



**TURKISH PETROLEUM REFINERIES
CORPORATION**

**01 January 2018 – 30 June 2018
Semi Annual Report**

TURKISH PETROLEUM REFINERIES CORP.
BOARD OF DIRECTORS MID-YEAR REPORT
PREPARED IN REGARDS TO THE COMMUNIQUE OF CMB II-NO: 14.1
01.01.2018-30.06.2018

Financial statements regarding 1H 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 Communiqué of CMB:

| | Audit Committee | Corporate Governance Committee | Risk Management Committee |
|----------|-----------------------|--------------------------------|---------------------------|
| Chairman | Muharrem Hilmi Kayhan | Muharrem Hilmi Kayhan | Ayşe Canan Ediboğlu |
| Member | Kamil Ömer Bozer | Yağız Eyüboğlu | Temel Kamil Atay |
| Member | | Doğan 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 5,516 thousand TL by the end of June 2018. (30 June 2017 – 5,757 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.

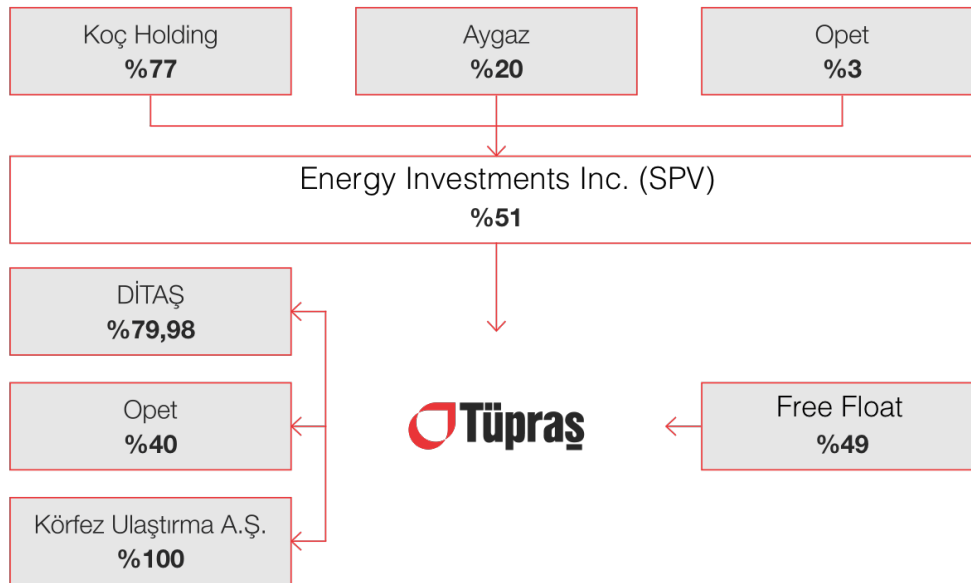
b. Issued Capital and Shares:

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.

| 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 |
| Total | | 250.419.200,00 | | 25.041.920.000 |

Partnership Structure

The Company is registered to CMB. 49% of the Company shares are traded at Stock Exchange Istanbul. Shareholders holding Company shares and share proportions are as follows as of 30 June 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 June 2018 is 5,846 (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 97.9 million barrels/day in 2Q 2017, has decreased by 0.9% and resulted as 98.8 million barrels/day in 2018. While crude oil production of OPEC has declined by 1.3% in 2Q 2018 vs 2Q 2017 in reference to OPEC's decision to reduce crude oil production; crude oil and fuel production of non OPEC suppliers have increased by 3.6%, resulting the overall crude oil and fuel supply increase to 98.5 million barrels/day and by 1.5%

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 77.90 USD/barrel by the end of June 2018 with an average of 70.55 USD/barrel in 1H 2018.

During 2Q 2018, increase in the global demand, US exports being mostly directed to Middle and South America, and fall in Russia's crude oil export due to national demand increase have supported diesel margins while jet fuel margins are strengthened by continuing growth in aviation industry. However, fuel oil margins were shrunk due to stock reduction trend before IMO restrictions change and less consumption for electricity production. On the other hand, high prices have started to pressure gasoline demand.

Despite refinery shut-downs for periodic maintenance and investment purposes, During 1st half, Tüpraş net refinery margin is realized as 8.9 USD/barrel, while Mediterranean refinery margin in has been 4.2 USD/barrel on average.

According to Energy Market Regulation Agency ("EMRA") reports, gasoline consumption in the first 5 months of 2018 has increased by 5.5% and reached to 900k tons vs. the same period of 2017. Jet fuel demand has increased by 12.6% and reached to 1.8m tons due to growth in aviation industry and diesel demand has increased by 12.5% and reached to 10m tons. Tüpraş has supplied all of national gasoline demand, while its all diesel and jet fuel production have been sold to domestic market.

Operational Information

During the first quarter, crude oil modernization project in Izmir Refinery and planned maintenance shut down at all units in Kirikkale Refinery as well as in the first quarter planned maintenance shut down in crude oil and hydrocracker units in Izmit Refinery and planned maintenance shut down in FCC unit of Izmir Refinery took place. Capacity utilization rate has been 85.2% with the impact of all mentioned maintenances.

As shown in the tables below, 12m tons of crude and semi-products were charged and in spite of planned maintenance at conversion units in 2Q, white product yield has increased by 0.6% and reached to 78.2%. 11.4 m tons of finished product were produced. Effect of the maintenances/shut-downs at the units has been taken into account in the year end operational targets of the company.

| Refined Crude Oil | 2017 (1H) | 2018 (1H) | Difference |
|------------------------------------|---------------|---------------|---------------|
| Total Charge (ktons) | 15.662 | 11.975 | -3.687 |
| White Product Efficiency | 77,6 | 78,2 | 0,6 |
| API | 30,71 | 31,14 | 0,43 |
| Capacity Utilization Rate % | 111,5 | 85,2 | -26,24 |

| Production (1000 tons) | 2017 (1H) | 2018 (1H) | Difference | |
|--------------------------|---------------|---------------|---------------|-------------|
| LPG | 557 | 428 | -129 | -23% |
| Naphtha/Gasoline | 3.202 | 2.357 | -845 | -26% |
| Jet Fuel/Kerosene | 2.406 | 2.229 | -177 | -7% |
| Diesel | 5.203 | 3.728 | -1475 | -28% |
| Middle Distillate | 7.609 | 5.957 | -1.652 | -22% |
| Fuel Oil | 1.331 | 638 | -693 | -52% |
| Base Oil | 99 | 69 | -30 | -30% |
| Bitumen | 1.292 | 1.380 | 88 | 7% |
| Other | 787 | 561 | -226 | -29% |
| Total | 14.877 | 11.390 | -3.487 | -23% |

Despite the negative 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 2.5% and 289k tons, reaching to 11.9m tons of domestic sales and 13.6m tons of total sales including export. Gasoline, jet fuel, diesel and bitumen sales have been increased in line with the growth in demand and jet fuel and diesel sales broke record of all times in the first half of the year.

| Sales (1000 tons) | 2017 (1H) | 2018 (1H) | Difference | |
|-----------------------|---------------|---------------|---------------|---------------|
| LPG | 622 | 445 | -177 | -28,45% |
| Naphtha | 185 | 39 | -146 | -78,9% |
| Gasoline | 1.008 | 1.087 | 79 | 7,8% |
| Jet Fuel | 1.918 | 2.194 | 276 | 14,4% |
| Diesel | 5.075 | 5.448 | 373 | 7,3% |
| Middle Distillate | 6.993 | 7.642 | 649 | 9,3% |
| Fuel Oil | 607 | 545 | -62 | -10,2% |
| Bitumen | 1.212 | 1.251 | 39 | 3,2% |
| Other | 772 | 626 | -146 | -18,9% |
| Military Products | 198 | 251 | 53 | 26,8% |
| Domestic Sales | 11.597 | 11.886 | 289 | 2,5% |
| Export | 3.682 | 1.675 | -2.007 | -54,5% |
| Grant Total | 15.279 | 13.561 | -1.718 | -11,2% |

Distribution

OPET has an important position in fuel distribution sector with 1,589 retail sites in Turkey which includes 1,143 OPET and 446 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 May 2018 are 17.33% and 29.87% respectively.

Türk Hava Yolları A.O. and OPET Petrolcölük 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. THY OPET operates at all airports in Turkey today.

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 Suezmax 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. On the other hand, construction of T.Adalyn and T.Elinor tankers have started in 2016 and capacities are 15,000 DWT and 16,000 DWT respectively. Sledge stage of these tankers as of June 2018 are 56% and 2% respectively, and they will be delivered and added to the fleet in 2019.

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 7.6m tons of crude oil, and 3.2m tons fuel products in 2Q 2018. 95% of crude oil and 40% of fuel products transportation has been in reference to the needs of Tüpraş Refineries. 38% of fuel product transportation has been done for THY OPET while 22% of fuel product transportation was for other national and international distribution companies.

Investment

In the first half of 2018, capital expenditures have been \$93 million in total; of which \$70 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 (25) TEYDEB approved projects as of June 2018. Six (6) TEYDEB and four (4) Horizon 2020 approved projects are still in progress. Tüpraş has driven approved projects with the support of TUBITAK and EU funds as well as fifteen (15) approved projects with its own funds.

Seven (7) new Horizon 2020 and one (1) ITEA project applications have been made as of June 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. Four (4) projects are in application preparation stage in scope of the Horizon 2020 projects announcements in 2018.

Financial Outputs

In spite of the downturn in charging and production compared to last year due to planned maintenances, domestic sales have increased with the support of trade capacity and operating profit is realized as 1,756.5 mTL in 1H 2018. Profit before tax from continued operations is 1,397 mTL, which includes -6.7 mTL expense from investment activities, 144.7 mTL profit coming from OPET via equity valuation and -497.4 mTL net financial expense. Net profit after tax is 1,422.1 mTL, including 63.5m TL deferred tax income driven by investment incentive for Fuel Oil Recycling Facility ("RUP") and -38.5m TL taxes on income.

| Consolidated Balance Sheet (Thousand TL) | 31 Dec 2016 | 31 Dec 2017 | 30 Jun 2017 | 30 Jun 2018 |
|---|--------------------|--------------------|--------------------|--------------------|
| Current Assets | 13.667.060 | 20.366.024 | 15.141.275 | 21.951.521 |
| Non-current assets | 17.551.120 | 17.796.955 | 17.476.006 | 18.250.450 |
| Total Assets | 31.218.180 | 38.162.979 | 32.617.281 | 40.201.971 |

| | | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| Current Liabilities | 12.660.262 | 17.675.669 | 15.901.792 | 20.724.569 |
| Non-current Liabilities | 10.390.885 | 10.009.649 | 7.651.368 | 11.424.576 |
| Non-controlling interests | 78.647 | 104.314 | 92.996 | 103.384 |
| Total equity attributable to equity holders of the parent | 8.088.386 | 10.373.347 | 8.971.125 | 7.949.442 |
| Total equity and liabilities | 31.218.180 | 38.162.979 | 32.617.281 | 40.201.971 |

| Consolidated Profit and Loss (Thousand TL) | 31 Dec 2016 | 31 Dec 2017 | 30 Jun 2017 | 30 Jun 2018 |
|---|--------------------|--------------------|--------------------|--------------------|
| Revenue | 34.854.851 | 53.948.110 | 25.000.318 | 33.502.180 |
| Gross Profit | 3.649.227 | 6.213.898 | 3.203.559 | 3.289.957 |
| Operating profit / (loss) | 2.357.289 | 4.857.459 | 2.789.822 | 1.756.478 |
| EBITDA | 3.396.329 | 5.881.697 | 3.117.409 | 3.242.983 |
| Profit/(loss) before tax from continued operations | 1.944.022 | 4.474.038 | 2.486.557 | 1.397.017 |
| Net Profit (Parent) | 1.793.267 | 3.811.546 | 2.325.983 | 1.405.128 |
| Net Profit (Minority) | 19.523 | 29.010 | 13.297 | 16.949 |

| Important Ratios | 31 Dec 2016 | 31 Dec 2017 | 30 Jun 2017 | 30 Haz 2018 |
|-------------------------------|-------------|-------------|-------------|-------------|
| Return on Equity (%) (Parent) | 21,88 | 41,29 | 54,54 | 30,67 |
| Current Ratio | 1,08 | 1,15 | 0,95 | 1,06 |
| Profit per Share | 7,16 | 15,22 | 9,29 | 5,61 |
| Dividend (ThousandTL) | 1.627.725 | 1.557.107 | 1.557.107 | 3.406.452 |

Important Issues and Developments after Balance Sheet Date

After evaluating similar applications in the market, Tüpraş has decided to open a trading office in London to closely monitor international market opportunities, support import and export operations and create additional value from supply chain and sales activities. London office is targeted to start its operations until the end of the year.

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 77.90 USD/barrel by the end of June 2018 with an average of 70.55 USD/barrel in 1H 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 is anticipated that the Mediterranean refinery margin will be in the range of 4.75-5.0 USD/barrel in 2018 while net refinery margin of Tüpraş is targeted to be 7.5-8.0 USD/barrel range as a consequence of competitive advantage and operational excellence of Tüpraş.

In spite of planned maintenances as well as unit shut downs due to investment before high season, it is aimed to achieve a total capacity utilization rate of 100% by the end of the year and 28.3 million tons of production and approximately 31.0 million tons of sales including imported products. In addition, investments in 2018 are assumed as follows: approximately 250 million USD refinery investments and approximately 52.3 million USD Ditaş investments.