(CONVENIENCE TRANSLATION OF
CONSOLIDATED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH- SEE NOTE 34)

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016 AND INDEPENDENT AUDITOR'S REPORT

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(Convenience translation of a report and consolidated financial statements originally issued in Turkish)

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors of Ereğli Demir ve Çelik Fabrikaları T.A.Ş.;

Report on Financial Statements

We have audited the accompanying consolidated financial statement of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (the Company) and its subsidiaries (together will be referred to as "the Group") which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and explanatory notes.

Management's Responsibility for the Financial Statements

Group's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Turkish Accounting Standards and for such internal controls as management determines is necessary to enable the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to error and/or fraud.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our audit was conducted in accordance with Standards on Auditing as issued by the Capital Markets Board of Turkey and Auditing Standards which are part of the Turkish Auditing Standards issued by Public Oversight Accounting and Auditing Standards Authority of Turkey. Those standards require that ethical requirements are complied with and that the independent audit is planned and performed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Independent audit involves performing independent audit procedures to obtain independent audit evidence about the amounts and disclosures in the financial statements. The independent audit procedures selected depend on our professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error and/or fraud. In making those risk assessments; the Company's internal control system is taken into consideration. Our purpose, however, is not to express an opinion on the effectiveness of internal control system, but to design independent audit procedures that are appropriate for the circumstances in order to identify the relation between the financial statements prepared by the Group and its internal control system. Our independent audit includes also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company's management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained during our independent audit is sufficient and appropriate to provide a basis for our audit opinion.

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(Convenience translation of a report and consolidated financial statements originally issued in Turkish)

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its subsidiaries as at 31 December 2016 and their financial performance and cash flows for the year then ended in accordance with the Turkish Accounting Standards.

Emphasis of Matter

Without qualifying our opinion we draw attention to the matter in Note 17 to the accompanying consolidated financial statements. The court cases related to Capital Market Board's ("CMB") claim that the Company had prepared its 31 December 2005 financial statements in accordance with International Financial Reporting Standards instead of Communiqué Serial XI, No:25 on "Accounting Standards in Capital Markets" without taking the permission of the CMB in prior years were concluded against the Company at Council of State and such conclusions declared to the Company via notifications sent in July 2012. On 1 August 2012, the Company applied to the Administrative Court to remove the conflicting decisions of this court; but the Administrative Court decided to reject the application by the notification made on 17 February 2014. However, lawsuit filed by the Privatization Administration ("PA") of The Turkish Republic is at the stage of appeal at the Supreme Court and is pending as of the date of our report.

Reports on Other Responsibilities Arising From Regulatory Requirements

1) Auditors' report on Risk Management System and Committee in accordance with subparagraph 4, Article 398 of Turkish Commercial Code no. 6102 ("TCC") is prepared to be submitted to the Board of Directors of the Company on 7 February 2017.

2) In accordance with subparagraph 4, Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January – 31 December 2016 and financial statements are not in compliance with the code and provisions of the Company's articles of association in relation to financial reporting.

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

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Metin Canoğulları, SMMM
Engagement Partner

7 February 2017
İstanbul, Turkey

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira ("TRY Thousand") unless otherwise indicated.)

ASSETS	Note	(Audited) Current Period 31 December 2016 USD'000	(Audited) Current Period 31 December 2016 TRY'000	(Audited) Previous Period 31 December 2015 USD'000	(Audited) Previous Period 31 December 2015 TRY'000
Current Assets		**3.143.675**	**11.063.224**	**2.751.401**	**7.999.975**
Cash and Cash Equivalents	4	1.303.396	4.586.911	1.009.321	2.934.703
Financial Derivative Instruments	6	18.274	64.310	15.286	44.445
Trade Receivables	8	573.114	2.016.901	561.504	1.632.629
Due From Related Parties	*30*	*15.594*	*54.877*	*14.834*	*43.130*
Other Trade Receivables	*8*	*557.520*	*1.962.024*	*546.670*	*1.589.499*
Other Receivables	9	535	1.883	712	2.069
Inventories	10	1.209.095	4.255.047	1.113.595	3.237.890
Prepaid Expenses	11	12.080	42.513	18.143	52.754
Other Current Assets	19	27.181	95.659	32.840	95.485
Non Current Assets		**3.576.965**	**12.588.053**	**3.657.490**	**10.634.515**
Other Receivables	9	3.918	13.787	5.183	15.069
Financial Investments	5	35	122	27	79
Financial Derivative Instruments	6	1.692	5.955	14.639	42.564
Investment Properties	12	26.961	94.882	24.670	71.731
Property, Plant and Equipment	13	3.453.050	12.151.972	3.530.218	10.264.461
Intangible Assets	14	58.388	205.479	59.453	172.865
Prepaid Expenses	11	20.106	70.757	15.112	43.939
Deferred Tax Assets	28	9.730	34.243	8.188	23.807
Other Non Current Assets	19	3.085	10.856	-	-
TOTAL ASSETS		**6.720.640**	**23.651.277**	**6.408.891**	**18.634.490**

The details of presentation currency translation to TRY explained in Note 2.1.

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira ("TRY Thousand") unless otherwise indicated.)

LIABILITIES	Note	(Audited) Current Period 31 December 2016 USD'000	(Audited) Current Period 31 December 2016 TRY'000	(Audited) Previous Period 31 December 2015 USD'000	(Audited) Previous Period 31 December 2015 TRY'000
Current Liabilities		1.201.046	4.226.720	899.513	2.615.423
Short Term Borrowings	7	357.464	1.257.986	8.353	24.286
Short Term Portion of Long Term Borrowings	7	296.649	1.043.968	360.179	1.047.256
Financial Derivative Instruments	6	5.438	19.137	6.705	19.495
Trade Payables	8	260.024	915.076	200.235	582.203
Due to Related Parties	30	*9.948*	*35.008*	*9.159*	*26.630*
Other Trade Payables	8	*250.076*	*880.068*	*191.076*	*555.573*
Other Payables	9	11.970	42.126	11.583	33.680
Deferred Revenue	20	30.221	106.353	32.115	93.377
Current Tax Liabilities	28	129.468	455.624	74.896	217.769
Short Term Provisions	17	41.369	145.586	150.298	437.007
Payables for Employee Benefits	16	47.944	168.724	41.168	119.700
Other Current Liabilities	19	20.499	72.140	13.981	40.650
Non Current Liabilities		1.069.709	3.764.524	1.197.164	3.480.875
Long Term Borrowings	7	459.631	1.617.534	654.960	1.904.361
Financial Derivative Instruments	6	585	2.060	7.345	21.355
Provisions for Employee Benefits	16	161.235	567.419	173.997	505.915
Deferred Tax Liabilities	28	448.122	1.577.032	360.711	1.048.802
Other Non Current Liabilities	19	136	479	151	442
EQUITY		4.449.885	15.660.033	4.312.214	12.538.192
Equity Attributable to Equity Holders of the Parent		4.321.343	15.207.669	4.189.170	12.180.429
Share Capital	21	1.818.371	3.500.000	1.818.371	3.500.000
Inflation Adjustment to Capital	21	81.366	156.613	81.366	156.613
Treasury Shares (-)	21	(60.387)	(116.232)	(60.387)	(116.232)
Share Issue Premium (Discounts)	21	55.303	106.447	55.303	106.447
Other Comprehensive Income/Expense Not to be Reclassified to Profit/ (Loss)		(37.151)	(72.090)	(36.155)	(80.580)
Revaluation Reserve of Tangible Assets		*10.757*	*29.437*	*12.623*	*27.215*
Actuarial (Loss)/ Gain funds		*(47.908)*	*(101.527)*	*(48.778)*	*(107.795)*
Other Comprehensive Income/Expense to be Reclassified to Profit/ (Loss)		(41.532)	6.530.218	(31.483)	4.010.257
Cash Flow Hedging Gain (Loss)		*2.277*	*8.013*	*(754)*	*(2.192)*
Foreign Currency Translation Reserves		*(43.809)*	*6.522.205*	*(30.729)*	*4.012.449*
Restricted Reserves Assorted from Profit	21	516.714	1.166.197	441.058	950.831
Retained Earnings	21	1.486.278	2.420.078	1.506.960	2.527.180
Net Profit for the Period		502.381	1.516.438	414.137	1.125.913
Non-Controlling Interests		128.542	452.364	123.044	357.763
TOTAL LIABILITIES AND EQUITY		6.720.640	23.651.277	6.408.891	18.634.490

The details of presentation currency translation to TRY explained in Note 2.1.

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira ("TRY Thousand") unless otherwise indicated.)

	Note	(Audited) Current Period 1 January - 31 December 2016 USD'000	(Audited) Current Period 1 January - 31 December 2016 TRY'000	(Audited) Previous Period 1 January - 31 December 2015 USD'000	(Audited) Previous Period 1 January - 31 December 2015 TRY'000
Revenue	22	3.855.062	11.636.504	4.382.455	11.914.581
Cost of Sales	22	(3.036.715)	(9.166.325)	(3.624.633)	(9.854.290)
GROSS PROFIT		**818.347**	**2.470.179**	**757.822**	**2.060.291**
Marketing Expenses	23	(46.783)	(141.215)	(48.186)	(131.002)
General Administrative Expenses	23	(95.503)	(288.275)	(104.733)	(284.738)
Research and Development Expenses	23	(3.673)	(11.088)	(3.399)	(9.240)
Other Operating Income	25	73.982	223.314	101.301	275.408
Other Operating Expenses	25	(49.775)	(150.244)	(117.672)	(319.916)
OPERATING PROFIT		**696.595**	**2.102.671**	**585.133**	**1.590.803**
Finance Income	26	118.126	356.562	155.113	421.707
Finance Expense	27	(87.232)	(187.805)	(81.595)	(191.144)
PROFIT BEFORE TAX		**727.489**	**2.271.428**	**658.651**	**1.821.366**
Tax (Expense) Income	28	(206.800)	(699.726)	(231.127)	(659.057)
Current Corporate Tax Expense (Income)		(150.794)	(530.673)	(162.473)	(472.407)
Deferred Tax (Expense) Income		(56.006)	(169.053)	(68.654)	(186.650)
NET PROFIT FOR THE PERIOD		**520.689**	**1.571.702**	**427.524**	**1.162.309**
Non-Controlling Interests		18.308	55.264	13.387	36.396
Equity Holders of the Parent		502.381	1.516.438	414.137	1.125.913
EARNINGS PER SHARE	29		0,4333		0,3217
(TRY 1 Nominal value per share)					

The details of presentation currency translation to TRY explained in Note 2.1.

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

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira ("TRY Thousand") unless otherwise indicated.)

	Note	(Audited) Current Period 1 January - 31 December 2016 USD'000	(Audited) Current Period 1 January - 31 December 2016 TRY'000	(Audited) Previous Period 1 January - 31 December 2015 USD'000	(Audited) Previous Period 1 January - 31 December 2015 TRY'000
PROFIT (LOSS) FOR THE PERIOD		520.689	1.571.702	427.524	1.162.309
OTHER COMPREHENSIVE INCOME					
Not to be reclassified subsequently to profit or loss					
Increase (Decrease) in Revaluation Reserve of Tangible Assets		(1.781)	2.521	2.219	3.064
Actuarial Gain (Loss) of Defined Benefit Plans		1.136	8.006	7.970	22.930
Tax Effect of Actuarial Gain (Loss) of Defined Benefit Plans	28	(227)	(1.601)	(1.594)	(4.586)
To be reclassified subsequently to profit or loss					
Gain (Loss) in Cash Flow Hedging Reserves		3.811	13.040	(4.905)	(12.078)
Tax Effect of Gain (Loss) in Cash Flow Hedging Reserves	28	(762)	(2.608)	981	2.416
Foreign Currency Translation Gain (Loss)		(14.998)	2.580.095	(26.345)	2.462.935
OTHER COMPRHENSIVE INCOME		(12.821)	2.599.453	(21.674)	2.474.681
TOTAL COMPREHENSIVE INCOME (LOSS)		507.868	4.171.155	405.850	3.636.990
Distribution of Total Comprehensive Income					
Non-controlling Interests		16.533	126.266	10.662	102.999
Equity Holders of the Parent		491.335	4.044.889	395.188	3.533.991

The details of presentation currency translation to TRY explained in Note 2.1.

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

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed as Turkish Lira ("TRY Thousand") unless otherwise indicated.)

						Other comprehensive income (expense) not to be reclassified subsequently to profit or loss		Other comprehensive income (expense) to be reclassified subsequently to profit or loss			Retained Earnings				
(Audited)	Note	Share Capital	Inflation Adjustment to Capital	Treasury Shares (-)	Share Issue Premium / Discounts	Revaluation Reserve of Tangible Assets	Actuarial Gain/(Loss) Funds	Cash Flow Hedging Gain/(Loss)	Foreign Currency Translation Reserves	Restricted Reserves Assorted from Profit	Retained Earnings	Net Profit For The Period	Equity Attributable to the Parent	Non-controlling Interests	Total Shareholders' Equity
1 January 2016		3.500.000	156.613	(116.232)	106.447	27.215	(107.795)	(2.192)	4.012.449	950.831	2.527.180	1.125.913	12.180.429	357.763	12.538.192
Net profit for the period		-	-	-	-	-	-	-	-	-	-	1.516.438	1.516.438	55.264	1.571.702
Other comprehensive income/(loss)		-	-	-	-	2.222	6.268	10.205	2.509.756	-	-	-	2.528.451	71.002	2.599.453
Total comprehensive income/(loss)		-	-	-	-	2.222	6.268	10.205	2.509.756	-	-	1.516.438	4.044.889	126.266	4.171.155
Dividends (*)		-	-	-	-	-	-	-	-	-	(1.017.649)	-	(1.017.649)	(31.665)	(1.049.314)
Transfers	21	-	-	-	-	-	-	-	-	215.366	910.547	(1.125.913)	-	-	-
31 December 2016	21	3.500.000	156.613	(116.232)	106.447	29.437	(101.527)	8.013	6.522.205	1.166.197	2.420.078	1.516.438	15.207.669	452.364	15.660.033
(Audited)															
1 January 2015		3.500.000	156.613	(116.232)	106.447	24.151	(125.714)	7.160	1.616.002	617.355	2.616.106	1.601.415	10.003.303	307.004	10.310.307
Net profit for the period		-	-	-	-	-	-	-	-	-	-	1.125.913	1.125.913	36.396	1.162.309
Other comprehensive income/(loss)		-	-	-	-	3.064	17.919	(9.352)	2.396.447	-	-	-	2.408.078	66.603	2.474.681
Total comprehensive income/(loss)		-	-	-	-	3.064	17.919	(9.352)	2.396.447	-	-	1.125.913	3.533.991	102.999	3.636.990
Dividends (*)		-	-	-	-	-	-	-	-	-	(1.356.865)	-	(1.356.865)	(52.240)	(1.409.105)
Transfers	21	-	-	-	-	-	-	-	-	333.476	1.267.939	(1.601.415)	-	-	-
31 December 2015	21	3.500.000	156.613	(116.232)	106.447	27.215	(107.795)	(2.192)	4.012.449	950.831	2.527.180	1.125.913	12.180.429	357.763	12.538.192

(*) In annual General Assembly dated 31 March 2016, dividend distribution (gross dividend per share: TRY 0,3000 (2015: TRY 0,4000) amounting to TRY 1.050.000 thousand (31 March 2015: TRY 1.400.000 thousand) from 2015 net profit was approved. As the Company holds 3,08% of its shares with a nominal value of TRY 1 as of 31 March 2016, dividends for treasury shares are netted off under dividends paid. The dividend payment was completed at 25 May 2016. The Group paid TRY 31.266 thousand of the accrued TRY 31.665 thousand divident to non-controlling interests on İsdemir and Ermaden apart from the Equity holders of the Parent in current year (2015: TRY 52.240 thousand).

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed as Turkish Lira ("TRY Thousand") unless otherwise indicated.)

	Note	(Audited) Current Period 1 January- 31 December 2016 USD'000	(Audited) Current Period 1 January- 31 December 2016 TRY'000	(Audited) Previous Period 1 January- 31 December 2015 USD'000	(Audited) Previous Period 1 January- 31 December 2015 TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES		**757.107**	**2.346.153**	**1.319.464**	**3.712.336**
Profit (Loss) for The Period		**520.689**	**1.571.702**	**427.524**	**1.162.309**
Adjustments to Reconcile Profit (Loss)		**469.040**	**1.491.299**	**561.901**	**1.558.339**
Adjustments for Depreciation and Amortisation Expenses	22/24	217 916	657 779	206 511	561 442
Adjustments for Impairment Loss (Reversal of Impairment Loss)		15 579	47 023	15.139	41.159
Adjustments for Provision (Reversal of Provision) for Receivables	8/9	*1.224*	*3.694*	*4.540*	*12.343*
Adjustments for Provision (Reversal of Provision) for Inventories	10	*1.415*	*4.271*	*9.871*	*26.836*
Adjustments for Provision (Reversal of Provision) for Property, Plant and Equipment	13	*12.940*	*39.058*	*728*	*1.980*
Adjustments for Provisions		28 610	86 362	98 922	268 943
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	16	*34.791*	*105.018*	*30.954*	*84.156*
Adjustments for Provision (Reversal of Provision) for Pending Claims and or Lawsuits	17	*(6.181)*	*(18.656)*	*67.968*	*184.787*
Adjustments for Interest (Income) and Expenses		(6 560)	(19 802)	17 263	46 934
Adjustments for Interest Income	26	*(40.959)*	*(123.634)*	*(31.734)*	*(86.276)*
Adjustments for Interest Expense	27	*34.636*	*104.548*	*45.077*	*122.551*
Unearned Financial Income from Credit Sales		*(237)*	*(716)*	*3.920*	*10.659*
Adjustments for Unrealised Foreign Exchange Differences		(6 610)	(19 951)	(3 483)	(9 468)
Adjustments for Fair Value (Gains) Losses		12 333	37 228	12 274	33 369
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments	27	*12.333*	*37.228*	*12.274*	*33.369*
Adjustments for Tax (Income) Expenses	28	206 800	699 726	231 127	659 057
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		972	2 934	(15 852)	(43 097)
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment	25	*972*	*2.934*	*982*	*2.670*
Adjustments for Losses (Gains) on Disposal of Investment Properties	25	-	-	*(16.834)*	*(45.767)*
Changes in Working Capital		**(24.579)**	**(86.499)**	**493.020**	**1.434.787**
Adjustments for Decrease (Increase) in Trade Receivables		(10 252)	(36 076)	191 911	559 282
Decrease (Increase) in Trade Receivables from Related Parties		*(3.338)*	*(11.747)*	*(2.312)*	*(6.721)*
Decrease (Increase) in Trade Receivables from Third Parties		*(6.914)*	*(24.329)*	*194.223*	*566.003*
Adjustments for Decrease (Increase) in Other Receivables Related from Operations		4 589	16 148	9.535	27 723
Decrease (Increase) in Other Receivables from Operations from Third Parties		*4.589*	*16.148*	*9.535*	*27.723*
Decrease (Increase) in Derivative Financial Instruments		9 959	35 048	9 883	28 736
Adjustments for Decrease (Increase) in Inventories		(96 267)	(338 784)	285 351	829 687
Decrease (Increase) in Prepaid Expenses		12 231	43 044	3 389	9 853
Adjustments for Increase (Decrease) in Trade Payables		59 789	210 409	20 159	58 614
Increase (Decrease) in Trade Payable to Related Parties		*2.381*	*8.378*	*2.855*	*8.301*
Increase (Decrease) in Trade Payable to Third Parties		*57.408*	*202.031*	*17.304*	*50.313*
Adjustments for Increase (Decrease) in Other Payables Related from Operations		7 163	25 208	(3 789)	(11 017)
Increase (Decrease) in Other Payables to Third Parties Related from Operations		*7.163*	*25.208*	*(3.789)*	*(11.017)*
Increase (Decrease) in Derivative Liabilities		(16 340)	(57 505)	(16 267)	(47 298)
Adjustments for Other Increase (Decrease) in Working Capital		4.549	16 009	(7 152)	(20 793)
Decrease (Increase) in Other Assets Related from Operations		*(49)*	*(174)*	*(1.355)*	*(3 939)*
Increase (Decrease) in Other Payables Related from Operations		*4.598*	*16.183*	*(5.797)*	*(16.854)*
Cash Flows Provided by Operating Activities		**965.150**	**2.976.502**	**1.482.445**	**4.155.435**
Payments Related to Provisions for Employee Termination Benefits	16	(12 158)	(36 701)	(15 968)	(43 413)
Payments Related to Other Provisions	17	(99 663)	(300 830)	(5 642)	(15 340)
Income Taxes Refund (Paid)	28	(96 222)	(292 818)	(141 371)	(384 346)
CASH FLOWS FROM INVESTING ACTIVITIES		**(168.362)**	**(512.479)**	**(186.782)**	**(508.802)**
Cash Outflows Arising From Purchase of Shares or Capital Increase of Associates and/or Joint Ventures		(8)	(29)	-	-
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		2 460	7 427	4 895	13 308
Cash Inflow from Sales of Property, Plant and Equipment	13/14/25	*2.460*	*7.427*	*4.895*	*13.308*
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(162 275)	(489 827)	(205 018)	(557 382)
Cash Outflow from Purchase of Property, Plant and Equipment	13	*(158.746)*	*(479.175)*	*(197.741)*	*(537.599)*
Cash Outflow from Purchase of Intangible Assets	14	*(3.529)*	*(10.652)*	*(7 277)*	*(19 783)*
Cash Inflow from Sales of Investment Property	12	-	-	14 967	40 000
Cash Advances and Debts Given		(8 539)	(30 050)	(1 626)	(4 728)
Other Cash Advances and Debts Given		*(8.539)*	*(30.050)*	*(1.626)*	*(4.728)*
CASH FLOWS FROM FINANCING ACTIVITIES		**(267.466)**	**(691.791)**	**(996.175)**	**(2.735.857)**
Cash Inflow from Borrowings		848 157	2 984 835	1 238 628	3 601 435
Cash Inflow from Loans		*848.157*	*2.984.835*	*1 238.628*	*3.601.435*
Cash Outflow from Repayments of Borrowings		(754 354)	(2 654 378)	(1 686 488)	(4 903 604)
Cash Outflow from Loan Repayments		*(754.354)*	*(2.654.378)*	*(1.686.488)*	*(4.903.604)*
Dividends Paid		(369 979)	(1 048 544)	(539 702)	(1.408.700)
Interest Paid		(32 249)	(97 344)	(42 520)	(116 301)
Interest Received		40 959	123 640	33 907	91 313
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		**321.279**	**1.141.883**	**136.507**	**467.677**
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(27.204)	510 325	(70.224)	280 216
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**294.075**	**1.652.208**	**66.283**	**747.893**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	1.009.321	2.934 703	943.038	2.186.810
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	**1.303.396**	**4.586.911**	**1.009.321**	**2.934.703**

NOTE 1 – GROUP'S ORGANIZATION AND NATURE OF OPERATIONS

Erdemir Grubu ("Group"), is composed of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ("Erdemir" or "the Company"), and its subsidiaries which it owns the majority of their shares or has a significant influence on their management structure.

The immediate parent and ultimate controlling party of the Group are Ataer Holding A.Ş. and Ordu Yardımlaşma Kurumu, respectively.

Ordu Yardımlaşma Kurumu (OYAK/Armed Forces Pension Fund) was incorporated on 1 March 1961 under the Act No. 205 as a private entity under its own law subject to Turkish civil and commercial codes and autonomous in financial and administrative matters. OYAK, being an "aid and retirement fund" for Turkish Armed Forces' members, provides various services and benefits within the framework of social security concept anticipated by Turkish Constitution. OYAK has nearly sixty direct and indirect subsidiaries in industry, finance and service sectors. The detailed information about OYAK can be found on its official website (www.oyak.com.tr).

The Group was incorporated in Turkey as a joint stock company in 1960. The principal activities of the Company are production of iron and steel rolled products, alloyed and non-alloyed iron, steel and pig iron castings, cast and pressed products, coke and their by-products.

The Company's shares have been traded in Istanbul Stock Exchange since the establishment of the Istanbul Stock Exchange (year 1986).

The main operations of the companies included in the consolidation and the share percentage of the Group for these companies are as follows:

Name of the Company	Country of Operation	Operation	2016 Share %	2015 Share %
İskenderun Demir ve Çelik A.Ş.	Turkey	Integrated Steel Production	95,07	95,07
Erdemir Madencilik San. ve Tic. A.Ş.	Turkey	Iron Ore and Pellet	90,00	90,00
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Turkey	Steel Service Center	100	100
Erdemir Mühendilik Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100	100
Erdemir Romania S.R.L.	Romania	Silicon Steel Production	100	100
Erdemir Asia Pacific Private Limited	Singapore	Trading	100	100

As of 18 November 2016, İsdemir Linde Gas Partnership A.Ş. has been established through 50%-50% partnership with the German Linde Group in order to supply the additional industrial gases required for our subsidiary İsdemir's production and to reduce the costs with an effective and efficient management. Isdemir Linde Gaz Ortaklığı A.Ş, which will be recognised by using the equity pick-up method is not included in the consolidation as of the reporting period, by reason of not functioning yet, and that the financial statements are not affected significantly (Note 5).

The registered address of the Company is Barbaros Mahallesi Ardıç Sokak No:6 Ataşehir / İstanbul.

NOTE 1 – GROUP'S ORGANIZATION AND NATURE OF OPERATIONS (cont'd)

The number of the personnel employed by the Group as at 31 December 2016 and 31 December 2015 are as follows:

	Paid Hourly Personnel	Paid Montly Personnel	31 December 2016 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.424	1.746	6.170
İskenderun Demir ve Çelik A.Ş.	3.286	1.742	5.028
Erdemir Madencilik San. ve Tic. A.Ş.	139	126	265
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	219	89	308
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	239	239
Erdemir Romania S.R.L.	213	50	263
Erdemir Asia Pacific Private Limited	-	4	4
	8.281	3.996	12.277

	Paid Hourly Personnel	Paid Montly Personnel	31 December 2015 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.530	1.797	6.327
İskenderun Demir ve Çelik A.Ş.	3.446	1.816	5.262
Erdemir Madencilik San. ve Tic. A.Ş.	128	127	255
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	215	87	302
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	-	240	240
Erdemir Romania S.R.L.	218	50	268
Erdemir Asia Pacific Private Limited	-	5	5
	8.537	4.122	12.659

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

The Company and all its subsidiaries in Turkey maintain their legal books of account and prepare their statutory financial statements ("Statutory Financial Statements") in accordance with accounting principles issued by the Turkish Commercial Code ("TCC") and tax legislation.

The Group's 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") (hereinafter will be referred to as "the CMB Accounting Standards") on 13 June 2013 which is published on Official Gazette numbered 28676.

The financial statements are prepared on cost basis, except the derivative financial instruments and tangible assets used for silicon steel and iron ore carried on fair value.

In accordance with article 5th of the CMB Reporting Standards, companies should apply Turkish Accounting Standards/Turkish Financial Reporting Standards and its interpretations issued by the Public Oversight Accounting and Auditing Standards Authority of Turkey ("POA").

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Presentation (cont'd)

Functional and Reporting Presentation Currency

The functional currency of the Company and its subsidiaries' İskenderun Demir ve Çelik A.Ş. "İsdemir" and Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş "Ersem" are US Dollars; Erdemir Madencilik San. ve Tic. A.Ş. "Ermaden" and Erdemir Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş. are TRY.

Functional currency for the subsidiaries abroad

The functional currency of the foreign subsidiaries Erdemir Asia Pacific Private Limited "EAPPL" is US Dollars; Erdemir Romania S.R.L is EUR.

Presentation currency translation

Presentation currency of the consolidated financial statements is TRY. According to IAS 21 ("The Effects of Changes in Foreign Exchange Rates") financial statements, that are prepared in USD Dollars for the Company, İsdemir, Ersem and EAPPL; in Euro for Erdemir Romania, have been translated in TRY as the following method:

a) The assets and liabilities on financial position as of 31 December 2016 are translated from USD Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 3,5192=US $ 1 and TRY 3,7099=EUR 1 on the balance sheet date (31 December 2015: TRY 2,9076= US $ 1, TRY 3,1776=EUR 1).

b) For the year ended 31 December 2016, income statements are translated from the 12 months average TRY 3,0185 = US $ 1 and TRY 3,3377=EUR 1 rates of 2016 January - December period (31 December 2015: TRY 2,7187 = US $ 1 TRY 3,0181 = 1 EUR).

c) Exchange differences are shown in other comprehensive income as of foreign currency translation reserve.

d) The differences between presentation of statutory and historical figures are recognised as translation differences under equity. All capital, capital measures and other measures are represneted with their statutory figures, other equity accounts are represented with their historic cost figures in the accompanying financial statements.

USD amounts presented in the financial statements

The figures in USD amounts presented in the accompanying consolidated financial statements comprising the statements of financial position as of 31 December 2016 and 31 December 2015, consolidated statement of income and other comprehensive income, and consolidated statement of cash flows for the year ended 31 December 2016 represent the consolidated financial statements within the frame of functional currency change that the Company has made, which is effective as of July 1, 2013, prepared in accordance with the TAS 21- Effects of Changes in Foreign Exchange Rates.

Going concern

The Group prepared its consolidated financial statements in accordance with the going concern assumption.

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Presentation (cont'd)

Approval of the consolidated financial statements

The consolidated financial statements have been approved and authorized to be published on 7 February 2017 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

2.2 Comparative Information and Restatement of Consolidated Financial Statements with Prior Periods

The Group's consolidated financial statements are presented in comparison with the previous period in order to allow for the determination of the financial position and performance trends. The comparative information is reclassified when necessary in order to be aligned with the current period consolidated financial statements.

2.3 Consolidation Principles

The consolidated financial statements include the accounts of the parent company, Ereğli Demir ve Çelik Fabrikaları T.A.Ş., and its Subsidiaries on the basis set out in sections below. The financial statements of the companies included in the consolidation have been prepared as of the date of the consolidated financial statements and are based on the statutory records with adjustments and reclassifications for the purpose of presentation in conformity TAS/TFRS promulgated by the POA as set out in the communiqué numbered II-14.1, and Group accounting and disclosure policies.

Subsidiaries are the Companies controlled by Erdemir when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Subsidiaries are consolidated from the date on which the control is transferred to the Group and are no longer consolidated from the date that the control ceases.

The statement of financial position and statements profit or loss of the Subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by Erdemir and its Subsidiaries is eliminated against the related shareholders' equity. Intercompany transactions and balances between Erdemir and its Subsidiaries are eliminated on consolidation. The cost of, and the dividends arising from, shares held by Erdemir in its Subsidiaries are eliminated from shareholders' equity and income for the year, respectively.

The table below sets out all Subsidiaries included in the scope of consolidation and discloses their direct and indirect ownership, which are identical to their economic interests, as of 31 December 2016 and 31 December 2015 (%) and their functional currencies:

	31 December 2016			31 December 2015		
	Functional Currency	Ownership Interest	Effective Shareholding	Functional Currency	Ownership Interest	Effective Shareholding
İsdemir	US Dollars	95,07	95,07	US Dollars	95,07	95,07
Ersem	US Dollars	100,00	100,00	US Dollars	100,00	100,00
Ermaden	Turkish Lira	90,00	90,00	Turkish Lira	90,00	90,00
Erdemir Mühendislik	Turkish Lira	100,00	100,00	Turkish Lira	100,00	100,00
Erdemir Romania S.R.L.	Euro	100,00	100,00	Euro	100,00	100,00
Erdemir Asia Pasific	US Dollars	100,00	100,00	US Dollars	100,00	100,00

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.4 Comparative Information and Restatement of Consolidated Financial Statements with Prior Periods

The Group's consolidated financial statements are presented 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"). The Group's consolidated financial statements are prepared in comparison with the previous period in order to allow for the determination of the financial position and performance trends in accordance with a new illustrative financial statements and guidance that has been effective from the interim periods ended after 30 June 2013.

Presentation, considering with the TAS taxonomy published on 6 June 2016 by POA, reclassifications of financial position are as follows:

Account	(Previously Reported) 31 December 2015	(Restated) 31 December 2015	(Difference) 31 December 2015
Property, Plant and Equipment (1)	10.234.969	10.264.461	29.492
Intangible Assets (1)	202.357	172.865	(29.492)
			-

(1) Exploration costs and other assets with spesific useful life amounting to TRY 29.492 thousand that was reported under "Intangible Assets", is reclassifed under "Property, Plant and Equipment" in consolidated financial statements as of 31 December 2015.

Reclassifications of income statement are as follows:

Account	(Previously Reported) 1 January - 31 December 2015	(Restated) 1 January - 31 December 2015	(Difference) 1 January - 31 December 2015
Financial Expense (1)	(576.343)	(191.144)	385.199
Deferred Tax (Expense) Income (1)	198.549	(186.650)	(385.199)
			-

(1) Foreign exchange loss from deferred tax base amounting to TRY 385.199 thousand which were reported under "Finance Expense" was reclassified to "Deferred Tax (Expense) Income" on the consolidated statement of income for the year ended 31 December 2015.

2.5 Significant Judgments and Estimates of the Group on Application of Accounting Policies

The Group, according to TAS makes estimates and assumptions prospectively while preparing its consolidated financial statements. These accounting estimates are rarely identical to the actual results. The estimates and assumptions that may cause significant adjustments to the carrying values of assets and liabilities in the following reporting periods are listed below:

2.5.1 Useful lives of property, plant and equipment and intangible assets

The Group calculates depreciation for the fixed assets by taking into account their production amounts on the basis of cash flow unit set by independent expert valuation firm and useful lives that are stated in Note 2.8.3 and 2.8.4 (Note 13, Note 14).

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5.2 Deferred tax

The Group recognizes deferred tax on the temporary timing differences between the carrying amounts of assets and liabilities in the financial statements prepared in accordance with TFRS and statutory financial statements which is used in the computation of taxable profit. The related differences are generally due to the timing difference of the tax base of some income and expense items between statutory and TFRS financial statements. The Group has deferred tax assets resulting from tax loss carry-forwards and deductible temporary differences, which could reduce taxable income in the future periods. All or partial amounts of the realizable deferred tax assets are estimated in current circumstances. The main factors which are considered include future earnings potential; cumulative fiscal losses in recent years; history of loss carry-forwards and other tax assets expiring, the carry-forward period associated with the deferred tax assets, future reversals of existing taxable temporary differences that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset (Note 28).

2.5.3 Fair values of derivative financial instruments

The Group values its derivative financial instruments by using the foreign exchange and interest rate estimations and based on the valuation estimates of the market values as of the balance sheet date (Note 6).

2.5.4 Provision for doubtful receivables

Allowance for doubtful receivables reflect the future loss that the Group anticipates to incur from the trade receivables as of the balance sheet date which is subject to collection risk considering the current economic conditions. During the impairment test for the receivables, the debtors are assessed with their prior year performances, their credit risk in the current market, their performance after the reporting date up to the issuing date of the financial statements; and also the renegotiation conditions with these debtors are considered. As of reporting date the provision for doubtful receivables is presented in Note 8 and Note 9.

2.5.5 Provision for inventories

During the assessment of the provision for inventory the following are considered; analyzing the inventories physically and historically, considering the employment and usefulness of the inventories respecting to provision for inventories accounting policy of the Company. Sales prices listed and related data by sales prices of realized sales after balance sheet date, average discount rates given for sale and expected cost incurred to sell are used to determine the net realizable value of the inventories. As a result of this, the provision for inventories with the net realizable values below the costs and the slow moving inventories are presented in Note 10.

2.5.6 Provisions for employee benefits

Actuarial Assumptions about discount rates, inflation rates, future salary increases and employee turnover rates are made to calculate Group's provision for employee benefits. The details related with the defined benefit plans are stated in Note 16.

2.5.7 Provision for lawsuits

Provision for lawsuits is evaluated by the Group based on opinions of Group Legal Counsel and legal consultants. The Group determines the amount of provisions based on best estimates. As of Reporting date, provision for lawsuits is stated in Note 17.

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Significant Judgments and Estimates of the Group on Application of Accounting Policies (cont'd)

2.5.8 Provision for termination fee of long term contract

The Group has initiated termination process of long-term service agreement, which is signed on 11 August 2008 to transport of overseas iron ore supplies with capesize vessels for 2008-2022 period, in the last quarter of 2015. The Group Management has concluded that there is a constructive obligation because of the Management's decision and supplier's intention towards termination process related to the contract as of 31 December 2015 and possibility of cash outflow is more likely than not. The parties reached a certain agreement on 24 February 2016 on termination of the aforementioned agreement with USD 75.000 thousand termination fee and signing of a new freight contract linked with market prices. Therefore, it is considered that subsequent agreement on termination cost, is an adjusting event after the balance sheet date since it lets the measurability of constructive obligation in a trustable manner. As a result, USD 75.000 thousand provision for termination fee of long term contract is recognized as of 31 December 2015 (Note 17 and 25).

2.5.9 Impairments on Assets

The Group, performs impairment tests for assets that are subject to depreciation and amortization in case of being not possible to prevent recovery of the assets at each reporting period. Assets are grouped at the lowest levels which there are separately identifiable cash flows for evaluation of impairment (cash generating units). As a result of the impairment tests performed by the Group, no additional impairment is estimated in the accompanying financial statements except provision for impairment of non financial assets amounting to TRY 39.058 thousand (Note 13).

2.6 Offsetting

Financial assets and liabilities are offset and the net amounts are reported with their net values in the balance sheet where either there is a legally enforceable right to offset the recognized amounts or there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.7 Adoption of New and Revised Financial Reporting Standards

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2016 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of 1 January 2016. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

The new standards, amendments and interpretations which are effective as at 1 January 2016 are as follows:

- TFRS 11 Acquisition of an Interest in a Joint Operation (Amendment)

  TFRS 11 is amended to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in TFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in TFRS 3 and other TFRSs except for those principles that conflict with the guidance in this TFRS. In addition, the acquirer shall disclose the information required by TFRS 3 and other TFRSs for business combinations. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Adoption of New and Revised Financial Reporting Standards (cont'd)

- TAS 16 and TAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to TAS 16 and TAS 38)

  The amendments to TAS 16 and TAS 38, have prohibited the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for intangible assets. The amendments did not have an impact on the financial position or performance of the Group.

The new standards, amendments and interpretations which are effective as at 1 January 2016 are as follows: (cont'd):

- TAS 16 Property, Plant and Equipment and TAS 41 Agriculture – Bearer Plants (Amendment)

  TAS 16 is amended to provide guidance that bearer plants, such as grape vines, rubber trees and oil palms should be accounted for in the same way as property, plant and equipment in TAS 16. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates. Because their operation is similar to that of manufacturing, either the cost model or revaluation model should be applied. The produce growing on bearer plants will remain within the scope of TAS 41, measured at fair value less costs to sell. The amendment did not have an impact on the financial position or performance of the Group.

- TAS 27 Equity Method in Separate Financial Statements (Amendments to TAS 27)

  Public Oversight Accounting and Auditing Standards Authority (POA) of Turkey issued an amendment to TAS 27 to restore the option to use the equity method to account for investments in subsidiaries and associates in an entity's separate financial statements. Therefore, an entity must account for these investments either:

  - At cost
  - In accordance with IFRS 9, Or
  - Using the equity method defined in TAS 28

The entity must apply the same accounting for each category of investments. The amendment is not applicable for the Group and did not have an impact on the financial position or performance of the Group.

- TFRS 10 and TAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

  Amendments issued to TFRS 10 and TAS 28, to address the acknowledged inconsistency between the requirements in TFRS 10 and TAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in TFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors' interests in that former subsidiary. The amendment did not have an impact on the financial position or performance of the Group.

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Adoption of New and Revised Financial Reporting Standards (cont'd)

The new standards, amendments and interpretations which are effective as at 1 January 2016 are as follows: (cont'd):

- TFRS 10, TFRS 12 and TAS 28: Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 and IAS 28)

  In February 2015, Amendments issued to TFRS 10, TFRS 12 and TAS 28, to address the following issues that have arisen in applying the investment entities exception under TFRS 10 Consolidated Financial Statements; i) the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value, ii) only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value, iii) the amendments to TAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendment did not have an impact on the financial position or performance of the Group.

- TAS 1: Disclosure Initiative (Amendments to TAS 1)

  The amendments issued to TAS 1. Those amendments include narrow-focus improvements in the following five areas: Materiality, Disaggregation and subtotals, Notes structure, Disclosure of accounting policies, Presentation of items of other comprehensive income (OCI) arising from equity accounted investments. The amendment did not have an impact on the financial position or performance of the Group.

Annual Improvements to TFRSs - 2012-2014 Cycle

POA issued, Annual Improvements to TFRSs 2012-2014 Cycle. The document sets out five amendments to four standards, excluding those standards that are consequentially amended, and the related Basis for Conclusions. The standards affected and the subjects of the amendments are:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – clarifies that changes in methods of disposal (through sale or distribution to owners) would not be considered a new plan of disposal, rather it is a continuation of the original plan

- IFRS 7 Financial Instruments: Disclosures – clarifies that the assessment of servicing contracts that includes a fee for the continuing involvement of financial assets in accordance with IFRS 7; the offsetting disclosure requirements do not apply to condensed interim financial statements,

- IAS 19 Employee Benefits – clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located.

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Adoption of New and Revised Financial Reporting Standards (cont'd)

Annual Improvements to TFRSs - 2012-2014 Cycle (cont'd)

- IAS 34 Interim Financial Reporting –clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report.

Standards issued but not yet effective and not early adopted:

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

- TFRS 15 Revenue from Contracts with Customers

  In September 2016, POA issued TFRS 15 Revenue from Contracts with Customers. The new standard issued includes the clarifying amendments to IFRS 15 made by IASB in April 2016. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). TFRS 15 effective date is January 1, 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

- TFRS 9 Financial Instruments

  In January 2017, POA issued the final version of TFRS 9 Financial Instruments. The final version of TFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. TFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, TFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. TFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted by applying all requirements of the standard.

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Adoption of New and Revised Financial Reporting Standards (cont'd)

Standards issued but not yet effective and not early adopted (cont'd):

- TFRS 9 Financial Instruments (cont'd)

  Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard. The Group has performed a high-level impact assessment of TFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional supportable information being made available to the Group in the future. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by Public Oversight Authority (POA):

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued by the POA, thus they do not constitute part of TFRS. The Group will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

- IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

  In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted.

Annual Improvements – 2010–2012 Cycle

- IFRS 13 Fair Value Measurement

  As clarified in the Basis for Conclusions short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment is effective immediately.

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Adoption of New and Revised Financial Reporting Standards (cont'd)

Annual Improvements – 2011–2013 Cycle

- IFRS 16 Leases

  The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

- IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)

  The IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are to be retrospectively applied for annual periods beginning on or after January 1, 2017 with earlier application permitted. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If the Group applies this relief, it shall disclose that fact. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

- IAS 7 Statement of Cash Flows (Amendments)

  The IASB issued amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. These amendments are to be applied for annual periods beginning on or after January 1, 2017 with earlier application permitted. When the Group first applies those amendments, it is not required to provide comparative information for preceding periods. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

- IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)

  The IASB issued amendmdents to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions.

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Adoption of New and Revised Financial Reporting Standards (cont'd)

Annual Improvements – 2011–2013 Cycle (cont'd)

- IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments) (cont'd)

  The amendments, provide requirements on the accounting for:

  a) The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments,
  b) Share-based payment transactions with a net settlement feature for withholding tax obligations, and
  c) A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

  These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

- IFRS 4 Insurance Contracts (Amendments)

  In September 2016, the IASB issued amendments to IFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will:

  a) Give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 Financial instruments is applied before the new insurance contracts Standard is issued; and
  b) Give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 Financial instruments until 2021. The entities that defer the application of IFRS 9 Financial instruments will continue to apply the existing financial instruments Standard—IAS 39.

  These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

- IAS 40 Investment Property: Transfers of Investment Property (Amendments)

  The IASB issued amendments to IAS 40 'Investment Property '. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Adoption of New and Revised Financial Reporting Standards (cont'd)

Annual Improvements – 2011–2013 Cycle (cont'd)

- IFRIC 22 Foreign Currency Transactions and Advance Consideration

  The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

  The Interpretation states that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. An entity is not required to apply this Interpretation to income taxes; or insurance contracts (including reinsurance contracts) it issues or reinsurance contracts that it holds.

  The interpretation is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted.

Annual Improvements to IFRSs - 2014-2016 Cycle

The IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle, amending the following standards:

- IFRS 1 First-time Adoption of International Financial Reporting Standards: This amendment deletes the short-term exemptions about some IFRS 7 disclosures, IAS 19 transition provisions and IFRS 10 Investment Entities. These amendments are to be applied for annual periods beginning on or after 1 January 2018.
- IFRS 12 Disclosure of Interests in Other Entities: This amendment clarifies that an entity is not required to disclose summarised financial information for interests in subsidiaries, associates or joint ventures that is classified, or included in a disposal group that is classified, as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. These amendments are to be applied for annual periods beginning on or after 1 January 2017.
- IAS 28 Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying IFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

2.8 Valuation Principles Applied / Significant Accounting Policies

Valuation principles and accounting policies used in the preparation of the consolidated financial statements are as follows:

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.1 Revenue recognition

Revenue is measured at the fair value of the received or receivable amount. The estimated customer returns, rebates, and other similar allowances are deducted from this amount.

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- The Group transfers the significant risks and benefits of the ownership of the goods to the buyer;
- The Group retains neither a continuing managerial involvement usually associated with ownership nor effective control over the goods sold;
- The amount of revenue is measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred due to the transaction are measured reliably.

Dividend and interest income

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Group's interest income from time deposits is recognized in financial income. Group's interest income from sales with maturities is recognized in other operating income.

Rental income

Rental income from investment properties is recognized on a straight-line basis over the term of the relevant lease and recognised under other operating income.

2.8.2 Inventories

Inventories are valued at the lower of cost or net realizable value. The costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority valued by using the monthly weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.8.3 Property, plant and equipment

Property, plant and equipment purchased before 30 June 2013 are disclosed in the financial statements at their indexed historical cost for inflation effects as at 30 June 2013, on the other hand the purchases made in 30 June 2013 and in later periods are presented at their historical cost, less depreciation and impairment loss. Except for land and construction in progress, other tangible assets are depreciated according to straight-line basis or units of production method basis using the expected useful lives and production amounts of the assets.

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.3 Property, plant and equipment (cont'd)

The Group's tangible fixed assets operating in the production of iron ore and high silicon flat steel are stated in the balance sheet at their fair value amounts at the date of acquisition. Any increase arising from the revaluation of the existing assets is recorded under the revaluation reserve, in the shareholders' equity. A decrease in carrying amount arising on the revaluation of assets is charged to the consolidated income statement to the extent that it exceeds the balance in the revaluation reserve that is related to the previous revaluation.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use.

In assessing the value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated income statement.

The rates that are used to depreciate the fixed assets are as follows:

	Rates
Buildings	2-16%
Land improvements	2-33% and units of production level
Machinery and equipment	3-50% and units of production level
Vehicles	5-25% and units of production level
Furniture and fixtures	5-33%
Exploration costs and other fixed assets with speacial useful lifes	5-10% and units of production level
Other tangible fixed assets	5-25%

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

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.3 Property, plant and equipment (cont'd)

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

Advances paid related to purchasing of tangible assets are monitored in prepaid expenses under fixed assets until the related asset is capitalized or recognized under on-going investments.

2.8.4 Intangible assets

Intangible assets purchased before 30 June 2013 are recognized at their acquisition cost indexed for inflation effects as at 30 June 2013, on the other hand the purchases made in and after 30 June 2013 are recognized at acquisition cost less any amortization and impairment loss. Intangible assets are amortized principally on a straight-line basis over their estimated useful lives and production amounts. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, and any changes in the estimate are accounted for on a prospective basis.

The amortization rates of the intangible assets are stated below:

	Rates
Rights	2-33%
Other intangible fixed assets	20-33%

2.8.5 Investment properties

Investment properties, which are held to earn rental income and/or for capital appreciation are measured initially at cost any accumulated impairment losses.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income under other operating income/(expense).

2.8.6 Impairment of assets

Assets subject to depreciation and amortization are tested for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of net selling price and value in use. Recoverable amounts are estimated for individual assets (for the cash-generating unit). Non-financial assets that are impaired are evaluated for reversal of impairment amount at each reporting date.

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.7 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, one that takes a substantial period of time to get ready for use or sale, are capitalized as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale. Investment revenues arising from the temporary utilization of the unused portion of facility loans are netted off from the costs eligible for capitalization.

All other borrowing costs are recognized directly in the consolidated income statement of the period in which they are incurred.

2.8.8 Financial instruments

Financial assets and financial liabilities are recognized in the Group's consolidated balance sheet when the Group becomes a legal party for the contractual provisions of the financial instrument.

Financial assets

Financial assets, are initially measured at fair value, less transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale financial assets' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest rate method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the ratio exactly discounts the estimated future cash receipts through the expected life of the financial asset to the net present value of the financial asset or in a shorter period where appropriate.

Incomes related to the debt instruments that are held to maturity and are available for sale, and financial assets that are classified as loans and receivables are calculated according to the effective interest rate method.

Available for sale financial assets

Some of the shares and long term marketable securities held by the Group are classified as available for sale and recognized at their fair values.

The financial assets, which are not priced in an active market and the fair value cannot be recognized accurately, are recognized at cost less accumulated impairments.

Gains and losses arising from changes in fair value are recognized directly in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognized directly in the consolidated income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in the consolidated income statement for the period.

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.8 Financial instruments (cont'd)

Financial assets (cont'd)

Available for sale financial assets (cont'd)

Some of the shares and long term marketable securities held by the Group are classified as available for sale and recognized at their fair values.

Receivables

Trade receivables and other receivables are initially recognized at their fair value. Subsequently, receivables are measured at amortized cost using the effective interest method.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For receivables, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated income statement under general administrative expenses.

With the exception of available for sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available for sale equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in the consolidated statement of comprehensive income.

Cash and cash equivalents

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

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.8 Financial instruments (cont'd)

Financial liabilities

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

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Other financial liabilities

Other financial liabilities are initially accounted at fair value, net of transaction costs.

Subsequently other financial liabilities are accounted at amortized cost using the effective interest method, with interest expense recognized on an effective interest rate basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating the interest expense to the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount.

Derivative financial instruments and hedge accounting

Derivatives are initially recognized at cost of acquisition and are subsequently accounted to their fair value at the end of each reporting period. The method of recognizing the result of gain or loss is dependent on the nature of the item being hedged.

On the date a derivative contract is entered into, the Group designates certain derivatives as either a hedge of the fair value of a recognized asset or liability (fair value hedge) or a hedge from changes that could affect the statement of income due to a specific risk in cash flow of a forecasted transaction (cash flow hedge). Fair value of the Group's interest swap contracts is determined by valuation methods depending on analyzable market data.

Changes in the fair value of the derivatives that are designated and qualified as cash flow hedges and that are highly effective, are recognized in equity as hedging reserve. Where the forecasted transaction or firm commitment results in the recognition of an asset or a liability, the gains and losses previously booked under equity are transferred from equity and included in the initial measurement of the cost of acquisition of the asset or liability. Otherwise, amounts booked under equity are transferred to the consolidated statement of income and classified as revenue or expense in the period in which the hedged item affects the statement of income.

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.8 Financial instruments (cont'd)

Derivative financial instruments and hedge accounting (cont'd)

When the hedging instrument expires, is sold, or when a hedge no longer meets the criteria for hedge than hedge accounting is terminated. Any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the committed or forecasted transaction ultimately is recognized in the statement of income. However, if the hedged transaction is not realized, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss of the current period.

The Group measures the derivative financial instruments held for fair value hedge purpose with their fair values and recognizes them in the consolidated income statement under financial income/(expense).

2.8.9 The effects of foreign exchange rate changes

Foreign currency transactions are recorded at the rates of exchange prevailing on the dates of the transactions. Assets and liabilities denominated in foreign currencies are converted at the exchange rates prevailing on the balance sheet date.

The Group records foreign currency (currencies other than the functional currency of the related company) transactions using exchange rates of the date the transaction is completed. Foreign currency monetary items are evaluated with exchange rates as of reporting date and arising foreign exchange income/expenses are recorded in consolidated statement of income. All monetary assets and liabilities are evaluated with exchange rates of the reporting date and related foreign currency translation differences are transferred to consolidated statement of income. Non-monetary foreign currency items that are recognized at cost are evaluated with historic exchange rates. Non-monetary foreign currency items that are recognized at fair value are evaluated with exchange rates of the dates their fair values are determined.

2.8.10 Earnings per share

Earnings per share, disclosed in the consolidated income statement, are determined by dividing the net income attributable to equity holders of the parent by the weighted average number of shares outstanding during the period concerned.

In Turkey, companies can increase their share capital by distributing "bonus shares" to shareholders from retained earnings. In computing earnings per share, such "bonus share" distributions are assessed as issued shares. Accordingly, the weighted-average number of shares are computed by taking into consideration of the retrospective effects of the share distributions.

2.8.11 Subsequent events

Subsequent events include all events that take place between the balance sheet date and the date of authorization for the release of the balance sheet, although the events occurred after the announcements related to the net profit/loss or even after the public disclosure of other selective financial information.

In the case that events occur requiring an adjustment, the Group adjusts the amounts recognized in its consolidated financial statements to reflect the adjustments after the balance sheet date. Post period end events that are not adjusting events are disclosed in the notes when material.

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.12 Provisions, contingent liabilities and contingent assets

Provisions are recognized when the Group has a present obligation as a result of a past legal or subtle event, where it is probable that the Group will be required to settle that obligation and when a reliable estimate can be made of the amount of the obligation. Contingent liabilities are assessed continuously to determine the probability of outflow of the economically beneficial assets. For contingent liabilities, when an outflow of resources embodying economic benefits are probable, provision is recognized for this contingent liability in the period when the probability has changed, except for the cases where a reliable estimate cannot be made.

When the Group's contingent liabilities' availability is possible but the amount of resources containing the economic benefits cannot be measured reliably, then the Group discloses this fact in the notes.

2.8.13 Related parties

A related party is a person or entity that is related to reporting entity, the entity that is preparing its financial statements.

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

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

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

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

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.13 Related parties (cont'd)

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

2.8.14 Taxation and deferred income taxes

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

Income tax expense represents the sum of the current tax and deferred tax.

Current tax

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

Deferred tax

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

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

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

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.14 Taxation and deferred income taxes (cont'd)

Deferred tax (cont'd)

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in the consolidated income statement, except when they relate to the items credited or debited directly to the equity (in this case the deferred tax related to these items is also recognized directly in the equity), or where they arise from the initial accounting of a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

2.8.15 Employee benefits

According to the Turkish and Romanian law and union agreements, employee termination payments are made to employees in the case of retiring or involuntarily leaving. Such payments are considered as a part of defined retirement benefit plan in accordance with IAS19 (revised) "Employee Benefits" ("IAS 19").

The termination indemnities accounted in the balance sheet and seniority incentive premium in accordance with the union agreements in force represent the present value of the residual obligation. Actuarial gains and losses, on the other hand, are recognized in the statement of other comprehensive income.

The Group makes certain assumptions about discount rates, inflation rates, future salary increases and employee turnover rates in calculation of provisions for employee benefits. The present value of employee benefits is calculated by an independent actuary and some changes are done in accounting assumptions used in calculations. The impact of the changes in assumptions is recognized in the statement of income. The details related with the defined benefit plans are stated in Note 16.

Liabilities due to unused vacations classified as provisions due to employee benefits are accrued and discounted if the discount effect is material.

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.15 Employee benefits (cont'd)

The Group companies operating in Turkey are required to pay social insurance premiums to the Social Security Agency. As long as it pays these insurance premiums, the Group does not have any further obligation. These premiums are reflected in the payroll expenses incurred in the period.

2.8.16 Government grants and incentives

Government grants and incentives are recognized at fair value when there is assurance that these grants and incentives will be received and the Group has met all conditions required. Government grants and incentives related to costs are recognized as revenue during the periods they are matched with the costs they will cover.

2.8.17 Statement of cash flows

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

Cash flows arising from operating activities represent the cash flows that are used in or provided by the Group's steel products and metal sales activities.

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

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

Cash and cash equivalents comprises of the cash on hand, the demand deposits and highly liquid other short-term investments which their maturities are three months or less from the date of acquisition, are readily convertible to cash and are not subject to a significant risk of changes in value.

The translation difference that occurs due to translation from functional currency to presentation currency is shown as translation difference on cash flow statement.

2.8.18 Share capital and dividends

Common shares are classified as equity. Dividends on common shares are recognized in equity in the period which they are approved and declared.

2.8.19 Erdemir repurchased shares (Treasury shares)

When share capital recognized as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, is net of any tax effects, and is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

NOTE 3 – SEGMENTAL REPORTING

The operations of the Group in İskenderun and Ereğli have been defined as geographical segments. However, the segments with similar economic characteristics have been combined into a single operating segment considering the nature of the products and the production processes, methods to allocate the products and the type of customers or to provide services.

NOTE 4 – CASH AND CASH EQUIVALENTS

The detail of cash and cash equivalents as of 31 December 2016 and 31 December 2015 is as follows:

	31 December 2016	31 December 2015
Cash	41	28
Banks – demand deposits	75.433	45.482
Banks – time deposits	4.511.437	2.889.193
	4.586.911	2.934.703
Time deposit interest accruals (-)	(9.206)	(4.005)
Cash and cash equivalents excluding interest accruals	4.577.705	2.930.698

The breakdown of demand deposits is presented below:

	31 December 2016	31 December 2015
US Dollars	50.185	16.775
TRY	9.857	19.328
EURO	9.315	8.775
Romanian Lei	4.915	493
GB Pound	972	15
Japanese Yen	42	4
Other	147	92
	75.433	45.482

NOTE 4 – CASH AND CASH EQUIVALENTS (cont'd)

The breakdown of time deposits is presented below:

	31 December 2016	31 December 2015
US Dollars	4.441.259	2.866.533
TRY	45.026	9.504
EURO	24.988	13.016
Romanian Lei	164	140
	4.511.437	2.889.193

Group's bank deposits consist of deposits with maturity from 1 day to 3 months depending on immediate cash needs. Interest is received based on current short-term rates on the market.

NOTE 5 – FINANCIAL INVESTMENTS

Long term financial investments:

	31 December 2016	31 December 2015
Available for sale financial assets	122	79
	122	79

As of 31 December 2016 and 31 December 2015, ratios and amounts of subsidiaries of İskenderun Demir ve Çelik A.Ş. which is a subsidiary of the Company are as followings:

Company	Ratio %	31 December 2016	Ratio %	31 December 2015
Financial investments without an active market				
Teknopark Hatay A.Ş.	5	95	5	79
Joint venture				
İsdemir Linde Gaz Ortaklığı A.Ş. (*)	50	27	50	-
		122		79

(*) Since the impact of financial statements of İsdemir Linde Gaz Ortaklığı A.Ş., which has an assets of TRY 605 thousand and is not active as of the reporting period is immaterial on the consolidated financial statements therefore not consolidated and valued at cost.

NOTE 6 – FINANCIAL DERIVATIVE INSTRUMENTS

The detail of financial derivative instruments as of 31 December 2016 and 31 December 2015 is as follows:

	31 December 2016		31 December 2015	
	Asset	Liability	Asset	Liability
Fair value hedging derivative financial assets				
Forward contracts for fair value hedges of currency risk of sales	14.825	-	9.122	85
Option contracts	-	-	1.709	-
Cross currency swap contracts	22.640	133	52.913	14.015
Interest rate swap contracts	4.240	-	-	-
Basis Swap contracts	-	2.060	-	-
	41.705	2.193	63.744	14.100
Cash flow hedging derivative financial assets				
Forward contracts for cash flow hedges of currency risk of sales	17.354	444	12.571	640
Cross currency swap contracts for cash flow hedges of currency risk of borrowings	9.243	18.389	10.182	24.555
Interest rate swap contracts for cash flow hedges of interest rate risk of borrowings	244	171	72	703
Commodity swap contracts for cash flow hedges of price fluctuations of raw material purchases	1.719	-	440	852
	28.560	19.004	23.265	26.750
	70.265	21.197	87.009	40.850

NOTE 6 – FINANCIAL DERIVATIVE INSTRUMENTS (cont'd)

Derivative instruments for fair value hedge

As of 31 December 2016 and 31 December 2015, the details of forward, option and cross currency swap transactions for fair value hedge are as follows:

31 December 2016		Assets Nominal value	Assets Fair Value	Liabilities Nominal value	Liabilities Fair Value
Forward contracts for fair value hedges of currency risk of sales					
Buy USD/Sell EUR	Less than 3 months	281.792	14.825	-	-
		281.792	14.825	-	-
Interest rate swap contracts					
USD floating interest collection / Fixed interest payment	Between 1 - 5 years	193.556	4.240	-	-
		193.556	4.240	-	-
Basis interest swap contracts					
USD basis floating interest collection / Basis floating interest payment	Between 1 - 5 years	-	-	526.845	2.060
		-	-	526.845	2.060
Cross currency, interest rate swap contracts					
EUR Collection /TRY Payment	Between 6 - 12 months	51.616	22.640	51.616	133
		51.616	22.640	51.616	133
		526.964	41.705	578.461	2.193

31 December 2015		Assets Nominal value	Assets Fair Value	Liabilities Nominal value	Liabilities Fair Value
Forward contracts for fair value hedges of currency risk of sales					
Buy USD/Sell EUR	Less than 3 months	141.485	8.571	17.848	85
Buy USD/Sell EUR	Between 3 - 6 months	14.154	551	-	-
		155.639	9.122	17.848	85
Option contracts					
Buy USD/Sell EUR	Less than 3 months	11.187	1.709	-	-
		11.187	1.709	-	-
Cross currency / interest rates swap contracts					
USD Collection/TRY Payment	Between 6 - 12 months	44.841	22.386	44.841	13.946
AVRO Collection/TRY Payment	More than 12 months	88.421	30.527	88.421	69
		133.262	52.913	133.262	14.015
		300.088	63.744	151.110	14.100

NOTE 6 – FINANCIAL DERIVATIVE INSTRUMENTS (cont'd)

Derivative instruments for cash flow hedge

Forward contracts for cash flow hedges of currency risk of sales:

Buy USD – Sell EUR forward contracts measured at fair value through other comprehensive income are designated as hedging instruments in cash flow hedges of forecast sales in EUR. These forecast transactions are highly probable and their maturities vary between January 2017 and March 2018.

The terms and conditions of the forward contracts match the terms and conditions of the expected highly probable forecast sales in EUR. As a result, no hedge ineffectiveness arises requiring recognition and is tracked under other comprehensive income/expense accounts since the aforementioned derivative transaction is a cash flow hedge derivative transaction until the sales is realized in accordance with hedge accounting. After the revenue is recognised, those derivative transactions are recognised in the profit or loss table as fair value hedges until the receivable amounts are collected.

In respect of these contracts which has a nominal value of TRY 353.686 thousand for the purpose of hedging cash flow risk, with related deferred tax effect TRY 16.910 thousand was included in other comprehensive income (31 December 2015: TRY 11.931 thousand).

In the current period, TRY 25.238 thousand resulting from the sales related forward contracts was accounted under the revenue account of the profit or loss table (31 December 2015: TRY 50.635).

Cross currency and interest rate swap contracts for cash flow hedges of interest rate and currency risk of borrowings:

Group has fixing contracts for future interest and principle payments of floating interest rate borrowings. The fair values of these contracts match the floating rate borrowings and was included in other comprehensive income. The maturities of these transactions will be completed in April 2020.

The terms and conditions of those contracts match the terms and conditions of the floating rate borrowings. As a result, no hedge ineffectiveness arises requiring recognition through profit or loss.

In respect of these contracts which has a nominal value of TRY 148.718 thousand, for the purpose of hedging cash flow risk, with related deferred tax effect TRY (9.073) thousand was included in other comprehensive income (31 December 2015: TRY (15.004) thousand).

Commodity swap contracts for hedges of price risk of raw material purchases:

The Group purchases iron ore on an ongoing basis as its operating activities. The Group has concluded iron ore swap contracts in order to be protected from price risk of iron ore which shall be supplied in future and shall be used in the production of related sales in line with its contracted sales. Group's iron ore forward contracts measured at fair value through other comprehensive income match iron ore price risk associated with future long term sales contracts. These sales are highly probable and terms and conditions of iron ore forward contracts match sales terms. As a result, no hedge ineffectiveness arises requiring recognition through profit or loss.

NOTE 6 – FINANCIAL DERIVATIVE INSTRUMENTS (cont'd)

Derivative instruments for cash flow hedge (cont'd)

Commodity swap contracts for hedges of price risk of raw material purchases (cont'd):

The maturities of these 15 thousands tons of iron ore contracts which has a nominal value of TRY 1.966 thousand, vary until January 2017 and fair value with related deferred tax effect, TRY 1.719 thousand was included in other comprehensive income (31 December 2015: TRY (412) thousand).

As of 31 December 2016, TRY 2.728 thousand realised reclassification from other comprehensive income to cost of inventories during the year (31 December 2015: TRY 2.493 thousand).

NOTE 7 – BORROWINGS

Breakdown of borrowings is as follows:

	31 December 2016	31 December 2015
Short term borrowings	1.257.986	24.286
Current portion of long term borrowings	1.043.968	1.047.256
Total short term borrowings	2.301.954	1.071.542
Long term borrowings	1.617.534	1.904.361
Total long term borrowings	1.617.534	1.904.361
	3.919.488	2.975.903

As of 31 December 2016, the breakdown of the Group's loans with their original currency and their weighted average interest rates is presented as follows:

Interest Type	Type of Currency	Weighted Average Rate of Interest (%)	Short Term Portion	Long Term Portion	31 December 2016
Fixed	TRY	12,45	14.567	-	14.567
Fixed	US Dollars	2,01	741.365	101.698	843.063
Fixed	EURO	2,84	9.106	85.439	94.545
Floating	US Dollars	Libor+1,84	1.382.857	1.096.475	2.479.332
Floating	EURO	Euribor+1,62	116.607	333.922	450.529
Floating	Japanese Yen	JPY Libor+0,22	37.452	-	37.452
			2.301.954	1.617.534	3.919.488

NOTE 7 – BORROWINGS (cont'd)

As of 31 December 2015, the breakdown of the Group's loans with their original currency and their weighted average interest rates is presented as follows:

Interest Type	Type of Currency	Weighted Average Rate of Interest (%)	Short Term Portion	Long Term Portion	31 December 2015
No interest	TRY	-	24.286	-	24.286
Fixed	TRY	9,26	170.482	12.865	183.347
Fixed	US Dollars	3,99	22.925	52.523	75.448
Fixed	EURO	3,27	2.422	46.725	49.147
Floating	US Dollars	Libor+2,03	717.249	1.619.418	2.336.667
Floating	EURO	Euribor+0,5	103.824	143.919	247.743
Floating	Japanese Yen	JPY Libor+0,22	30.354	28.911	59.265
			1.071.542	1.904.361	2.975.903

Tthe breakdown of the loan repayments with respect to their maturities as follows:

	31 December 2016	31 December 2015
Within 1 year	2.301.954	1.071.542
Between 1-2 years	585.316	921.923
Between 2-3 years	480.309	488.184
Between 3-4 years	332.078	328.902
Between 4-5 years	102.893	163.914
Five years or more	116.938	1.438
	3.919.488	2.975.903

NOTE 8 – TRADE RECEIVABLES AND PAYABLES

As of the balance sheet date, the details of the Group's other receivables and payables are as follows:

	31 December 2016	31 December 2015
Short term trade receivables		
Trade receivables	2.056.215	1.670.078
Due from related parties (Note 30)	54.877	43.130
Discount on receivables (-)	(3.709)	(2.586)
Provision for doubtful trade receivables (-)	(90.482)	(77.993)
	2.016.901	1.632.629

NOTE 8 – TRADE RECEIVABLES AND PAYABLES (cont'd)

As of the balance sheet date, the details of the Group's trade receivables are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Opening balance	77.993	62.107
Provision for the period	1.417	8.210
Doubtful receivables collected (-)	-	(126)
Provision released (-)	(610)	(1.303)
Translation difference	11.682	9.105
Closing balance	90.482	77.993

According to the market conditions and product types, a certain interest charge is applied for deferred trade receivables and overdue interest is applied for overdue trade receivables.

As the Group provides services and products to a large number of customers, collection risk is widely distributed amongst these customers and there is no significant credit risk exposure. Therefore, the Group does not provide for any further provision beyond the doubtful receivables provisions that the Group has already provided for in the consolidated financial statements.

As of the balance sheet date, there is no significant amount of overdue receivables within the trade receivables.

Other explanatory notes related to the credit risk of the Group are disclosed in Note 31.

The Group provides provision according to the balances of all unsecured receivables under legal follow up.

As of the balance sheet date, the details of the Group's trade payables are as follows:

Short term trade payables	31 December 2016	31 December 2015
Trade payables	882.527	557.016
Due to related parties (Note 30)	35.008	26.630
Discount on trade payables (-)	(4.159)	(3.086)
Expense accruals	1.700	1.643
	915.076	582.203

NOTE 9 – OTHER RECEIVABLES AND PAYABLES

As of the balance sheet date, the details of the Group's other receivables and payables are as follows:

Short term other receivables	31 December 2016	31 December 2015
Receivables from water system construction	1.592	1.763
Deposits and guarantees given	291	306
	1.883	2.069

Long term other receivables	31 December 2016	31 December 2015
Receivables from Privatization Authority	70.236	67.397
Receivables from water system construction	12.808	14.036
Deposits and guarantees given	979	1.033
Provision for receivables from Privatization Authority (-)	(70.236)	(67.397)
	13.787	15.069

The movement of the provision for other doubtful receivables are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Opening balance	67.397	62.403
Provision for the period	2.887	5.436
Other doubtful receivables collected (-)	(227)	(482)
Translation difference	179	40
Closing balance	70.236	67.397

As of the balance sheet date, the details of the Group's other payables are as follows:

Short term other payables	31 December 2016	31 December 2015
Taxes payable	2.709	3.093
Employee's income tax payables	27.766	21.453
Deposits and guarantees received	9.539	7.394
Dividend payables to shareholders (*)	2.112	1.740
	42.126	33.680

(*) Dividend payable represents the uncollected balances by shareholders related to the prior years.

NOTE 10 – INVENTORIES

As of the balance sheet date, the details of the Group's inventories are as follows:

	31 December 2016	31 December 2015
Raw materials	834.711	730.302
Work in progress	720.679	473.829
Finished goods	866.700	890.682
Spare parts	768.861	603.435
Goods in transit	983.678	409.524
Other inventories	289.205	298.551
Allowance for impairment on inventories (-)	(208.787)	(168.433)
	4.255.047	3.237.890

The movement of the allowance for impairment on inventories:

	1 January - 31 December 2016	1 January - 31 December 2015
Opening balance	168.433	111.752
Provision for the period	39.576	39.092
Provision released (-)	(35.305)	(12.256)
Translation difference	36.083	29.845
Closing balance	208.787	168.433

The Group has provided an allowance for the impairment on the inventories of finished goods, work in progress and raw materials within the scope of aging reports in the cases when their net realizable values are lower than their costs or for slow moving inventories. The provision released has been recognized under cost of sales (Note 22).

NOTE 11 – PREPAID EXPENSES

As of the balance sheet date, the details of the Group's short term prepaid expenses are as follows:

	31 December 2016	31 December 2015
Insurance expenses	24.355	31.477
Order advances given	5.142	6.465
Prepaid utility allowance to employees	7.657	6.619
Other prepaid expenses	5.359	8.193
	42.513	52.754

NOTE 11 – PREPAID EXPENSES (cont'd)

As of the balance sheet date, the details of the Group's long term prepaid expenses are as follows:

	31 December 2016	31 December 2015
Order advances given	64.532	28.490
Insurance expenses	3.262	12.596
Other prepaid expenses	2.963	2.853
	70.757	43.939

NOTE 12 – INVESTMENT PROPERTIES

Cost	1 January - 31 December 2016	1 January - 31 December 2015
As of 1 January	71.731	57.691
Transfers (*)	6.916	-
Disposals	-	(568)
Translation difference	16.235	14.608
As of 31 December	94.882	71.731
Book value	94.882	71.731

According to the recent valuation reports, the fair value of the Group's investment properties is TRY 484.801 thousand (31 December 2015: TRY 174.782 thousand). The fair values of the investment properties have been determined in reference to the valuations of independent valuation firms authorized by the CMB of Turkey. The valuations are undertaken predominantly by using the precedent values of similar properties as references under market approach.

(*) In accordance with the decision taken at the board meeting dated 18 April 2016 regarding evaluation of lands of Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. on Kırıkkale, relavent lands are reclassed to investment properties.

The Group's all investment properties consist of land parcels.

For the year ended 31 December 2016, the Group generated rent income amounting to TRY 419 thousand (31 December 2015: TRY 377 thousand) recognized under other operating income.

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Machinery and equipment	Vehicles	Furniture and Fixtures	Other Property, Plant and Equipment	Construction in Progress (CIP)	Total
Cost									
Opening balance as of 1 January	173.843	2.418.629	3.815.068	16.107.877	958.465	474.272	155.854	560.468	24.664.476
Transfers to investment properties (***)	(6.916)	-	-	-	-	-	-	-	(6.916)
Translation difference	32.861	510.388	805.422	3.453.408	171.916	81.944	14.191	89.520	5.159.650
Additions (*)	-	795	2.368	93.568	7.873	11.607	10.998	353.994	481.203
Transfers from CIP (**)	2.757	61.808	34.802	419.298	3.957	3.990	20.053	(554.161)	(7.496)
Disposals	-	(92)	-	(33.207)	(1.748)	(2.258)	(835)	-	(38.140)
Closing balance as of 31 December 2016	202.545	2.991.528	4.657.660	20.040.944	1.140.463	569.555	200.261	449.821	30.252.777
Accumulated Depreciation									
Opening balance as of 1 January	-	(1.718.537)	(2.650.501)	(9.107.231)	(562.416)	(241.276)	(95.383)	(24.671)	(14.400.015)
Translation difference	-	(365.284)	(569.690)	(1.973.701)	(91.899)	(34.322)	(7.114)	(8.744)	(3.050.754)
Charge for the period	-	(59.477)	(83.516)	(430.766)	(30.636)	(20.796)	(14.507)	-	(639.698)
Impairment (****)	-	-	(3.916)	(11.285)	(811)	-	(1.617)	(21.429)	(39.058)
Disposals	-	50	-	24.304	1.735	2.016	615	-	28.720
Closing balance as of 31 December 2016	-	(2.143.248)	(3.307.623)	(11.498.679)	(684.027)	(294.378)	(118.006)	(54.844)	(18.100.805)
Net book value as of 31 December 2015	173.843	700.092	1.164.567	7.000.646	396.049	232.996	60.471	535.797	10.264.461
Net book value as of 31 December 2016	202.545	848.280	1.350.037	8.542.265	456.436	275.177	82.255	394.977	12.151.972

(*) The amount of capitalized borrowing cost is TRY 2.028 thousand for the current period (31 December 2015: TRY 388 thousand).

(**) TRY 7.496 thousand is transferred to intangible assets (Note 14).

(***) In accordance with the decision taken at the board meeting dated 18 April 2016 regarding evaluation of lands of Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. on Kırıkkale, relavent lands are reclassed to investment properties.

(****) The Group review the recoverable amount of fixed asset which is not able to generate cash flows independently. As a result of the review;

i. For non used assets, an impairment loss of TRY 19.223 thousand is recognised that on income statement under other operating expenses (Note 25) (31 December 2015: TRY (1.980) thousand);

ii. The Group's assets in Romania are considered as a separate cash-generating unit, and having been subjected to an impairment test TRY 19.835 thousand impairment was calculated for this cash-generating unit with regard to the recoverable amount calculated depending on the cash flows based on a discount rate of 9,10%. TRY 4.877 thousand of the calculated impairment loss was recognised in the revaluation reserve for tangible fixed assets on the other comprehensive income statement, and TRY 14.958 thousand was recorded in the other operating expenses account on the income statement (Note 25).

As of 31 December 2016, the Group has no collaterals or pledges upon its tangible assets (31 December 2015: None).

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT (cont'd)

Cost	Land	Land Improvements	Buildings	Machinery and equipment	Vehicles	Furniture and Fixtures	Other Property, Plant and Equipment	Construction in Progress (CIP)	Total
Opening balance as of 1 January	136.061	1.917.551	3.005.236	12.622.883	786.026	384.588	124.881	394.444	19.371.670
Translation difference	30.816	478.001	761.406	3.206.481	161.833	74.677	8.893	106.464	4.828.571
Additions	290	1.374	827	81.255	14.168	14.533	13.377	416.384	542.208
Transfers from CIP (*)	6.676	21.813	48.335	258.136	1.461	2.482	13.847	(356.824)	(4.074)
Disposals	-	(110)	(736)	(60.878)	(5.023)	(2.008)	(5.144)	-	(73.899)
Closing balance as of 31 December 2015	173.843	2.418.629	3.815.068	16.107.877	958.465	474.272	155.854	560.468	24.664.476
Accumulated Depreciation									
Opening balance as of 1 January	-	(1.331.471)	(2.052.408)	(6.995.000)	(459.676)	(197.737)	(83.129)	(19.676)	(11.139.097)
Translation difference	-	(336.009)	(523.730)	(1.784.145)	(80.044)	(27.913)	(5.021)	(4.995)	(2.761.857)
Charge for the period	-	(51.124)	(75.059)	(374.028)	(27.694)	(17.343)	(9.754)	-	(555.002)
Impairment	-	-	(17)	(1.963)	-	-	-	-	(1.980)
Disposals	-	67	713	47.905	4.998	1.717	2.521	-	57.921
Closing balance as of 31 December 2015	-	(1.718.537)	(2.650.501)	(9.107.231)	(562.416)	(241.276)	(95.383)	(24.671)	(14.400.015)
Net book value as of 31 December 2014	136.061	586.080	952.828	5.627.883	326.350	186.851	41.752	374.768	8.232.573
Net book value as of 31 December 2015	173.843	700.092	1.164.567	7.000.646	396.049	232.996	60.471	535.797	10.264.461

(*) TRY 4.074 thousand is transferred to intangible assets (Note 14).

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT (cont'd)

The breakdown of depreciation expenses related to property, plant and equipment is as follows:

	31 December 2016	31 December 2015
Associated with cost of production	609.576	529.213
General administrative expenses	8.397	6.846
Marketing, sales and distribution expenses	20.416	18.142
Research and development expenses	1.309	801
	639.698	555.002

NOTE 14 – INTANGIBLE ASSETS

	Rights	Other Intangible Assets	Total
Cost			
Opening balance as of 1 January	333.815	14.318	348.133
Translation difference	70.142	4.455	74.597
Additions	10.448	204	10.652
Transfers from CIP	5.968	1.528	7.496
Disposals	-	(941)	(941)
Net book value as of 31 December 2016	420.373	19.564	439.937
Accumulated amortization			
Opening balance as of 1 January	(163.510)	(11.758)	(175.268)
Translation difference	(34.932)	(4.269)	(39.201)
Charge for the period	(18.983)	(1.006)	(19.989)
Closing balance as of 31 December 2016	(217.425)	(17.033)	(234.458)
Net book value as of 31 December 2015	170.305	2.560	172.865
Net book value as of 31 December 2016	202.948	2.531	205.479

As of 31 December 2016, the Group has no collaterals or pledges upon its intangible assets (31 December 2015: None).

NOTE 14 – INTANGIBLE ASSETS (cont'd)

	Rights	Other Intangible Assets	Total
Cost			
Opening balance as of 1 January	252.514	9.717	262.231
Translation difference	62.283	3.983	66.266
Additions	14.944	618	15.562
Transfers from CIP	4.074	-	4.074
Closing balance as of 31 December 2015	333.815	14.318	348.133
Accumulated amortization			
Opening balance as of 1 January	(119.676)	(7.212)	(126.888)
Translation difference	(28.403)	(3.916)	(32.319)
Charge for the period	(15.431)	(630)	(16.061)
Closing balance as of 31 December 2015	(163.510)	(11.758)	(175.268)
Net book value as of 31 December 2014	132.838	2.505	135.343
Net book value as of 31 December 2015	170.305	2.560	172.865

The breakdown of amortization expenses related to intangible assets is as follows:

	31 December 2016	31 December 2015
Associated with cost of production	12.815	12.150
General administrative expenses	6.469	3.363
Marketing, sales and distribution expenses	629	548
Research and development expenses	76	-
	19.989	16.061

NOTE 15 – GOVERNMENT GRANTS AND INCENTIVES

These grants and incentives can be used by all companies, which meet the related legislative requirements and those grants have no sectoral differences:

- ✓ Incentives under the jurisdiction of the research and development law (100% corporate tax exemption etc.)
- ✓ Cash supoorts from Tübitak – Teydeb, in return for research and devolopment expenditures,
- ✓ Inward processing permission certificates,
- ✓ Social Security Institution incentives
- ✓ Insurance premium employer share incentive.

Research and development incentive premiums taken or certain to be taken amounts to TRY 801 thousand (31 December 2015: TRY 836 thousand) which are accounted under income statement for the year ended 31 December 2016.

NOTE 16 – EMPLOYEE BENEFITS

The Group's short term payables for employee benefits are as follows:

	31 December 2016	31 December 2015
Due to personnel	109.062	93.459
Social security premiums payable	59.662	26.241
	168.724	119.700

Long term provision of the employee termination benefits of the Group is as follows:

	31 December 2016	31 December 2015
Provisions for employee termination benefits	448.932	404.699
Provisions for seniority incentive premium	38.884	28.289
Provision for unpaid vacations	79.603	72.927
	567.419	505.915

According to the articles of Turkish Labor Law in force, there is an obligation to pay the legal employee termination benefits to each employee whose employment contracts are ended properly entitling them to receive employee termination benefits. Also, in accordance with the effective laws of the Social Insurance Act No: 506 No: 2422 on 6 March 1981 and No: 4447 on 25 August 1999 and with the amended Article 60 of the related Act, it is obliged to pay the employees their legal employee termination benefits, who are entitled to terminate.

As of 31 December 2016, the amount payable consists of one month's salary limited to a maximum of TRY 4.297,21 (31 December 2015: TRY 3.828,37). As of 1 January 2017, the employee termination benefit has been updated to a maximum of TRY 4.426,16.

The employee termination benefit legally is not subject to any funding requirement.

The employee termination benefit has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. TAS 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the Group's obligation under defined benefit plans. The obligation as of 31 December 2016 has been calculated by an independent actuary. The actuarial assumptions used in the calculation of the present value of the future probable obligation are as follows:

	31 December 2016	31 December 2015
Discount rate	11,00%	10,70%
Inflation rate	7,80%	7,75%
Salary increase	reel 1,5%	reel 1,5%
Maximum liability increase	7,80%	7,75%

NOTE 16 – EMPLOYEE BENEFITS (cont'd)

Discount rates are determined considering the expected duration of the retirement obligations and the currency in which the obligations will be paid. In calculations as of 31 December 2016, a fixed discount rate is used. Long term inflation estimates are made using an approach consistent with discount rate estimates and long term inflation rate fixed over years is used.

The anticipated rate of resignation which do not result in the payment of employee benefits is also considered in the calculation. The anticipated rate of resignation is assumed to be related with the past experience, therefore past experiences of employees are analyzed and considered in the calculation. In the actuarial calculation as of 31 December 2016, the anticipated rate of resignation is considered to be inversely proportional to the past experience. The anticipated rate of resignation is between 2%-0% for the employees with past experience between 0-15 years or over.

The movement of the provision for employee termination benefits is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Opening balance	404.699	393.478
Service cost	41.921	40.125
Interest cost	40.319	30.466
Actuarial loss/(gain)	(8.006)	(22.930)
Termination benefits paid	(30.965)	(36.709)
Translation difference	964	269
Closing balance	448.932	404.699

The sensitivity analysis of the assumptions which was used for the calculation of provision for employment termination benefits as of 31 December 2016 as follows:

Sensitivity level		
	Interest rate	
Rate	1% increase	1% decrease
Change in employee benefits liability	(37.577)	43.542
	Inflation rate	
Rate	1% increase	1% decrease
Change in employee benefits liability	44.489	(38.232)

NOTE 16 – EMPLOYEE BENEFITS (cont'd)

According to the current labor agreement, employees completing their 10th, 15th and 20th service years receive seniority incentive premium payments.

The movement of the provision for seniority incentive premium is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Opening balance	28.289	25.389
Service cost	4.315	3.970
Interest cost	3.069	2.229
Actuarial loss/(gain)	4.802	(1.743)
Termination benefits paid	(1.522)	(1.602)
Translation difference	(69)	46
Closing balance	38.884	28.289

The movement of the provision for unused vacation is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Opening balance	72.927	68.857
Provision for the period	60.847	54.151
Vacation paid during the period (-)	(4.214)	(5.102)
Provisions released (-)	(50.255)	(45.042)
Translation difference	298	63
Closing balance	79.603	72.927

NOTE 17 – PROVISIONS

The Group's short term provisions are as follows:

	31 December 2016	31 December 2015
Provision for lawsuits	105.448	88.280
Provision for termination fee of long term contract	-	218.070
Penalty prov. for employment shortage of disabled pers.	7.488	5.434
Provision for state right on mining activities	2.650	2.589
Provision for land occupation	16.602	122.634
Provision for the potential tax penalty	13.398	-
	145.586	437.007

NOTE 17 – PROVISIONS (cont'd)

The movement of the short term provisions is as follows:

	1 January 2016	Change for the period	Payments	Provision released	Translation difference	31 December 2016
Provision for lawsuits	88.280	32.203	(7.337)	(22.347)	14.649	105.448
Provision for termination fee of long term contract	218.070	-	(226.388)	-	8.318	-
Penalty prov. for employment shortage of disabled pers.	5.434	3.988	(630)	(1.379)	75	7.488
Provision for state right on mining activities	2.589	2.650	(2.589)	-	-	2.650
Provision for land occupation	122.634	17.069	(63.886)	(63.786)	4.571	16.602
Provision for the tax penalty	-	12.946	-	-	452	13.398
	437.007	68.856	(300.830)	(87.512)	28.065	145.586

	1 January 2015	Change for the period	Payments	Provision released	Translation difference	31 December 2015
Provision for lawsuits	102.234	32.865	(8.550)	(57.561)	19.292	88.280
Provision for termination fee of long term contract	-	203.903	-	-	14.167	218.070
Penalty prov. for employment shortage of disabled pers.	5.223	4.265	(3.192)	(1.032)	170	5.434
Provision for state right on mining activities	4.484	2.589	(3.598)	(886)	-	2.589
Provision for civil defence fund	10.099	-	-	(9.422)	(677)	-
Provision for land occupation	112.488	10.066	-	-	80	122.634
	234.528	253.688	(15.340)	(68.901)	33.032	437.007

NOTE 17 – PROVISIONS (cont'd)

Provision for lawsuits

As of 31 December 2016 and 31 December 2015, lawsuits filed by and against the Group are as follows:

	31 December 2016	31 December 2015
Lawsuits filed by the Group	526.308	474.468
Provision for lawsuits filed by the Group	64.076	54.849

The provisions for the lawsuits filed by the Group represents the doubtful trade receivables.

	31 December 2016	31 December 2015
Lawsuits filed against the Group	348.856	293.156
Provision for lawsuits filed against the Group	105.448	210.914

The Company, prepared its consolidated financial statements as of 31 March 2005, 30 June 2005 and 30 September 2005 according to CMB's Communiqué Serial XI No 25 on "Accounting Standards to be implemented in Capital Markets" which is not in effect today, whereas its consolidated financial statements of 31 December 2005 was prepared according to International Financial Reporting Standards by virtue of the Article 726 and Temporary Article 1 of the aforementioned Communiqué, and CMB's letter no. SPK.017/83-3483 dated 7 March 2006, sent to the Group Management. The aforementioned Communiqué (Serial XI No. 25 on the "Accounting Standards to be implemented in Capital Markets"), and Communiqués inserting some provisions thereto together with the Communiqués amending it, became effective starting with the consolidated financial statements of the first interim period ending after 1 January 2005.

CMB asked the Company to prepare its consolidated financial statements of 31 December 2005 all over again according to the same accounting standards set used during the period, to publish those statements, and to submit them to the General Assembly Approval as soon as possible, by stating on its decision no. 21/526 dated 5 May 2006 that the Company's changing the accounting standards set used during the term (Serial XI, No 25) at the end of the same term (IFRS) caused decrease amount of TRY 152.330 thousand on the period due to negative goodwill income.

The Company challenged the aforementioned decision before the 11th Administrative Court of Ankara (E. 2006/1396). This lawsuit was rejected on 29 March 2007, but the Company appealed this rejection on 11 October 2007. 13th Chamber of the Council of State rejected the appeal on 12 May 2010; however the Company also appealed this rejection on 2 September 2010. However, 13th Chamber of the Council of State also dismissed this appeal against rejection on 6 June 2012 with its decision No. E. 2010/4196, K. 2012/1499. This decision was notified to the Company's lawyers on 16 July 2012.

NOTE 17 – PROVISIONS (cont'd)

Provision for lawsuits (cont'd)

CMB, prepared the Company's consolidated financial statements as of 31 December 2005, which had been prepared according to the IFRS, by adding the negative goodwill of TRY 152.330 thousand, that had previously been added to the accumulated earnings, to the profit of 2005 on its own motion and account, and published them on Istanbul Stock Exchange Bulletin on 15 August 2006; with the rationale that the Company had not fulfilled its due demand on grounds that "Article 726 and Temporary Provision 1 of CMB's Communiqué Serial XI, No. 25 authorize the use of IFRS on consolidated financial statements of 2005, although CMB had given the Company a 'permission' No. SPK.0.17/83-3483 of 7 March 2006, and the lawsuits regarding this issue are still pending". The Company challenged CMB's aforementioned decision by a separate lawsuit on 10 October 2006. 11th Administrative Court of Ankara rejected this case on 25 June 2007. The Company appealed this rejection 11 October 2007; 13th Chamber of the Council of State, accepted the appeal request and abolished the rejection judgment. CMB appealed the Chamber's decision on 6 September 2010. 13th Chamber of the Council of State accepted CMB's appeal and reverted its previous abolishment decision, and ratified 11th Administrative Court of Ankara's judgment by the majority of the votes on 30 May 2012 with its decision no. E. 2010/4405; K. 2012/1352. This decision was notified to the Company's lawyers on 20 July 2012.

Had the Company started to prepare its consolidated financial statements in accordance with IFRS after 31 December 2005, it would also have to present the comparative consolidated financial statements in accordance with IFRS based on "IFRS 1: First-time adoption of International Financial Reporting Standards" and the previously recognized negative goodwill would be transferred directly to retained earnings on 1 January 2005 instead of recognizing in the consolidated income statement in accordance with "IFRS 3: Business Combinations". Therefore, the net profit for the periods ended 31 December 2016 and 31 December 2015 will not be affected from the above mentioned disputes.

Company's Shareholders' General Assembly, which was held at 30 March 2006, decided dividend distribution according to the consolidated financial statements as of 31 December 2005, which was prepared according to IFRS. Privatization Administration, who has a usufruct right over 1 (one) equity share among the Company shares it transferred to Ataer Holding A.Ş., filed a lawsuit at 1 May 2006 the 3th Commercial Court of Ankara against the aforementioned General Assembly decision, and claimed that, dividend distribution decision must be abolished and TRY 35.673 thousand allegedly unpaid dividend must be paid to itself (E. 2006/218). The Court rejected the case on 23 October 2008; Privatization Administration appealed this rejection on 7 January 2009. Court of Appeals' 11th Chamber reversed this rejection judgment on 30 November 2010; this time the Company appealed the Chamber's decision on 18 February 2011. However, the Chamber rejected the Company's appeal on 14 July 2011. The case file, sent back to 3th Commercial Court of Ankara once again. The case was dismissed at the hearing held on 26 June 2015. The case is at the stage of appeal.

The Company, based on the above mentioned reasons, doesn't expect for the possible effects of changes in the net profit for the year ended 31 December 2005 due to the lawsuits mentioned above to have any impact in the accompanying consolidated financial statements as of 31 December 2016 and 31 December 2015.

Enerjia Metal Maden Sanayi ve Ticaret A.Ş. initiated a debt collection proceeding that might end with a bankruptcy judgment against the Company based on the Export Protocol No. 69187 of 2 July 2009 and "Additional Terms to the Erdemir-Enerjia Export Protocol No. 68197" drafted by and between Enerjia and the Company. However the process stopped upon the Company's objection to Enerjia's request, and that led Enerjia to file a lawsuit against the Company before the 7th Commercial Court of Ankara on 27 March 2010 claiming that the objection should be overruled and USD 68.312.520 should be paid to itself (E. 2010/259). The Court dismissed the case, in favor of the Company, on 23 June 2011.

NOTE 17 – PROVISIONS (cont'd)

Provision for lawsuits (cont'd)

Enerjia appealed this rejection. 23rd Chamber of the Court of Appeals accepted this rejection on 6 April 2012 (E. 2011/2915, K.2012/2675) and after this, the case file was sent back to the 7th Commercial Court of Ankara and received case file number E. 2013/17. The case file was sent to the 4th Commercial Court of Ankara due to the case shall seen by delegation according to the regulatory framework regarding the commercial courts. The Court has dismissed the case at the hearing held on 9 September 2015. The case is at the stage of appeal. No possible material cash outflow expected according to the evaluations of Company management and expert's reports, as a result no provision recognised on financial statements for related lawsuit.

An action of debt was instituted by Bor-San Isı Sistemleri Üretim ve Pazarlama A.Ş. against our company at the 3rd Civil Court of Kdz. Ereğli on 17 April 2013 under file no 2013/253 Esas claiming for the compensation of the loss arising from the sales contract of TRY 18 thousand, reserving the rights for surplus. The Company was informed from the amendment petition, that the plaintiff pleaded from the court to raise the claim to TRY 10.838 thousand as assessed by the expert opinion submitted to the court. The Company contested to the expert opinion and the amendment petition within the statutory period. The court has given the judgment of dismissal on 11 March 2014. The plaintiff, Bor-San Isı Sistemleri Üretim ve Pazarlama A.Ş. has appealed against the judgment. Upon the reversal of judgment, the Company appealed the decision of Supreme Court of Appeal. The rejection decision of Supreme Court of Appeal has been notified to the Company on 28 January 2015. The case ongoing with the Kdz. Ereğli Civil Court of First Instance 3rd has dismissed at the hearing held on 9 September 2015. Court of Appeals' 19th Chamber dismissed the appellate request of Bor-San Isı Sistemleri Üretim ve Pazarlama A.Ş. and accepted the appellate request of the Company in terms of retainer fee. Revision of the decision has been demanded by Bor-San Isı Sistemleri Üretim ve Pazarlama A.Ş. against the decision of Court of Appeals' 19th Chamber. The case is at the stage of revision of decision at the Supreme Court.

Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.) located at Illinois state of United States of America and the Company executed a contract in 2008. The company fulfilled all its performances arisen from this contract in January and February in 2009.
Corus International Trading Ltd. Co. sold to third parties the products supplied from our company but thereafter alleged that they directed claim to some compensation and that these claims must be covered by Erdemir. Parties could not reach an exact agreement about this matter and then Corus International Trading Ltd. Co filed an action for compensation at amount of USD 4.800 thousand together with accessory against the Company in Illinois State District Court of USA. It is learnt through a notified made to the Company on 21 July 2010. After the subject case is dismissed by the court from jurisdiction aspect; this time a lawsuit is re-filed by Tata Steel International (North America) Ltd.) in Texas State District Court. This case is also dismissed by the court from jurisdiction aspect.

It is learnt through a notified made to the Company on 31 October 2012 that Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.) filed an action for compensation at amount of USD 4.800 thousand together with accessory against the Company before Ankara 14th Commercial Court of First Instance. As a result of adjudication made; the court adjudged to dismiss the case on procedural grounds because of non-competence and to send the file to commissioned and competent Karadeniz Ereğli Commercial Court of First Instance in Duty when the judgment becomes definite and in case of request. The case still continues on file no. 2013/63 in Karadeniz Ereğli 2nd Civil Court of First Instance. Date of next hearing of the case is 13 April 2017.

NOTE 17 – PROVISIONS (cont'd)

Provision for termination fee of long term contract

The Company signed fixed rate freight contract on 11 August 2008 for the 2008-2022 period with third parties considering the fact that fixed-price overseas transportation of iron ore supplies with capesize vessels shall be more favorable under current market conditions.

The Company has evaluated the extraordinary decrease in freight prices resulted from decrease in iron ore and oil prices started in 2014 and continued in 2015, started negotiations with the service provider in the last quarter of 2015 regarding the termination of fixed price long-term freight contract, which is in force.

The parties reached an final agreement on 24 February 2016 on termination of the aforementioned agreement with USD 75.000 thousand fee and signing of a new freight contract.

Despite the termination process of finalizing the protocol signed in the period after the reporting date as described above, The Company has considered the termination cost as constructive obligation since the Management has taken a decision towards termination process related to the contract as of December 31, 2015 as well as an expectation is also formed by the supplier regarding the termination of aforementioned agreement and cash flows can be estimated in a trustable manner as of December 31, 2015 even if the termination process is concluded with the protocol after 31 December 2015. As a result, the payment of TRY 218.070 thousand (equivalent to USD 75.000 thousand) provision recognised under statement of financial position was completed equivalent to TRY 226.388 thousand (equivalent to USD 75.000 thousand).

Provision for state right on mining activities

According to "Mining Law" numbered 3213 and regulation on "Mining Law Enforcement"published in the Official Gazette, numbered 25716 on 3 February 2005, the Group is obliged to pay state right on mining activities based on the sales.

Land occupation

There is a total of 1.976.359,17 square meters of land property within the Erdemir factory area of The Group consisting of 1.149.640,88 square meters of 6 title deeds being the property of the treasury and 826.718,29 square meters of land being within the provision and possession of the state. General Communique of National Estate with the series number 336 lays down the methods and principles of designation, estimation and collection of land occupation to be undertaken by the administration in respect of the land properties within the private possession of the treasury. In accordance with the communique, the land occupation is going to be designated and estimated by the relevant value designation commission with the condition of not being less than 3 % of the minimum value which is the basis for the property tax of the land property.

NOTE 17 – PROVISIONS (cont'd)

Land occupation (cont'd)

The company filed a case in Zonguldak Tax Court on the date 23 May 2012 on the grounds that it is against the law that the property tax value that had been determined by Karadeniz Ereğli Municipality in the year 2009 in respect of the whole of the factory area had been calculated over the market value that had been designated for Uzunkum Street that is used only as a postal address; that it is required to undertake a separate value designation for the property tax of the immovable properties within the factory area; that the property tax should be designated over different tax values for the factory areas that are located within a certain region independent from the streets and by-lanes of the county and that are different in terms of their values. The court ruled on the date 5th June 2013 that there are no legal grounds for taking the market value for Uzunkum Street as the basis for designating the tax value for the whole factory. As for the land occupation to be deposited, during the court case and after in respect of the designation of the new property tax market values and in respect of dividing the factory area depending on different tax zones the company had recognised TRY 122.634 thousand provision (USD 42.177 thousand) as against the case for the period between 1st July 2011 and 31st December 2015 over the minimum values on the basis of current property tax values of the relevant dates.

The company had been served on the date 9th March 2016 with the notifications for land occupation with an amount of TRY 93.156 thousand. In accordance with the provisions of the 11th article of the General Communique of National Estate with the series number 336, under circumstances where no objection had been raised against the deposits of land occupation payment and under circumstances where there is an cash payment; there is a right to make use of a discount to the rate of a total 35 %. As a result, with reference to the said provision, the method of cash payment without raising an objection had been decided upon by the administration of the company and TRY 63.512 thousand (equivalent to USD 21.041 thousand) had been paid to Karadeniz Ereğli District Fiscal Office. TRY 61.981 thousand (equivalent to USD 21.132 thousand) provision for land occupation released under operating income (Note 25).

In current period, amounting to TRY 16.602 thousand land occupation provision recognised on balance sheet, considering property fair values presented land occupation notifications issued March 2016 and yearly probable increases.

Tax Penalty Provision

Tax audit was carried out by Tax Audit Board for one of the Group's subsidiaries, Erdemir Madencilik San. ve Tic. A.Ş. for the accounting period 2011-2014. As a result of the audit, tax and tax penalty assessments were made for the year 2011. With regard to all tax and tax penalties assessed, necessary applications were made in order to restructure them within the scope of Law No. 6736 on Restructuring of Public Debts, and, amounting to TRY 7.168 thousand provision was recognised in financial statements for the amount to be paid as estimated tax and default interest.

As a result of the comprehensive corporate tax audit carried out by the relevant tax administration for the period 2009-2014 for one of the Group's subsidiaries, Erdemir Romania SRL in Romania, a total payment of TRY 6.230 thousand (RON 7.579 thousand) was notified for all tax and tax penalties. Provision was recognised for the amount to be paid in the accompanying financial statements.

NOTE 18 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	31 December 2016	31 December 2015
Letters of guarantees received	1.797.646	1.514.383
	1.797.646	1.514.383

The Collaterals, Pledges and Mortgages (CPM) given by the Group are as follows:

	31 December 2016	31 December 2015
A. Total CPM given for the Company's own legal entity	112.584	105.891
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	625.603	787.106
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	-	-
D. Other CPM given	-	-
i. Total CPM given in favour of parent entity	-	-
ii. Total CPM given in favour of other Group companies out of the scope of clause B and C	-	-
iii. Total CPM given in favour of other 3rd parties out of the scope of clause C	-	-
	738.187	892.997

As of 31 December 2016, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2015: 0%). Total CPM given in favor of subsidiaries consolidated on line-by-line basis amounting to TRY 625.603 thousand has been given as collateral for financial liabilities explained in Note 7.

The breakdown of the Group's collaterals given regarding service purchases according to their TRY equavalents of foreign currency is as follows:

	31 December 2016	31 December 2015
US Dollars	472.815	514.969
TRY	109.989	140.257
EURO	135.753	206.288
Japanese Yen	19.630	31.483
	738.187	892.997

NOTE 19 – OTHER ASSETS AND LIABILITIES

As of the balance sheet date, the details of the Group's other assets and liabilities are as follows:

Other current assets

	31 December 2016	31 December 2015
Other VAT receivable	68.156	51.684
Deferred VAT	8.815	33.417
Prepaid taxes and funds	2.013	1.575
Other current assets	16.675	8.809
	95.659	95.485

Other non-current assets

	31 December 2016	31 December 2015
Other VAT receivable	10.856	-
	10.856	-

Other current liabilities

	31 December 2016	31 December 2015
VAT payable	64.382	36.003
Other current liabilities	7.758	4.647
	72.140	40.650

Other non-current liabilities

	31 December 2016	31 December 2015
Other non-current liabilities	479	442
	479	442

NOTE 20 – DEFERRED REVENUE

As of the balance sheet date, the details of the Group's short term deferred revenue are as follows:

	31 December 2016	31 December 2015
Advances received	99.215	87.937
Deferred income	7.138	5.440
	106.353	93.377

NOTE 21 – EQUITY

As of 31 December 2016 and 31 December 2015, the capital structure is as follows:

Shareholders	(%)	31 December 2016	(%)	31 December 2015
Ataer Holding A.Ş.	49,29	1.724.982	49,29	1.724.982
Quoted in Stock Exchange	47,63	1.667.181	47,63	1.667.181
Erdemir's own shares	3,08	107.837	3,08	107.837
Historical capital	100,00	3.500.000	100,00	3.500.000
Effect of inflation		156.613		156.613
Restated capital		3.656.613		3.656.613
Treasury shares		(116.232)		(116.232)
		3.540.381		3.540.381

The Company is subject to registered capital limit. The board of directors may, at any time it may think necessary, increase the capital by means of issuing bearer shares each with a nominal value of 1 Kr (one Kurus) up to the amount of the registered capital, which is TRY 7.000.000.000 in accordance with the requirements as set forth herein.

The issued capital of the Company in 2016 consists of 350.000.000.000 lots of shares (31 December 2015: 350.000.000.000 lots). The nominal value of each share is 1 Kr (Turkish cent) (31 December 2015: 1 Kr). This capital is split between A and B group shares. Group A shares consist of 1 share with a share value of 1 Kr and Group B shares consist of 3.499.999.999,99 shares representing TRY 349.999.999.999 of the issued capital.

The Board of Directors consists of 9 members, 3 of which are independent. The number and qualifications of independent members are ascertained in compliance with the CMB's Communique numbered II-17,1 on Corporate Governance Principles.

The General Assembly has to choose one member to the Board of Directors from the nominees of the Privatization Administration as the beneficiary owner representing A Group shares. In case, the Board member representing the A Group shares leaves the board within the chosen period, a new board member is obliged to be chosen from the nominees of the Privatization Administration as the beneficiary owner. For decisions to be taken about the rights assigned to A Group shares, the board member representing A Group shares is also obliged to use an affirmative vote. The decisions to change the Articles of Association of the Company that will have an effect on the board of directors' meeting and decision quorum, rights assigned to A Group shares, rights assigned to A Group shares in relation to investments and employment decisions and any other changes in the Articles of Association of the Company which will directly or indirectly affect the rights of A Group shares, have to receive an affirmative vote of the beneficiary owner representing the A Group shares. Otherwise, the decisions are accepted as invalid.

NOTE 21 – EQUITY (cont'd)

Article IV-K of Articles of Association "According to Turkish Commercial Code Article 329, transactions of an entity's own shares" Erdemir, as of 31 December 2016, holds its own shares with a nominal value of TRY 107.837 thousand (31 December 2015: TRY 107.837 thousand). Erdemir's own shares have been reclassified with its inflation adjusted value in the consolidated balance sheet as a deduction under equity.

Other equity items	31 December 2016	31 December 2015
Share premium	106.447	106.447
Revaluation reserves of tangible assets	29.437	27.215
-Revaluation reserves of tangible assets	*29.437*	*27.215*
Cash Flow Hedging Reserves	8.013	(2.192)
Foreign currency translation reserves	6.522.205	4.012.449
Actuarial (loss)/ gain fund	(101.527)	(107.795)
Restricted reserves assorted from profit	1.166.197	950.831
-Legal reserves	*1.166.197*	*950.831*
Retained earnings	2.420.078	2.527.180
-Extraordinary reserves	*727.814*	*781.469*
-Accumulated profit	*934.237*	*987.684*
-Statutory reserves	*758.027*	*758.027*
	10.150.850	7.514.135

However, in accordance with the communiqué numbered II-14,1 "Communiqué on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") on 13 June 2013 which is published on Official Gazette numbered 28676, "Paid-in capital", "Restricted profit reserves" and "Share premium" should be presented by using their registered amounts in the statutory records. The restatement differences (e.g. inflation restatement differences) arising from the application of this Communiqué should be associated with the:

- "Capital restatement differences" account, following the "paid-in capital" line item in the financial statements, if the differences are caused by "paid-in capital" and have not been added to capital yet;
- "Retained earnings", if the differences are arising from "restricted profit reserves" and "share premium" and have not been associated with either profit distribution or capital increase yet.

Other equity items are carried at the amounts that are valued based on the CMB's Financial Reporting Standards.

Capital restatement differences may only be considered as part of the paid-up capital.

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

NOTE 21 – EQUITY (cont'd)

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 for the publicly-held subsidiaries. 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 installments 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.

Inflation adjustments to issued capital and historical amount of extraordinary reserves can be used as an internal source of capital increase, dividend distribution in cash or the net off from prior period losses. In case of usage of inflation adjustment to issued capital in dividend distribution in cash, it is subject to corporation tax.

Other sources which might be used in dividend distribution, except the net profit for the period, in statutory books of the Company are equal to TRY 375.632 thousand as of 31 December 2016 (31 December 2015: TRY 596.363 thousand).

The legal reserves and the share premium, which is regarded as legal reserve in accordance with TCC Article 466, are presented using their amounts in statutory records. In this context, the difference of inflation restatements in accordance with IFRS framework, that are not subject to profit distribution or capital increase as of the date of financial statements, is associated with the retained earnings.

According to the first paragraph of Article 519 numbered 6102 of the Turkish Commercial Code ("TCC"), 5% of the profit shall be allocated as the first legal reserves, up to 20% of the paid/ issued capital. First dividend is appropriated for shareholders after deducting from the profit. Following the deduction of the amounts from the "profit", General Assembly of Shareholders is authorized to decide whether shall be the remaining balance shall be fully or totally placed in extraordinary legal reserves or whether it is distributed, also taking into consideration the Company's profit distribution policy. According to the sub-clause 3 of the clause 2 of Article 519 of the Turkish Commercial Code, after deducting dividends amounting to 5% of the paid/issued capital from the part decided to be allocated; ten percent of the remaining balance shall be appropriated to second legal reserves. If it is decided to distribute the profit as bonus share, through the method of adding the profit to the capital, second legal reserves is not appropriated.

According to the CMB Communiqué, until the company's Article of Association was revised on 31 March 2008, an amount equal to the first dividend distributed to shareholders is allocated as status reserves in order to be used in the plant expansion. Also according to the 13th Article of Association before the revision on 31 March 2008, 5% of the net profit for the period after taxation is estimated to be allocated as legal reserves up until reaching 50% of the paid/issued capital. The reserve amount that exceeds the 20% of the legal reserves, defined by the Article 519 of TCC, is recorded as status reserve. Company's Shareholders' General Assembly, which was held at 30 March 2012, decided status reserves can be used as an internal source of capital increase and profit sharing.

NOTE 21 – EQUITY (cont'd)

Cash flow hedging reserve arises from the recognition of the changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows directly in equity. The amounts deferred in equity are recognized in the consolidated statement of income in the same period, if the hedged item affects profit or loss.

Revaluation reserve of property, plant and equipment arises from the revaluation of land and buildings. In the case of a sale or retirement of the revalued property, the related revaluation surplus remaining in the properties revaluation reserve is transferred directly to the retained earnings.

The amendment in IAS-19 "Employee Benefits" does not permit the actuarial gain /loss considered in the calculation of provision for employee termination benefits to be accounted for under the statement of income. The gains and losses arising from the changes in the actuarial assumption have been accounted for by "Actuarial (Loss)/Gain Funds" under the equity. The funds for actuarial gains/ (losses) in the employee termination benefits is not in a position to be reclassified under profit and loss.

As it stated in Note 2.1, foreign currency translation reserve arises from expressing the assets and liabilities of the Group's foreign operations in reporting currency TRY by using exchange rates prevailing on the balance sheet date. Exchange differences arising, if any, are recognized under translation reserve in equity.

NOTE 22 – SALES AND COST OF SALES

	1 January - 31 December 2016	1 January - 31 December 2015
Sales Revenue		
Domestic sales	9.936.330	10.592.118
Export sales	1.552.114	1.159.922
Other revenues (*)	177.491	198.004
Sales returns (-)	(18.506)	(27.678)
Sales discounts (-)	(10.925)	(7.785)
	11.636.504	11.914.581
Cost of sales (-)	(9.166.325)	(9.854.290)
Gross profit	2.470.179	2.060.291

(*)The total amount of by product exports in other revenues is TRY 8.010 thousand (31 December 2015: TRY 23.409 thousand).

NOTE 22 – SALES AND COST OF SALES (cont'd)

The breakdown of cost of sales for the periods 1 January – 31 December 2016 and 1 January – 31 December 2015 is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Raw material usage	(5.916.857)	(6.894.340)
Personnel costs	(1.299.385)	(1.212.635)
Energy costs	(744.573)	(698.858)
Depreciation and amortization expenses	(620.483)	(531.742)
Factory overheads	(335.818)	(290.866)
Other cost of goods sold	(52.864)	(65.500)
Non-operating costs (*)	(19.392)	(26.147)
Freight costs for sales delivered to customers	(145.532)	(87.211)
Inventory write-downs within the period (Note 10)	(39.576)	(39.092)
Reversal of inventory write-downs (Note 10)	35.305	12.256
Other	(27.150)	(20.155)
	(9.166.325)	(9.854.290)

(*) Due to the planned/ unplanned halt production of plant of the Group's, operations were suspended temporarily in the current period. As a result of this, unallocated overheads, TRY (19.392) thousand, has been accounted directly under cost of sales (31 December 2015: TRY (26.147) thousand).

NOTE 23 – RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

The breakdown of marketing, sales and distribution expenses according to their nature for the periods 1 January – 31 December 2016 and 1 January – 31 December 2015 is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Marketing, sales and distribution expenses (-)	(141.215)	(131.002)
General administrative expenses (-)	(288.275)	(284.738)
Research and development expenses (-)	(11.088)	(9.240)
	(440.578)	(424.980)

NOTE 24 – OPERATING EXPENSES ACCORDING TO THEIR NATURE

The breakdown of marketing, sales and distribution expenses according to their nature for the periods 1 January – 31 December 2016 and 1 January – 31 December 2015 is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Personnel expenses (-)	(75.697)	(71.000)
Depreciation and amortization(-)	(21.045)	(18.690)
Service expenses (-)	(44.473)	(41.312)
	(141.215)	(131.002)

The breakdown of general administrative expenses for the periods 1 January – 31 December 2016 and 1 January – 31 December 2015 is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Personnel expenses (-)	(158.976)	(150.128)
Depreciation and amortization (-)	(14.866)	(10.209)
Service expenses (-)	(103.477)	(105.430)
Tax, duty and charges (-)	(7.262)	(7.237)
Provision for doubtful receivables (-)	(3.694)	(11.734)
	(288.275)	(284.738)

The breakdown of research and development expenses for the periods 1 January – 31 December 2016 and 1 January – 31 December 2015 is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Personnel expenses (-)	(7.575)	(6.322)
Depreciation and amortization (-)	(1.385)	(801)
Other (-)	(2.128)	(2.117)
	(11.088)	(9.240)

NOTE 25 – OTHER OPERATING INCOME/(EXPENSES)

The breakdown of other operating income for the periods 1 January – 31 December 2016 and 1 January – 31 December 2015 is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Other operating income		
Provisions released for land occupation (Note 17)	63.786	-
Interest income from sales with maturities	60.210	64.821
Discount income	6.281	16.283
Provisions released	23.726	68.015
Service income	14.017	21.328
Maintenance repair and rent income	10.723	13.676
Warehouse income	4.548	4.191
Indemnity and penalty detention income	2.301	2.151
Insurance indemnity income	7.046	13.747
Gain on sale of tangible assets	683	989
Gain on sale of ivestment properties	-	45.767
Other income and gains	29.993	24.440
	223.314	275.408

The breakdown of other operating expenses for the periods 1 January – 31 December 2016 and 1 January – 31 December 2015 is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Other operating expenses (-)		
Provision expenses	(49.137)	(37.131)
Discount expenses	(6.852)	(22.961)
Provision for termination fee of long term contract (Note 17)	-	(203.903)
Lawsuit compensation expenses	(5.515)	(3.576)
Port facility pre-licence expenses	(5.399)	(7.235)
Donation expenses	(3.329)	(2.091)
Service expenses	(5.531)	(3.297)
Loss on disposal of tangible assets	(3.617)	(3.659)
Stock exchange registration expenses	(1.077)	(1.018)
Rent expenses	(1.516)	(1.803)
Penalty expenses	(2.741)	(2.764)
Impairment of property, plant and equipment (Note 13)	(34.181)	(1.980)
Other expenses and losses	(31.349)	(28.498)
	(150.244)	(319.916)

NOTE 26 – FINANCE INCOME

The breakdown of finance income for the periods 1 January – 31 December 2016 and 1 January – 31 December 2015 is as follows:

Financial incomes	1 January - 31 December 2016	1 January - 31 December 2015
Interest income on bank deposits	123.634	86.276
Foreign exchange gains (net)	232.928	335.431
	356.562	421.707

NOTE 27 – FINANCE EXPENSES

The breakdown of finance expenses for the periods 1 January – 31 December 2016 and 1 January – 31 December 2015 is as follows:

Financial expenses (-)	1 January - 31 December 2016	1 January - 31 December 2015
Interest expenses on borrowings	(104.548)	(122.551)
Interest cost of employee benefits	(43.388)	(32.695)
Fair value differences of derivative financial instruments (net)	(37.228)	(33.369)
Other financial expenses	(2.641)	(2.529)
	(187.805)	(191.144)

During the period, the interest expenses of TRY 2.028 thousand have been capitalized as part of the Group's property, plant and equipment (31 December 2015: TRY 388 thousand).

NOTE 28 – TAX ASSETS AND LIABILITIES

	31 December 2016	31 December 2015
Corporate tax payable:		
Current corporate tax provision	530.673	472.407
Prepaid taxes and funds (-)	(75.049)	(254.638)
	455.624	217.769

	1 January - 31 December 2016	1 January - 31 December 2015
Taxation:		
Current corporate tax expense	530.673	472.407
Deferred tax (income) / expense	169.053	186.650
	699.726	659.057

NOTE 28 – TAX ASSETS AND LIABILITIES (cont'd)

Corporate tax

The Group, except its subsidiaries in Romania and Singapore, is subject to Turkish corporate taxes in force. The necessary provisions are allocated in the consolidated financial statements for the estimated liabilities based on the Group's results for the year. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the consolidated financial statements, have been calculated on a separate-entity basis.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective corporate tax rate in Turkey is 20%, 16% in Romania and 17% in Singapore as of 31 December 2016 (31 December 2015: in Turkey 20%, in Romania 16%, in Singapore 17%). The total amount of the corporate tax paid by the Group in 2016 is TRY 292.818 thousand (31 December 2015: TRY 384.346 thousand).

In Turkey, advance tax returns are filed on a quarterly basis. The temporary tax of 2016 has been calculated over the corporate earnings using the rate 20%, during the temporary taxation period. (31 December 2015: 20%).

Losses can be carried forward to offset the future taxable income for up to maximum 5 years (Romania: 7 years). However, losses cannot be carried back to offset the profits of the previous periods, retrospectively.

In Turkey, a definite and distinct reconciliation procedure for tax assessment does not exist. Companies file their tax returns between 1April - 25 April following the closing period of the related year's accounts. Tax returns and related accounting records may be examined and revised within five years.

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes on dividends distributed, except for the dividends distributed to fully fledged taxpayer companies receiving and declaring these dividends and to Turkish branches of foreign companies. The rate of income withholding tax applied to all companies in the period of 24 April 2003 - 22 July 2006 is 10%. This rate was changed to 15% as of 22 July 2006 by the decision of the Council of Ministers, numbered 2006/10731. Undistributed dividends incorporated in share capital are not subject to the income withholding taxes.

19,8% withholding tax must be applied to the investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Investment disbursements without any investment incentive certificate after this date which are directly related to production facilities of the company can be deducted by 40% from the taxable income. The investments without investment incentive certificates do not qualify for tax allowance.

NOTE 28 – TAX ASSETS AND LIABILITIES (cont'd)

Investment allowance application

With the decision numbered 2006/95, which was taken during the meeting of the Constitutional Court on 15 October 2009, the phrase "only related to the years 2006, 2007 and 2008…" which was a part of the Temporary Article 69 of the Income Tax Law was cancelled and the cancellation became effective from the date the decision has been published in the Official Gazette on 8 January 2010. According to the decision, the investment incentive amount outstanding that cannot be deducted from 2008 taxable income previously, will be deducted from taxable income of the subsequent profitable years.

Regarding the cancellation decision taken by the Constitutional Court, an amendment was made in the 69th article in Income Tax Regulation using the regulation numbered 6009 and dated 23 July 2010. Consequently, in compliance with the cancellation decision of the Constitutional Court, the year limitation has been abolished and investment allowance has been limited to 25% of the profit. As limitation of investment allowance to 25% of the profit by regulation numbered 6009 is found to be contrary to law by the Constitutional Court, the Constitutional Court cancelled the regulation and stayed an execution. Corporate tax ratio of 30% in the previous regulation for the ones who benefit from investment allowance has been decreased to the effective corporate tax with the amendment made (31 December 2015: 20%).

Deferred tax

The Group recognizes deferred tax assets and liabilities based upon the temporary differences arising between its taxable statutory financial statements and its financial statements prepared in accordance with the CMB's Communiqué on Accounting Standards. These differences usually result in the recognition of revenue and expenses in different reporting periods for the CMB regulations and tax purposes.

Tax rate used in the calculation of deferred tax assets and liabilities (excluding land) are 20% for the subsidiaries in Turkey, 17% for the subsidiary in Singapore and 16% for the subsidiary in Romania (31 December 2015: in Turkey 20%, in Romania 16%, in Singapore 17%). Deferred tax related with the temporary differences arising from land parcels is calculated with the tax rate of 5% (31 December 2015: 5%).

As the companies in Turkey cannot give a consolidated corporate tax declaration, subsidiaries that have deferred tax assets are not netted off with subsidiaries that have deferred tax liabilities and disclosed separately.

NOTE 28 – TAX ASSETS AND LIABILITIES (cont'd)

	31 December 2016	31 December 2015
Deferred tax assets:		
Carry forward tax losses	2.017	2.316
Provisions for employee benefits	113.400	101.179
Investment incentive	7.760	10.532
Provision for lawsuits	21.089	42.183
Provision for termination fee of long term contract	-	43.614
Inventories	12.683	7.491
Provision for other doubtful receivables	14.047	13.479
Tangible and intangible assets	15.819	11.227
Other	40.313	29.857
	227.128	261.878
Deferred tax liabilities:		
Tangible and intangible assets	(1.667.791)	(1.250.788)
Fair values of the derivative financial instruments	(10.267)	(9.232)
Amortized cost adjustment on loans	(1.930)	(3.472)
Inventories	(80.088)	(17.625)
Other	(9.841)	(5.756)
	(1.769.917)	(1.286.873)
	(1.542.789)	(1.024.995)

In the financial statements which are prepared according to the TAS, of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its affiliates that are separate taxpayer entities, the net deferred tax assets and liabilities of the related companies are classified separately within the accounts of deferred tax assets and liabilities of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its subsidiaries' consolidated financial statements. The temporary differences disclosed above besides the deferred tax asset and liabilities, have been prepared on the basis of the gross values and show the net deferred tax position.

Presentation of deferred tax assets/(liabilities):

	31 December 2016	31 December 2015
Deferred tax assets	34.243	23.807
Deferred tax (liabilities)	(1.577.032)	(1.048.802)
	(1.542.789)	(1.024.995)

NOTE 28 – TAX ASSETS AND LIABILITIES (cont'd)

Maturities of carry forward tax losses are as follows:

	Carry forward tax losses		Deferred tax assets	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
1 year	-	-	-	-
2 year	12.606	-	12.606	-
3 year	-	14.475	-	14.475
4 year	-	-	-	-
5 year	-	-	-	-
	12.606	14.475	12.606	14.475

	1 January - 31 December 2016	1 January - 31 December 2015
Opening balance	(1.024.995)	(626.229)
Deferred tax (expense)/income	(169.053)	(186.650)
The amount in comprehensive (expense)/income	(4.209)	(2.170)
Translation difference	(344.532)	(209.946)
Closing balance	(1.542.789)	(1.024.995)

Reconciliation of tax provision is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Profit before tax	2.271.428	1.821.366
Statutory tax rate	20%	20%
Calculated tax expense acc. to effective tax rate	454.286	364.273
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	2.890	2.777
- Effect of currency translation to non taxable assets	14.337	(7.906)
- Investment incentives	2.772	(10.532)
- Effect of non-taxable adjustments	1.064	2.583
- Effect of exchange difference arising from deferred tax bases	224.495	308.159
- Effect of the different tax rates due to foreign subsidiaries	(118)	(297)
Total tax exp. in reported in the consolidate stat. of income	699.726	659.057

NOTE 28 – TAX ASSETS AND LIABILITIES (cont'd)

As of 1 January – 31 December 2016 and 2015, the details of the tax gains/(losses) of the other comprehensive income/(expense) are as follows:

	1 January -31 December 2016		
Other comprehensive income/(loss) in the current period	Amount before tax	Tax income/ (expense)	Amount after tax
Change in revaluation reserves of fixed assets	2.521	-	2.521
Change in actuarial (loss)/gain	8.006	(1.601)	6.405
Change in cash flow hedging reserves	13.040	(2.608)	10.432
Change in foreign currency translation reserves	2.580.095	-	2.580.095
	2.603.662	(4.209)	2.599.453

	1 January -31 December 2015		
Other comprehensive income/(loss) in the current period	Amount before tax	Tax income/ (expense)	Amount after tax
Change in revaluation reserves of fixed assets	3.064	-	3.064
Change in actuarial (loss)/gain	22.930	(4.586)	18.344
Change in cash flow hedging reserves	(12.078)	2.416	(9.662)
Change in foreign currency translation reserves	2.462.935	-	2.462.935
	2.476.851	(2.170)	2.474.681

NOTE 29 – EARNINGS PER SHARE

	1 January - 31 December 2016	1 January- 31 December 2015
Number of shares outstanding	350.000.000.000	350.000.000.000
Net profit attributable to equity holders - TRY thousand	1.516.438	1.125.913
Profit per share with 1 TRY nominal value TRY %	0,4333 / %43,33	0,3217 / %32,17

NOTE 30 – RELATED PARTY DISCLOSURES

The immediate parent and ultimate controlling parent of the Group are Ataer Holding A.Ş. and Ordu Yardımlaşma Kurumu respectively (Note 1).

The transactions between the Group and its subsidiaries, which are related parties of the Group, have been eliminated in the consolidation and therefore are not disclosed in this note.

The details of transactions between the Group and other related parties are disclosed below:

Due from related parties (short term)	31 December 2016	31 December 2015
Oyak Renault Otomobil Fab. A.Ş.[2]	40.722	30.868
Bolu Çimento Sanayi A.Ş.[1]	7.484	6.060
Adana Çimento Sanayi T.A.Ş. [1]	6.065	6.068
Other	606	134
	54.877	43.130

The trade receivables from related parties mainly arise from sales of iron, steel and by-products.

Due to related parties (short term)	31 December 2016	31 December 2015
Omsan Lojistik A.Ş.[1]	8.021	6.286
Omsan Denizcilik A.Ş.[1]	11.747	6.162
Oyak Pazarlama Hizmet ve Turizm A.Ş.[1]	8.045	8.954
Oyak Savunma ve Güvenlik Sistemleri A.Ş.[1]	3.865	3.542
Other	3.330	1.686
	35.008	26.630

Trade payables to related parties mainly arise from purchased service transactions.

(1) Subsidiaries of the parent company
(2) Joint venture

NOTE 30 – RELATED PARTY DISCLOSURES (cont'd)

Major sales to related parties	1 January - 31 December 2016	1 January - 31 December 2015
Oyak Renault Otomobil Fab. A.Ş.[2]	143.767	147.533
Adana Çimento Sanayi T.A.Ş.[1]	16.523	20.700
Bolu Çimento Sanayi A.Ş.[1]	14.337	18.973
Aslan Çimento A.Ş.[1]	1.635	1.209
Other	3.497	3.455
	179.759	191.870

The major sales to related parties are generally due to the sales transactions of iron, steel and by-products.

Major purchases from related parties	1 January - 31 December 2016	1 January - 31 December 2015
Omsan Denizcilik A.Ş.[1]	91.641	66.838
Oyak Pazarlama Hizmet ve Turizm A.Ş.[1]	64.352	61.441
Omsan Lojistik A.Ş.[1]	64.534	41.235
Oyak Savunma ve Güvenlik Sistemleri A.Ş.[1]	31.846	31.701
Omsan Logistica SRL[1]	8.733	8.524
Other	16.060	12.836
	277.166	222.575

The major purchases from related parties are generally due to the purchased service transactions.

(1) Subsidiaries of the parent company
(2) Joint venture

The terms and policies applied to the transactions with related parties:

The period end balances are un-secured and their collections will be done in cash. As of 31 December 2016, the Group provides no provision for the receivables from related parties (31 December 2015: None).

Salaries, bonuses and other benefits of the key management:

For the year ended 31 December 2016, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 22.919 thousand (31 December 2015: TRY 22.083 thousand).

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

Additional information about financial instruments

(a) Capital risk management

The Group manages its capital through the optimization of the debt and the equity balance that minimizes the financial risk.

Through the forecasts regularly prepared by the Group, the future capital amount, debt to equity ratio and similar ratios are forecasted and required precautions are taken to strengthen the capital.

The capital structure of the Group consists of debt which includes the financial liabilities disclosed in Note 7, cash and cash equivalents and equity attributable to equity holders of the parent company, comprising issued capital, reserves and retained earnings as disclosed in Note 21.

The Group's Board of Directors analyze the capital structure in regular meetings. During these analyses, the Board of Directors also evaluates the risks associated with each class of capital together with the cost of capital. The Group, by considering the decisions of the Board of Directors, aims to balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the redemption of existing debt.

As of 31 December 2016 and 31 December 2015 the net debt/equity ratio is as follows:

	Note	31 December 2016	31 December 2015
Total financial liabilities	7	3.919.488	2.975.903
Less: Cash and cash equivalents	4	4.586.911	2.934.703
Net debt		(667.423)	41.200
Total adjusted equity (*)		15.753.547	12.648.179
Total resources		15.086.124	12.689.379
Net debt/Total adjusted equity ratio		-4%	0%
Distribution of net debt/ total adjusted equity		-4/104	0/100

(*)Total adjusted equity is calculated by subtracting cash flow hedging reserves and actuarial (loss)/gain fund and adding non-controlling interests.

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(b) Significant accounting policies

The Group's accounting policies related to the financial instruments are disclosed in Note 2 "Summary of Significant Accounting Policies, 2.8.8 Financial Instruments".

(c) Financial risk management objectives

The Group manages its financial instruments through a separate treasury function which was established for that purpose. The developments are followed on a real time basis. The Group's corporate treasury function manages the financial instruments through daily regular meetings by evaluating the domestic and international markets and by considering the daily cash inflows and outflows in accordance with the policies and regulations issued by the Group Risk Management Unit. At the end of each day, each Group company prepares a "daily cash report" and Group Risk Management Unit calculates daily Value at Risk (VaR) for cash and cash equivalents. The information included therein is consolidated by the treasury function and used to determine the cash management strategies. Additionally, the Group's annual payment schedules are followed through the weekly reports and annual cash management is followed by the monthly reports.

The Group utilizes derivative financial instruments as required and within the terms and conditions determined by the Group Risk Management Unit. Instruments that are highly liquid and securing a high-level yield are preferred when determining the financial instruments. In that respect, the Group has a right to claim the accrued interest on time deposits when withdraw before the predetermined maturity.

(d) Market risk

The Group is exposed primarily to the financial risks of changes in foreign exchange rates and interest rates. The Group utilizes the following financial instruments to manage the risks associated with the foreign exchange rates and interest rates. Also, the Group follows price changes and market conditions regularly and takes action in pricing instantaneously.

The Group prefers floating interest rates for long term borrowings. To hedge against the interest risk the Group uses interest swap contracts for some of its borrowings.

In the current period, there is no significant change in the Group's exposure to the market risks or the manner which it manages and measures risk when compared to the previous year.

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Credit risk management

Trade receivables include a large number of customers scattered in various sectors and regions. There is no risk concentration on a specific customer or a group of customers. The majority trade receivables are assured by bank letters of guarantee and/or credit limits. The credit reviews are performed continuously over the accounts receivable balance of the customers. The Group does not have a significant credit risk arising from any customer.

Credit risk of financial instruments

	Receivables				Bank Deposits	Derivative financial instruments
	Trade Receivables		Other Receivables			
31 December 2016	Related Party	Other Party	Related Party	Other Party		
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	54.877	1.962.024	-	15.670	4.586.870	70.265
- Secured part of the maximum credit risk exposure via collateral etc.	-	1.749.114	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	54.877	1.962.024	-	15.670	4.586.870	70.265
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	-	-	-	-	-
- secured part via collateral etc.	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	90.482	-	70.236	-	-
- Impairment (-)	-	(90.482)	-	(70.236)	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
- Not overdue (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-

(*) The factors that increase credibility such as guarantees received are not taken into account in determination of amount.

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Credit risk management (cont'd)

Credit risk of financial instruments	Receivables				Bank Deposits	Derivative financial instruments
	Trade Receivables		Other Receivables			
31 December 2015	Related Party	Other Party	Related Party	Other Party		
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	43.130	1.589.499	-	17.138	2.934.675	87.009
- Secured part of the maximum credit risk exposure via collateral etc.	-	1.443.837	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	43.130	1.589.499	-	17.138	2.934.675	87.009
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	-	-	-	-	-
- secured part via collateral etc.	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	77.993	-	67.397	-	-
- Impairment (-)	-	(77.993)	-	(67.397)	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
- Not overdue (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-

(*)The factors that increase credibility such as guarantees received are not taken into account in determination of amount.

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(f) Foreign currency risk management

As of 31 December 2016 and 31 December 2015, stated in Note 2.8.9 the foreign currency position of the Group in terms of original currency is calculated as it as follows:

	31 December 2016			
	TRY (Total in currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)
1. Trade Receivables	331.446	34.756	79.081	-
2a. Monetary financial assets	86.606	52.250	8.741	1.387
2b. Non- monetary financial assets	-	-	-	-
3. Other	132.375	131.871	136	-
4. Current assets (1+2+3)	**550.427**	**218.877**	**87.958**	**1.387**
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	52.315	34.313	3.837	125.024
8. Non-current assets (5+6+7)	**52.315**	**34.313**	**3.837**	**125.024**
9. Total assets (4+8)	**602.742**	**253.190**	**91.795**	**126.411**
10. Trade payables	340.570	298.051	7.514	386.382
11. Financial liabilities	181.361	14.567	34.640	1.275.021
12a. Other monetary financial liabilities	467.036	462.196	1.305	-
12b. Other non-monetary financial liabilities	445.718	445.718	-	-
13. Current liabilities (10+11+12)	**1.434.685**	**1.220.532**	**43.459**	**1.661.403**
14. Trade payables	-	-	-	-
15. Financial liabilities	419.361	-	113.038	-
16a. Other monetary financial liabilities	553.451	553.451	-	-
16b. Other non-monetary financial liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	**972.812**	**553.451**	**113.038**	**-**
18. Total liabilities (13+17)	**2.407.497**	**1.773.983**	**156.497**	**1.661.403**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	**(517.456)**	**32.087**	**(148.129)**	**-**
19a. Off-balance sheet foreign currency derivative financial assets	112.782	61.061	13.941	-
19b. Off-balance sheet foreign currency derivative financial liabilities	630.238	28.974	162.070	-
20. Net foreign currency asset/liability position (9-18+19)	**(2.322.211)**	**(1.488.706)**	**(212.831)**	**(1.534.992)**
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**(1.543.727)**	**(1.241.259)**	**(68.675)**	**(1.660.016)**
22. Fair value of derivative financial instruments used in foreign currency hedge	54.244	22.510	8.554	-
23. Hedged foreign currency assets	630.238	28.974	162.070	-
24. Hedged foreign currency liabilities	112.782	61.061	13.941	-
25. Exports	1.560.124			
26. Imports	4.855.801			

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(f) Foreign currency risk management (cont'd)

	31 December 2015			
	TRY (Total in currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)
1. Trade Receivables	241.540	29.234	66.196	-
2a. Monetary financial assets	47.460	26.445	6.367	163
2b. Non- monetary financial assets	-	-	-	-
3. Other	135.547	133.830	541	-
4. Current assets (1+2+3)	**424.547**	**189.509**	**73.104**	**163**
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	55.422	41.946	3.227	133.765
8. Non-current assets (5+6+7)	**55.422**	**41.946**	**3.227**	**133.765**
9. Total assets (4+8)	**479.969**	**231.455**	**76.331**	**133.928**
10. Trade payables	321.345	281.247	7.776	574.931
11. Financial liabilities	333.717	194.768	34.012	1.282.188
12a. Other monetary financial liabilities	459.280	456.032	752	-
12b. Other non-monetary financial liabilities	211.382	211.382	-	-
13. Current liabilities (10+11+12)	**1.325.724**	**1.143.429**	**42.540**	**1.857.119**
14. Trade payables	-	-	-	-
15. Financial liabilities	232.421	12.865	59.996	1.200.730
16a. Other monetary financial liabilities	496.217	496.217	-	-
16b. Other non-monetary financial liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	**728.638**	**509.082**	**59.996**	**1.200.730**
18. Total liabilities (13+17)	**2.054.362**	**1.652.511**	**102.536**	**3.057.849**
19. Net asset/liability position of off-balance sheet derivative	**(883.204)**	**(12.224)**	**(274.100)**	-
19a. Off-balance sheet foreign currency derivative financial assets	156.598	68.178	27.826	-
19b. Off-balance sheet foreign currency derivative financial liabilities	1.039.802	80.402	301.926	-
20. Net foreign currency asset/liability position (9-18+19)	**(2.457.597)**	**(1.433.280)**	**(300.305)**	**(2.923.921)**
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**(1.553.980)**	**(1.385.450)**	**(29.973)**	**(3.057.686)**
22. Fair value of derivative financial instruments used in foreign currency hedge	20.969	-	6.599	-
23. Hedged foreign currency assets	1.039.802	80.402	301.926	-
24. Hedged foreign currency liabilities	156.598	68.178	27.826	-
25. Exports	1.183.331			
26. Imports	5.316.966			

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(f) Foreign currency risk management (cont'd)

The following table shows the Group's sensitivity to a 10% (+/-) change in the TRY, USD, EURO and Japanese Yen. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates.

As of 31 December 2016 asset and liability balances are translated by using the following exchange rates: TRY 3,5192 = US $ 1,TRY 3,7099 = EUR 1 and TRY 0,0300= JPY 1 (31 December 2015: TRY 2,9076 = US $ 1,TRY 3,1776 = EUR 1 and TRY 0,0241= JPY 1).

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2016	Appreciation of foreign currency	Depreciation of foreign currency
1- TRY net asset/liability	(152.079)	152.079
2- Hedged portion from TRY risk (-)	6.106	(6.106)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(145.973)	145.973
5- US Dollars net asset/liability	-	-
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- US Dollars net effect (5+6+7)	-	-
9- Euro net asset/liability	(24.004)	24.004
10- Hedged portion from Euro risk (-)	5.172	(5.172)
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	(18.832)	18.832
13- Jap. Yen net asset/liability	(4.609)	4.609
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(4.609)	4.609
TOTAL (4+8+12+16)	(169.414)	169.414

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(f) Foreign currency risk management (cont'd)

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2015	Appreciation of foreign currency	Depreciation of foreign currency
1- TRY net asset/liability	(142.106)	142.106
2- Hedged portion from TRY risk (-)	6.818	(6.818)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(135.288)	135.288
5- US Dollars net asset/liability	-	-
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- US Dollars net effect (5+6+7)	-	-
9- Euro net asset/liability	(8.327)	8.327
10- Hedged portion from Euro risk (-)	8.842	(8.842)
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	515	(515)
13- Jap. Yen net asset/liability	(7.040)	7.040
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(7.040)	7.040
TOTAL (4+8+12+16)	**(141.813)**	**141.813**

(g) Interest rate risk management

The majority of the Group's borrowings are based on floating interest rate terms. In order to manage the exposure to interest rate movements on certain portion of the bank borrowings, the Group uses interest rate swaps and changes floating rates to fixed rates.

In addition, through the use of deposits in which the Group has a right to claim the accrued interest when withdrawn before the predetermined maturity, the Group minimizes the interest rate risk by increasing the share of floating rate denominated assets in its consolidated the balance sheet.

Furthermore, for borrowings denominated in foreign currencies, except for US Dollars, the Group minimizes its interest rate risk by leveraging in foreign currencies that bear lower interest rate. In addition, a higher interest rate is applied to the trade receivables with a maturity when compared to the interest rate exposed for trade payables.

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(g) Interest rate risk management (cont'd)

Interest rate sensitivity

The following sensitivity analysis is based on forecasted interest rate changes for the liabilities denominated in variable interest rates. The information details the Group's sensitivity to an increase/decrease of 0,50% for US Dollars and EURO, 0,25% for Jap.Yen and 1,00% for TRY denominated interest rates.

Since the principal payments of the loans with floating interest rates are not affected from changes in interest rates, the risk exposure of the Group loans is measured using a sensitivity analysis instead of a Value at Risk calculation.

Interest position table

	31 December 2016	31 December 2015
Floating interest rate financial instruments		
Financial liabilities	2.967.313	2.643.675

For the year round, if the US Dollars, EURO and Jap. Yen denominated interest rates increase/decrease by 100 base points in TRY, 50 base points in US Dollars and EURO and 25 base points in Jap.Yen respectively ceteris paribus, the profit before taxation and non-controlling interest after considering the effect of capitalization and hedging would be lower/higher TRY 5.244 thousand.

(h) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities and maintaining adequate funds and reserves.

Liquidity risk tables

Conservative liquidity risk management includes maintaining sufficient cash, availability of sufficient amount of borrowings and funds and ability to settle market positions.

The Group manages its funding of actual and forecasted financial obligations by maintaining the availability of sufficient number of high quality loan providers.

The following table details the Group's expected maturity for its derivative and non derivative financial liabilities. Interests which will be paid on borrowings in the future are included in the relevant columns in the following table.

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(h) Liquidity risk management (cont'd)

31 December 2016

Contractual maturity analysis	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Borrowings from banks	3.919.488	4.064.600	779.344	1.578.405	1.585.540	121.311
Trade payables	915.076	919.235	919.235	-	-	-
Other financial liabilities (*)	219.928	219.928	219.928	-	-	-
Total liabilities	5.054.492	5.203.763	1.918.507	1.578.405	1.585.540	121.311
Derivative financial liabilities						
Derivative cash inflows	70.265	999.129	387.515	308.050	303.564	-
Derivative cash outflows	(21.197)	(1.236.315)	(365.707)	(323.544)	(547.064)	-
	49.068	(237.186)	21.808	(15.494)	(243.500)	-

(*) Only the financial liabilities under other payables and liabilities are included.

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(h) Liquidity risk management (cont'd)

31 December 2015

Contractual maturity analysis	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Borrowings from banks	2.975.903	3.123.556	110.099	1.017.556	1.994.004	1.897
Trade payables	582.203	585.289	585.289	-	-	-
Other financial liabilities (*)	190.530	190.530	190.530	-	-	-
Total liabilities	3.748.636	3.899.375	885.918	1.017.556	1.994.004	1.897
Derivative financial liabilities						
Derivative cash inflows	87.009	1.059.166	256.585	488.588	313.993	-
Derivative cash outflows	(40.850)	(1.005.664)	(248.513)	(478.460)	(278.691)	-
	46.159	53.502	8.072	10.128	35.302	-

(*) Only the financial liabilities under other payables and liabilities are included.

NOTE 32 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES)

Additional information about financial instruments

Categories of the financial instruments and their fair values

31 December 2016	Cash and cash equivalent	Loans and receivables	Available for sale financial assets	Financial liabilities at amortized cost	Derivative financial instruments through other comprehensive income/loss	Derivative financial instruments through profit/loss	Carrying value	Note
Financial Assets								
Cash and cash equivalents	4.586.911	-	-	-	-	-	4.586.911	4
Trade receivables	-	2.016.901	-	-	-	-	2.016.901	8
Financial investments	-	-	122	-	-	-	122	5
Other financial assets	-	15.670	-	-	-	-	15.670	9
Derivative financial instruments	-	-	-	-	28.560	41.705	70.265	6
Financial Liabilities								
Financial liabilities	-	-	-	3.919.488	-	-	3.919.488	7
Trade payables	-	-	-	915.076	-	-	915.076	8
Other liabilities	-	-	-	219.928	-	-	219.928	9/16/19
Derivative financial instruments	-	-	-	-	19.004	2.193	21.197	6
31 December 2015								
Financial Assets								
Cash and cash equivalents	2.934.703	-	-	-	-	-	2.934.703	4
Trade receivables	-	1.632.629	-	-	-	-	1.632.629	8
Financial investments	-	-	79	-	-	-	79	5
Other financial assets	-	17.138	-	-	-	-	17.138	9
Derivative financial instruments	-	-	-	-	23.265	63.744	87.009	6
Financial Liabilities								
Financial liabilities	-	-	-	2.975.903	-	-	2.975.903	7
Trade payables	-	-	-	582.203	-	-	582.203	8
Other liabilities	-	-	-	190.530	-	-	190.530	9/16/19
Derivative financial instruments	-	-	-	-	26.750	14.100	40.850	6

NOTE 32 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (cont'd)

Additional information about financial instruments (cont'd)

Categories of the financial instruments and their fair values (cont'd)

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.

Estimated fair values of financial instruments have been determined by the Group by using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data. Accordingly, estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange.

The following methods and assumptions are used to estimate the fair values of financial instruments:

Financial assets
Financial assets that are carried at cost value including cash and cash equivalents are assumed to reflect their fair values due to their short term nature.

The carrying value of receivables, with related impairments are assumed to reflect their fair values.

Financial liabilities
Fair values of short term borrowings and trade payables are assumed to approximate their carrying values due to their short term nature.

Fair values of long term financial liabilities are assumed to approximate their carrying values due to mostly they have floating interest rates and repricing at short term.

Financial asset and liabilities at fair value		Fair value level as of reporting date		
	31 December 2016	Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	41.705	-	41.705	-
Derivative financial liabilities	(2.193)	-	(2.193)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	28.560	-	28.560	-
Derivative financial liabilities	(19.004)	-	(19.004)	-
Total	49.068	-	49.068	-

NOTE 32 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (cont'd)

Additional information about financial instruments (cont'd)

Financial asset and liabilities at fair value		Fair value level as of reporting date		
	31 December 2015	Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	63.744	-	63.744	-
Derivative financial liabilities	(14.100)	-	(14.100)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	23.265	-	23.265	-
Derivative financial liabilities	(26.750)	-	(26.750)	-
Total	46.159	-	46.159	-

First Level: Quoted (non adjusted) prices in active markets for identical assets or liabilities.

Second Level: Other valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Third Level: Valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

NOTE 33 – SUBSEQUENT EVENTS

None.

NOTE 34 – OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION

Convenience translation to English:

As at December 31, 2016, the accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying financial statements differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting, certain reclassifications and also for certain disclosures requirement of the POA/CMB. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with IFRS.