interest rate		
Financial liabilities		
USD Financial liabilities	4.390.231	962.111
EUR Financial liabilities	94.037	85.643
TL Financial liabilities	16.108	343.758
Financial instruments with variable interest rate		
USD Financial liabilities	2.172.852	1.082.535
EUR Financial liabilities	652.053	478.018

For the year round, if the interest rates increase/decrease by 100 base points ceteris paribus, the interest expense will change by +/(-) TL15.571 (31 December 2017: TL12.122).

ii) Price risk

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

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

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

d) Capital risk management

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

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

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

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

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

	31 December 2018	**31 December 2017**
Total financial debt (Note 9)	7.325.281	2.952.066
Less: Cash and cash equivalents (Note 4)	(3.009.408)	(1.460.449)
Net debt	4.315.873	1.491.617
Total equity	4.134.935	3.854.079
Net debt / equity ratio	**104%**	**39%**

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

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

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

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

Financial assets

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

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Petkim Petrokimya Holding Anonim Şirketi and Its Subidiaries

Notes to The Condensed Consolidated Financial Statements for The Period Ended 31 December 2018

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

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

Financial liabilities

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

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

Fair value estimation

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

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

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

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

December 31, 2018 and 2017, fair value and book value of financial statement were as follows:

31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial instruments	-	1.753	-	1.753
Total assets	**-**	**1.753**	**-**	**1.753**
Derivative financial liabilities	-	(13.954)	-	(13.954)
Total liabilities	**-**	**(13.330)**	**-**	**(13.330)**

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial instruments	-	-	-	-
Total assets	**-**	**-**	**-**	**-**
Derivative financial liabilities	-	6.739	-	6.739
Total liabilities	**-**	**6.739**	**-**	**6.739**

Other Matters

Events of special importance that took place after the end of the operation year

None

Annual Reports of the Parent Company Within the Group of Companies

Whether the Company holds an interest representing five percent, ten, twenty, twenty-five, thirty-three, fifty, sixty, seven or one hundred percent of the shares in the capital of an equity company or whether its interest falls below these percentages, and the reasons therefore.

In 2018 the Company did not hold an interest representing five percent, ten, twenty, twenty-five, thirty-three, fifty, sixty, seven or one hundred percent of the shares in the capital of an equity company nor its interest in the capital of an equity company fell below these percentages.

Petkim Petrokimya Holding A.Ş. Shareholder Structure

	31.12.2018		31.12.2017	
Ortaklar	**Paid-in Capital (TL)**	**%**	**Paid-in Capital (TL)**	**%**
Socar Turkey Petrokimya A.Ş.	841,500,000.00	51	765,000,000.00	51.00
Directorate of Privatization Administration	0.01	0	0.01	0
Traded on BİST (Publicly Held)	808,499,999.99	49	734,999,999.99	49
Total	**1,650,000,000.00**	**100.00**	**1,500,000,000.00**	**100.00**

The conclusion part of the report stipulated in Article 199 (4) of the Law upon request of a member of the governing body

Provided under the heading Relations with the Controlling Company.

This report has been published using recycled paper and environment-friendly technologies.

Produced by Tayburn
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