Financial Risk Management

Foreing Exchange Risk Management Policy

Tüpraş is exposed to foreign exchange risk due to export revenues and crude oil purchases denominated in US Dollars. In addition, capital expenditures is financed mostly through borrowings in US Dollars. In accordance with the foreign exchange risk management policy, foreign exchange position is kept within certain limits. In order to balance the foreign exchange position and mitigate the risk, the company enters into derivative transactions. Tüpraş is able to mitigate some of the impact of volatility in exchange rates through natural hedges by typically passing on the impact of fluctuations in the USD/TL exchange rate to domestic prices. RUP Facility financing loans are designated as hedging instruments of highly probable export revenues and in this context, Tüpraş started to apply cash flow hedge accounting. Foreign exchange gains/losses arising from RUP financing loans are recognized under equity as "hedging reserve" until the realization of the cash flows of the hedged item, with no immediate impact on profit and loss. (For details and additional information please check the footnotes of financial statements)

Inventory Price Risk Management Policy

There are significant amounts of crude oil and product stocks in the company's inventory, as required by its operations. Rapid changes in crude oil and refined product prices lead to inventory price risk. The Group enters into commodity derivative transactions in order to mitigate the price risk in relation to the value of its crude oil and refined product inventories in order to avoid the risk of inventory losses. Hedging ratio is increasing throughout the year
and by early November majority of inventory price risk will be hedged. (For details and additional information please check the footnotes of financial statements)

Crack Margin Risk Management Policy

The company is exposed to risk in relation to its crack margins. In order to manage the risk of declines in individual crack margins, Tüpraş uses derivative instruments to secure crack margins in accordance with the relevant policy and procedures. Minimum hedge ratio is determined by comparing forward prices of next 4 quarters with historical average prices. Hedge proportion of budgeted sales from production (hedged item), is in range between 0%-50% depending on the level of forward prices. On average 25% of the forecast exposure will be hedged when forward prices of cracks reach their historical average prices. (For details and additional information please check the footnotes of financial statements)

Counterparty Risk Policy

Deposits, letter of credits and derivative transactions are carried out within the bank-based limits set out in the counterparty risk policy. The limits for placements and derivative transactions are set for each bank by analyzing their credit ratings and shareholder's equity.

Liquidity and Interest Risk Policy

The cash flow of the company is monitored on daily and monthly basis against the risk of liquidity shortage. Asset-liability management is actively being implemented to ensure that cash is properly deposited. Current rate target is also taken into consideration while managing liquidity risk. The total volume of the loans with floating interest rate is capped at a certain ratio and interest rate risk is managed by using derivative transactions to fix the floating rates.