



**TÜRKİYE PETROL RAFİNERİLERİ A.Ş.**

**01 January 2018 – 30 September 2018**

**Interim Report**

**TURKISH PETROLEUM REFINERIES CORP.**  
BOARD OF DIRECTORS INTERIM REPORT  
PREPARED IN REGARDS TO THE COMMUNIQUE OF CMB II-NO: 14.1  
01.01.2018-30.09.2018

Financial statements regarding 3Q 2018 activities of Tüpraş (“Company”), which have been prepared in compliance with the accepted and published financial standards of Capital Markets Board (“CMB”), is presented for our shareholders’ information.

**PART 1: CORPORATE INFORMATION:**

**Board of Directors and Committees of Board of Directors**

Number of the Board of Directors (“BoD”) members has been defined as 15 in the Ordinary General Assembly Meeting that was held on 21 March 2018. Duty assignment of the Board of Directors Members has been done in the Board of Directors Meeting held on 23 March 2018. Mr. Mehmet Ömer Koç has been assigned as Chairman, Mr. Yıldırım Ali Koç has been assigned as Vice Chairman.

Mr. Süleyman Karaman, who had been working as an independent member of the Board of Directors representing C Group Shares since 29 March 2017, left the independent membership of BoD on 29 May 2018. Mr. Ömer Sertbaş has been appointed to the Membership of the Board representing C Group share, which became vacant after the resignation of Mr. Süleyman Karaman; in order to complete the term of office of the predecessor until the first General Assembly Meeting and to be subject to the approval of the first General Assembly Meeting.

Members of the Board of Directors can be seen in the table below:

Name and Surname	Duty
Ömer M. Koç	Chairman
Ali Y. Koç	Vice Chairman
Rahmi M. Koç	Member
Semahat S. Arsel	Member
Temel K. Atay	Member
Dr. Bülent Bulgurlu	Member
Levent Çakıroğlu	Member
O. Turgay Durak	Member
Erol Memioğlu	Member
Yağız Eyüboğlu	Member
Ömer Sertbaş	Independent Member and Privatization Administration Representative
Ahmet Turul	Independent Member
Muharrem Hilmi Kayhan	Independent Member
Ayşe Canan Ediboğlu	Independent Member
Kamil Ömer Bozer	Independent Member

In reference to the BoD decision no: 2018/12 taken on 23 March 2018, structure of the company committee has been decided to constitute as follows in compliance with Corporate Governance Communique of CMB:

	Audit Committee	Corporate Governance Committee	Risk Management Committee
Chairman	Muharrem Hilmi Kayhan	Muharrem Hilmi Kayhan	Ayşe Canan Edibođlu
Member	Kamil Ömer Bozer	Yađız Eyübođlu	Temel Kamil Atay
Member		Dođan Korkmaz	

Furthermore, number of the Executive Committee members was decided to be as 6 members during BoD meeting. Mr. Rahmi M. Koç, Mrs. Semahat S.Arsel, Mr.Ömer M. Koç, Mr.Ali Y.Koç, Mr.Temel K.Atay and Mr. Dr.Bülent Bulgurlu were defined as Committee Members. Working principles of Committees have been published to public via Company webpage.

### **Benefits Provided to Board of Directors Members and Executive Managers**

Executive Managers of the Company are determined as the Chairman and Members of the BoD, General Manager and Assistant General Managers. Total benefit provided to the Executive Managers of the company is 9,769 thousand TL by the end of September 2018. (30 September 2017 – 8,282 thousand TL).

### **Capital**

The company has adopted the registered capital system according to the Law No. 6362 and implemented this system upon the approval of the Capital Market Board dated 22.11.1990 and no. 886

#### **a. Registered Capital :**

The registered capital of the company is TL 500,000,000.00 (five hundred million Turkish Liras), which is divided in to 50,000,000,000 (fifty billion) shares each with a nominal value of 1 Kuruş (Turkish Cent).

The registered capital ceiling permit issued by the Capital Market Board is valid for the years 2017-2021 (5 years). Even if the registered capital ceiling limit allowed may not be reached by the end of 2021, the Board of Directors has to obtain the permission of the General Assembly after obtaining the approval of the Capital Market Board for obtaining a new period not exceeding 5 years regarding the previous ceiling or a new ceiling value in order to adopt a resolution for a capital increase. If the said permission is not obtained, the company shall be considered as having abandoned the registered capital system.

#### **b. Issued Capital and Shares:**

The issued capital of the company is TL 250,419,200.00 (two hundred and fifty million four hundred and nineteen thousand, two hundred Turkish Liras, which is fully paid free of any collusion. The issued capital is divided in to two groups as (A) and (C) as shown below and all of the shares are registered shares.

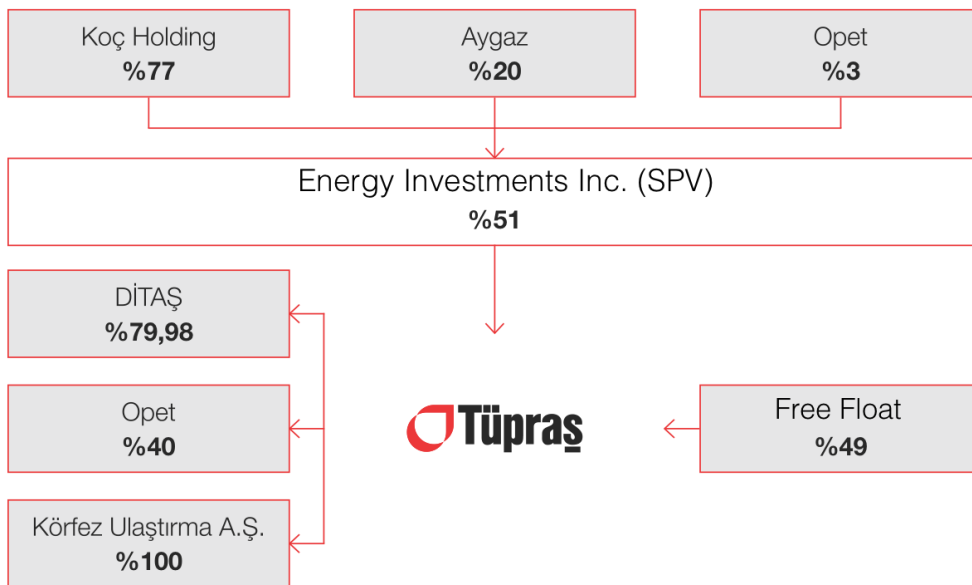
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Group	Name of Shareholder	Value (TL)	Type	Number of Shares
A	Enerji Yatırımları A.Ş.	127.713.792,22	Registered	12.771.379.222
A	Other	122.705.407,77	Registered	12.270.540.777
C	Özelleştirme İdaresi Bşk. (Privatization Administration)	0,01	Registered	1
<b>Total</b>		<b>250.419.200,00</b>		<b>25.041.920.000</b>

### Partnership Structure

The Company is registered to CMB. 49% of the Company shares are traded at Stock Exchange İstanbul. Shareholders holding Company shares and share proportions are as follows as of 30 September 2018:



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

Subsidiaries	Country of Operation	Nature of business
Ditaş Deniz İşletmeciliği and 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	Crude oil and petroleum products transportation
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
Körfez Ulaştırma A.Ş. ("Körfez")	Turkey	Air carriage and transportation

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
In case of liquidation Opet Trade Singapore (*)	Singapore	Petroleum products trading
Opet Fuchs Madeni Yağ San. ve Tic. A.Ş.	Turkey	Lubricants trading
Op Ay Akaryakıt Ticaret Ltd. Şti.	Turkey	Petroleum products trading
Akdeniz Akaryakıt Depolama Nakliyat and Tic. A.Ş.	Turkey	Petroleum products trading
Nemrut Liman and Boru İşl. Nak. İç and Dış Tic. Ltd. Şti.	Turkey	Marine Services
Opet Aygaz Gayrimenkul A.Ş.	Turkey	Real Estate

(\*) The company's activities are discontinued since 15 July 2015.

The total number of employees of the Group as of 30 September 2018 is 5,907 (31 Dec 2017 – 5,499).

The registered office address of the Company is as follows:

Turkish Petroleum Refineries Corp.  
Güney Mahallesi  
Petrol Caddesi No:25 41790  
Körfez, Kocaeli

## PART 2: ASSESSMENT OF SECTOR AND COMPANY ACTIVITIES

### Sectorial Developments

Average global crude oil demand, which was 98.3 million barrels/day in 3Q 2017, has increased by 1.5% and resulted as 99.8 million barrels/day in 2018. While crude oil production of OPEC has declined by 1% in 3Q 2018 vs 3Q 2017 in reference to OPEC's decision to reduce crude oil production; crude oil and fuel production of non OPEC suppliers have increased by 4.6%, resulting the overall crude oil and fuel supply increase to 100.3 million barrels/day and by 2.3%

Crude prices, which started the year at a level of 66.6 USD/barrel, followed a fluctuating but upwards trend since the beginning of the year due to several dynamics such as statements by OPEC and Russia on extending the production cut period to mid-2019, trade wars, geopolitical risks due to Iran, crude oil demand increase in China and US taking a hard line on Iran sanctions; and reached to 83.65 USD/barrel by the end of September 2018 with a nine-month average of 72.13 USD/barrel.

During 3Q 2018, increase in the demand of North America and Asia coupled with healthy global economic activity have supported diesel margins, while jet fuel margins are strengthened by continuing growth in aviation industry. However, fuel oil margins shrunk due to stock reduction trend before IMO 2020 restrictions change and less consumption for electricity production. On the other hand, high prices have started to pressure gasoline demand. Especially in September, the increase in the supply of gasoline after high capacity utilization and the decline in demand due to the end of the high season showed a decline in gasoline margins.

At the end of nine months, the Mediterranean refining margin was about 4.5 USD / barrel, including stock and FX effects, Tüpraş net refinery margin was realized as \$ 10.7 / barrel, resulting \$ 6.2 / barrel above the Mediterranean Complex margin.

According to Energy Market Regulation Agency (“EMRA”) reports, gasoline consumption for January-August 2018 has increased by 3.7% and reached to 1.6mn tons vs. the same period of 2017 and Tüpraş has continued to fulfill the country demand. Jet fuel sales has increased by 12.3% and reached to 3.4mn tons due to growth in aviation industry and diesel demand has increased by 8.0% and reached to 16,9mn tons. Tüpraş has provided all of its diesel and jet fuel production to the domestic market.

## Operational Information

Tüpraş has successfully completed the planned refinery maintenances in the first half. Capacity utilization, which was at 85% by second quarter, reached to 95% at the end of 9 months thanks to the high utilization rate of 115% in 3rd quarter after maintenances. As shown in the tables below, 20mn tons of crude and semi-products were charged. 19.1 million tons of final products were produced in the third quarter and white product yield has increased by 0.3% and reached to 77.2%.

Refined Crude Oil	2017 (9M)	2018 (9M)	Difference
<b>Total Charge (ktons)</b>	<b>23.726</b>	<b>20.024</b>	<b>-3.702</b>
<b>White Product Efficiency</b>	<b>77,0</b>	<b>77,2</b>	<b>0,3</b>
<b>API</b>	<b>30,3</b>	<b>31,0</b>	<b>0,64</b>
<b>Capacity Utilization Rate %</b>	<b>112,6</b>	<b>95,0</b>	<b>-17,6</b>

Production (1000 ton)	2017 (9M)	2018 (9M)	Difference	
LPG	816	702	-114	-14%
Naphtha/Gasoline	4.787	3.935	-852	-18%
Jet Fuel/Kerosene	3.849	3.655	-194	-5%
Diesel	7.632	6.189	-1443	-19%
<b>Middle Distillate</b>	<b>11.481</b>	<b>9.844</b>	<b>-1.637</b>	<b>-14%</b>
Fuel Oil	1.714	1.063	-651	-38%
Base Oil	139	122	-17	-12%
Bitumen	2.460	2.397	-63	-3%
Other	1.146	1.017	-129	-11%
<b>Total</b>	<b>22.543</b>	<b>19.081</b>	<b>-3.462</b>	<b>-15%</b>

Despite the impact of planned maintenances on total charge and production performance compared to last year, thanks to the support of company's trade capacity, domestic sales have increased by 240k tons (1.2%), reaching to 19.5mn tons of domestic sales and 22.3mn tons of total sales including export. In nine months period, gasoline, jet fuel and diesel sales increased in line with the growth in demand while bitumen sales have decreased in the third quarter due to the large infrastructure projects being suspended as a result of high prices and depreciation of TL against USD. Jet fuel and diesel sales broke record of all times.

Sales (1000 tons)	2017 (9M)	2018 (9M)	Difference	
LPG	902	739	-163	-18,1%
Naphtha	242	143	-99	-40,9%
Gasoline	1.688	1.738	51	3,0%
Jet Fuel	3.364	3.624	260	7,7%
Diesel	8.237	8.763	526	6,4%
Middle Distillate	11.601	12.387	786	6,8%
Fuel Oil	849	825	-24	-2,9%
Bitumen	2.553	2.358	-196	-7,7%
Other	1.200	1.017	-183	-15,3%
Military Products	267	336	69	25,9%
<b>Domestic Sales</b>	<b>19.303</b>	<b>19.543</b>	<b>240</b>	<b>1,2%</b>
<b>Export</b>	<b>4.874</b>	<b>2.720</b>	<b>-2.153</b>	<b>-44,2%</b>
<b>Grant Total</b>	<b>24.177</b>	<b>22.263</b>	<b>-1.914</b>	<b>-7,9%</b>

## Distribution

OPET has an important position in fuel distribution sector with 1,605 retail sites in Turkey which includes 1,150 OPET and 455 Sunpet (secondary brand) retail sites. Total stock capacity of five different terminals is 1,069k m3.

OPET has continuously increased market share and extended its network in the market with the aim to be the first choice of consumers. White and black products market shares of OPET as of August 2018 are 17.85% and 32.26% respectively.

Türk Hava Yolları A.O. and OPET Petrolcülük A.Ş. have established THY OPET Havacılık Yakıtları A.Ş. in 2009. THY OPET is supplying jet fuel to the national and global airlines operating in Turkish airline sector that is growing rapidly.

## Transport

Ditaş is performing domestic and international marine transportation of crude oil and fuel products of Tüpraş as well as renting its tankers as one off or with a term deal to third parties. Besides, Ditaş manages the operations of rental bare boat tankers, provides terminal services on harbors and brokerage and agency services to other companies operating in the sector.

Number of Suezmaks tankers have increased by 2 and reached to 3, which were delivered in 2017 and capacity of each tanker is 157,453 DWT. Thus Ditaş' ranking in Turkish Tanker fleet has increased.

Ditaş performs marine operations via 3 crude oil tankers with 479,765 DW tons capacity, 1 crude oil/fuel tanker with 51,532 DW tons capacity, 7 fuel tankers with 90,535 DW tons capacity in total, and 11 tugboats, 8 mooring boats, 2 service boats and 1 pilot boat. In addition the construction of 15,000 DWT T.Adalyn Tanker was launched on 18 October 2018 and 62% of the tanker's design and construction has been completed. Design and construction completion rate of another tanker, 16,000 DWT T.Elinor, is at 32%. These two tankers will be delivered in 2019, then they will join the fleet.

Ditaş continues tugboat and mooring services in Izmit and Aliağa harbors besides fuel and crude oil transportation.

Ditaş has been in a reorganization and growth process since 2006. In this process, 4 subsidiaries have been established with 100% shares owned by Ditaş.

Ditaş, providing operational and cost advantage to Tüpraş, transported 9.7m tons of crude oil, and 5.0m tons fuel products in 3Q 2018. 94.3% of crude oil and 38.5% of fuel products transportation has been in reference to the needs of Tüpraş Refineries. 38.9% of fuel product transportation has been done for THY OPET while 22.6% of fuel product transportation was for other national and international distribution companies.



## Investment

In the first nine months of 2018, capital expenditures have been \$142.7 million in total; of which \$96.6 million is spent for refining.

## Research and Development Activities

R&D Center of Tüpraş has completed one (1) AB FP 7, two (2) EUREKA, one (1) Horizon 2020, one (1) ARDEB 1003 and twenty five (27) TEYDEB approved projects as of September 2018. Four (4) TEYDEB and five (5) Horizon 2020 approved projects are still in progress. Tüpraş has driven approved projects with the support of TUBITAK and EU funds as well as sixteen (16) approved projects with its own funds.

Thirteen (13) new Horizon 2020 and one (1) ITEA project applications have been made as of September 2018. One (1) Horizon 2020 project deserved to receive grant from AB Horizon 2020 program, whose application process is finished while grant agreement process is still ongoing. One of Horizon 2020 projects, which has two stages of application process, has successfully passed the first stage and second stage application has been done. On the other hand, the project, of which ITEA application process has been finished, is granted EU ITEA tag. TUBITAK TEYDEB 1509 application was made for one (1) project with EU ITEA tag. Three (3) projects are in application preparation stage in scope of the Horizon 2020 projects announcements in 2018.

## Financial Outputs

Tüpraş increased its capacity utilization and sales in the third quarter following the first half-year of planned maintenances. The operating profit is realized as 2,558.7 mnTL in 9M 2018. Profit before tax from continued operations is 2,075.2 mnTL, which includes 6.6 mnTL expense from investment activities, 191.2 mnTL profit coming from OPET via equity valuation and 668.1 mnTL net financial expense. Net profit after tax is 1,972.8 mnTL, including 72.3mn TL deferred tax income driven by investment incentive for Fuel Oil Conversion Unit ("RUP") and 174.7mn TL taxes on income.

<b>Consolidated Balance Sheet (Thousand TL)</b>	<b>31 Dec 2016</b>	<b>31 Dec 2017</b>	<b>30 Sep 2017</b>	<b>30 Sep 2018</b>
Current assets	13.667.060	20.366.024	19.613.537	30.250.105
Non-current assets	17.551.120	17.796.955	17.707.479	18.816.080
Total assets	31.218.180	38.162.979	37.321.016	49.066.185
Current Liabilities	12.660.262	17.675.669	19.486.927	27.092.966
Non-current Liabilities	10.390.885	10.009.649	7.758.322	14.455.601
Non-controlling interests	78.647	104.314	100.277	81.109
Total equity attributable to equity holders of the parent	8.088.386	10.373.347	9.975.490	7.436.509
Total equity and liabilities	31.218.180	38.162.979	37.321.016	49.066.185

<b>Consolidated Profit and Loss (Thousand TL)</b>	<b>31 Dec 2016</b>	<b>31 Dec 2017</b>	<b>30 Sep 2017</b>	<b>30 Sep 2018</b>
Revenue	34.854.851	53.948.110	39.344.061	63.749.246
Gross Profit	3.649.227	6.213.898	4.813.493	7.199.796
Operating profit / (loss)	2.357.289	4.857.459	4.079.357	2.558.717
EBITDA	3.396.329	5.881.697	4.645.115	7.020.975
<b>Profit/(loss) before tax from continued operations</b>	<b>1.944.022</b>	<b>4.474.038</b>	<b>3.720.224</b>	<b>2.075.195</b>
<b>Net Profit (Parent)</b>	<b>1.793.267</b>	<b>3.811.546</b>	<b>3.318.187</b>	<b>1.946.730</b>
<b>Net Profit (Minority)</b>	<b>19.523</b>	<b>29.010</b>	<b>20.911</b>	<b>26.034</b>

<b>Important Ratios</b>	<b>31 Dec 2016</b>	<b>31 Dec 2017</b>	<b>30 Sep 2017</b>	<b>30 Sep 2018</b>
Return on Equity (%) (Parent)	21,88	41,29	48,98	29,15
Current Ratio	1,08	1,15	1,01	1,12
Profit per Share	7,16	15,22	13,25	7,77
Dividend (ThousandTL)	1.627.725	1.557.107	1.557.107	3.406.452

### **Important Considerations After the Balance Sheet Date**

Secondary US sanctions including trade activities of crude oil and petroleum products with Iran became effective on November 4th, 2018. As announced by the US government officials through media, 8 countries including Turkey have been granted temporary exemptions. Developments related to the subject are continuously followed via explanations made by US authorities.

### **Risk Management Policy of Company**

The Risk Management Committee was established with the Board of Directors decision dated 28 July 2010. In order to comply with Article 378 of the Turkish Commercial Law no 6102 effective as of 1 July 2012, the aim of the committee is to counsel the Board of Directors about the following issues; early detection and assessment of all kinds of strategic, operational, financial, legal and other risks that may endanger the Company's existence, development and continuation, estimating the impacts and probabilities of these risks, managing and reporting these risks in accordance with the Company's corporate risk taking profile, carrying out the necessary measures regarding the detected risks, taking these risks into consideration in decision mechanisms and establishing and integrating internal control systems in this aspect. President of the Committee is Ayşe Canan Ediboğlu and Member of the Committee is Temel Kamil Atay, who are also the Members of the BoD.

The aim underlying Tüpraş's risk management is based on the preservation of the values of assets, operational safety and sustainability. Proactive methods have been adopted in order to predict, assess, manage, monitor and pre-establish the necessary action plans for potential risks in each area of risk management.

Main risks are followed under 7 main headings; hazard and environmental risks, financial risks, commercial risks, operational risks, strategic risks, compliance and legal risks, reputational risks.

Crude oil and fuel products stocks of Tüpraş are valued at prices determined by international markets. Forward pricing mechanism is used in a significant portion of crude oil purchase

agreements in order to largely eliminate stock price risk. Stocks that are exposed to risk are hedged using financial instruments. Furthermore, as long as market conditions allow, derivatives are used to protect target profits coming from product margins.

### **Internal Control System and Internal Audit**

Audits in Tüpraş are conducted by the specialized team of the Tüpraş Risk Management and Audit Unit, using a proactive methodology based on the International Internal Audit Standards and Tüpraş Code of Ethics, in terms of the headings: financial, operational, risk, process, legal compliance, business ethics, and misconduct. Basic financial and process audits throughout the activity units of Tüpraş are performed twice a year, while thematic audits for a certain working period is conducted at least once a year within the annual audit plan.

Internal audit is a continuous process ensuring effective, reliable and permanent operation of Tüpraş activities and for completeness, consistency, reliability, timely availability, and safety of information received from the accounting and financial reporting system of Tüpraş. Internal audit outputs are delivered by the Company Executives and the Audit Team is involved to process improvements.

### **Foresights**

Crude prices, which started the year at a level of 66.6 USD/barrel, followed a fluctuating but upwards trend and reached to 83.65 USD/barrel by the end of September 2018 with an average of 72.13 USD/barrel in 9M 2018. Dated Brent crude price forecast of 65-70 USD/barrel in Q1 2018 has been revised to 70-75 USD/barrel due to dynamics such as statements by OPEC and Russia on extending the production cut period to mid-2019, trade wars, geopolitical risks due to Iran, crude oil demand increase in China and US taking a hard line on Iran sanctions. It was anticipated that the target Mediterranean refinery margin will be in the range of 4.75-5.0 USD/barrel at the beginning of 2018, however it is now adjusted to 4.25-4.75 USD/barrel due to the decline in gasoline, LPG and fuel oil margins, mainly due to increased global product supply and higher prices pressuring demand. With the support of Tüpraş's competitive position and stock effect, Tüpraş's net refining margin is expected to be 9,5-10,5 USD / barrel on average as of year-end, which is significantly over the Mediterranean Refining Margin.

In spite of planned maintenances as well as unit shut downs due to investment before high season, it was aimed to achieve a total capacity utilization rate of 100% by the end of the year, however the revisions of the planned shutdowns in the second half-year and the reduction in the demand for bitumen requiring an optimization in charge amounts have reduced the targeted capacity utilization rate to 95-100%. In line with the revision of capacity utilization, the production volumes were revised to 27.0 million tons and sales volumes were revised to an approximate of 31.0 million tons including imported products. While the refinery investments of USD 250 million was revised to USD 150 million with assessments on non-critical investments along with the decrease in foreign exchange equivalent of TL denominated expenses, the asset investments for Ditaş sea transportation were kept constant at \$ 55 million.

