CONVENIENCE TRANSLATION OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

TÜRKİYE PETROL RAFİNERİLERİ A.Ş.

1 JANUARY - 31 DECEMBER 2019 CONSOLIDATED FINANCIAL STATEMENTS

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

INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Türkiye Petrol Rafinerileri A.Ş.

Audit of the consolidated financial statements

1. Our opinion

We have audited the accompanying consolidated financial statements of Türkiye Petrol Rafinerileri 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 2019, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and 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 consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated 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.

Key audit matters	How our audit addressed the key audit matters
Fair value of lands recognised using the revaluation method As further explained in Note 2.2, the Group started to account its lands, that are classified under property, plant and equipment, through revaluation method commencing from 31 March 2019. The total fair value of lands as of 31 December 2019 amounts to TRY7,206,546 thousand, representing a fair value increase of TRY 6,425,788 thousand (net of deferred taxes) that is recognised under equity. As further described in Note 2.2, the accounting policy of lands, that are classified under property, plant and equipment, is 'revaluation method'. The fair values of these assets are being determined by independent valuation institutions, that are accredited by the Capital Markets Board ("CMB") and are recognized in the consolidated financial statements following the Group management's assessment. Fair value of lands depends on the valuation methods used as well as the input and assumptions used in the valuation model. Fair values are directly affected by factors such as market conditions, specifications of each land, their physical conditions and geographic locations. Since the value of lands are material to the consolidated financial statements and in the determination of land fair values certain assumptions, such as the benchmarking analysis approach (market), cost approach and income approach, are being used which include variables that can lead to changes in the fair values of the lands, 'fair value of lands recognised using the revaluation method' is identified as a key audit matter.	The audit procedures we performed on the accounting for lands under revaluation method are as follows: The capability, competency and objectivity of the independent property valuation institution appointed by the Group is assessed in accordance with SIA 500. The completeness of the lands subject to revaluation is checked by comparing accounting records to valuation reports. The deeds and ownership ratios of lands were tested through the sampling method. Besides, we appointed another independent property valuation institution, that is also accredited by the CMB and holds a license, as an "auditor's expert" to support the related audit process. The following audit procedures were performed based on the sampling method with the support of the auditor's expert: • Comparison of the location, tenant and square meter information for the lands included in reports with the land registers, • Evaluation of the nature of the lands, • Evaluation of the appropriateness of the benchmarking analysis method used in revaluation of the relevant lands, • Determination of whether the lands that were the subject of calculations using the benchmark comparison method have features similar to the Group's lands or not, • Checking whether or not the valuation reports were prepared in line with the main principles. Fair values in the valuation reports were compared with the notes to assess, whether the amounts in notes and in the consolidated financial statements are consistent with the valuation reports or not. In addition, the sufficiency of the note explanations under the TFRS were evaluated. We have no material findings as a result of the above audit procedures we performed in connection with the fair value of the lands recognised using the revaluation method.

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 scepticism 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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- 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.

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 2019 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 12 February 2020.

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

Ediz Günsel, SMMM
Partner

İstanbul, 12 February 2020

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TÜRKİYE PETROL RAFİNERİLERİ A.Ş.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

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

ASSETS	Notes	Audited 31 December 2019	Audited 31 December 2018
Current Assets		**27,918,955**	20,962,205
Cash and cash equivalents	4	**10,652,009**	5,982,828
Trade receivables	6	**4,787,906**	5,428,738
Due from related parties	6, 28	**995,837**	1,132,117
Trade receivables from third parties		**3,792,069**	4,296,621
Other receivables	7	**45,617**	29,048
Other receivables from third parties		**45,617**	29,048
Derivative instruments	18	**303,992**	175,532
Inventories	8	**9,468,581**	6,764,745
Prepaid expenses	13	**236,762**	108,689
Other current assets	14	**2,424,088**	2,472,625
Non-current assets		**27,592,603**	19,073,522
Investments accounted for using the equity method	9	**1,362,777**	1,266,334
Investment properties	10	**-**	4,621
Property, plant and equipment	11	**20,334,715**	12,339,167
Right of use asset		**200,701**	-
Intangible assets	12	**51,744**	58,185
Other intangible assets		**51,744**	58,185
Derivative instruments	18	**98,741**	168,266
Prepaid expenses	13	**198,879**	378,000
Deferred tax assets	26	**3,767,503**	3,566,132
Other non-current assets	14	**1,577,543**	1,292,817
Total assets		**55,511,558**	40,035,727

LIABILITIES

Current liabilities		**28,120,266**	15,949,538
Short-term financial liabilities	5	**1,798,683**	1,141,869
Current portion of long term financial liabilities	5	**3,379,019**	2,971,529
Trade payables	6	**17,816,174**	7,496,141
Due to related parties	6, 28	**226,072**	77,096
Trade payables, third parties		**17,590,102**	7,419,045
Liabilities for employee benefits	16	**147,409**	127,500
Other payables	17	**55,409**	39,300
Due to related parties	17, 28	**28,297**	24,279
Other payables to third parties		**27,112**	15,021
Derivative instruments	18	**79,247**	236,050
Deferred income		**20,813**	4,878
Current income tax liabilities	26	**2,405**	98,749
Short-term provisions	15	**117,152**	80,345
Short-term provisions for employee benefits		**15,777**	8,863
Other provisions		**101,375**	71,482
Other current liabilities	14	**4,703,955**	3,753,177
Non-current liabilities		**14,254,752**	14,140,360
Long-term financial liabilities	5	**13,898,092**	13,836,142
Long-term provisions	15	**316,052**	257,392
Long-term provisions for employee benefits		**316,052**	257,392
Deferred income		**7,820**	3,638
Derivative Instruments	18	**31,950**	42,237
Other non-current liabilities		**838**	951
Non-current liabilities		**42,375,018**	30,089,898
Equity		**13,136,540**	9,945,829
Share capital	20	**250,419**	250,419
Adjustment to share capital	20	**1,344,243**	1,344,243
Accumulated other comprehensive income/(expense) not to be reclassified to profit or loss		**6,437,136**	3,478
Gains/ losses on revaluation and remeasurement		**6,418,891**	5,021
Gain on revaluation of properties		**6,425,788**	-
Actuarial gain/(loss) arising from defined benefit plans		**(6,897)**	5,021
Share of other comprehensive income of investments accounted for using equity method that will not be reclassified to profit or loss		**18,245**	(1,543)
Accumulated other comprehensive income/(expense) to be reclassified to profit or loss		**(1,850,305)**	(1,822,867)
Currency translation differences		**3,192**	-
Hedging gains/(losses)		**(2,100,116)**	(2,094,224)
Cash flow hedge gains/(losses)		**(2,100,116)**	(2,094,224)
Share of other comprehensive income of investments accounted for using equity method that will be reclassified to profit or loss		**246,619**	271,357
Restricted reserves	20	**503,343**	597,086
Retained earnings		**5,752,162**	5,739,481
Net income		**525,837**	3,712,789
Total equity attributable to equity holders of the parent		**12,962,835**	9,824,629
Non-controlling interests		**173,705**	121,200
Total equity and liabilities		**55,511,558**	40,035,727

These consolidated financial statements as of and for the year ended 31 December 2019 has been approved for issue by the Board of Directors ("BOD") on 12 February 2020. These consolidated financial statements will be finalised following their approval in the General Assembly.

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

TÜRKİYE PETROL RAFİNERİLERİ A.Ş.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Notes	**Audited** **1 January -** **31 December 2019**	Audited 1 January - 31 December 2018
Revenue	21	**89,600,776**	88,552,170
Cost of sales	21	**(84,716,489)**	(79,327,847)
Gross profit		**4,884,287**	9,224,323
General administrative expenses	22	**(1,277,213)**	(1,001,517)
Marketing expenses	22	**(482,074)**	(284,806)
Research and development expenses	22	**(24,073)**	(21,061)
Other operating income	23	**838,573**	930,619
Other operating expenses	23	**(1,709,363)**	(3,111,258)
Operating profit/(loss)		**2,230,137**	5,736,300
Income from investment activities	24	**-**	-
Expense from investment activities	24	**(152)**	(9,378)
Income/(loss) from investments accounted by equity method	9	**197,393**	265,880
Operating profit before financial income/(expense)		**2,427,378**	5,992,802
Financial income	25	**1,522,758**	3,286,945
Financial expense	25	**(4,261,484)**	(5,555,367)
Profit before tax from continued operations		**(311,348)**	3,724,380
Tax income/(expense)		**896,678**	37,065
Taxes on income		**(9,471)**	(218,388)
Deferred tax income/(expense)	26	**906,149**	255,453
Net income from continued operations		**585,330**	3,761,445
Other comprehensive income:			
Items not to be reclassified to profit or loss		**6,433,511**	6,917
Revaluation gain/(loss) on property	11	**7,139,764**	-
Actuarial gain/(loss) arising from defined benefit plans		**(15,270)**	9,273
Share of other comprehensive income accounted for investment using equity method that will be not reclassified to profit or loss		**19,788**	(393)
Actuarial gain/(loss) arising from defined benefit plans accounted for investment using equity method	9	**(1,043)**	(393)
Revaluation gain/(loss) on property of investments accounted with using equity method	9	**20,831**	-
Tax effect of other comprehensive income/(loss) not to be reclassified to profit or loss		**(710,771)**	(1,963)
Deferred tax income/(expense)		**(710,771)**	(1,963)
Items to be reclassified to profit or loss		**(34,279)**	(893,742)
Currency translation differences		**3,192**	-
Share of other comprehensive income accounted for investment using equity method that will be reclassified to profit or loss		**(24,738)**	90,483
Actuarial gain/(loss) of revaluation or classification of investments using equity method	9	**(34,666)**	72,644
Gain/(loss) from translation of foreign currency of investments using equity method	9	**9,928**	17,839
Income/(expense) relating to avoidance of risk of cash flow		**(18,726)**	(1,228,996)
Income/(loss) of avoidance of risk cash flow		**(18,726)**	(1,228,996)
Tax effect of other comprehensive income/(loss) to be reclassified to profit or loss		**5,993**	244,771
Deferred tax income/(expense)		**5,993**	244,771
Other comprehensive income/(expense)		**6,399,232**	(886,825)
Total comprehensive income/(expense)		**6,984,562**	2,874,620
Distribution of income for the period:			
Non-controlling interests		**59,493**	48,656
Attributable to equity holders of the parent		**525,837**	3,712,789
Distribution of total comprehensive income			
Non-controlling interests		**52,505**	16,886
Attributable to equity holders of the parent		**6,932,057**	2,857,734
Earnings (loss) per share from continued operations			
Earnings per share with nominal value Kr1 each (Kr)	27	**2.10**	14.83

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

TÜRKİYE PETROL RAFİNERİLERİ A.Ş.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in thousands of Turkish Lira ("TRY"), unless otherwise indicated)

			Accumulated other comprehensive income/(expense) not to be reclassified to profit or loss			Accumulated other comprehensive income/(expense) that will be reclassified to profit or loss				Total retained earnings				
			Gains/(losses) on valuation and remeasurement				Hedge gains/ (losses)							
	Share capital	Adjustment to share capital	Gain on revaluation of properties	Actuarial gains/(losses) arising from defined benefit plans	Share of other comprehensive income of investments accounted for using equitymethod that will be not reclassified to profit or loss	Currency translation differences	Cash flow hedge gains/(losses)	Share of other comprehensive income of investments accounted for using equity method that will be reclassified to profit or loss	Restricted reserves	Retained earnings	Net income/ (expense)	Equity holders of parent	Non controlling interest	Total equity
Audited														
1 January 2018	250,419	1,344,243	-	(2,211)	(1,150)	-	(1,141,847)	180,874	279,668	5,651,805	3,811,546	10,373,347	104,314	10,477,661
Transfers	-	-	-	-	-	-	-	-	339,393	3,472,153	(3,811,546)	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	(21,975)	(3,384,477)	-	(3,406,452)	-	(3,406,452)
- Net profit for the period	-	-	-	-	-	-	-	-	-	-	3,712,789	3,712,789	48,656	3,761,445
- Other comprehensive income	-	-	-	7,232	(393)	-	(952,377)	90,483	-	-	-	(855,055)	(31,770)	(886,825)
Total comprehensive income	-	-	-	7,232	(393)	-	(952,377)	90,483	-	-	3,712,789	2,857,734	16,886	2,874,620
31 December 2018	250,419	1,344,243	-	5,021	(1,543)	-	(2,094,224)	271,357	597,086	5,739,481	3,712,789	9,824,629	121,200	9,945,829
Audited														
1 January 2019	**250,419**	**1,344,243**	**-**	**5,021**	**(1,543)**	**-**	**(2,094,224)**	**271,357**	**597,086**	**5,739,481**	**3,712,789**	**9,824,629**	**121,200**	**9,945,829**
Transfers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,712,789**	**(3,712,789)**	**-**	**-**	**-**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(93,743)**	**(3,700,108)**	**-**	**(3,793,851)**	**-**	**(3,793,851)**
- Net profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**525,837**	**525,837**	**59,493**	**585,330**
- Other comprehensive income	**-**	**-**	**6,425,788**	**(11,918)**	**19,788**	**3,192**	**(5,892)**	**(24,738)**	**-**	**-**	**-**	**6,406,220**	**(6,988)**	**6,399,232**
Total comprehensive income	**-**	**-**	**6,425,788**	**(11,918)**	**19,788**	**3,192**	**(5,892)**	**(24,738)**	**-**	**-**	**525,837**	**6,932,057**	**52,505**	**6,984,562**
31 December 2019	**250,419**	**1,344,243**	**6,425,788**	**(6,897)**	**18,245**	**3,192**	**(2,100,116)**	**246,619**	**503,343**	**5,752,162**	**525,837**	**12,962,835**	**173,705**	**13,136,540**

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

TÜRKİYE PETROL RAFİNERİLERİ A.Ş.

CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2019

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

		Audited	
	Notes	**1 January - 31 December 2019**	1 January - 31 December 2018
Cash flows from operating activities		**11,334,588**	1,351,978
Profit/(loss) for the period		**585,330**	3,761,445
Adjustment for reconciliation of profit/(loss) for the period		**2,574,177**	2,491,882
Adjustment for depreciation and amortisation expense	11, 12	**706,116**	622,494
Adjustments for impairment(cancelation)		**(87,855)**	86,609
Adjustments for inventory impairment	8	**(87,855)**	86,609
Adjustment for provisions	15	**151,777**	117,957
Adjustment for interest (income) and expense	25	**1,371,357**	940,320
Adjustment for unrealized foreign currency translation differences		**(883,805)**	(2,918,108)
Adjustment for fair value (gain) or loss		**537,019**	130,739
Adjustment for undistributed profit accounted by equity method	9	**(197,393)**	(265,880)
Adjustment for tax expenses(income)	26	**(896,678)**	(37,065)
Adjustment for (gain)/loss on sales of property, plant and equipment	24	**152**	9,378
Adjustment for other items related with cash flow of investment or financial activities	25	**1,916,881**	3,777,952
Other adjustments for reconciliation of profit/(loss)		**(43,394)**	27,486
Changes in working capital		**8,354,542**	(4,675,072)
Adjustment for decrease/(increase) in trade receivables		**656,894**	(403,568)
Adjustment for decrease/(increase) in other receivables related with operations		**(381,602)**	(1,990,959)
Adjustment for decrease/(increase) in derivative assets		**(58,935)**	103,671
Adjustment for decrease/(increase) in inventories		**(2,615,981)**	(1,560,264)
Adjustment for increase/(decrease) in trade payables		**10,348,504**	(719,275)
Adjustment for increase/(decrease) in other payables related with operations		**572,752**	(202,463)
Adjustment for decrease/(increase) in derivative liabilities		**(167,090)**	97,786
Cash flows from operating activities		**11,514,049**	1,578,255
Tax returns/(payments)		**(105,823)**	(140,935)
Other cash inflow/(outflow)		**(73,638)**	(85,342)
Cash flows from investing activities		**(1,240,172)**	(715,982)
Cash inflows from the sales of property, plant and equipment and intangible assets		**1,195**	1,081
Cash outflows from the purchase of property, plant and equipment and intangible assets		**(1,337,367)**	(941,063)
Dividends received	9	**96,000**	224,000
Cash flows from financing activities		**(6,790,553)**	(6,593,759)
Cash inflows from financial liabilities	5	**49,759,252**	38,952,115
Cash outflows from financial liabilities	5	**(50,788,791)**	(41,005,302)
Cash inflows from derivative instruments		**84,997**	405,021
Cash outflows from derivative instruments		**(649,449)**	(666,358)
Cash outflows from payments of rent agreements	5	**(34,535)**	-
Dividends paid	20	**(3,793,851)**	(3,406,452)
Interest paid		**(1,961,722)**	(1,248,137)
Interest received		**593,546**	375,354
Net increase/(decrease) in cash and cash equivalents before the effect of foreign currency translation differences		**3,303,863**	(5,957,763)
Impact of foreign currency translation differences on cash and cash equivalents	25	**883,852**	2,918,108
Net increase/(decrease) in cash and cash equivalents		**4,187,715**	(3,039,655)
Cash and cash equivalents at the beginning of the period		**4,553,080**	7,592,735
Cash and cash equivalents at the end of the period	4	**8,740,795**	4,553,080

The accompanying notes form an integral part of these consolidated financial statements

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

1. Organization and nature of operations of the group

Türkiye Petrol Rafinerileri A.Ş. ("Tüpraş" or the "Company") was established on 16 November 1983. The Company is mainly engaged in the following fields:

- To provide and refine all kinds of crude oil, petroleum and chemical products, to sustain all kinds of commercial operations of produced and imported crude oil, petroleum and chemical products including export along with the storage and transportation activities during production and selling stages and to establish and operate domestic and foreign refineries for this purpose.

- To establish and operate factories and facilities in petrochemical and other related industries,

- To provide the necessary raw and supplementary materials and process, produce or trade these materials in order to obtain petrochemical and other related products,

- To package the products produced during various phases of production and to establish a packaging industry for this purpose, to evaluate and/or to sell waste, by products and substandard products, to establish and operate the necessary facilities for the destruction of the waste products,

- To establish and operate facilities and plants related with all kinds of energy and energy related industries within the framework of the laws and regulations. To obtain, use and trade all kinds of equipment, materials and chemical substances for this purpose,

- To purchase, sell, import, export, store, market all kinds of petroleum products, LPG and natural gas, to establish marketing and distributing companies or similar partnerships with legal entities or real persons or to acquire, transfer or sell the shares of partnerships, when necessary.

The main operations of Tüpraş and its subsidiaries (collectively referred as "the Group") are in Turkey and the Group's business segment has been identified as refining.

The Company is registered at the Capital Markets Board ("CMB") of Turkey and its shares have been quoted at Borsa İstanbul A.Ş. ("BIST") since 1991. As at 31 December 2019, the shares quoted on the BIST are 49% of the total shares. As of 31 December 2019, the principal shareholders and their respective shareholdings in the Company are as follows (Note 20):

	(%)
Enerji Yatırımları A.Ş.	51,00
Publicly held	49,00
	100,00

Enerji Yatırımları A.Ş., the parent of the Company is controlled by Koç Holding A.Ş., Koç Family and the companies owned by Koç Family.

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

1. Organization and nature of operations of the Group (Continued)

The nature of the business of the subsidiaries and joint ventures of the Group is as follows:

Subsidiaries	Country of incorporation	Nature of business
Ditaş Deniz İşletmeciliği ve Tankerciliği A.Ş. ("Ditaş")	Turkey	Crude oil and petroleum products transportation
Üsküdar Tankercilik A.Ş. ("Üsküdar")	Turkey	Crude oil and petroleum products transportation
T Damla Denizcilik A.Ş. ("Damla")	Turkey	Mooring and tug service
Kadıköy Tankercilik A.Ş. ("Kadıköy")	Turkey	Crude oil and petroleum products transportation
Beykoz Tankercilik A.Ş. ("Beykoz")	Turkey	Crude oil and petroleum products transportation
Sarıyer Tankercilik A.Ş. ("Sarıyer")	Turkey	Crude oil and petroleum products transportation
Kartal Tankercilik A.Ş. ("Kartal")	Turkey	Crude oil and petroleum products transportation
Maltepe Tankercilik A.Ş. ("Maltepe")	Turkey	Crude oil and petroleum products transportation
Salacak Tankercilik A.Ş. ("Salacak")	Turkey	Crude oil and petroleum products transportation
Karşıyaka Tankercilik A.Ş. ("Karşıyaka")	Turkey	Crude oil and petroleum products transportation
Bakırköy Tankercilik A.Ş. ("Bakırköy")	Turkey	Crude oil and petroleum products transportation
Karaköy Tankercilik A.Ş. ("Karaköy")	Turkey	Crude oil and petroleum products transportation
Çengelköy Tankercilik A.Ş. ("Çengelköy")	Turkey	Crude oil and petroleum products transportation
Pendik Tankercilik A.Ş. ("Pendik")	Turkey	Crude oil and petroleum products transportation
Tuzla Tankercilik A.Ş. ("Tuzla")	Turkey	Crude oil and petroleum products transportation
Göztepe Tankercilik A.Ş. ("Göztepe") (*)	Turkey	Crude oil and petroleum products transportation
Körfez Ulaştırma A.Ş. ("Körfez")	Turkey	Air, maritime, road and railtransportation

(*) Established and started its operations as of May 2019.

Joint ventures	Country of incorporation	Nature of business
OPET Petrolcülük A.Ş. ("Opet")	Turkey	Petroleum products retail distribution
THY Opet Havacılık Yakıtları A.Ş.	Turkey	Jet fuel supply services
Opet International Limited	United Kingdom	Petroleum products trading
Opet Trade B.V.	Netherlands	Petroleum products trading
Opet Trade Singapore(In liquidation) (*)	Singapore	Petroleum products trading
Opet Market ve Akaryakıt İstasyon İşletmeciliği A.Ş.(**)	Turkey	Petroleum products and retail
Opet Fuchs Madeni Yağ San. ve Tic. A.Ş.	Turkey	Lube oil trading
Op Ay Akaryakıt Ticaret Ltd. Şti.	Turkey	Petroleum products trading
Akdeniz Akaryakıt Depolama Nakliyat ve Tic. A.Ş.	Turkey	Petroleum products trading
Nemrut Liman ve Boru İşl. Nak. İç ve Dış Tic. Ltd. Şti.	Turkey	Marine services
Opet Aygaz Gayrimenkul A.Ş.	Turkey	Real estate

(*) The company discontinued its activities as of 15 July 2015.

(**) Opet Market and Akaryakıt İstasyon İşletmeciliği A.Ş. have been established in April 2019.

The average number of employees of the Group as at 31 December 2019 is 6,098 (31 December 2018 - 5,952).

The address of the registered office of the Company is as follows:

Türkiye Petrol Rafinerileri A.Ş.
Güney Mahallesi
Petrol Caddesi No:25 41790
Körfez, Kocaeli

2. Basis of presentation of consolidated financial statements

2.1. Basis of presentation

2.1.1 Financial reporting standards

The consolidated financial statements and disclosures have been prepared in accordance with the communiqué numbered II-14,1 "Communiqué on the Principles of Financial Reporting In Capital Markets" (the Communiqué) announced by the Capital Markets Board ("CMB") on 13 June 2013 which is published on Official Gazette numbered 28676. In accordance with article 5th of the Communique, companies should apply Turkish Financial Reporting Standards ("TFRS") and interpretations regarding these standards as published by the Public Oversight Accounting and Auditing Standards Authority of Turkey ("POA").

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

The Group and the group companies established in Turkey maintain their books of account and prepare their statutory financial statements ("Statutory Financial Statements") in accordance with rules and principles published by POA, the Turkish Commercial Code ("TCC"), tax legislation and the Uniform Chart of Accounts issued by the Ministry of Finance. These consolidated financial statements have been prepared under the historical cost convention except for the lands and derivative instruments that are carried at fair value. These consolidated financial statements are based on the statutory records with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with the Turkish Financial Reporting Standards.

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in TRY, which is the functional currency of Tüpraş and the presentation currency of the Group.

2.1.2 Amendments in Turkish Financial Reporting Standards (TFRS)

The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2019 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and IFRIC interpretations effective as of 1 January 2019. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

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

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

2. Basis of presentation of consolidated financial statements (Continued)

2.1. Basis of presentation (Continued)

a) Standards, amendments and interpretations applicable as at 31 December 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. The amendments do not have a significant impact in the Group's consolidated financial statement.

- **TFRS 16, 'Leases';** effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if TFRS 15'Revenue from Contracts with Customers' is also applied. This standard replaces the current guidance in TAS 17 and is a farreaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The TASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the TASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The impact of the amendment on The Group's financial position and performance has been assessed (Note 2.2).

- **TFRS 23, 'Uncertainty over income tax treatments';** effective from annual periods beginning on or after 1 January 2019. This TFRS clarifies how the recognition and measurement requirements of TAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The TFRS Interpretation Committee previously clarified that if there is uncertainty in tax practices, TAS 37 'Provisions, Contingent Liabilities and Contingent Assets' should be applied instead of TAS 12. TFRS 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. TFRS 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 receivables and tax rates. The amendments do not have a significant impact in the Group's consolidated financial statement.

- **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.

2. Basis of presentation of consolidated financial statements (Continued)

2.1. Basis of presentation (Continued)

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

The amendments do not have a significant impact in the Group's consolidated financial statement.

- **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.

The amendments do not have a significant impact in the Group's consolidated financial statement.

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

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

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

The amendments do not have a significant impact in the Group's consolidated financial statement.

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

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

- **TFRS 17, 'Insurance contracts';** effective from annual periods beginning on or after 1 January 2021. This standard replaces TFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. TFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The amendment is not expected to have an impact on the financial position and performance of the Group.

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

2. Basis of presentation of consolidated financial statements (Continued)

2.1. Basis of presentation (Continued)

2.1.3 Financial statements of joint ventures operating in foreign countries

Financial statements of joint ventures operating in foreign countries are prepared according to the legislation of the country in which they operate, and adjusted to the Turkish Financial Reporting Standards to reflect the proper presentation and content. Foreign joint ventures' assets and liabilities are translated into TRY with the foreign exchange rate at the balance sheet date. Exchange differences arising from the retranslation of the opening net assets of foreign undertakings and differences between the average and balance sheet date rates are included in the "Gain/(loss) from translation of foreign currency of investments using equity method" under the other comprehensive income statement and shareholders' equity.

2.1.4 Principles of consolidation

a) The consolidated financial statements for the year ended 31 December 2019 have been prepared in accordance with principles stated on the consolidated financial statements for the year ended 31 December 2018 and include financial statements of Tüpraş, and its Subsidiaries.

b) At 31 December 2019, there are no changes in voting rights or proportion of effective interest on subsidiaries and joint ventures that are subject to consolidation from the information stated on consolidated financial statements for the year ended 31 December 2018.

	31 December 2019		31 December 2018	
	Direct and indirect Voting rights possessed by the Company (%)	**Proportion of effective interest (%)**	Direct and indirect Voting rights possessed by the Company (%)	Proportion of effective interest (%)
Subsidiary				
Ditaş	**79.98**	**79.98**	79.98	79.98
Üsküdar	**79.98**	**79.98**	79.98	79.98
Damla	**79.98**	**79.98**	79.98	79.98
Beykoz	**79.98**	**79.98**	79.98	79.98
Kadıköy	**79.98**	**79.98**	79.98	79.98
Sarıyer	**79.98**	**79.98**	79.98	79.98
Kartal	**79.98**	**79.98**	79.98	79.98
Maltepe	**79.98**	**79.98**	79.98	79.98
Salacak	**79.98**	**79.98**	79.98	79.98
Karşıyaka	**79.98**	**79.98**	79.98	79.98
Bakırköy	**79.98**	**79.98**	79.98	79.98
Karaköy	**79.98**	**79.98**	79.98	79.98
Çengelköy	**79.98**	**79.98**	79.98	79.98
Pendik	**79.98**	**79.98**	79.98	79.98
Tuzla	**79.98**	**79.98**	79.98	79.98
Göztepe(*)	**79.98**	**79.98**	-	-
Körfez	**100.00**	**100.00**	100.00	100.00

(*) Established and started its operations as of May 2019.

The statement of financial position and statement of comprehensive income of the subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by the Company is eliminated against the related equity. Intercompany transactions and balances between the Company and its subsidiary are eliminated on consolidation. The cost of and the dividends arising from, shares held by the Company in its subsidiary are eliminated from equity and income for the year, respectively.

c) Joint ventures are companies in which the Group has joint control. Joint control is the contractually agreed sharing of control. The control, exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group's interest in joint ventures is accounted for with equity method. Investments accounted by equity method are presented in consolidated statement of financial position with additions or deductions of changes on share of the Group on net assets of the affiliate and with deduction of provisions for the decline in the value. The changes of the amount, not reflected on income or loss of the joint venture, on the equity of the joint venture can requisite an adjustment on the net book value of the joint venture in proportion of the Group's share.

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

2. Basis of presentation of consolidated financial statements (Continued)

2.1. Basis of presentation (Continued)

2.1.4 Principles of consolidation (Continued)

The table below shows the total interest of the Group in its joint ventures accounted by equity method as at 31 December 2019 and 31 December 2018:

	31 December 2019		31 December 2018	
	Direct and indirect Voting rights Possessed by the Company (%)	**Proportion of interest (%)**	Direct and indirect Voting rights Possessed by the Company (%)	Proportion of interest (%)
Joint ventures accounted by equity method				
Opet	**50.00**	**40.00**	50.00	40.00
Opet International Limited (*)	**50.00**	**40.00**	50.00	40.00
Opet Trade B.V.(*)	**50.00**	**40.00**	50.00	40.00
Opet Trade Singapore(In liquidation)(*) (**)	**50.00**	**40.00**	50.00	40.00
Opet Market ve Akaryakıt İstasyon İşletmeciliği A.Ş. (*) (***)	**50.00**	**40.00**	-	-
THY Opet Havacılık Yakıtları A.Ş.(*)	**25.00**	**20.00**	25.00	20.00
Opet Fuchs Madeni Yağ San. ve Tic. A.Ş.(*)	**25.00**	**20.00**	25.00	20.00
Op Ay Akaryakıt Ticaret Ltd. Şti.(*)	**25.00**	**20.00**	25.00	20.00
Akdeniz Akaryakıt Depolama Nakliyat ve Tic. A.Ş.(*)	**16.65**	**13.32**	16.65	13.32
Nemrut Liman ve Boru İşl. Nak. İç ve Dış Tic. Ltd. Şti.(*)	**12.50**	**10.00**	12.50	10.00
Opet Aygaz Gayrimenkul A.Ş.(*)	**25.00**	**20.00**	25.00	20.00

(*) Related companies are consolidated or accounted by equity method in Opet's financial statements.

(**) The company discontinued its activities as of 15 July 2015.

(***) Opet Market and Akaryakıt İstasyon İşletmeciliği A.Ş. have been established in April 2019.

d) The non-controlling shareholders' share of the net assets and results for the period for the subsidiaries are classified separately in the consolidated statement of financial position and statements of comprehensive income as non-controlling interest.

2.2. Changes in accounting policies

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

Impacts of the first time adoption of TFRS 16 on the condensed interim consolidated financial statements of the Group are as below:

TFRS 16 Leases

The Group - as a lessee

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

2. Basis of presentation of consolidated financial statements (Continued)

2.2. Changes in accounting policies (Continued)

The Group - as a lessee (Continued)

To assess whether a contract conveys the right to control the use of an identified asset, The Group assess whether:

- The contract involved the use of an identified asset – this may be specified explicitly or implicitly.
- The asset should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, the asset is not identified.
- The Group has the right to obtain substantially all of the economic benefits from the use of an asset throughout the period of use; and
- The Group has the right to direct use of the asset.

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

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

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

Right of use asset

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

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

The Group re-measure the right of use asset:

a) After netting-off depreciation and reducing impairment losses from right of use asset,
b) Adjusted for certain re-measurements of the lease liability recognized at the present value

The Group applies TMS16 "Property, Plant and Equipment" to amortize the right of use asset and to asses for any impairment.

TAS 36 "Impairment of Assets" is applied to determine whether an asset is impaired and to recognize any impairment loss.

Lease Liability

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

2. Basis of presentation of consolidated financial statements (Continued)

2.2. Changes in accounting policies (Continued)

The Group - as a lessee (Continued)

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

a) Fixed payments, including in-substance fixed payments;
b) Variable lease payments that depend on an index or a rate, initially measured using the index or rate as the commencement date,
c) The exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewable period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain to terminate early.

After initial recognition, the lease liability is measured:

a) Increasing the carrying amount to reflect interest on lease liability
b) Reducing the carrying amount to reflect the lease payments made and
c) Remeasuring the carrying amount to reflect any reassessment or lease modifications. Group reflects the remeasurement amounts as an adjustment on right of use asset, in the statement of financial position.

Extension and termination options

In determining the lease liability, the Group considers the extension and termination options. The majority of extension and termination options held are exercisable both by the group and by the respective lessor. Extension and termination options are included in the lease term if the lease is reasonably certain to be extended and the options are enforcable by groups initiative in the contract. The group remeasures the lease term, if a significant event or a significant change in circumstances occurs which affects the initial assessment. As result of the evaluations performed in the current period, there is no lease obligation or right of use assets arising from the inclusion of extension and early termination options in the lease period.

Variable lease payments

Group's lease contracts also include variable lease payments. The variable lease payments are recognised in profit or loss in the related period according to TFRS 16. As of 31 December 2019, the total lease expense for the contracts with variable rent payments is TRY56,442 thousands.

Exemptions and simplifications

Short-term lease payments and payments for leases of low-value assets like IT equipments (mainly printers, laptops and mobile phones etc.) are not included in the measurement of the lease liabilities in the scope of TFRS 16. Lease payments of these contracts are continued to be recognised in profit or loss in the related period. The Group applied a single discount rate to a portfolio of leases which have similar characteristics (asset classes which have similar remaining rent periods in a similar economic environment)

The Group - as a lessor

The Group as a lessor is composed of operating leases. In operating leases, leased assets are classified in the consolidated balance sheet under investment property, tangible fixed assets or other current assets and the rent income obtained is reflected to the consolidated income statement in equal amounts during the leasing period. Rental income is recognized on a straight-line basis over the period of the lease in consolidated income statement.

First time adoption of TFRS 16 Leases

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

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

2. Basis of presentation of consolidated financial statements (Continued)

2.2. Changes in accounting policies (Continued)

With the transition to TFRS 16 "Leases", a "lease liability" is recognized in the condensed interim consolidated financial statements for the lease contracts which were measured under TAS 17 as operational leases before 1 January 2019. At transition, lease liabilities are measured at the net present value of the remaining lease payments, discounted at the Group's incremental borrowing rate on the effective transition date, The Group measured right-of-use assets at an amount equal to the lease liability (adjusted by the amount of any prepaid or accrued lease payments) under TFRS 16 simplified transition approach.

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

	1 January 2019
Operating lease commitments within the scope of TAS 17	**413,589**
- Short term leases (-)	(10,044)
- Low value leases (-)	(133)
- Contracts evaluated within the scope of service procurement (-)	(41,871)
- Adjustments for extension or early termination options	20,188
Total lease liabilities within the scope of TFRS 16 (non-discounted)	**381,729**
Total lease liabilities within the scope of TFRS 16 (discounted with alternative borrowing rate)	**198,739**
- Short term lease liabilities	**23,629**
- Long term lease liabilities	**175,110**

The weighted average of alternative borrowing rates used by the Group is 20.80% for TRY and 3.23% for EUR as of 1 January 2019.

The rights of use assets recognized in the consolidated financial statements on the basis of asset groups are as follows as of 1 January 2019 and 31 December 2019:

	31 December 2019	1 January 2019
Land improvements	**77,868**	122,143
Buildings	**99,641**	38,816
Machinery and equipment	**1,107**	2,543
Motor vehicles	**22,085**	35,237
Total right of use asset	**200,701**	198,739

Property, plant and equipment

The Group has revaluated all of the lands in its assets amounting to TRY66,782 thousand in accordance with TAS 16 Property, Plant and Equipment as of 31 March 2019 and included the revaluation amount amounting to TRY7,139,764 thousand in consolidated financial statements (Note 11). The items other than lands in property, plant and equipment are carried at cost less accumulated depreciation and impairment, if any, in the consolidated financial statements.

"Market Comparison Approach" is used to determine the fair value of the Group's lands.

The revaluation increase in property is recognized in the balance sheet after the deferred tax effect has been offset to the revaluation gain(loss) in equity. Land are not depreciated as their economic lives are considered to be unlimited.

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

2. Basis of presentation of consolidated financial statements (Continued)

2.2. Changes in accounting policies (Continued)

The evaluation assessment of lands of Tüpraş has been carried by namely Açı Kurumsal Gayrimenkul Değerleme ve Danışmanlık A.Ş. which is accredited by the CMB; the valuation of lands of OPET and its subsidiaries, which is consolidated according to equity method, is carried by TSKB Gayrimenkul Değerleme A.Ş. which is accredited by the CMB.

		Fair value level as of reporting period		
	31 December 2019	**Level 1**	**Level 2**	**Level 3**
Lands	7,139,764	-	7,139,764	-

2.2.1 Comparative information

In order to allow for the determination of the financial situation and performance trends, the Group's consolidated financial statements have been presented comparatively with the previous year.

The Group presented the consolidated statement of financial position as of 31 December 2019 comparatively with the consolidated statement of financial position as of 31 December 2018. Also the consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year ended 31 December 2019 are presented comparatively with the consolidated financial statements for the year ended 31 December 2018.

2.2.2 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.3. Summary of significant accounting policies

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

- **Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, deposits at banks, highly liquid investments with maturity periods of three months or less and the revenue share collected is held at banks by the Petroleum Market Licence Regulation (Note 4). Cash and cash equivalents used in consolidated cash flow statement comprise cash and cash equivalents with short term maturities of less than 3 months, excluding accrued interest income and blocked deposits (Revenue share). The Group's cash and cash equivalents are evaluated within credit risk model, since there is no credit risk expected, they are carried at cost in the consolidated balance sheet.

- **Trade receivables**

Trade receivables that are created by the Group by way of providing goods or services directly to a debtor are carried at amortised cost. A credit risk provision for trade receivables is established when there is objective evidence that the Group is not able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to other income (Note 6).

2. Basis of presentation of consolidated financial statements (Continued)

2.3. Summary of significant accounting policies (Continued)

The Group has chosen "simplified approach" explained in TFRS 9 for the calculation of impairment of trade receivables (with maturities less than one year) that do contain a significant financing component and accounted at amortised cost. In accordance with the simplified approach, Group measures the loss allowances regarding its trade receivables at an amount equal to "lifetime expected credit losses" except incurred credit losses in which trade receivables are already impaired for a specific reason date. The Group uses a provision matrix in the calculation of expected credit losses. Provision rate is calculated based on the overdue days of trade receivables and the rates are revised each reporting period if necessary. Since the change in expected credit loss provisions is not material, it is not accounted in consolidated income statement. For each reporting period, the recalculation is made and revaluated.

The Group collects some of its receivables via factoring. The receivables subject to factoring transaction which risk of collection is undertaken by factoring company are deducted from the related receivable accounts. Since the time between the factoring dates and maturities of trade receivables subject to factoring transactions is not significant, the business model of the Group related with trade receivables has not been changed and has been accounted at the amortized cost.

- **Trade payables**

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Financial assets and liabilities at fair value through profit or loss

The financial assests of the Group which are carried at fair value include derivative instruments that are not subject to hedge accounting. Derivative financial instruments are initially recognised at the acquisition cost reflecting the fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Gains or losses arising from the valuation of these kinds of assets are recognized in the consolidated statement of income. Derivative instruments which are carried at fair value through profit or loss include forward foreign exchange and commodity purchase and sale transactions. 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 (Note 18).

Financial assets and liabilities at fair value through other comprehensive income

The financial assets of the Group which are carried at fair value include derivative instruments that are subject to hedge accounting. Derivative financial instruments are initially recognised at the acquisition cost reflecting the fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Gains and losses arising from the valuation of these kinds of assets are accounted as other comprehensive income/expense in the consolidated statement of comprehensive income related to cash flow hedge. Derivative instruments which are accounted in other comprehensive income include commodity purchase and sales transactions, interest rate swap transactions and cross currency swap transactions. 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 (Note 18).

- **Cash flow hedge**

Hedges of exposures to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit and loss are designated as cash flow hedges by the Group.

2. Basis of presentation of consolidated financial statements (Continued)

2.3. Summary of significant accounting policies (Continued)

Changes in the fair value of derivatives, designated as cash flow hedges and qualified as effective, are recognised in equity as "hedge reserves". Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously recognised under equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts recognised under equity are transferred to the consolidated income statement in the period in which the hedged firm commitment or forecasted transaction affects the consolidated income statement.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or losses previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Recognition and de-recognition of financial instruments

All purchases and sales of financial assets are recognized on the trade date i.e. the date that the Group commits to purchase or to sell the asset. These purchases or sales are purchases or sales generally require delivery of assets within the time frame generally established by regulation or convention in the market place. A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the assets.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the consolidated financial statements.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

Related parties

For the purpose of these consolidated financial statements, shareholders, key management personnel, Board of Directors members and Koç Group companies including their family members and companies controlled by or affiliated with them are considered and referred to as related parties (Note 28).

Inventories

Inventories are valued at the lower of acquisition cost or net realisable value. The cost components of inventories include materials, conversion costs and other costs that are necessary to bring the inventories to their present location and condition. The cost of inventories is determined on the weighted average cost basis. As during the production process more than one product is produced from single raw material inputted, the costs of conversion of each product are not separately identifiable. In order to allocate the costs of conversion between the products on a rational and consistent basis, the approach used by the Company for the allocation is based on the relative sales prices of each product. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses (Note 8).

2. Basis of presentation of consolidated financial statements (Continued)

2.3. Summary of significant accounting policies (Continued)

Spare parts and material stocks

Spare parts and material stocks are valued at the lower of cost or net realisable value. The cost elements of spare parts and material stocks include materials and other costs that are necessary to bring them to their present location and condition. The cost of spare parts and material stocks is determined on the weighted average cost basis. The Group has provided provision for the slow-moving spare parts (Note 14).

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Historical costs include the costs directly related to the acquisition of property plant and equipment. Costs incurred after the acquisition can be added to the net book value of the assets or can be booked as another asset if and only if it is probable that the future economic benefits will flow to the Group and cost of the asset can be measured reliably. All other repair and maintenance costs are expensed in the consolidated statement of comprehensive income for the period. Depreciation is provided using the straight line method based on the estimated useful lives of gross book value of assets (Note 11).

The depreciation periods for property, plant and equipment, which approximate the economic useful lives of such assets, are as follows:

	Useful life
Land improvements	3-50 years
Buildings	5-50 years
Machinery and equipment	3-35 years
Motor vehicles	4-20 years
Furniture and fixtures	2-50 years

Land is not depreciated as it is deemed to have an indefinite useful life.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount is the higher of asset net selling price or value in use. Net selling price is calculated by deducting the selling costs from the fair value of the asset. Value in use is calculated as the discounted value of the estimated future cash flows the entity expects to derive from the asset. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount.

Gains or losses on disposals of property, plant and equipment are determined by comparing proceeds with their restated carrying amounts and are included in the related income and expense accounts, as appropriate.

Intangible assets

Intangible assets include rights and software and development costs (Note 12).

a) Rights and software

Rights and software are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the estimated useful lives of such assets not exceeding 5 years.

b) Development costs

The accounting policy of development costs are explained in Research and Development Expenses.

2. Basis of presentation of consolidated financial statements (Continued)

2.3. Summary of significant accounting policies (Continued)

Impairment of assets

The Group reviews all tangible and intangible assets except goodwill for indicators of impairment at every balance sheet date. If any indication of impairment exists, carrying value of the asset is compared with its recoverable amount which is the higher of value in use or fair value less costs to sell. Impairment exists when carrying value of the asset or cash generating unit that the asset belongs to is higher than the recoverable amount. An impairment loss is recognised immediately in the consolidated statement of comprehensive income.

An impairment loss recognised 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 recognised. Such a reversal amount cannot be higher than the previously recognised impairment and is recognized as income in the consolidated financial statements. The reversal of the impairment is recognized in the comprehensive income statement. Net book value of goodwill is evaluated annually and impairment is recorded when necessary considering a significant on prolonged decline.

Borrowing costs

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings.

Borrowing costs, which can be related to its purchase, construction or production when it comes to assets requiring a significant period of time to be ready for use and sales, are included in cost of asset until the related asset is made available for use or sales.

Other borrowing costs are charged to the consolidated statement of comprehensive income when they are incurred.

Operating leases

The Group as the lessee

Operational leases

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

Operational leases

In operational leasing, the leased assets are classified under tangible assets in the consolidated balance sheet and the rent income obtained is reflected in the consolidated comprehensive income statement during the lease period. Rental income is reflected to the consolidated comprehensive income statement by linear method during the lease period.

2. Basis of presentation of consolidated financial statements (Continued)

2.3. Summary of significant accounting policies (Continued)

Deferred taxes

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. Deferred tax is calculated at the tax rates that are expected to apply in the period when 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. Deferred tax is charged or credited to consolidated statement of income, except when it relates to items charged or credited directly to the equity in which case the deferred tax is also dealt within the equity.

Deferred tax liabilities are recognised for all taxable temporary differences, where deferred tax assets resulting from deductible temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised.

Government incentives enabling reduced corporate tax payments are considered within the scope TAS-12 "Income Taxes" and the deferred tax asset is recognized at the rate of the earned tax benefit under the condition that benefitting from this advantage by earning taxable income in the future is highly probable.

Provided that deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority and it is legally eligible, they may be offset against one another. Deferred tax assets and liabilities are classified as noncurrent assets and liabilities in the consolidated financial statements (Note 26).

Provision for employment termination benefits:

Employment termination benefits

a) Provision for employment termination benefits:

The provision for employment termination benefits, as required by Turkish Labour Law represents the present value of the future probable obligation of the Group arising from the retirement of its employees based on the actuarial projections.

TAS 19 "Employee Benefits" requires actuarial assumptions (net discount rate, turnover rate to estimate the probability of retirement etc.) to estimate the entity's obligation for employment termination benefits. The effects of differences between the actuarial assumptions and the actual outcome together with the effects of changes in actuarial assumptions compose the actuarial gains / losses.

In accordance with TAS 19 "Employee Benefits" effective before 1 January 2013, the actuarial gains / losses were recognised in the statement of income whereas the amendment, effective as of 1 January 2013, requires the actuarial gains / losses to be recognised under other comprehensive income.

b) Defined benefit plans

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

c) Unused vacation rights

Liabilities arising from unused vacations of the employees are accrued in the period when the unused vacations are qualified.

2. Basis of presentation of consolidated financial statements (Continued)

2.3. Summary of significant accounting policies (Continued)

d) Seniority incentive bonus provision

The Group has an employee benefit plan called "Seniority Incentive Bonus" ("Bonus") which is paid to employees with a certain level of seniority. Seniority incentive bonus provision represents the present value at the date of the consolidated balance sheet of the estimated total reserve of the probable future obligations (Note 15).

Transactions in foreign currency

Transactions in foreign currencies during the year have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Turkish Lira at the exchange rates prevailing at the balance sheet dates. Foreign exchange gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities are recognised in the consolidated statement of comprehensive income except the ones that are capitalized.

Revenue recognition

The Group adopted TFRS 15 "Revenue From Contracts with Customers" which proposes a five step model framework mentioned below for recognizing the revenue.

- Identify the contact with customers
- Identify seperate performance obligations in the contract
- Determine the transaction price in contract
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue

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.

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.

The Group considers the following in the assessment of transfer of control of goods sold and services,

a) The entity has a right to payment for the goods or service,
b) The customer has legal title to the goods or service,
c) The entity has transferred physical possession of the asset,
d) The customer has the significant risks and rewards related to the ownership of the goods or services,
e) The customer has accepted the goods or services.

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.

2. Basis of presentation of consolidated financial statements (Continued)

2.3. Summary of significant accounting policies (Continued)

Provisions

Provisions are recognised 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 statements.

Commitments, contingent assets and liabilities

Possible 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 disclosed as contingent assets or liabilities (Note 19).

Dividends

Dividend income is recognised by the Group at the date the right to collect the dividend is realised. Dividend payables are recognised as liability in the consolidated financial statements in the period they are declared as a part of profit distribution.

Earnings per share

Earnings per share for each class of shares disclosed in the consolidated statement of comprehensive income is determined by dividing the consolidated net income for the year attributable to that class of shares by the weighted average number of shares of that class that have been outstanding during the year concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings and inflation adjustment to shareholders' equity. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the period has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them retroactive effect for the period in which they were issued and for each earlier period.

Segment reporting

According to TFRS 11 "Joint Arrangements'' standard, accounting for joint ventures in the consolidated financial statements by the equity method is mandatory. The amendment has been implemented retrospectively by the Group. Opet Petrolcülük A.Ş. is accounted by the equity method and petroleum distribution division is excluded from segment reporting scope. Since only refining segment remained within the consolidation scope, segment reporting is not presented effective 1 January 2013.

Statement of cash flow

Cash flows during the period are classified and reported by operating, investing and financing activities in the cash flow statements.

Cash flows from operating activities represent the cash flows generated from the Group's activities.

Cash flows related to investing activities represent the cash flows that are used in or provided from the investing activities of the Group (tangible and intangible assets and financial assets).

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

2. Basis of presentation of consolidated financial statements (Continued)

2.3. Summary of significant accounting policies (Continued)

Research and development costs

Research expenditures are recognized as an expense when they are incurred.

Intangible assets arising from in-house development activities (or the improvement phase of an intergroup project) are recognized when all of the following conditions are met:

- existence of the technical feasibility of completing the intangible asset so that it will be available for use or sale,
- existence of the intention to complete the intangible asset and use or sell it,
- existence of the ability to use or sell the intangible asset,
- reliability of how the intangible asset will generate probable future economic benefits,
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset,
- existence of the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Other development expenditures are recognized as an expense as incurred. Development costs previously recognized as an expense are not capitalized as an asset in a subsequent period.

Government grants

Government grants, Investment and research and development incentives are accounted at the fair values on accrual basis when the Group's incentive applications are approved by related authorities.

Government incentives enabling reduced corporate tax payments are considered within the scope TAS-12 "Income Taxes".

Business combinations and goodwill

Business combinations are accounted for using the acquisition method in accordance with TFRS 3. The cost of a business combination, before 1 January 2011, is allocated by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition. Any excess of the acquirer's interest over the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the business combination cost is accounted for as goodwill. In business combinations, the acquirer recognizes identifiable assets, intangible assets (such as trademarks) and/or contingent liabilities which are not included in the acquiree's financial statements and which can be separated from goodwill, at their fair values in the consolidated financial statements. Goodwill recognised in business combinations is tested for impairment annually or more often under when circumstances indicating impairment risk.

The excess of the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the business combination is accounted for as income in the related period.

Revised TFRS 3 "Business Combinations" effective as at 1 January 2011 has been applied to business combinations occurring after 1 January 2011. The main difference of revised TFRS 3 is to account for transaction costs of a purchase in comprehensive income statement. There has been no business combination in 2018 which requires the application of revised TFRS 3.

2. Basis of presentation of consolidated financial statements (Continued)

2.3. Summary of significant accounting policies (Continued)

Business combinations and goodwill (Continued)

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of combination. The Group considered the significant position of Opet in the domestic market and the synergy expected from its cooperation with Tüpraş as the main reason leading to generation of goodwill related to the Opet acquisition dated 28 December 2006. Therefore, the Group management evaluated Opet, its subsidiaries and its joint ventures as one cash-generating unit.

2.4. Changes in accounting policies, accounting estimates and errors

Significant changes in accounting policies based on new application of TAS/TFRS are applied retrospectively or prospectively based on the transition clauses. If there are no transition clauses, the changes in accounting policies, optional changes in accounting policies and correction of significant accounting errors are applied retrospectively and prior period financial statements are restated.

2.5. Significant accounting evaluations, assumptions and estimates

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are outlined below:

a) Deferred tax asset:

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available. If it is probable that future taxable profit will be available, deferred tax assets are accounted for over the deductible temporary differences and tax advantages resulted from investment incentives that enables the Company pay lower corporate tax.

The Company assess the recoverability of deferred tax assets based on business models that contain management estimations related to taxable profit for future periods. The models include key management estimations such as sales quantities, sales prices and foreign exchange rates. Based on the sensitivity analysis performed, it is concluded that 10% increase/decrease in related estimations does not have any effect on the assessment of recoverability of deferred tax assets (Note 26).

b) Cash flow hedge:

As explained in Note 29, the Company uses investment credit amounting to USD812,776 thousand as a hedging instrument against the USD spot exchange rate risk the Company is exposed to due to highly probable export sales income, and applies cash flow hedge accounting as a result of the effectiveness tests performed. The estimations in budgets for export income used for effectiveness test include estimations such as sales quantities and sales prices. Based on the sensivitiy analysis performed for the estimations used in effectiveness tests, the Company concluded that 10% increase/decrease in estimations do not have any significant effect on the assessment of effectiveness tests.

c) Economic useful lives:

Tangible assets, investment property and intangible assets, except for goodwill, have been depreciated and amortized by using estimated useful lives. Estimated useful lives determined by management have been disclosed in Note 2.3.

d) Fair value of lands

The Group accounts its lands at fair value, the fair values of these assets are determined by the independent valuation firm authorized by the Capital Markets Board and are taken as the value carried in the statement of financial position. The assumptions such as valuation method, market conditions, unique properties of each plot and land, physical condition, geographical location and benchmark values are used in determining the fair values.

3. Business combinations

No business combinations occurred during the period 31 December 2019.

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

4. Cash and cash equıvalents

	31 December 2019	31 December 2018
Cash at banks		
Revenue share (blocked)	**1,861,248**	1,425,142
Time deposits	**8,732,840**	4,551,877
Demand deposits	**7,955**	1,203
Time deposit interest accruals	**49,966**	4,606
Total	**10,652,009**	5,982,828

Revenue Share (blocked)

As required by the Petroleum Market License Regulation, the revenue share collected from the customers by the Group is held at banks and considered as blocked deposit in the Company's books. The revenue share was invested as demand deposits with government debt securities interest rate and overnight interest rate as at 31 December 2019 and 2018 (Note 14).

Time deposits and other cash and cash equivalents

As at 31 December 2019 and 31 December 2018, the maturity and the currency information of the time deposits, is as follows:

31 December 2019

	Effective rate of interest (%)	**Less than 1 month**	**1 - 3 months**	**Total**
TL	**11.28**	**7,482,221**	**50,000**	**7,532,221**
USD	**1.95**	**1,114,494**	**71,475**	**1,185,969**
EUR	**0.15**	**13,088**	**-**	**13,088**
GBP	**0.70**	**1,562**	**-**	**1,562**
Time deposit		**8,611,365**	**121,475**	**8,732,840**

31 December 2018

	Effective rate of interest (%)	**Less than 1 month**	**1 - 3 months**	**Total**
TL	23.91	149,375	-	149,375
USD	4.68	2,635,014	107,196	2,742,210
EUR	2.71	1,653,547	6,631	1,660,178
GBP	1.40	114	-	114
Time deposit		4,438,050	113,827	4,551,877

Cash and cash equivalents included in the consolidated statements of cash flows for the periods ended 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
Cash and cash equivalents	**10,652,009**	5,982,828
Less: Blocked deposits (Revenue share)	**(1,861,248)**	(1,425,142)
Less: Time deposit interest accruals	**(49,966)**	(4,606)
Cash and cash equivalents	**8,740,795**	4,553,080

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

5. Financial liabilities

	31 December 2019	31 December 2018
Short-term borrowings:		
Short-term bank borrowings	**1,797,993**	1,139,773
Interest accruals of bank borrowings	**690**	2,096
Total	**1,798,683**	1,141,869
Short-term portion of long-term borrowings:		
Short-term portion of long-term bank borrowings	**3.108.084**	2,780,773
Lease liabilities	**25,699**	-
Interest accruals of bank borrowings	**191,241**	156,611
Interest accruals of bonds issued	**53,995**	34,145
Total	**3,379,019**	2,971,529
Long-term borrowings:		
Long-term bank borrowings	**8,909,295**	10,148,979
Bonds issued	**4,808,140**	3,682,630
Lease liabilities	**180,657**	-
Interest accruals of bank borrowings	**-**	4,533
Total	**13,898,092**	13,836,142
Total borrowings	**19,075,794**	17,949,540

Tüpraş has issued a bond on 8 February 2019 with a nominal value of TRY400 million, with a maturity of 728 days, coupon payment every 3 months and repayment of principal and coupon at maturity, with 75 bps additional yields on 3MTRLIBOR reference rate.

Tüpraş has issued a bond on 25 January 2019 with a nominal value of TRY250 million, with a maturity of 728 days, coupon payment every 3 months and repayment of principal and coupon at maturity, with 75 bps additional yields on 3MTRLIBOR reference rate.

Tüpraş has issued a bond with a nominal value of USD700 million, with a maturity of 7 years, coupon payment every 6 months and repayment of principal and coupon at maturity, with an annual interest rate of 4.5%, on the London Stock Exchange on 12 October 2017.

As explained in material disclosure, Tüpraş signed a long term loan facility agreement with a group of lenders, consisting of HSBC (Coordinator), ING (Facility Agent), The Bank of Tokyo-Mitsubishi UFJ, Ltd., Citibank N.A, Intesa Sanpaolo and JPMorgan Chase Bank, N.A. London Branch, to meet the working capital requirements for forthcoming period and extent the weighted-average of debt maturities. The loans amounting to USD157.5 million and EUR261.5 million were utilized on 29 March 2016 and the loans have semi-annual interest payments, 5 years maturity with 3 years grace period.

In 2011, Tüpraş has signed three loan agreements in order to finance Residuum Upgrading Project ("RUP") and further to the agreements the loans amounting to USD1,998 million were utilized between 2011 and 2015 for credit insurance payments and capital expenditures. According to financing package loan was insured by SACE and CESCE have 12 years to maturity also there will be no principal and interest payment in first 4 years. The third loan has 7 years to maturity and there will be no principal payment in the first four years. The repayment of the loans has started in 2015 and as at 31 December 2019 the outstanding amount of the loans is USD765 million (31 December 2018 - USD954 million).

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

5. Financial liabilities (Continued)

The fair values of the total bonds issued by Tüpraş for domestic and foreign markets with a nominal value of USD 700 million and TRY 650 million are TRY 48 million below their fair values (Level 1) based on the quoted prices in active markets (2018: 311 million).

As of 31 December 2019, Tüpraş has fulfilled its financial commitments arising from borrowings.

Foreign currency balances and effective interest rates for the short and long-term financial liabilities as at 31 December 2019 and 31 December 2018 are as follows:

		31 December 2019	
	Effective interest rate (%)	**Original currency**	**Thousand TRY**
Short-term borrowings:			
USD bank borrowing	**2.23**	**267,300,000**	**1,587,815**
TRY bank borrowings (*)	**-**	**210,177,843**	**210,178**
Interest accruals			**690**
Total short-term financial liabilities			**1,798,683**
Short-term portion of long-term borrowings:			
USD bank borrowings	**3.91**	**322,136,658**	**1,913,556**
EUR bank borrowings	**2.02**	**113,393,640**	**754,135**
TRY bank borrowings	**14.95**	**440,393,063**	**440,393**
GBP lease liabilities	**4.16**	**279,174**	**2,171**
EUR lease liabilities	**2.95**	**833,008**	**5,541**
TL lease liabilities	**21.64**	**17,986,921**	**17,987**
			3,133,783
Interest accruals			**245,236**
Total short-term portion of long-term borrowings			**3,379,019**
Long-term borrowings:			
USD bank borrowings	**4.02**	**908,805,991**	**5,398,489**
USD bonds issued	**4.43**	**700,000,000**	**4,158,140**
EUR bank borrowings	**2.11**	**61,125,320**	**406,520**
TL bank borrowings	**16.72**	**3,104,285,714**	**3,104,286**
TL bonds	**15.47**	**650,000,000**	**650,000**
GBP lease liabilities	**4.16**	**904,130**	**7,031**
EUR lease liabilities	**3.20**	**7,416,683**	**49,325**
TL lease liabilities	**22.57**	**124,300,668**	**124,301**
			13,898,092
Interest accruals			**-**
Total long-term borrowings			**13,898,092**

(*) Banks provide interest-free loans to the Group for the payment of SCT, Customs and Social Security debts amounting to TRY 210,178 thousand as of 31 December 2019 (31 December 2018 – TRY245,028 thousand).

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

5. Financial liabilities (Continued)

	31 December 2018		
	Effective interest rate (%)	Original currency	Thousand TRY
Short term borrowings:			
USD bank borrowings	3.83	160,000,000	841,745
TRY bank borrowings	24.25	298,027,981	298,028
Interest accruals			2,096
Total short-term borrowings			1,141,869
Short-term portion of long-term borrowings:			
USD bank borrowings	4.34	303,932,787	1,598,959
EUR bank borrowings	2.07	117,138,055	706,108
TL bank borrowings	18.80	475,705,563	475,706
			2,780,773
Interest accruals			190,756
Short-term portion of total long-term borrowings			2,971,529
Long-term borrowings:			
USD bank borrowings	4.36	1,194,244,687	6,282,802
USD bonds issued	4.55	700,000,000	3,682,630
EUR bank borrowings	2.05	174,435,583	1,051,498
TRY bank borrowings	24.11	2,814,678,778	2,814,679
			13,831,609
Interest accruals			4,533
Total long-term borrowings			13,836,142

As at 31 December 2019 and 31 December 2018, the redemption schedule of long-term bank borrowings is as follows:

	31 December 2019	31 December 2018
1-2 years	**5,960,596**	4,188,207
2-3 years	**1,588,261**	2,860,518
3-4 years	**1,555,875**	1,349,307
4-5 years	**4,576,765**	1,347,878
Over 5 years	**216,595**	4,090,232
Total	**13,898,092**	13,836,142

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

5. Financial liabilities (Continued)

The movement of borrowings as of 31 December 2019 and 31 December 2018 is as follows:

	2019	2018
1 January	**17,949,540**	15,050,984
New financial borrowings	**49,759,252**	38,952,115
Principal payments	**(50,788,791)**	(41,005,302)
Increase due to lease liabilities	**235,666**	-
Decrease due to payment of lease liabilities	**(34,535)**	-
Changes in interest accruals	**48,541**	61,020
Changes in foreign exchange rates	**1,906,121**	4,890,723
31 December	**19,075,794**	17,949,540

The interest sensitivity breakdown regarding the remaining time of borrowing to repricing is as follows:

	31 December 2019	31 December 2018
1-90 days	**5,805,491**	5,576,072
91-365 days	**4,475,789**	4,910,633
1-5 years	**8,649,443**	3,772,017
Over 5 years	**145,071**	3,690,818
Total	**19,075,794**	17,949,540

6. Trade receivables and payables

Short-term trade receivables:

	31 December 2019	31 December 2018
Trade receivables	**3,806,348**	4,327,765
Due from related parties (Note 28)	**995,837**	1,132,117
Doubtful trade receivables	**5,243**	4,740
Other trade receivables	**21**	21
Less: Unearned credit finance income	**(14,300)**	(31,165)
Less: Provision for doubtful receivables	**(5,243)**	(4,740)
Total short-term trade receivables (net)	**4,787,906**	5,428,738

Tüpraş discounts the domestic receivables by using domestic government bonds and foreign receivables by using monthly libor rates.

As at 31 December 2019, Tüpraş has offsetted TRY2,059,000 thousand (31 December 2018 - TRY2,332,000 thousand) from trade receivables that are collected from factoring companies as part of the irrevocable factoring.

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

6. Trade receivables and payables (Continued)

Movement of the provision for doubtful receivables for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
1 January	**4,740**	3,184
Charge for the period	**803**	2,018
Payments during the period	**(300)**	(462)
31 December	**5,243**	4,740

Short-term trade payables:

	31 December 2019	31 December 2018
Trade payables	**17,624,694**	7,425,166
Due to related parties (Note 31)	**226,072**	77,096
Less: Unrealised credit finance charges		
Trade payables	**(34,592)**	(6,121)
Total short term trade payables (net)	**17,816,174**	7,496,141

Tüpraş discounts short-term trade payables by using monthly libor rates.

7. Other receivables and payables

Other short-term receivables:

	31 December 2019	31 December 2018
Receivable from insurance recoveries	**28,084**	8,151
Receivable from personnel	**12,403**	12,809
Advances and guarantees given	**5,130**	8,088
Other doubtful receivables	**1,526**	324
Less: Provision for other doubtful receivables	**(1,526)**	(324)
Total	**45,617**	29,048

8. Inventories

	31 December 2019	31 December 2018
Raw materials and supplies	**1,348,822**	1,117,820
Work-in-progress	**1,612,901**	1,799,367
Finished goods	**2,169,793**	2,122,910
Trade goods	**53,644**	76,043
Goods in transit	**4,201,510**	1,705,496
Other	**81,911**	30,964
	9,468,581	6,852,600
Provision for doubtful receivables	-	(87,855)
Total	**9,468,581**	6,764,745

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

8. Inventories (Continued)

Movement of the provision for inventories for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
1 January	**87,855**	1,246
Charge for the period	**-**	87,855
Provisions no longer required	**(87,855)**	(1,246)
31 December	**-**	87,855

9. Investments accounted for using the equity method

	31 December 2019		31 December 2018	
	Participation share (%)	**Amount**	Participation share (%)	Amount
OPET Petrolcülük A.Ş.	**40.00**	**1,362,777**	40.00	1,266,334
		1,362,777		1,266,334

The goodwill amounting to TRY189,073 thousand arising from the purchase of Opet shares on 28 December 2006 were classified on the investments accounted for using the equity method in the financial statements.

The movement in the investments accounted for using the equity method during the period ended 31 December 2019 and 2018 is as follows:

	2019	2018
1 January	**1,266,334**	1,134,364
Investments accounted for using the equity method;		
Shares in current year profit	**197,393**	265,880
Dividend payment	**(96,000)**	(224,000)
Gain on revaluation of property	**20,831**	-
Actuarial gain/(loss) arising from defined benefit plans	**(1.043)**	(393)
Gain/(loss) on revaluation and remeasurement	**(34.666)**	72,644
Currency translation differences	**9,928**	17,839
31 December	**1,362,777**	1,266,334

Consolidated summary financial statements of investments accounted for using the equity method (before Group's effective interest) are as follows:

	31 December 2019	31 December 2018
Current assets	**5,416,089**	4,948,159
Non-current assets	**3,319,884**	2,963,133
Total assets	**8,735,973**	7,911,292
Short term liabilities	**3,498,612**	3,282,386
Long term liabilities	**2,303,102**	1,935,753
Equity	**2,934,259**	2,693,153
Total liabilities	**8,735,973**	7,911,292

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

9. Investments accounted for using the equity method (Continued)

	1 January - 31 December 2019	1 January - 31 December 2018
Sales (net)	**46,380,766**	42,997,122
Gross profit	**1,852,142**	1,878,634
Operating profit	**877,570**	982,049
Net income for the period	**493,482**	664,700

Goodwill impairment test

The Group considers the significant position of Opet in the domestic market and the synergy expected from its cooperation with Tüpraş and Opet as the main source of generation of goodwill. Therefore, the Group management evaluated Opet, its subsidiaries and its joint ventures as a single cash generating unit and goodwill is allocated on Opet.

The cash-generating unit's fair value calculations include post-tax cash flow projections, which are based on US dollars and are based on ten-year plans approved by Opet management. The Group considers analysis covering a period longer than five years is more appropriate as to evaluation of operating results and prospective assumptions in the sector and therefore impairment test is based on ten years budget. As of 31 December 2019, fair value of Opet is above 61% of the value carried in including goodwill.

Other key assumptions used in the fair value calculation model are stated below:

Gross margin	%3.3 - %4.5
Discount rate	%16.4

The budgeted gross margin has been determined by Opet management based on past performance of the company and expected market growth rate. The discount rate used is the post-tax discount rate and includes company specific risks. An increase/decrease of 1% on the post-tax discount rate used in the discounted cash flow calculations, Opet's carrying value of goodwill would be 13% lower and 16% higher, respectively as at 31 December 2019.

As a result of the tests performed by using the assumptions above, no impairment on goodwill has been identified as at 31 December 2019. Since the asset's fair value less cost to sell is higher than its carrying amount, the Group management did not calculate the asset's value-in-use.

Competition Authority investigation:

With the decision of the Competition Authority dated 27.08.2018, in order to determine whether there is a violation of Article 4 of the Act On The Protection of Competition No. 4054, it has been decided that an investigation is opened to Opet, the investigation process is continuing.

10. Investment property

As of 31 March 2019, investment property is reclassified to lands due to not carrying rental income purpose and revaluated together with lands (31 December 2018 - TRY4,621 thousand). As of 31 December 2018, the fair value of the investment property has been determined as TRY156,767 thousand as a result of fair value assessments.

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

11. Property, plant and equipment

The movements of property, plant and equipment and related accumulated amortisation for the period ended 31 December 2019 and 2018 is as follows:

	1 January 2019	Gain on revaluation of property	Currency translation differences	Additions	Transfers	Disposals	31 December 2019
Cost:							
Lands	**62,161**	**7,139,764**	**-**	**-**	**4,628**	**-**	**7,206,553**
Land improvements	**3,721,772**	**-**	**-**	**-**	**71,891**	**(176)**	**3,793,487**
Buildings	**789,073**	**-**	**-**	**-**	**50,851**	**(16)**	**839,908**
Machinery and equipment	**12,657,231**	**-**	**-**	**1,134**	**278,927**	**(604)**	**12,936,688**
Motor vehicles	**1,249,363**	**-**	**-**	**762,086**	**12,978**	**(60)**	**2,024,367**
Furniture and fixtures	**128,559**	**-**	**-**	**4,939**	**4,373**	**(2,654)**	**135,217**
Construction in progress	**339,919**	**-**	**-**	**730,454**	**(419,027)**	**-**	**651,346**
Special costs	**1,070**	**-**	**-**	**3,061**	**-**	**-**	**4,131**
Other tangible assets	**4,057**	**-**	**-**	**23**	**-**	**(1,286)**	**2,794**
	18,953,205	**7,139,764**	**-**	**1,501,697**	**4,621**	**(4,796)**	**27,594,491**
Accumulated depreciation:							
Land improvements	**(1,456,256)**	**-**	**-**	**(153,706)**	**(2,231)**	**176**	**(1,612,017)**
Buildings	**(210,688)**	**-**	**-**	**(17,258)**	**(8)**	**14**	**(227,940)**
Machinery and equipment	**(4,611,075)**	**-**	**-**	**(401,204)**	**(13,462)**	**587**	**(5,025,154)**
Motor vehicles	**(252,335)**	**-**	**(39)**	**(60,834)**	**-**	**60**	**(313,148)**
Furniture and fixtures	**(81,852)**	**-**	**-**	**(15,001)**	**15,701**	**2,451**	**(78,701)**
Special costs	**(44)**	**-**	**-**	**(774)**	**-**	**-**	**(818)**
Other tangible assets	**(1,788)**	**-**	**-**	**(371)**	**-**	**161**	**(1,998)**
	(6,614,038)	**-**	**(39)**	**(649,148)**	**-**	**3,449**	**(7,259,776)**
Net book value	**12,339,167**						**20,334,715**

	1 January 2018	Additions	Transfers	Disposals	31 December 2018
Cost:					
Land	48,814	-	16,138	(2,791)	62,161
Land improvements	3,645,079	40	76,667	(14)	3,721,772
Buildings	771,147	-	17,926	-	789,073
Machinery and equipment	12,001,323	90	669,851	(14,033)	12,657,231
Motor vehicles	1,221,669	12,055	16,110	(471)	1,249,363
Furniture and fixtures	134,130	1,752	(5,724)	(1,599)	128,559
Construction in progress	500,802	646,079	(806,962)	-	339,919
Special costs	-	-	1,070	-	1,070
Other tangible assets	2,614	1,443	-	-	4,057
	18,325,578	661,459	(14,924)	(18,908)	18,953,205
Accumulated depreciation:					
Land improvements	(1,304,166)	(152,103)	-	13	(1,456,256)
Buildings	(193,944)	(16,744)	-	-	(210,688)
Machinery and equipment	(4,235,088)	(382,664)	-	6,677	(4,611,075)
Motor vehicles	(206,631)	(45,970)	-	266	(252,335)
Furniture and fixtures	(80,869)	(2,476)	-	1,493	(81,852)
Special costs	-	(44)	-	-	(44)
Other tangible assets	(1,443)	(345)	-	-	(1,788)
	(6,022,141)	(600,346)	-	8,449	(6,614,038)
Net book value	12,303,437				12,339,167

Total depreciation expense amounting to TRY649,148 thousand (31 December 2018: TRY600,346 thousand) in the consolidated statement of comprehensive income for the period ended 31 December 2019 has been allocated to cost of goods sold amounting to TRY621,457 thousand (31 December 2018: TRY568,863 thousand), to marketing, sales and distribution expenses amounting to TRY7 thousand (31 December 2018: TRY4 thousand), to general administration expenses amounting to TRY27,684 thousand (31 December 2018: TRY31,479 thousand).

The depreciation expense related to right-of-use assets in the consolidated statement of comprehensive income for the period ended as of 31 December 2019 is TRY34,965 thousand and has been classified to general administration expenses (31 December 2018 - None).

As of 31 December 2019, there are no mortgage on property, plant and equipment (31 December 2018 : None). The Company has decided to account its lands from fair values as of 31 March 2019. Related details have been disclosed in Note 2.2.

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

12. Intangible assets

Other intangible assets:

The movements of intangible assets and related accumulated amortisation for the period ended 31 December 2019 and 2018 are as follows:

	1 January 2019	**Additions**	**Transfers**	**Disposals**	**31 December 2019**
Cost:					
Rights and software	**91,242**	**8,471**	**-**	**-**	**99,713**
Development expenses	**85,407**	**7,091**	**-**	**-**	**92,498**
	176,649	**15,562**	**-**	**-**	**192,211**
Accumulated amortisation:					
Rights and software	**(54,295)**	**(13,215)**	**-**	**-**	**(67,510)**
Development expenses	**(64,169)**	**(8,788)**	**-**	**-**	**(72,957)**
	(118,464)	**(22,003)**	**-**	**-**	**(140,467)**
Net book value	**58,185**				**51,744**

	1 January 2018	Additions	Transfers	Disposals	31 December 2018
Cost:					
Rights and software	81,464	222	9,556	-	91,242
Development expenses	80,039	-	5,368	-	85,407
	161,503	222	14,924	-	176,649
Accumulated amortisation:					
Rights and software	(43,060)	(11,235)	-	-	(54,295)
Development expenses	(53,256)	(10,913)	-	-	(64,169)
	(96,316)	(22,148)	-	-	(118,464)
Net book value	65,187				58,185

Total amortisation expenses amounting to TRY22,003 thousand (31 December 2018: TRY22,148 thousand) in the consolidated statement of comprehensive income for the period ended 31 December 2019 have been allocated to the general administration expenses.

13. Prepaid expenses

Short term prepaid expenses:

	31 December 2019	31 December 2018
Insurance and other expenses	**117,991**	81,320
Advances given	**118,771**	27,369
Total	**236,762**	108,689

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

13. Prepaid expenses (Continued)

Long term prepaid expenses:

	31 December 2019	31 December 2018
Advances given to third parties for property, plant and equipment	**142,369**	124,885
Advances given to related parties for property, plant and equipment (Note 28)	**54,725**	252,101
Prepaid other expenses	**1,785**	1,014
Total	**198,879**	378,000

14. Other assets and liabilities

Other current assets:

	31 December 2019	31 December 2018
Deferred Value Added Tax ("VAT")	**1,265,764**	843,703
VAT Receivable	**729,357**	622,111
Taxes and funds to be offsetted	**101,440**	57,120
Spare parts and material stocks	**93,795**	67,081
Income accruals from commodity hedge	**90,007**	761,184
Deferred Special Consumption Tax ("SCT")	**75,472**	67,912
Deferred VAT	**40,692**	2,579
Income accruals	**19,747**	16,141
Other current assets	**7,814**	34,794
Total	**2,424,088**	2,472,625

As of 31 December 2019, income accruals consist of commodity derivatives transactions for inventory of Tüpraş which are exposed to commodity price risk. The income accruals recognition made as of 31 December 2019 is recognized under cost of goods sold and collected as of 8 January 2020.

As of 31 December 2018, income accruals consist of commodity derivatives transactions for inventory of Tüpraş which are exposed to commodity price risk (swap transactions and zero-cost transactions). The income accruals recognition made as of 31 December 2018 is recognized under cost of goods sold and collected as of 8 January 2019.

Other non-current assets:

	31 December 2019	31 December 2018
Spare parts and material stocks	**1,569,443**	1,284,892
Other	**8,100**	7,925
Total	**1,577,543**	1,292,817

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

14. Other assets and liabilities (Continued)

Other long-term liabilities:

	31 December 2019	31 December 2018
Revenue share	**1,866,833**	1,430,111
Deferred VAT	**1,265,764**	843,703
SCT payable	**1,175,211**	1,254,611
Expense accruals from commodity hedge	**200,167**	-
Deferred SCT	**75,472**	67,912
Other taxes and liabilities	**74,146**	66,127
VAT payable	**12,669**	11,873
Other	**33,693**	78,840
Total	**4,703,955**	3,753,177

As of 31 December 2019, expense accruals consist of swap and zero cost corridor transactions for inventory of Tüpraş which are exposed to commodity price risk. The expense accruals recognition made as of 31 December 2019 is recognized under cost of goods sold and paid as of 8 January 2020.

Deferred VAT and SCT include VAT and SCT amounts related to export committed sales and are classified within "Other current assets" under assets and within "Other current liabilities" under liabilities. Such SCT and VAT amounts are offset when the export transaction is certified and the related taxes are cancelled by the tax office.

According to the Petroleum Market Law, financing needs of refinery owners to maintain the National Petroleum Stock are supplied by the revenue share, which is a surplus added to the sales price, limited to a ceiling of USD 10/ton as determined by Energy Market Regulatory Authority ("EMRA"). In the case of importation of petroleum products, the revenue share is to be paid to the refinery owner by the importer.

The Group has been collecting the revenue share over the sales of petroleum products and non-refinery imports of petroleum products since 1 January 2005, the date the relevant article of the regulation came into force.

The Group has been collecting revenue share for LPG sales since 16 September 2005 in addition to the revenue share collected for petroleum products, in accordance with the Liquefied Petroleum Gas ("LPG") Market Regulation.

It has been decided by the National Petroleum Reserves Commission that the investment management of the revenue share collected will be conducted by the General Directorate of Tüpraş, and the collected amount will be invested in overnight reverse repurchase agreements.

As a result of these regulations, the revenue share amounting to TRY1,866,833 thousand accumulated as at 31 December 2019 (31 December 2018: TRY1,430,111 thousand) which is not recognized in the comprehensive income statement, has been classified as "Revenue Share" within "Other short-term liabilities". TRY1,861,248 thousand is (31 December 2018: TRY1,425,142 thousand) blocked in banks as demand deposits with government debt securities interest rate and overnight interest rate related to the calculated revenue share has been classified as Revenue share "Blocked" within "Cash and cash equivalents"(Note 4).

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

15. Provisions

Provision for employee benefits:

Short-term provision for employee benefits:

	31 December 2019	31 December 2018
Seniority incentive bonus provision	**8,377**	3,521
Personnel bonus accruals	**7,400**	5,342
Total	**15,777**	8,863

Long-term employee benefits:

	31 December 2019	31 December 2018
Provision for employment termination benefits	**232,075**	186,525
Provision for unused vacation	**71,754**	59,787
Seniority incentive bonus provision	**12,223**	11,080
Total	**316,052**	257,392

Seniority incentive bonus provision:

The Group has an employee benefit plan called "Seniority Incentive Bonus", which is paid to the employees with a certain level of seniority.

Seniority incentive bonus is paid to personnel together with their monthly salary when certain seniority levels are reached. The bonus amounts to 45 days of salary for 5 years of seniority level, 55 days of salary for 10 years of seniority level, 70 days of salary for 15 years of seniority level, 80 days of salary for 20 years of seniority level, 90 days of salary for 25 years of seniority level and 100 days of salary for 30 years of seniority level, paid once for each seniority level.

The movements in the provision for seniority incentive bonus during the period are as follows:

	2019	2018
1 January	**14,601**	13,196
Charge for the period	**10,998**	11,535
Payments during the period	**(4,999)**	(10,130)
31 December	**20,600**	14,601

Provision for employment termination benefits:

Under the 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, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 23 May 2002, there are certain transitional provisions relating to length of service prior to retirement.

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

The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees.

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

15. Provisions (Continued)

TAS 19 requires that actuarial valuation methods to be developed to estimate the Group's employment termination benefit provision. The following actuarial assumptions have been used in the calculation of the total provision:

	31 December 2019	31 December 2018
Discount rate (%)	**%4.67**	%5.65
Turnover rate to estimate probability of retirement (%)	**%99.36**	%99.39

The principal assumption is that maximum liability of employment termination benefits 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. Employment termination benefits of the joint ventures of the Group, which are registered in Turkey are calculated from tha maximum amount of TRY6,730.15 which is effective as at 1 January 2020 (31 December 2018: TRY6,017.60).

The movement in the provision for employment termination benefits during the period is as follows:

	2019	2018
1 January	**186,525**	167,907
Interest expense	**30,894**	28,108
Actuarial (gain)/loss	**15,270**	(9,273)
Increase during the period	**27,725**	24,432
Payments during the period	**(28,339)**	(24,649)
31 December	**232,075**	186,525

	31 December 2019		31 December 2018	
	Net discount rate		Net discount rate	
Sensitivity analysis	**100 Base Increase**	**100 Base Decrease**	100 Base Increase	100 Base Decrease
Ratio	**%5.67**	**%3.67**	%6.65	%4.65
Provision for employee termination benefit adjustment	**15,546**	**(18,957)**	10,655	(12,829)

Provision for unused vacation:

The movement in the provision for unused vacation during the period is as follows:

	2019	2018
1 January	**59,787**	50,655
Increase during the period	**18,462**	15,247
Payments during the period	**(6,495)**	(6,115)
31 December	**71,754**	59,787

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

15. Provisions (Continued)

Other short term provisions:

	31 December 2019	31 December 2018
Provisions for pending claims and law suits	**21,195**	19,038
EMRA participation share (*)	**37,054**	33,473
Provision for demurrage	**41,924**	18,108
Other	**1,202**	863
Total	**101,375**	71,482

(*) EMRA participation share is the participation fee that is paid by the refinery license owners in accordance with the Petroleum Market License Regulation, calculated by multiplying net sales with the participation share rate determined by EMRA.

Movement of the short-term provisions for the period ended 31 December 2019 and 2018 are as follow:

	Provision for pending claims and lawsuits	**EMRA participation share**	**Provision for demurrage**	**Other**	**Total**
1 January 2019	**19,038**	**33,473**	**18,108**	**863**	**71,482**
Changes for the period, net	**2,489**	**37,054**	**23,816**	**339**	**63,698**
Payments during the period, net	**(332)**	**(33,473)**	**-**	**-**	**(33,805)**
31 December 2019	**21,195**	**37,054**	**41,924**	**1,202**	**101,375**
1 January 2018	16,209	23,823	11,484	25,779	77,295
Changes for the period, net	3,544	47,588	12,419	(24,916)	38,635
Payments during the period, net	(715)	(37,938)	(5,795)	-	(44,448)
31 December 2018	19,038	33,473	18,108	863	71,482

16. Liabilities for employee benefits

	31 December 2019	31 December 2018
Due to the personnel	**113,039**	100,854
Social security withholdings payment	**34,370**	26,646
Total	**147,409**	127,500

17. Other payables

	31 December 2019	31 December 2018
Deposits and guarantees received	**27,112**	15,021
Other payables to related parties (Note 28)	**28,297**	24,279
Total	**55,409**	39,300

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

18. Derivative instruments

	31 December 2019				31 December 2018			
	Fair values				Fair values			
	Purchase contract amount	**Sales contract amount**	**Assets**	**Liabilities**	Purchase contract amount	Sales contract amount	Assets	Liabilities
Cash flow hedge								
Interest rate swap	**584,678**	**584,678**	**-**	**51,176**	519,039	519,039	12,607	2,694
Cross currency swap	**1,215,184**	**1,097,828**	**119,942**	**20,707**	463,224	438,266	95,282	42,123
Commodity derivative	**102,213**	**102,212**	**13,702**	**-**	2,146,042	2,146,042	66,580	184,388
Derivatives held for trading								
Currency forwards	**9,559,306**	**9,679,259**	**163,578**	**695**	2,156,969	2,177,520	1,063	6,845
Commodity derivative	**404,147**	**404,147**	**6,770**	**6,669**	-	-	-	-
Short term derivative financial instruments			**303,992**	**79,247**			175,532	236,050
Cash flow hedge								
Interest rate swap	**2,429,277**	**2,429,277**	**-**	**24,187**	2,096,063	2,096,063	21,942	5,648
Cross currency swap	**820,186**	**654,292**	**98,741**	**7,763**	884,668	759,476	146,324	36,589
Long term derivative financial instruments			**98,741**	**31,950**			168,266	42,237
Total			**402,733**	**111,197**			343,798	278,287

As of 31 December 2019, forward foreign exchange transactions consist of forward, cross currency swap and futures and options market transactions which generate a sales obligation of TRY9,679,259 thousand in exchange of USD1,609,257 thousand and will expire in 2020 (as of 31 December 2018, forward foreign exchange transactions consist of forward transactions which generate a sales obligation of TRY2,177,520 thousand in exchange of USD410,000 thousand and will expire on January 2019).

As of 31 December 2019, interest rate swap consists of exchange of floating rate instalment payments of long term borrowings USD378,126 thousand (31 December 2018: USD466,637), EUR17,714 thousand (31 December 2018: EUR26,571) and TRY650,000 thousand bonds with fixed instalment payments.

18. Derivative instruments (Continued)

As of 31 December 2019, cross currency swap transactions consist of swaps with fixed interest rate transaction of foreign currency indexed floating interest rate USD141,616 thousand and fixed interest rate long-term borrowings amounting to TRY624,434 thousand and indexed to Turkish Lira, swap of foreign currency indexed floating interest long-term borrowing of EUR156,900 thousand (31 December 2018: None) and fixed interest rate long-term borrowings amounting to TRY979,448 thousand and indexed to Turkish Lira, foreign currency indexed interet rate swap transactions EUR8,857 thousand (31 December 2018: TRY13,286) with Turkish Lira indexed long term borrowings and fixed interest payments amounting to TRY32,859 thousand (31 December 2018: TRY49,288 thousand) and fixed interest payments with total of USD9,337 thousand (31 December 2018: USD14,005 thousand) with Turkish Lira indexed fixed interest payments and swap transaction of EUR8,857 thousand (31 December 2018: EUR13,286) foreign currency indexed fixed interest rate of long-term borrowing and USD10,086 thousand (31 December 2018: USD15,130) and USD indexed fixed interest payments.

Commodity future purchase and sales transactions consist of transactions of product crack margin fixing as of 31 December 2019. Future sales product crack margin fixing transactions have been made for gasoline stocks of 374 thousand barrels, jet stocks of 265 thousand barrels, diesel stocks of 749 thousand barrels, fuel oil stocks of 172 barrels for first quarter of 2020. The weighted average of the fixed margin of these transactions are USD6,33/barrel for gasoline, USD15,04/barrel for jet fuel, USD17,87/barrel for diesel and USD-14,76/barrel for fuel oil.

Commodity future purchase and sales transactions consist of transactions of product crack margin fixing as of 31 December 2018. Future sales product crack margin fixing transactions have been made for jet stocks of 4,515 thousand barrels, diesel stocks of 5,580 thousand barrels, fuel oil stocks of 4,371 barrels for first quarter of 2019, gasoline stocks of 315 thousand barrels, jet fuel stocks of 4,188 thousand barrels, diesel stocks of 5,910 thousand barrels and fuel oil of 3,957 thousand barrels for second quarter of 2019, fuel oil stock of 1,650 thousand barrels for third quarter of 2019. The weighted average of the fixed margin of these transactions are USD9,54/barrel for gasoline, USD13,98/barrel for jet fuel, USD15,92/barrel for diesel and USD-10,05/barrel for fuel oil.

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

19. Commitments and contingent assets and liabilities

		31 December 2019		31 December 2018
Guarantees received:	**Original currency:**	**TRY amount:**	Original currency:	TRY amount:
Letter of guarantees received		**1,118,403**		1,369,463
- Letter of guarantees in TRY	***719,088***	***719,088***	*726,627*	*726,627*
- Letter of guarantees in USD	***32,249***	***191,566***	*99,623*	*524,106*
- Letter of guarantees in EUR	***30,088***	***200,104***	*18,830*	*113,509*
- Letter of guarantees in other currencies	**-**	***7,645***	-	*5,221*
Guarantee notes received		**679**		1,137
- Guarantee notes in TRY	***679***	***679***	*1,137*	*1,137*
Guarantee letters received		**347,675**		313,045
- Guarantee letters received in TRY	***50,000***	***50,000***	*50,000*	*50,000*
- Guarantee letters received in USD	***50,000***	***297,010***	*50,000*	*263,045*
- Guarantee letters received in EUR	***100***	***665***	-	-
Guarantee letters of credit		***500,212***		*784,400*
- Letters of credit in USD	***84,208***	***500,212***	*149,100*	*784,400*
Direct debiting limits		**506,841**		405,337
- TRY direct debiting limits	***506,841***	***506,841***	*405,337*	*405,337*
Total guarantees received		**2,473,810**		2,873,382
Guarantees given:				
Letter of credits given		**2,496,440**		310,392
- Letter of credits in USD	***416,672***	***2,475,117***	*40,260*	*211,804*
- Letter of credits in EUR	***2,749***	***18,283***	*1,309*	*7,888*
- Letter of credits in other currencies	**-**	***3,040***	-	*90,700*
Letter of guarantees given		**1,394,723**		1,067,670
- Letter of guarantees in TRY	***1,274,730***	***1,274,730***	*941,808*	*941,808*
- Letter of guarantees in USD	***20,200***	***119,993***	*20,200*	*106,271*
- Letter of guarantees in EUR	**-**	**-**	*3,250*	*19,591*
Letters of guarantee given to customs offices		**773,804**		1,399,598
- Letter of guarantees in TRY	***733,900***	***733,900***	*1,399,598*	*1,399,598*
- Letter of guarantees in EUR	***6,000***	***39,904***	-	-
Letters of guarantee given to banks		**980,238**		970,480
- Letter of guarantees in USD	***139,315***	***827,559***	*139,129*	*731,946*
- Letter of guarantees in EUR	***22,957***	***152,679***	*39,571*	*238,534*
Total guarantees given		**5,645,205**		3,748,140

As at 31 December 2019 and 31 December 2018, letter of guarantees received are composed of guarantees from customers and suppliers. Guarantees given are mainly composed of guarantees given to government entities and customs offices. As at 31 December 2019, letters of guarantee given to banks are given for loans which were used by Companies within scope of consolidation amounting to TRY857,850 thousand (31 December 2018: TRY863,992 thousand) and for derivative financial instruments amounting to TRY122,388 thousand (31 December 2018: TRY106,488 thousand).

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

19. Commitments and contıngent assets and liabilities (Continued)

Collaterals, pledges, mortgages given by the Group as at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
A. CPMs given for companies in the name of its own legal personality	**4,664,967**	2,777,660
- TRY	***2,008,630***	*2,341,406*
- USD	***2,595,110***	*318,075*
- EUR	***58,187***	*27,479*
- Other	***3,040***	*90,700*
B. CPMs given on behalf of the fully consolidated companies	**980,238**	970,480
- USD	***827,559***	*731,946*
- EUR	***152,679***	*238,534*
C. 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 on behalf of third parties which are not in scope of C.	-	-
Total	**5,645,205**	3,748,140

A commission at an amount of TRY3,274 thousand is recognized as of 31 December 2019 related to letter of guarantees given in favor of partnerships included in full consolidation (31 December 2018 - TRY4,100 thousand).

20. Equity

The Company’s shareholders and their shareholding percentages as at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	**Share (%)**	31 December 2018	Share (%)
Enerji Yatırımları A.Ş.	**127,714**	**51**	127,714	51
Publicly Owned	**122,705**	**49**	122,705	49
Total	**250,419**	**100**	250,419	100
Adjustment to share capital	**1,344,243**		1,344,243	
Total paid-in capital	**1,594,662**		1,594,662	

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

Registered capital of the Company is TRY500,000 thousand and is divided into 50,000,000,000 shares with a registered nominal value of 1 Kuruş (“Kr”) (31 December 2018: 1Kr) each. The authorised and paid-in share capital of the Company comprises 25,041,919,999 Group A shares with a registered nominal value of 1Kr and one Group C share with privileges belonging to the Privatisation Administration.

As per the articles of association of the Company, one member of the Board of Directors should be nominated by the Group C shareholders. Board of Directors’ decisions on the supply needs of petroleum products of the Turkish Military Forces requires the consent of the member representing the Group C shareholders.

Retained earnings, as per the statutory financial statements other than legal reserves, are available for distribution, subject to the legal reserve requirement referred to below.

20. Equity (Continued)

Restricted reserves

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code (“TCC”). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum until the total reserve reaches 20% of the Company’s paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset loss and are not available for any other usage unless the reserve exceeds 50% of paid-in share capital.

In accordance with Turkish Financial Reporting Standards the aforementioned amounts should be classified under “Restricted Reserves”. At 31 December 2019, the restricted reserves of the Company amount to TRY503,343 thousand (31 December 2018 - TRY597,086 thousand).

Dividend distribution

Listed companies distribute dividend in accordance with the Communiqué No. II-19.1 issued by the CMB which is effective from 1 February 2014.

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of incorporation. In addition, dividend can be distributed by fixed or variable instalments and advance dividend can be paid in accordance with profit on interim financial statements of the Company.

In accordance with the Turkish Commercial Code (TCC), unless the required reserves and the dividend for shareholders as determined in the article of association or in the dividend distribution policy of the company are set aside, 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 usufruct right certificates, to the members of the board of directors or to the employees; and no dividend can be distributed to these persons unless the determined dividend for shareholders is paid in cash.

In the period ended as of 31 December 2019, the Company committed to make dividend payment in cash amounting to TRY3,793,851 thousand which is the total amount remained after first and second composition legal reserves deducted from 2018 distributable net profit of the period and a portion of second composition legal reserves. The Company paid a cash dividend at the rate of 1,515.0% which corresponds to TRY15,15 gross and TRY15,15 net cash dividend for the shares with a nominal value of TRY1.00 to institutional shareholders who are full taxpayers or limited liable taxpayers and obtain dividends through a business or permanent representative in Turkey. The Company paid also a cash dividend at the rate of 1,515.0%, which corresponds to TRY15,15 gross and TRY12,8775 net cash dividend for the shares with a nominal value of TRY1.00 to other shareholders.

In the period ended as of 31 December 2018, the Company committed to make dividend payment in cash amounting to TRY3,406,452 thousand which is the total amount remained after first and second composition legal reserves deducted from 2017 distributable net profit of the period and a portion of second composition legal reserves. The Company paid a cash dividend at the rate of 1,360.3% which corresponds to TRY13,603 gross and TRY13,603 net cash dividend for the shares with a nominal value of TRY1.00 to institutional shareholders who are full taxpayers or limited liable taxpayers and obtain dividends through a business or permanent representative in Turkey. The Company paid also a cash dividend at the rate of 1,360.3%, which corresponds to TRY13,603 gross and TRY11,563 net cash dividend for the shares with a nominal value of TRY1.00 to other shareholders.

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

21. Revenue and cost of sales

	1 January - 31 December 2019	1 January - 31 December 2018
Domestic revenue	**70,538,290**	77,547,173
Export revenue	**20,144,188**	12,490,970
Gross revenue	**90,682,478**	90,038,143
Less: Sales discounts	**(922,258)**	(1,258,595)
Less: Sales returns	**(159,444)**	(227,378)
Sales (net)	**89,600,776**	88,552,170
Cost of goods sold	**(84,716,489)**	(79,327,847)
Gross profit	**4,884,287**	9,224,323

Cost of sales:

	1 January - 31 December 2019	1 January - 31 December 2018
Raw material, manufactured and consumable material	**79,406,426**	75,263,115
Energy expenses	**2,589,357**	1,664,001
Personnel expenses	**873,662**	769,199
Depreciation and amortization (Note 11)	**621,457**	568,863
Other production expenses	**1,225,587**	1,062,669
Cost of sales	**84,716,489**	79,327,847

22. General administrative expenses, marketing expenses and research and development expenses

General administrative expenses:

	1 January - 31 December 2019	1 January - 31 December 2018
Personnel expenses	**532,773**	410,945
Insurance expenses	**161,175**	109,109
Taxes and duties	**142,029**	118,762
Outsourced services	**115,725**	90,389
Depreciation and amortization (Note 11-12)	**84,652**	53,627
Office expenses	**79,185**	34,255
Subscription fees	**43,993**	35,903
Lawsuit and consultancy expenses	**39,431**	20,786
Transportation and travel expenses	**6,125**	5,317
Rent expenses	**4,174**	21,680
Donations	**3,490**	45,597
Other	**64,461**	55,147
Total general administrative expenses	**1,277,213**	1,001,517

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

22. General administrative expenses, marketing expenses and research and development expenses (Continued)

Marketing expenses:

	1 January - 31 December 2019	1 January - 31 December 2018
Transportation, storage and insurance expenses	**189,129**	67,633
Personnel expenses	**150,965**	117,350
Energy expenses	**25,963**	15,309
Outsourced services	**10,929**	8,429
Advertising expenses	**23,977**	6,358
Depreciation and amortization (Note 11)	**7**	4
Other	**81,104**	69,723
Total marketing expenses	**482,074**	284,806

Research and development expenses:

	1 January - 31 December 2019	1 January - 31 December 2018
Personnel expenses	**14,177**	11,499
Licence expenses	**3,893**	2,451
Outsourced services	**1,080**	732
Lawsuit and consultancy expenses	**598**	549
Other	**4,325**	5,830
Total research and development expenses	**24,073**	21,061

23. Other operating income/(expenses)

Other operating income:	**1 January - 31 December 2019**	1 January - 31 December 2018
Credit finance gains	**729,393**	759,479
Foreign exchange gain from trade receivables	**25,644**	50,133
Rent income	**4,816**	4,127
Provisions no longer required	**136**	57,931
Other	**78,584**	58,949
Total other operating income	**838,573**	930,619

Other operating expense:	**1 January - 31 December 2019**	1 January - 31 December 2018
Foreign exchange loss from trade payables	**(882,606)**	(2,878,278)
Credit finance charges	**(777,816)**	(215,034)
Other	**(48,941)**	(17,946)
Total other operating expense	**(1,709,363)**	(3,111,258)

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

24. Income/(expense) from investment activities

	1 January - 31 December 2019	1 January - 31 December 2018
Gain/(loss) on sales of property plant and equipment and intangible assets	**(152)**	(9,378)
Total income/(expense) from investment activities	**(152)**	(9,378)

25. Financial income/(expenses)

	1 January - 31 December 2019	1 January - 31 December 2018
Financial income:		
Foreign exchange gains on deposits	**883,852**	2,918,108
Interest income on deposits	**638,906**	368,837
Total financial income	**1,522,758**	3,286,945
Financial expense:		
Interest expenses	**(2,010,263)**	(1,309,157)
Foreign exchange losses on borrowings	**(1,916,881)**	(3,777,952)
Losses on derivative instruments	**(320,860)**	(463,266)
Other	**(13,480)**	(4,992)
Total financial expense	**(4,261,484)**	(5,555,367)

As of 31 December 2019, TRY23,334 thousand interest expense from leasing transactions is included in interest expenses and TRY5,225 thousand expense from leasing transactions is included in the foreign exchange losses (31 December 2018: None).

26. Tax assets and liabilities

i) Corporate tax:

	31 December 2019	31 December 2018
Current period corporate tax provision	**9,479**	218,388
Current year tax assets	**(7,074)**	(119,639)
Corporation tax provision	**2,405**	98,749

Turkish tax legislation does not permit a parent company, its subsidiaries and its joint ventures to file a consolidated tax return. Therefore, provisions for taxes, as reflected in these consolidated financial statements, have been calculated on an individual-entity basis.

The corporation tax rate for the fiscal year 2019 is 22% (2018: 22%). Corporation tax is payable on the total income of the companies after adjusting for certain disallowable expenses, corporate income tax exemptions (participation exemption, investment allowance, etc.) and allowances (as research and development expenditures deduction.

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

26. Tax assets and liabilities (Continued)

i) Corporate tax (Continued):

Reconciliation of the income before tax with the calculated corporate tax is as follows:

	2019	2018
Profit before taxation	**(311,348)**	3,724,380
Expected tax expense(*)	**68,497**	(819,364)
Investment incentive income	**728,958**	729,249
Deductions and exemptions	**101,055**	128,152
Disallowable expenses and differences Not subject to taxation	**(1,832)**	(972)
Taxation on income	**896,678**	37,065

(*) Expected tax expense is calculated with 22% tax rate for 2019 and 2018.

The analysis of cumulative temporary differences and the related deferred tax assets and liabilities in respect of items for which deferred income tax has been provided as at 31 December 2019 and 31 December 2018 using the enacted tax rates are as follows:

	Cumulative temporary differences		**Deferred tax (liability)/asset**	
	31 December 2019	31 December 2018	**31 December 2019**	31 December 2018
Gain on revaluation of property	**7,139,764**	-	**(713,976)**	-
Fair value difference of derivative instruments	**365,686**	68,004	**(80,451)**	(14,961)
Prepaid expenses	**34,727**	51,680	**(7,640)**	(11,370)
Deferred financial income, (net)	**20,292**	-	**(4,464)**	-
Deferred tax liability			**(806,531)**	(26,331)
Investment incentive income (*)	**11,714,563**	10,029,879	**3,957,291**	3,228,333
Difference between the carrying values and tax base of property, plant, equipment and intangible assets	**1,313,409**	1,210,352	**288,950**	266,277
Carry forward tax losses (**)	**1,128,491**	-	**248,268**	-
Employment termination benefits and seniority incentive bonus provision	**243,951**	190,477	**53,669**	41,905
Provision for unused vacation liability	**61,369**	51,646	**13,501**	11,362
Provisions for pending claims and lawsuits	**21,195**	18,547	**4,663**	4,080
Provision for inventory impairment	**-**	87,855	**-**	19,328
Deferred financial income, (net)	**-**	25,044	**-**	5,510
Other	**34,968**	71,219	**7,692**	15,668
Deferred tax assets			**4,574,034**	3,592,463
Deferred tax asset - net			**3,767,503**	3,566,132

(*) In the first quarter of 2011, within the scope of the decree of the Council of Ministers dated 14 July 2009 and numbered 2009/15199, the Company was granted a Large-Scaled Investment Incentive Certificate for Residuum Upgrading Project (RUP). Investment expenditures made within the scope of this certificate are subject to 30% contribution from the government, where the contribution is provided as a reduction in corporate tax payable by 50%. As of 7 October 2013, Residuum Upgrading Project was granted Strategic Investment Incentive by Incentive Implementation and Foreign Investment Department of Ministry of Economy of Republic of Turkey which became applicable after 19 October 2012. Expenditures made within the scope of Strategic Investment Incentive Certificate are subject to 50% contribution from the government, where the contribution is provided as a reduction in corporate tax payable by 90%. The company has performed the revaluation of the unutilized investment incentives for both certificates by using the 22.58% revaluation rate, which was announced for the second provisional tax period of 2019 by the Ministry of Finance.In addition to the government contribution within the scope of Strategic Investment Incentive, the Company benefits from VAT exemption, VAT refund, customs duty exemption, incentive for employer share of insurance premium and interest incentive from this certificate.

(**) Deferred tax assets amounting to TRY248,268 thousand which is to be used within 5 years consist of Group's financial losses amounting to TRY1,128,491 thousand in 2019.

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

26. Tax assets and liabilities (Continued)

i) Corporate tax (Continued):

The movement of deferred taxes is as follows:

	2019	2018
Deferred tax asset/(liability), net		
1 January	**3,566,132**	3,067,871
Charge for the period	**906,149**	255,453
Charge to equity:		
- Hedging cash flow gains/(losses)	**5,993**	244,771
- Actuarial gains/(losses) arising from defined benefit plans	**3,205**	(1,963)
- Revaluation of property gains/(losses)	**(713,976)**	-
31 December	**3,767,503**	3,566,132

27. Earnings per share

	1 January - 31 December 2019	1 January - 31 December 2018
Profit for the year attributable to shareholders of the Company	**525,837**	3,712,789
Weighted average number of Shares with nominal value of Kr1 each	**25,041,920,000**	25,041,920,000
Basic and diluted earnings per share in Kr	**2.10**	14.83

28. Related party transactions

Related party transactions were classified according to the following groups and contain all descriptions in this footnote,

(1) Joint ventures
(2) Koç Holding group companies
(3) Parent, ultimate parent

a) Deposits:

	31 December 2019	31 December 2018
Yapı ve Kredi Bankası A.Ş. (2)	**2,031,019**	2,428,620
Total	**2,031,019**	2,428,620

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

28. Related party transactions (Continued)

b) Due from related parties:

	31 December 2019	31 December 2018
Opet Petrolcülük A.Ş. (1)	**835,956**	642,361
Aygaz A.Ş. (2)	**85,399**	64,500
THY OPET Havacılık Yakıtları A.Ş. (1)	**67,283**	420,121
Opet Fuchs Madeni Yağ San. ve Tic. A.Ş. (1)	**6,104**	5,055
Diğer (2)	**1,095**	80
Total	**995,837**	1,132,117

As of 31 December 2019, Tüpraş has offset TRY373,000 thousand (31 December 2018: TRY650,000 thousand) from its trade receivables due from related parties that are collected from factoring companies as a part of irrevocable factoring agreements.

c) Trade payables:

	31 December 2019	31 December 2018
Aygaz Doğalgaz Toptan Satış A.Ş. (2)	**113,585**	-
Zer Merkezi Hizmetler ve Ticaret A.Ş. (2)	**23,228**	15,021
Opet Petrolcülük A.Ş. (1)	**17,634**	6,368
Ark İnşaat A.Ş. (2)	**15,140**	5,126
Koç Sistem Bilgi ve İletişim A.Ş. (2)	**14,183**	18,343
RAM Sigorta Aracılık Hizmetleri A.Ş. (2)	**9,635**	9,348
Otokoç Otomotiv Tic. ve San. A.Ş. (2)	**9,337**	5,144
THY OPET Havacılık Yakıtları A.Ş. (1)	**5,429**	4,022
Aygaz A.Ş. (2)	**4,995**	6,885
Setur Servis Turistik A.Ş. (2)	**2,131**	1,421
Diğer (2)	**10,775**	5,418
Total	**226,072**	77,096

d) Other payables

	31 December 2019	31 December 2018
Koç Holding A.Ş. (3)	**28,297**	24,279
Total	**28,297**	24,279

e) Advances given for property, plant and equipment:

	31 December 2019	31 December 2018
RMK Marine Gemi Yapım Sanayii ve Deniz Taşımacılığı İşl. A.Ş. (2)	**36,751**	243,379
Ark İnşaat A.Ş. (2)	**17,909**	8,722
Diğer (2)	**65**	-
Total	**54,725**	252,101

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

28. Related party transactions (Continued)

f) Bank loans:

	31 December 2019	31 December 2018
Yapı ve Kredi Bankası A.Ş. (2)	**111,131**	7,948
Total	**111,131**	7,948

g) Lease liabilities:

	31 December 2019	31 December 2018
Koç Ailesi (1)	**55,806**	-
Otokoç Otomotiv Tic. ve San. A.Ş. (2)	**22,658**	-
Zer Merkezi Hizmetler ve Ticaret A.Ş. (2)	**299**	-
Total	**78,763**	-

h) Product and service sales:

	1 January - 31 December 2019	1 January - 31 December 2018
Opet Petrolcülük A.Ş. (1)	**14,400,870**	14,593,024
THY OPET Havacılık Yakıtları A.Ş. (1)	**4,948,781**	10,550,334
Aygaz A.Ş. (2)	**686,695**	710,537
Opet Fuchs Madeni Yağ San. ve Tic. A.Ş. (1)	**38,967**	39,965
Diğer (2)	**1,618**	5,595
Total	**20,076,931**	25,899,455

i) Product and service purchases:

	1 January - 31 December 2019	1 January - 31 December 2018
Aygaz Doğalgaz Toptan Satış A.Ş. (2)	**1,160,891**	-
Aygaz A.Ş. (2)	**167,805**	253,116
Ram Sigorta Aracılık Hizmetleri A.Ş. (2) (**)	**167,652**	120,398
Opet Petrolcülük A.Ş. (1)	**148,375**	89,159
Zer Merkezi Hizmetler ve Ticaret A.Ş. (2)	**103,662**	85,722
Opet International Limited (1)	**91,319**	12,065
Koç Holding A.Ş. (3) (*)	**55,133**	41,493
Koç Sistem Bilgi ve İletişim A.Ş. (2)	**45,358**	24,850
THY OPET Havacılık Yakıtları A.Ş. (1)	**39,898**	41,917
Otokoç Otomotiv Tic. ve San. A.Ş. (2)	**22,237**	15,758
Diğer (2)	**97,135**	66,192
Total	**2,099,465**	750,670

(*) Consists of the Group's share of invoices issued by Koç Holding, the ultimate parent of Tüpraş in accordance with the "11-Intra-group Services" of General Communique numbered 1 on Distribution of Hidden Income through Transfer Pricing which represents the services provided for financing, legal, tax and remuneration of senior management by the ultimate parent to its group companies.

(**) Includes paid and accrued insurance premiums in the periods ended 31 December 2019 and 2018 in connection with insurance policies signed with insurance companies through RAM Sigorta Aracılık Hizmetleri A.Ş. acting as an intermediary insurance agent.

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

28. Related party transactions (Continued)

j) Fixed asset purchases:

	1 January - 31 December 2019	1 January - 31 December 2018
RMK Marine Gemi Yapım Sanayii ve Deniz Taşımacılığı İşletmesi A.Ş (2)	**132,775**	-
Ark İnşaat A.Ş. (2)	**78,639**	29,216
Entek Elektrik Üretimi A.Ş. (2)	**46,100**	-
Algoritma Sağlık Hizmetleri A.Ş. (2)	**-**	6,260
Koç Sistem Bilgi ve İletişim A.Ş. (2)	**-**	16,699
Aygaz A.Ş. (2)	**-**	17,800
Diğer (2)	**17,393**	7,793
Total	**274,907**	**77,768**

k) Remuneration of board of directors and executive management:

The senior management of the Company is determined as members and chair of the Board of Directors and General Manager and General Manager Deputies, The total amount of benefits provided to senior management is TRY88,560 thousand as of period ending on 31 December 2019 (31 December 2018 - TRY86,411 thousand). TRY6,700 (31 December 2018 - TRY1,237) of this amount is related to payments due to termination of employment and the remaining portion consists of short-term benefits.

l) Financial expenses paid to related parties:

	1 January - 31 December 2019	1 January - 31 December 2018
Yapı ve Kredi Bankası A.Ş. (2)	**22,851**	-
Yapı Kredi Faktoring A.Ş. (2)	**9,190**	6,464
Yapı Kredi Bank Nederland N.V.(2)	**480**	102
Total	**32,521**	6,566

m) Time deposit interest income:

	1 January- 31 December 2019	1 January - 31 December 2018
Yapı ve Kredi Bankası A.Ş. (2)	**99,462**	198,197
Total	**99,462**	198,197

n) Donations:

As of 31 December 2019, total donation is amounting to TRY286 thousand (31 December 2018 – TRY36,410 thousand).

29. Financial instruments and financial risk management

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group.

Liquidity risk:

The ability to fund the existing and prospective debt requirements is managed by maintaining the availability of adequate fund providers from high quality lenders.

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 open positions.

The table below demonstrates the Group's future cash outflows due to financial liabilities as at 31 December 2019 and 31 December 2018. The amounts demonstrated are undiscounted cash flows on agreements and the Group manages its liquidity risk by taking into account its expected undiscounted cash flows.

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

29. Financial instruments and financial risk management (Continued)

31 December 2019

Contractual maturities	**Carrying value**	**Contractual cash outflows**	**Up to 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
Total liabilities (non derivative)	36,947,377	40,964,423	18,192,261	579,809	17,064,913	5,127,440
Bank borrowings	14,007,303	17,100,274	285,660	361,259	16,226,349	227,006
Bonds & notes issued	4,862,135	5,467,954	-	187,116	748,465	4,532,373
Lease liabilities	206,356	490,020	426	31,434	90,099	368,061
Trade payables	17,816,174	17,850,766	17,850,766	-	-	-
Other liabilities	55,409	55,409	55,409	-	-	-

Contractual maturities	**Carrying value**	**Contractual cash outflows**	**Up to 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
Derivative instruments (net)	291,536	182,604	32,031	(63,732)	214,915	(610)
Derivative cash inflows	402,733	15,011,818	8,892,569	3,095,910	3,020,332	3,007
Derivative cash outflows	111,197	14,829,214	8,860,538	3,159,642	2,805,417	3,617

31 December 2018

Contractual maturities	Carrying value	Contractual cash outflows	Up to 3 months	3-12 months	1-5 years	More than 5 years
Total liabilities (non derivative)	25,484,981	28,650,792	9,933,830	2,794,743	11,647,564	4,274,655
Bank borrowings	14,232,765	16,266,572	2,392,268	2,629,025	10,984,691	260,588
Bonds & notes issued	3,716,775	4,842,658	-	165,718	662,873	4,014,067
Trade payables	7,496,141	7,502,262	7,502,262	-	-	-
Other liabilities	39,300	39,300	39,300	-	-	-

Contractual maturities	Carrying value	Contractual cash outflows	Up to 3 months	3-12 months	1-5 years	More than 5 years
Derivative instruments (net)	65,511	(177,007)	(121,459)	(110,881)	55,527	(194)
Derivative cash inflows	343,798	1,791,311	221,052	436,689	1,123,097	10,473
Derivative cash outflows	278,287	1,968,318	342,511	547,570	1,067,570	10,667

Cash outflows will be financed through cash inflows generated from sales or through funding.

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

29. Financial instruments and financial risk management (Continued)

Credit risk:

The Group is subject to credit risk arising from trade receivables related to credit sales, deposits at banks. These risks are managed by limiting the aggregate risk from any individual counterparty and obtaining sufficient collateral where necessary and making only cash based sales to customers considered as having a higher risk. Collectability of trade receivables are evaluated by management depending on their past experiences and current economic condition, and are presented in the consolidated financial statements net of adequate doubtful provision.

Major portion of Tüpraş's customers are composed of financially strong companies or government entities. As at 31 December 2019 and 2018, trade receivables from the top 5 customers of the Group constitute 55% and 35% of total receivables, respectively. When these factors are considered together with the insignificant historical default experience for the Group's receivables, the Group management considers the credit risk as low. The Group uses the same risk management principles for the management of financial assets. Investments are made to highly liquid instruments and the banks that the Group deposits its cash and cash equivalents in are selected among the financially strong institutions. As the Group did not have any uncollected, past due, impaired or renegotiated bank deposits, the Group believes that it does not have any impairment risk related to bank deposits.

Credit risks of the Group for each financial instrument type as at 31 December 2019 and 2018 are as follows:

31 December 2019	**Receivables**					**Derivative instruments**	
	Trade Receivables		**Other Receivables**				
	Related parties	**Other parties**	**Related parties**	**Other parties**	**Bank deposits**	**Related parties**	**Other**
Maximum exposed credit risk as of reporting date	**995,837**	**3,792,069**	**-**	**45,617**	**10,652,009**	**402,733**	**-**
- Secured portion of the maximum credit risk by guarantees, etc.	**-**	**568,028**	**-**	**-**	**-**	**-**	**-**
A. Net book value of financial asset either are not due or not impaired	**995,837**	**3,674,402**	**-**	**45,617**	**10,652,009**	**402,733**	**-**
B. Net book value of overdue but not impaired financial assets	**-**	**117,667**	**-**	**-**	**-**	**-**	**-**
C. Net book value of the impaired assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Overdue(gross book value)	**-**	**5,243**	**-**	**1,526**	**-**	**-**	**-**
- Impairment (-)	**-**	**(5,243)**	**-**	**(1,526)**	**-**	**-**	**-**
- Secured portion of the net value by guarantees, etc.	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Not due yet (gross book value)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Impairment (-)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Secured portion of the net value by guarantees, etc.	**-**	**-**	**-**	**-**	**-**	**-**	**-**
D. Components which are including credit risk except financial statement	**-**	**-**	**-**	**-**	**-**	**-**	**-**

31 December 2018	Receivables					Derivative instruments	
	Trade Receivables		Other Receivables				
	Related parties	Other parties	Related parties	Other parties	Bank deposits	Related parties	Other
Maximum exposed credit risk as of reporting date	1,132,117	4,296,621	-	29,048	5,982,828	343,798	-
- Secured portion of the maximum credit risk by guarantees, etc.	-	593,892	-	-	-	-	-
A. Net book value of financial asset either are not due or not impaired	1,132,117	4,225,420	-	29,048	5,982,828	343,798	-
B. Net book value of overdue but not impaired financial assets	-	71,201	-	-	-	-	-
C. Net book value of the impaired assets	-	-	-	-	-	-	-
- Overdue(gross book value)	-	4,740	-	324	-	-	-
- Impairment (-)	-	(4,740)	-	(324)	-	-	-
- Secured portion of the net value by guarantees, etc.	-	-	-	-	-	-	-
- Not due yet (gross book value)	-	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-	-
- Secured portion of the net value by guarantees, etc.	-	-	-	-	-	-	-
D. Components which are including credit risk except financial statement	-	-	-	-	-	-	-

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

29. Financial instruments and financial risk management (Continued)

Credit risk (Continued):

31 December 2019	**Receivables**		**Bank**	**Derivative**	
	Trade receivables	**Other receivables**	**deposits**	**instruments**	**Other**
Overdue (1-30 days)	**59,438**	-	-	-	-
Overdue (1-3 months)	**31,732**	-	-	-	-
Overdue (3-12 months)	**23,991**	-	-	-	-
Overdue (1-5 years)	**2,506**	-	-	-	-
Overdue (5+ years)	-	-	-	-	-

31 December 2018	Receivables		Bank	Derivative	
	Trade receivables	Other receivables	deposits	instruments	Other
Overdue (1-30 days)	44,990	-	-	-	-
Overdue (1-3 months)	16,751	-	-	-	-
Overdue (3-12 months)	9,459	-	-	-	-
Overdue (1-5 years)	1	-	-	-	-
Overdue (5+ years)	-	-	-	-	-

During the impairment test of financial assets, the Group has considered the indicators regarding uncollectibility of receivables that are due. The Group has guarantees received amounting to TRY114,531 thousand (31 December 2018: TRY70,540 thousand) for trade receivables overdue but not impaired. Major part of receivables without guarantees are from government entities which regularly made sales, any collection risk is not projected.

The credit quality of trade receivables that are neither past due nor impaired

he Group categorizes the details of credit quality of trade receivables that are neither past due nor impaired or receivables whose conditions are examined under four groups. The details of credit quality of such trade receivables as at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
Group 1	**241**	4,842
Group 2	**1,987,149**	2,102,638
Group 3	**2,453,724**	3,137,892
Group 4	**229,125**	112,165
Total	**4,670,239**	5,357,537

Group 1 - New customers (less than three months)
Group 2 - State owned enterprises
Group 3 - Existing customers with no payment defaults in previous periods (have been customers by more than three months)
Group 4 - Customers with previous record of collection delays but from which all receivables due are collected (Excluding Group 1 and 2)

Market risk:

Tüpraş identifies commodity price, interest rate and currency risk as major components of market risk. Foreign exchange and interest risk are evaluated separately based on portfolio and product.

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

29. Financial instruments and financial risk management (Continued)

Commodity price risk

The Company is exposed to effects of fluctuation in oil prices related to its crude oil inventory held for production. For the elimination of commodity price risk, the management regularly reviews the amount of stocks.

Sales prices' of Tüpraş's products, are determined based on Mediterranean product prices, which is described as the "closest accessible free market formation in the world" by the Turkish Petroleum Market Law N. 5015, and USD selling rates. Within the framework of legal definitions, changes of prices in Mediterranean petroleum products market and changes in USD exchange rate are assessed daily by the management and the new selling price based on these two factors is updated when it differs significantly upwards or downwards from the current sales price.

Since instability in crude oil prices may cause unwanted and unexpected fluctuations in net profit and cash flows, the Company has consituted hedging policy in order to eliminate this risk. Within this framework, short and long term hedging transactions are made by using various derivative instruments (Note 18).

Product crack risk

Besides the fluctuations in crude oil prices, in order to eliminate fluctuation risk in product prices profit margins of the products (crack) can be fixed by using various derivative instruments (hedging). Therefore, a hedging policy has been created by comparing historical price levels and by hedging a certain percentage of the total sales volume at certain crack levels (Note 18).

Interest rate risk

The Group is exposed to foreign exchange risk due to operations in foreign currency. These risks are managed by analysis of the foreign currency monetary assets and liabilities in the consolidated financial statements, by a comprehensive risk tracking system which includes natural hedging and similar practices.

The table below summarizes the net balance sheet foreign currency position risk and components that are managed within the risk tracking system of the Group as at 31 December 2019 and 31 December 2018:

	31 December 2019	31 December 2018
Financial instruments with fixed interest rate		
Financial assets		
Time deposits	**10,644,054**	5,981,625
Financial liabilities	**11,162,541**	9,639,986
Financial instruments with floating interest rate		
Financial liabilities (*)	**7,913,253**	8,309,554

(*) As of 31 December 2019, there is interest rate swap and cross currency interest rate swap transactions for loans with floating interest rate amounting to USD519,742 thousand (31 December 2018: USD638,032 thousand) and EUR174,614 thousand (31 December 2018: EUR26,571) (Note 18).

As at 31 December 2019, had the interest rate for borrowings denominated in USD strengthened by 100 base points (1%), with all other variables held constant, profit before tax would be TRY8,731 thousand lower/higher (31 December 2018: TRY8,558 thousand). As at 31 December 2019, had the interest rate for borrowings denominated in EURO strengthened/weakened by 100 base points (1%), with all other variables held constant, profit before tax would be TRY5 thousand lower/ higher (31 December 2018: TRY4,554 thousand). As of 31 December 2019 and 2018, there is no interest rate risk for TL bank loans.

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

29. Financial instruments and financial risk management (Continued)

Interest rate risk (Continued)

Expected repricing and maturity dates do not differ from the contract dates excluding borrowings; therefore no additional table is presented.

The maturity groupings of borrowings at 31 December 2019 and 2018 based on their contractual repricing dates are disclosed in Note 5.

Foreign exchange risk

The Group is exposed to foreign exchange risk due to operations in foreign currency. These risks are managed by analysis of the foreign currency monetary assets and liabilities in the consolidated financial statements, by a comprehensive risk tracking system which includes natural hedging and similar practices.

The table below summarizes the net balance sheet foreign currency position risk and components that are managed within the risk tracking system of the Group as at 31 December 2019 and 31 December 2018:

	31 December 2019		31 December 2018	
	TRY	**USD(*)**	TRY	USD(*)
Monetary assets	**1,540,805**	**259,386**	5,288,783	1,005,300
Monetary liabilities	**(27,315,520)**	**(4,598,418)**	(20,841,883)	(3,961,657)
Monetary assets / (liabilities) foreign currency position	**(25,774,715)**	**(4,339,032)**	(15,553,100)	(2,956,357)
Non-monetary assets	**188,515**	**31,735**	807,947	153,576
Net foreign currency position of derivative financial instruments	**11,446,439**	**1,926,945**	3,302,295	627,705
Net foreign currency asset / (liability) position	**(14,139,761)**	**(2,380,351)**	(11,442,858)	(2,175,076)
Cash flow hedging (**)	**4,828,054**	**812,776**	5,166,635	982,082
Net foreign currency position after cash flow hedging	**(9,311,707)**	**(1,567,575)**	(6,276,223)	(1,192,994)
Inventory in natural hedge scope (***)	**9,129,592**	**1,536,917**	6,333,567	1,203,894
Net foreign currency position after cash flow hedging and natural hedge	**(182,115)**	**(30,658)**	57,344	10,900

(*) Dollar equivalent amounts are determined through dividing total TRY equivalent positions to exchange rate of dollar as at balance sheet date.

(**) The Group uses investment loans amounting to USD812,776 thousand, which is equivalent to TRY4,828,054 thousand (USD982,082 thousand / TRY5,166,635 thousand in 31 December 2018) as prevention against USD/TRY spot foreign exchange risk of USD denominated export revenue, which is highly probable to be realized. Based on the outcome of effectiveness test performed on related process, the Group has considered that the process is fully effective and therefore applied cash flow hedge accounting. As of 31 December 2019, TRY2,567,257 thousand of (31 December 2018: TRY2,575,965) foreign exchange loss that arose from investment loans is classified under equity "Cash flow hedge gains (losses)" which has no effect on current year income statement. As of 31 December 2019, the foreign exchange loss amounting to TRY647,079 thousand corresponding to the export income of investment loans denominated in USD has been transferred to the foreign exchange loss in the income statement from "Cash flow hedge gains (losses)" account under equity. Moreover, as of 31 December 2019, foreign exchange loss of these loans in 2019 amounting to TRY638,371 were added to the "Cash flow hedge gains (losses)" account under equity.

(***) The Group manages its foreign currency risk arising from foreign currency denominated financial liabilities and trade payables by regularly considering and reflecting the foreign exchange rate changes in the determination of petroleum product prices. The Group follows the US dollar equivalence of these inventories with their historical costs in accordance with risk management policy. As at 31 December 2019, the Group has crude oil and petroleum products inventories amounting to TRY9,129,592 thousand (31 December 2018: TRY6,333,567 thousand).

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

29. Financial instruments and financial risk management (Continued)

Foreign exchange position table

	31 December 2019					31 December 2018				
	TRY equivalent (In terms of functional currency	**USD**	**EUR**	**GBP**	**Other**	TRY equivalent (In terms of functional currency	USD	EUR	GBP	Other
Trade receivables	274,884	46,183	65	2	103	744,813	141,461	57	-	257
Monetary financial assets (including cash, banks)	1,256,253	205,064	4,950	671	-	4,505,691	537,016	278,764	-	114
Other	188,515	31,471	59	152	1	807,947	153,492	73	-	-
Current assets	**1,719,652**	**282,718**	**5,073**	**824**	**104**	6,058,451	831,969	278,894	-	371
Monetary financial assets	7,479	-	1,125	-	-	38,279	4,171	2,710	-	-
Other	2,189	-	-	282	-	-	-	-	-	-
Non-current assets	**9,668**	**-**	**1,125**	**282**	**-**	38,279	4,171	2,710	-	-
Total assets	**1,729,320**	**282,718**	**6,197**	**1,106**	**104**	6,096,730	836,140	281,604	-	371
Trade payables	12,590,524	2,103,634	12,966	13	8,185	6,266,612	1,173,998	12,276	-	16,326
Financial liabilities	4,384,159	608,682	115,222	279	-	3,278,691	486,945	118,932	-	-
Other monetary liabilities	297,645	48,523	85	1,137	-	260,178	49,313	124	-	-
Current liabilities	**17,272,328**	**2,760,839**	**128,273**	**1,429**	**8,185**	9,805,481	1,710,256	131,332	-	16,326
Financial liabilities	10,019,505	1,608,806	68,542	904	-	11,016,934	1,894,245	174,436	-	-
Other monetary liabilities	23,687	3,949	34	-	-	19,468	3,578	107	-	-
Non-current liabilities	**10,043,192**	**1,612,755**	**68,576**	**904**	**-**	11,036,402	1,897,823	174,543	-	-
Total liabilities	**27,315,520**	**4,373,593**	**196,850**	**2,334**	**8,185**	20,841,883	3,608,079	305,875	-	16,326
Net asset/(liability) position of off-balance sheet foreign currency derivatives	**11,446,439**	**1,731,449**	**174,614**	**-**	**-**	3,302,295	597,260	26,571	-	-
Total amount of off-balance sheet derivative financial assets	11,561,817	1,750,872	174,614	-	-	3,455,571	626,395	26,571	-	-
Total amount of off-balance sheet derivative financial liabilities	(115,378)	(19,423)	-	-	-	(153,276)	(29,135)	-	-	-
Net foreign currency asset/(liability) position	**(14,139,761)**	**(2,359,427)**	**(16,039)**	**(1,228)**	**(8,081)**	(11,442,858)	(2,174,679)	2,300	-	(15,955)
Cash flow hedging	**4,828,054**	**812,776**	**-**	**-**	**-**	5,166,635	982,082	-	-	-
Net foreign currency position after cash flow hedging	**(9,311,707)**	**(1,546,651)**	**(16,039)**	**(1,228)**	**(8,081)**	(6,276,223)	(1,192,597)	2,300	-	(15,955)
Net monetary foreign currency asset/(liability) position	**(25,776,904)**	**(4,122,347)**	**(190,711)**	**(1,661)**	**(8,082)**	(15,553,100)	(2,925,431)	(24,344)	-	(15,955)
Fair value of derivative instruments Used for hedging	**353,096**	**55,083**	**3,893**	**-**	**-**	162,894	24,253	5,856	-	-

As at 31 December 2019, the Group has TRY182,115 thousand as net foreign currency deficit after natural hedging (31 December 2018: TRY57,344 thousand net foreign currency surplus.)(Page:58)

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

29. Financial instruments and financial risk management (Continued)

The table below summarizes the effect of foreign currency rate changes on net balance sheet foreign currency position of the Group as at 31 December 2019 and 31 December 2018.

	Statement of foreign currency risk sensitivity			
	31 December 2019			
	Profit/Loss		**Equity**	
	Appreciation of foreign currency	**Depreciation of foreign currency**	**Appreciation of foreign currency**	**Depreciation of foreign currency**
				10% change in USD rate:
USD net assets/ liabilities	(2,448,756)	2,448,756	(461,711)	461,711
Amount hedged for USD risk (-)	1,496,218	(1,496,218)	-	-
USD net effect	**(952,538)**	**952,538**	**(461,711)**	**461,711**
	10% change in EUR rate:			
Euro net assets/ liabilities	(126,834)	126,834	-	-
Amount hedged for Euro risk (-)	116,129	(116,129)	-	-
EUR net effect	**(10,705)**	**10,705**	**-**	**-**
TOTAL	**(963,243)**	**963,243**	**(461,711)**	**461,711**

	31 December 2018			
	Profit/Loss		Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
	10% change in USD rate:			
USD net assets/ liabilities	(1,539,040)	1,539,040	(516,663)	516,663
Amount hedged for USD risk (-)	838,835	(838,835)	-	-
USD net effect	(700,205)	700,205	(516,663)	516,663
	10% change in EUR rate:			
Euro net assets/ liabilities	(14,675)	14,675	-	-
Amount hedged for Euro risk (-)	16,017	(16,017)	-	-
EUR net effect	1,342	(1,342)	-	-
TOTAL	(698,863)	698,863	(516,663)	516,663

The Group accounted investment loans in scope of cash flow hedge accounting and foreign exchange income / expense arising from these loans are recognised in equity. 10% increase and decrease effect of foreign exchange rates are calculated with the same method and the calculated foreign exchange gains / losses are presented as hedged portion in the foreign exchange sensitivity table. Furthermore, the hedged portion of foreign exchange gains / losses via forwards and cross currency swap transactions is classified as the amount hedged against US dollar in the statement of exchange rate sensitivity analysis.

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

29. Financial instruments and financial risk management (Continued)

Export and import

	1 January - 31 December 2019	1 January - 31 December 2018
Export		
USD (equivalent of thousand TRY)	**20,112,369**	12,489,247
Total	**20,112,369**	12,489,247
Import		
USD (equivalent of thousand TRY)	**70,681,358**	68,677,083
Total	**70,681,358**	68,677,083

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, issue new shares or sell assets to reduce debt. The gearing ratios as at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
Total financial liabilities (Note 5)	**19,075,794**	17,949,540
Less: Cash and cash equivalents (Note 4)	**(8,790,761)**	(4,557,686)
Net financial liabilities	**10,285,033**	13,391,854
Total shareholders' equity	**13,136,540**	9,945,829
Total capital invested	**23,421,573**	23,337,683
Gearing ratio	**%43.91**	%57.38

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 could realise in a current market exchange.

Following methods and assumptions were used to estimate the fair value of the financial instruments for which is practicable to estimate fair value:

Financial assets

The carrying amounts of foreign currency denominated monetary assets which are translated at year end exchange rates are considered to approximate their fair values.

The carrying values of cash and cash equivalents are estimated to be their fair values since they are short term.

The carrying values of trade receivables along with the related allowances for uncollectibility are estimated to be their fair values since they are short term.

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

29. Financial instruments and financial risk management (Continued)

Fair value of financial instruments (Continued)

Financial liabilities

The fair values of short-term financial liabilities and other financial liabilities are estimated to be their fair values since they are short term. The fair values of long-term bank borrowings with variable interest are considered to approximate their respective carrying values, since the initial rates applied to bank borrowings are updated periodically by the lender to reflect active market price quotations.

Fair value hierarchy table:

The Group classifies the fair value measurement of each class of financial instruments according to the source, using the three-level hierarchy, as follows:

Level 1: Market price valuation techniques for the determined financial instruments traded in markets (unadjusted)

Level 2: Other valuation techniques includes direct or indirect observable inputs

Level 3: Valuation techniques does not contains observable market inputs

Fair value hierarchy table as at 31 December 2019 is as follows:

Financial assets at fair value in statement of financial position	**Level 1**	**Level 2**	**Level 3**
Derivative financial assets	**-**	**402,733**	**-**
Financial investments	-	-	-
Financial liabilities at fair value in statement of financial position			
Derivative financial liabilities	**-**	**111,197**	**-**

Fair value hierarchy table as at 31 December 2018 is as follows:

Financial assets at fair value in statement of financial position	Level 1	Level 2	Level 3
Derivative financial assets	-	343,798	.-
Financial liabilities at fair value in statement of financial position			
Derivative financial liabilities	-	278,287	-

30. Government grants

Government incentives and aids that the Group has are as follows:

a) 100% customs duty exemption for imported machinery and equipment,
b) VAT exemption for investment goods procured domestically and abroad,
c) Incentives in the scope of research and development law (100% Corporate Tax exemption, Social Security Institution incentives, Stamp tax incentive, etc.),
d) Cash supports received from Teydeb in return for research and development expenses,
e) Discounted corporate tax incentive,
f) Insurance premium employer share support,
g) Corporate tax incentive within the scope of investment allowance exemption (Note 26).

31. Subsequent events

None.

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