(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 2017 AND INDEPENDENT AUDITOR'S REPORT

Deloitte.

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(CONVENIENCE TRANSLATION OF INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH)

INDEPENDENT AUDITOR'S REPORT

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

A) Report on the Audit of the Financial Statements

1) Opinion

We have audited the consolidated financial statements of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Turkish Accounting Standards (TAS).

2) Basis for Opinion

We conducted our audit in accordance with the standards on auditing issued by Capital Markets Board and the Standards on Independent Auditing ("SIA") which is a part of Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics for Independent Auditors ("Code of Ethics") published by the POA, together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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3) Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the matter was addressed in the audit
Revenue recognition Revenue is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods. Due to the nature of the Group's operations, there are some goods invoiced and cash collection is completed although the Group retains physical possession. Those goods are kept at premises of the Group as of the financial reporting date. Significant risks and rewards of ownership of these goods are transferred to the buyers. Therefore, revenue recognition for those goods in the correct accounting period is a key matter for our audit. Please refer to notes 2.8.1 and 22 to the consolidated financial statements for the Group's disclosures on revenue recognition, including the related accounting policy.	We performed the following procedures in relation to the revenue recognition: The design and implementation of the controls on the revenue process have been evaluated. The Group's sales and delivery procedures have been analyzed. Terms of trade and delivery with respect to contracts made with customers have been examined and the timing of revenue recognition in the financial statements for the different shipment arrangements has been assessed. For substantive procedures, special emphasis is given for transactions where the goods billed but revenue has not been earned. Testing of returns in the subsequent period to ensure revenue recognized in the proper accounting period. In addition, we assessed the adequacy of the disclosures in Note 22 of the Note under TAS.

3) Key Audit Matters (cont'd)

Key Audit Matter	How the matter was addressed in the audit
Units of production depreciation calculation As explained in Note 2.2 (accounting policies) and Note 13 (notes to the financial statements), the Group perform units of production depreciation calculation method for relevant land improvements, machinery and equipment and vehicles. Units of production depreciation calculation is made for large number of assets and determining the remaining life and production capacities involve estimates. Therefore, there is risk that there may be an error on calculation of depreciation.	Procedures performed related with Units of production depreciation calculation risk are as follows: • Review of the expert report for the estimation of production capacity dated 22 February 2017. • Comparison of net book values of property, plant and equipment that are included in the report with net book values in the financial statements • Evaluation of competence and capabilities of the management's expert • Evaluation of the production capacity estimates by comparing with the estimations used in previous periods by negotiating with the Group management • Analysis of production amount of yearly production and production capacity • Recalculation of depreciation amount of the year In addition, we assessed the adequacy of the disclosures in Note 13 to property, plant and equipment under TAS.

4) 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 Communique 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. For the lawsuit filed by the Republic of Turkey Prime Ministry Privatization Administration ("PA") decision of the local court has been reversed by the Supreme Court 11th Civil Chamber with the decision dated 24 May 2017 and 2015/15771 Docket; 2017/3040 Decision number. The decision of reversal has been notified to the Company on 2 August 2017. The Company has applied for rectification. Legal process is ongoing as of the date of audit report and our opinion is not qualified in respect of this matter.

5) Other Matter

The financial statements of the Group for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 7 February 2017.

6) Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with TAS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

7) Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Responsibilities of independent auditors in an independent audit are as follows:

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the standards on auditing issued by Capital Markets Board and SIA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the standards on auditing issued by Capital Markets Board and SIA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. (The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.)

7) Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (cont'd)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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B) Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 398 of the Turkish Commercial Code No. 6102 ("TCC"), the auditor's report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Company on 2 February 2018.

In accordance with paragraph four of the Article 402 of TCC, nothing has come to our attention that may cause us to believe that the Group's set of accounts and financial statements prepared for the period 1 January-31 December 2017 does not comply with TCC and the provisions of the Company's articles of association in relation to financial reporting.

In accordance with paragraph four of the Article 402 of TCC, the Board of Directors provided us all the required information and documentation with respect to our audit.

The engagement partner on the audit resulting in this independent auditor's report is Volkan Becerik.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Volkan Becerik, SMMM
Partner

İstanbul, 2 February 2018

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2017

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

ASSETS	Note	(Audited) Current Period 31 December 2017 USD'000	(Audited) Current Period 31 December 2017 TRY'000	(Audited) Previous Period 31 December 2016 USD'000	(Audited) Previous Period 31 December 2016 TRY'000
Current Assets		**3.934.814**	**14.841.725**	**3.143.675**	**11.063.224**
Cash and Cash Equivalents	4	1.865.224	7.035.440	1.303.396	4.586.911
Financial Derivative Instruments	6	915	3.452	18.274	64.310
Trade Receivables	8	684.564	2.582.106	573.114	2.016.901
Due From Related Parties	*30*	*21.988*	*82.936*	*15.594*	*54.877*
Other Trade Receivables	*8*	*662.576*	*2.499.170*	*557.520*	*1.962.024*
Other Receivables	9	530	2.000	535	1.883
Inventories	10	1.336.066	5.039.509	1.209.095	4.255.047
Prepaid Expenses	11	14.047	52.982	12.080	42.513
Other Current Assets	19	33.468	126.236	27.181	95.659
Non Current Assets		**3.588.147**	**13.534.130**	**3.576.965**	**12.588.053**
Other Receivables	9	3.617	13.643	3.918	13.787
Financial Investments	5	3.562	13.437	35	122
Financial Derivative Instruments	6	1.298	4.896	1.692	5.955
Investment Properties	12	26.961	101.695	26.961	94.882
Property, Plant and Equipment	13	3.465.591	13.071.862	3.453.050	12.151.972
Intangible Assets	14	56.022	211.311	58.388	205.479
Prepaid Expenses	11	15.787	59.543	20.106	70.757
Deferred Tax Assets	28	15.309	57.743	9.730	34.243
Other Non Current Assets	19	-	-	3.085	10.856
TOTAL ASSETS		**7.522.961**	**28.375.855**	**6.720.640**	**23.651.277**

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 2017

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

LIABILITIES	**Note**	**(Audited) Current Period 31 December 2017 USD'000**	**(Audited) Current Period 31 December 2017 TRY'000**	**(Audited) Previous Period 31 December 2016 USD'000**	**(Audited) Previous Period 31 December 2016 TRY'000**
Current Liabilities		**1.464.605**	**5.524.344**	**1.201.046**	**4.226.720**
Short Term Borrowings	7	594.801	2.243.529	357.464	1.257.986
Short Term Portion of Long Term Borrowings	7	233.890	882.211	296.649	1.043.968
Financial Derivative Instruments	6	11.064	41.734	5.438	19.137
Trade Payables	8	249.951	942.791	260.024	915.076
Due to Related Parties	*30*	*14.289*	*53.897*	*9.948*	*35.008*
Other Trade Payables	8	*235.662*	*888.894*	*250.076*	*880.068*
Other Payables	9	11.124	41.958	11.970	42.126
Deferred Revenue	20	39.842	150.280	30.221	106.353
Current Tax Liabilities	28	211.554	797.961	129.468	455.624
Short Term Provisions	17	35.636	134.414	41.369	145.586
Payables for Employee Benefits	16	47.175	177.938	47.944	168.724
Other Current Liabilities	19	29.568	111.528	20.499	72.140
Non Current Liabilities		**960.618**	**3.623.354**	**1.069.709**	**3.764.524**
Long Term Borrowings	7	361.804	1.364.688	459.631	1.617.534
Financial Derivative Instruments	6	453	1.707	585	2.060
Provisions for Employee Benefits	16	168.831	636.813	161.235	567.419
Deferred Tax Liabilities	28	429.417	1.619.718	448.122	1.577.032
Other Non Current Liabilities	19	113	428	136	479
EQUITY		**5.097.738**	**19.228.157**	**4.449.885**	**15.660.033**
Equity Attributable to Equity Holders of the Parent		**4.953.574**	**18.684.383**	**4.321.343**	**15.207.669**
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)		(39.612)	(77.330)	(37.151)	(72.090)
Revaluation Reserve of Tangible Assets		*11.107*	*33.917*	*10.757*	*29.437*
Actuarial (Loss)/ Gain funds		*(50.719)*	*(111.247)*	*(47.908)*	*(101.527)*
Other Comprehensive Income/Expense to be Reclassified to Profit/ (Loss)		(54.474)	7.649.204	(41.532)	6.530.218
Cash Flow Hedging Gain (Loss)		*(4.314)*	*(16.272)*	*2.277*	*8.013*
Foreign Currency Translation Reserves		*(50.160)*	*7.665.476*	*(43.809)*	*6.522.205*
Restricted Reserves Assorted from Profit	21	625.450	1.567.280	516.714	1.166.197
Retained Earnings	21	1.497.692	2.144.646	1.486.278	2.420.078
Net Profit for the Period		1.029.865	3.753.755	502.381	1.516.438
Non-Controlling Interests		**144.164**	**543.774**	**128.542**	**452.364**
TOTAL LIABILITIES AND EQUITY		**7.522.961**	**28.375.855**	**6.720.640**	**23.651.277**

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 2017

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

	Note	(Audited) Current Period 1 January - 31 December 2017 USD'000	(Audited) Current Period 1 January - 31 December 2017 TRY'000	(Audited) Previous Period 1 January - 31 December 2016 USD'000	(Audited) Previous Period 1 January - 31 December 2016 TRY'000
Revenue	22	5.115.069	18.643.914	3.855.062	11.636.504
Cost of Sales	22	(3.698.582)	(13.480.960)	(3.036.715)	(9.166.325)
GROSS PROFIT		**1.416.487**	**5.162.954**	**818.347**	**2.470.179**
Marketing Expenses	23	(45.138)	(164.522)	(46.783)	(141.215)
General Administrative Expenses	23	(88.387)	(322.163)	(95.503)	(288.275)
Research and Development Expenses	23	(3.598)	(13.113)	(3.673)	(11.088)
Other Income from Operating Activities	25	76.094	277.354	73.982	223.314
Other Expenses from Operating Activities	25	(30.201)	(110.079)	(49.775)	(150.244)
OPERATING PROFIT		**1.325.257**	**4.830.431**	**696.595**	**2.102.671**
Finance Income	26	68.192	286.868	118.126	356.562
Finance Expense	27	(44.660)	(162.783)	(87.232)	(187.805)
PROFIT BEFORE TAX		**1.348.789**	**4.954.516**	**727.489**	**2.271.428**
Tax (Expense) Income	28	(279.475)	(1.056.974)	(206.800)	(699.726)
Current Corporate Tax Expense (Income)		(301.685)	(1.137.927)	(150.794)	(530.673)
Deferred Tax (Expense) Income		22.210	80.953	(56.006)	(169.053)
NET PROFIT FOR THE PERIOD		**1.069.314**	**3.897.542**	**520.689**	**1.571.702**
Non-Controlling Interests		39.449	143.787	18.308	55.264
Equity Holders of the Parent		1.029.865	3.753.755	502.381	1.516.438
EARNINGS PER SHARE	29		1,0725		0,4333
(TRY 1 Nominal value per share)					

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

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

	(Audited) Current Period 1 January - 31 December 2017 USD'000	(Audited) Current Period 1 January - 31 December 2017 TRY'000	(Audited) Previous Period 1 January - 31 December 2016 USD'000	(Audited) Previous Period 1 January - 31 December 2016 TRY'000
PROFIT FOR THE PERIOD	**1.069.314**	**3.897.542**	**520.689**	**1.571.702**
OTHER COMPREHENSIVE INCOME				
Not to be reclassified subsequently to profit or loss				
Increase (Decrease) in Revaluation Reserve of Tangible Assets	344	4.480	(1.781)	2.521
Actuarial Gain (Loss) of Defined Benefit Plans	(3.650)	(12.618)	1.136	8.006
Tax Effect of Actuarial Gain (Loss) of Defined Benefit Plans	774	2.673	(227)	(1.601)
To be reclassified subsequently to profit or loss				
Gain (Loss) in Cash Flow Hedging Reserves	(8.316)	(30.663)	3.811	13.040
Tax Effect of Gain (Loss) in Cash Flow Hedging Reserves	1.830	6.746	(762)	(2.608)
Foreign Currency Translation Gain (Loss)	(7.162)	1.177.422	(14.998)	2.580.095
OTHER COMPREHENSIVE INCOME	**(16.180)**	**1.148.040**	**(12.821)**	**2.599.453**
TOTAL COMPREHENSIVE INCOME	**1.053.134**	**5.045.582**	**507.868**	**4.171.155**
Distribution of Total Comprehensive Income				
Non-controlling Interests	38.672	178.081	16.533	126.266
Equity Holders of the Parent	1.014.462	4.867.501	491.335	4.044.889

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 CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

(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 2017		**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**
Net profit for the period		-	-	-	-	-	-	-	-	-	-	3.753.755	**3.753.755**	143.787	**3.897.542**
Other comprehensive income/(loss)		-	-	-	-	4.480	(9.720)	(24.285)	1.143.271	-	-	-	**1.113.746**	34.294	**1.148.040**
Total comprehensive income/(loss)		-	-	-	-	4.480	(9.720)	(24.285)	1.143.271	-	-	3.753.755	**4.867.501**	178.081	**5.045.582**
Dividends (*)		-	-	-	-	-	-	-	-	-	(1.390.787)	-	**(1.390.787)**	(86.671)	**(1.477.458)**
Transfers	21	-	-	-	-	-	-	-	-	401.083	1.115.355	(1.516.438)	-	-	-
31 December 2017	21	**3.500.000**	**156.613**	**(116.232)**	**106.447**	**33.917**	**(111.247)**	**(16.272)**	**7.665.476**	**1.567.280**	**2.144.646**	**3.753.755**	**18.684.383**	**543.774**	**19.228.157**
(Audited)															
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**

(*) In annual General Assembly dated 31 March 2017, dividend distribution (gross dividend per share: TRY 0,4100 (2016: TRY 0,3000) amounting to TRY 1.435.000 thousand (31 March 2016: TRY 1.050.000 thousand) from 2016 net profit was approved. As the Company holds 3,08 % of its shares with a nominal value of TRY 1 as of 31 March 2017, dividends for treasury shares are netted off under dividends paid. The dividend payment was started at 5 April 2017. The Group paid TRY 86.671 thousand divident to non-controlling interests on İsdemir and Ermaden apart from the Equity holders of the Parent in current year (2016: TRY 31.665 thousand).

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Note	(Audited) Current Period 1 January- 31 December 2017 USD'000	(Audited) Current Period 1 January- 31 December 2017 TRY'000	(Audited) Current Period 1 January- 31 December 2016 USD'000	(Audited) Current Period 1 January- 31 December 2016 TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES		**1.099.532**	**3.624.616**	**757.107**	**2.346.153**
Profit (Loss) for The Period		**1.069.314**	**3.897.542**	**520.689**	**1.571.702**
Adjustments to Reconcile Profit (Loss)		**503.628**	**1.874.258**	**469.040**	**1.491.299**
Adjustments for Depreciation and Amortisation Expenses	22/23	197.453	719.695	217.916	657.779
Adjustments for Impairment Loss (Reversal of Impairment Loss)		878	3.201	15.579	47.023
Adjustments for Provision (Reversal of Provision) for Receivables	8/9	*(251)*	*(914)*	*1.224*	*3.694*
Adjustments for Provision (Reversal of Provision) for Inventories	10	*1.129*	*4.115*	*1.415*	*4.271*
Adjustments for Provision (Reversal of Provision) for Property, Plant and Equipment	13	-	-	*12.940*	*39.058*
Adjustments for Provisions		37.018	135.198	28.610	86.362
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	16	*30.510*	*111.209*	*34.791*	*105.018*
Adjustments for Provision (Reversal of Provision) for Pending Claims and/or Lawsuits	17	*6.508*	*23.989*	*(6.181)*	*(18.656)*
Adjustments for Interest (Income) and Expenses		(29.800)	(108.616)	(6.560)	(19.802)
Adjustments for Interest Income	26	*(56.735)*	*(206.792)*	*(40.959)*	*(123.634)*
Adjustments for Interest Expense	27	*28.901*	*105.342*	*34.636*	*104.548*
Unearned Financial Income from Credit Sales		*(1.966)*	*(7.166)*	*(237)*	*(716)*
Adjustments for Unrealised Foreign Exchange Differences		15.119	55.106	(6.610)	(19.951)
Adjustments for Fair Value (Gains) Losses		1.379	5.025	12.333	37.228
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments	27	*1.379*	*5.025*	*12.333*	*37.228*
Adjustments for Tax (Income) Expenses	28	279.475	1.056.974	206.800	699.726
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		2.106	7.675	972	2.934
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment	25	*2.106*	*7.675*	*972*	*2.934*
Changes in Working Capital		**(227.030)**	**(1.253.977)**	**(24.579)**	**(86.499)**
Adjustments for Decrease (Increase) in Trade Receivables		(113.018)	(577.478)	(10.252)	(36.076)
Decrease (Increase) in Trade Receivables from Related Parties		*(6.394)*	*(28.059)*	*(3.338)*	*(11.747)*
Decrease (Increase) in Trade Receivables from Third Parties		*(106.624)*	*(549.419)*	*(6.914)*	*(24.329)*
Adjustments for Decrease (Increase) in Other Receivables Related from Operations		859	(2.930)	4.589	16.148
Decrease (Increase) in Other Receivables from Operations from Third Parties		*859*	*(2.930)*	*4.589*	*16.148*
Decrease (Increase) in Derivative Financial Instruments		17.753	61.917	9.959	35.048
Adjustments for Decrease (Increase) in Inventories		(130.712)	(813.242)	(96.267)	(338.784)
Decrease (Increase) in Prepaid Expenses		(1.487)	(9.103)	12.231	43.044
Adjustments for Increase (Decrease) in Trade Payables		(10.073)	27.715	59.789	210.409
Increase (Decrease) in Trade Payable to Related Parties		*4.341*	*18.889*	*2.381*	*8.378*
Increase (Decrease) in Trade Payable to Third Parties		*(14.414)*	*8.826*	*57.408*	*202.031*
Adjustments for Increase (Decrease) in Other Payables Related from Operations		(1.615)	9.046	7.163	25.208
Increase (Decrease) in Other Payables to Third Parties Related from Operations		*(1.615)*	*9.046*	*7.163*	*25.208*
Increase (Decrease) in Derivative Liabilities		(4.202)	(13.445)	(16.340)	(57.505)
Adjustments for Other Increase (Decrease) in Working Capital		15.465	63.543	4.549	16.009
Decrease (Increase) in Other Assets Related from Operations		*(3.202)*	*(19.721)*	*(49)*	*(174)*
Increase (Decrease) in Other Payables Related from Operations		*18.667*	*83.264*	*4.598*	*16.183*
Cash Flows Provided by Operating Activities		**1.345.913**	**4.517.823**	**965.150**	**2.976.502**
Payments Related to Provisions for Employee Termination Benefits	16	(15.195)	(55.385)	(12.158)	(36.701)
Payments Related to Other Provisions	17	(11.587)	(42.232)	(99.663)	(300.830)
Income Taxes Refund (Paid)	28	(219.599)	(795.590)	(96.222)	(292.818)
CASH FLOWS FROM INVESTING ACTIVITIES		**(205.862)**	**(754.952)**	**(168.362)**	**(512.479)**
Cash Outflows Arising From Purchase of Shares or Capital Increase of Associates and/or Joint Ventures		(3.527)	(13.315)	(8)	(29)
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		1.961	7.148	2.460	7.427
Cash Inflow from Sales of Property, Plant and Equipment	13/14/25	*1.961*	*7.148*	*2.460*	*7.427*
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(208.135)	(758.633)	(162.275)	(489.827)
Cash Outflow from Purchase of Property, Plant and Equipment	13	*(205.556)*	*(749.232)*	*(158.746)*	*(479.175)*
Cash Outflow from Purchase of Intangible Assets	14	*(2.579)*	*(9.401)*	*(3.529)*	*(10.652)*
Cash Advances and Debts Given		3.839	9.848	(8.539)	(30.050)
Other Cash Advances and Debts Given		*3.839*	*9.848*	*(8.539)*	*(30.050)*
CASH FLOWS FROM FINANCING ACTIVITIES		**(310.305)**	**(855.527)**	**(267.466)**	**(691.791)**
Cash Inflow from Borrowings		982.379	3.608.910	848.157	2.984.835
Cash Inflow from Loans		*982.379*	*3.608.910*	*848.157*	*2.984.835*
Cash Outflow from Repayments of Borrowings		(921.579)	(3.096.109)	(754.354)	(2.654.378)
Cash Outflow from Loan Repayments		*(921.579)*	*(3.096.109)*	*(754.354)*	*(2.654.378)*
Dividends Paid		(400.591)	(1.475.801)	(369.979)	(1.048.544)
Interest Paid		(29.215)	(106.485)	(32.249)	(97.344)
Interest Received		58.701	213.958	40.959	123.640
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		**583.365**	**2.014.137**	**321.279**	**1.141.883**
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(21.537)	434.392	(27.204)	510.325
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**561.828**	**2.448.529**	**294.075**	**1.652.208**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	1.303.396	4.586.911	1.009.321	2.934.703
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	**1.865.224**	**7.035.440**	**1.303.396**	**4.586.911**

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 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	2017 Share %	2016 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
İsdemir Linde Gaz Ortaklığı A.Ş.(*)	Turkey	Energy	50	50

(*) 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. Share capital of the jointly controlled entity amounting to TRY 13.335 thousand reported under financial investments.

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 2017 and 31 December 2016 are as follows:

	Paid Hourly Personnel	Paid Monthly Personnel	31 December 2017 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.305	1.730	6.035
İskenderun Demir ve Çelik A.Ş.	3.107	1.756	4.863
Erdemir Madencilik San. ve Tic. A.Ş.	146	121	267
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	239	81	320
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	228	228
Erdemir Romania S.R.L.	215	45	260
Erdemir Asia Pacific Private Limited	-	2	2
	8.012	3.963	11.975

	Paid Hourly Personnel	Paid Monthly 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

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 iron ore and silicon steel used in the production of fixed assets carried on fair value measured at business at acquisition date.

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 while the functional currency of Erdemir Madencilik San. ve Tic. A.Ş. "Ermaden" and Erdemir Mühendislik Yönetim ve Danışmanlık Himetleri 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 Eur for Erdemir Romania, have been translated in TRY as the following method:

a) The assets and liabilities on financial position as of 31 December 2017 are translated from USD Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 3,7719=US $ 1 and TRY 4,5155=EUR 1 on the balance sheet date (31 December 2016: TRY 3,5192= US $ 1, TRY 3,7099=EUR 1).

b) For the year ended 31 December 2017, income statements are translated from the 12 months average TRY 3,6449 = US $ 1 and TRY 4,1139=EUR 1 rates of 2017 January - December period (31 December 2016: TRY 3,0185 = US $ 1 TRY 3,3377 = 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 represented 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 2017 and 31 December 2016, consolidated statement of income and other comprehensive income, and consolidated statement of cash flows for the year ended 31 December 2017 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 2 February 2018 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

2.2 Restatement and errors in the accounting policies and estimates

Any change in the accounting policies resulted from the first time adoption of a new standards is made either retrospectively or prospectively in accordance with the transition requirements of the standards. Changes without any transition requirement, material changes in accounting policies or material errors are corrected, retrospectively by restating the prior period consolidated financial statements. If changes in accounting estimates are related to only one period, they are recognized in the period when changes are applied; if changes in estimates are related to future periods, they are recognized both in the period where the change is applied and future periods prospectively.

Based on the report of Hatch Associates Limited prepared as of 31 December 2008 and dated 12 May 2009, the Group changed the depreciation method of Erdemir and İsdemir's land improvements, machinery, equipment and vehicles from straight line to the units of production method effective from 1 January 2009, where it is appropriate, to reflect their expected consumption model in a more accurate way.

After new investments and modernizations realized, The Group had a new assessment report prepared by Hatch Associates Limited as of 22 February 2017 effective from the date of 1 January 2017. As a result of the new assessment report, the estimated useful life of assets has increased. If the Group used previous useful life assumptions on the accompanied consolidated financial statements, depreciation expense would be higher amounting to TRY 87.972 thousand for the twelve month.

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.

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

2.3 Consolidation Principles (cont'd)

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 2017 and 31 December 2016 (%) and their functional currencies:

	31 December 2017			31 December 2016		
	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

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.

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).

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).

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)

2.5.3 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.

2.5.8 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 for the reporting date.

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

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

Amendments to IFRSs that are mandatorily effective for the current year

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements.

Amendments to IAS 7 *Disclosure Intiative*

This amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of borrowings and certain other financial liabilities . A reconciliation between the opening and closing balances of these items is provided in note. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in note, the application of these amendments has had no impact on the Group's consolidated financial statements.

Annual Improvements to IFRS Standards 2014–2016 Cycle

IFRS 12: IFRS 12 states that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Group's consolidated financial statements as none of the Group's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

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

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

New and revised IFRSs in issue but not yet effective**:**

The Group has not yet implemented the following amendments and interpretations to the existing standards that have not yet entered into force:

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets / liabilities and for derecognition and for general hedge accounting.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

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

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

New and revised IFRSs in issue but not yet effective (cont'd)

IFRS 9 *Financial Instruments (cont'd)*

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the management of the Company have assessed the impact of IFRS 9 to the Group's consolidated financial statements as follows:

Classification and measurement

Bills of exchange and debentures classified as held-to-maturity investments and loans carried at amortized cost. These are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortized cost upon the application of IFRS 9. All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

Impairment

Financial assets measured at amortized cost, listed redeemable notes that will be carried at FVTOCI under IFRS 9.

The Group expects to apply the simplified approach to recognize lifetime expected credit losses for its trade receivables as required or permitted by IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

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

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

New and revised IFRSs in issue but not yet effective (cont'd)

IFRS 15 Revenue from Contracts with Customers (cont'd)

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The sales-related warranties cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Group will continue to account for the warranty in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with its current accounting treatment.

Apart from providing more extensive disclosures on the Group's revenue transactions, the management do not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance of the Group.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture.

Amendments to IFRS 2 Classification and Measurement of Share-Based Payment Transactions

The amendments clarify the estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

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

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

New and revised IFRSs in issue but not yet effective (cont'd)

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

Annual Improvements to IFRS Standards 2014–2016 Cycle

The Annual Improvements include amendments to a number of IFRSs, which have been summarised below. The package also includes amendments to IFRS 12 Disclosure of Interests in Other Entities, which is effective for annual periods beginning on or after 1 January 2017 (see section 1A above for details).

- **IFRS 1:** The amendments delete certain short-term exemptions in IFRS 1 because the reporting period to which the exemptions applied have already passed. As such, these exemptions are no longer applicable.

- **IAS 28:** The amendments clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture.

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

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

New and revised IFRSs in issue but not yet effective (cont'd)

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

This amendment clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The management of the Company do not evaluating impacts of the amendments in the future will have an impact on the Group's consolidated financial statements.

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:

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.

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 (cont'd)

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.

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 higher of net selling price and value in use.

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)

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.

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.

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

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

2.8.4 Intangible assets (cont'd)

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.

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.

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

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 2017 and 31 December 2016 is as follows:

	31 December 2017	31 December 2016
Cash	31	41
Banks – demand deposits	68.679	75.433
Banks – time deposits	6.966.730	4.511.437
	7.035.440	4.586.911
Time deposit interest accruals (-)	(18.737)	(9.206)
Cash and cash equivalents excluding interest accruals	7.016.703	4.577.705

The details of demand deposits are presented below:

	31 December 2017	31 December 2016
US Dollars	57.769	50.185
TRY	6.096	9.857
EURO	3.695	9.315
Romanian Lei	617	4.915
GB Pound	11	972
Japanese Yen	6	42
Other	485	147
	68.679	75.433

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

The details of time deposits are presented below:

	31 December 2017	31 December 2016
US Dollars	6.704.513	4.441.259
TRY	12.015	45.026
EURO	250.006	24.988
Romanian Lei	196	164
	6.966.730	4.511.437

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 2017	31 December 2016
Available for sale financial assets	13.437	122
	13.437	122

As of 31 December 2017 and 31 December 2016, 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 2017	Ratio %	31 December 2016
Financial investments without an active market				
Teknopark Hatay A.Ş.	5	102	5	95
Joint venture				
İsdemir Linde Gaz Ortaklığı A.Ş. (*)	50	13.335	50	27
		13.437		122

(*) As of 31 December 2017, non-operating joint venture İsdemir Linde Gaz Ortaklığı A.Ş. not recognized as equity pick up method and included to the financials with cost amount since the effect on financials are not material.

NOTE 6 – FINANCIAL DERIVATIVE INSTRUMENTS

The detail of financial derivative instruments as of 31 December 2017 and 31 December 2016 is as follows:

	31 December 2017		31 December 2016	
	Asset	Liability	Asset	Liability
Fair value hedging derivative financial assets				
Forward contracts for fair value hedges of currency risk of sales	27	9.470	14.825	-
Forward contracts	1.514	17	-	-
Cross currency swap contracts	-	-	22.640	133
Interest rate swap contracts	4.159	-	4.240	-
Basis Swap contracts	-	943	-	2.060
	5.700	10.430	41.705	2.193
Cash flow hedging derivative financial assets				
Forward contracts for cash flow hedges of currency risk of sales	1	24.017	17.354	444
Cross currency swap contracts for cash flow hedges of currency risk of borrowings	-	-	9.243	18.389
Interest rate swap contracts for cash flow hedges of interest rate risk of borrowings	572	12	244	171
Commodity swap contracts for cash flow hedges of price fluctuations of raw material purchases	2.075	8.982	1.719	-
	2.648	33.011	28.560	19.004
	8.348	43.441	70.265	21.197

NOTE 6 – FINANCIAL DERIVATIVE INSTRUMENTS (cont'd)

Derivative instruments for fair value hedge

As of 31 December 2017 and 31 December 2016, the details of forward, swap and cross currency swap transactions for fair value hedge are as follows:

		Assets		Liabilities	
31 December 2017		Nominal value	Fair Value	Nominal value	Fair Value
Forward contracts for fair value hedges of currency risk of sales					
Buy USD/Sell EUR	Less than 3 months	2.423	27	279.763	9.080
Buy USD/Sell EUR	Between 3 - 6 months	-	-	14.120	390
		2.423	27	293.883	9.470
Forward contracts					
Buy TRY/Sell EUR	Less than 3 months	131.294	1.514	101.366	17
		131.294	1.514	101.366	17
Interest rate swap contracts					
USD floating interest collection / Fixed interest payment	Between 1 - 5 years	207.455	4.159	-	-
		207.455	4.159	-	-
Basis interest swap contracts					
USD basis floating interest collection / Basis floating interest payment	Between 1 - 5 years	-	-	462.612	943
		-	-	462.612	943
		341.172	5.700	857.861	10.430

		Assets		Liabilities	
31 December 2016		Nominal value	Fair Value	Nominal value	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

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 2018 and February 2019.

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 1.086.544 thousand for the purpose of hedging cash flow risk, with related deferred tax effect TRY (24.016) thousand was included in other comprehensive income (31 December 2016: TRY 16.910 thousand).

In the current period, TRY (61.857) thousand resulting from the sales related forward contracts was accounted under the revenue account of the profit or loss table (31 December 2016: TRY 25.238).

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 279.991 thousand, for the purpose of hedging cash flow risk, with related deferred tax effect TRY 560 thousand was included in other comprehensive income (31 December 2016: TRY (9.073) 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.

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):

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.

The maturities of 162 thousands tons of iron ore contracts which has a nominal value of TRY 40.101 thousand, vary until January 2019 and fair value except deferred tax effect, TRY 2.075 thousand is included in other comprehensive income (31 December 2016: TRY 1.719 thousand). Amounts recognized on other comprehensive income table TRY (8.982) thousand related with commodity price hedging swap contracts for raw material purchases, realized as of 31 December 2017 and capitalized on inventories.

As of 31 December 2017, TRY (11.198) thousand realised reclassification from other comprehensive income to cost of inventories. (31 December 2016: TRY 2.728 thousand).

NOTE 7 – BORROWINGS

Details of borrowings are as follows:

	31 December 2017	31 December 2016
Short term borrowings	2.243.529	1.257.986
Current portion of long term borrowings	882.211	1.043.968
Total short term borrowings	3.125.740	2.301.954
Long term borrowings	1.364.688	1.617.534
Total long term borrowings	1.364.688	1.617.534
	4.490.428	3.919.488

As of 31 December 2017, 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 2017
No interest	TRY	-	3.386	-	3.386
Fixed	TRY	14,48	195.422	-	195.422
Fixed	US Dollars	2,32	1.717.216	79.635	1.796.851
Fixed	EURO	3,01	74.063	32.129	106.192
Floating	US Dollars	Libor+1,67	1.002.212	976.479	1.978.691
Floating	EURO	Euribor+2,08	133.441	276.445	409.886
			3.125.740	1.364.688	4.490.428

NOTE 7 – BORROWINGS (cont'd)

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

The details of the loan repayments with respect to their maturities are as follows:

	31 December 2017	31 December 2016
Within 1 year	3.125.740	2.301.954
Between 1-2 years	537.186	585.316
Between 2-3 years	487.084	480.309
Between 3-4 years	130.335	332.078
Between 4-5 years	117.133	102.893
Five years or more	92.950	116.938
	4.490.428	3.919.488

Reconciliation of net financial borrowings as of 31 December 2017 and 31 December 2016 is as follows:

	31 December 2017	31 December 2016
Opening balance	3.919.488	2.975.903
Interest expenses	105.342	104.548
Interest paid	(106.485)	(97.344)
Unrealised foreign exchange differences	55.106	(19.951)
Net present value differences	(13.520)	7.713
Cash inflow from loans	3.622.430	2.542.503
Cash outflow from loan repayments	(3.091.933)	(1.593.884)
Closing balance	4.490.428	3.919.488

NOTE 8 – TRADE RECEIVABLES AND PAYABLES

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

	31 December 2017	31 December 2016
Short term trade receivables		
Trade receivables	2.599.865	2.056.215
Due from related parties (Note 30)	82.936	54.877
Discount on receivables (-)	(2.119)	(3.709)
Provision for doubtful trade receivables (-)	(98.576)	(90.482)
	2.582.106	2.016.901

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

	1 January - 31 December 2017	1 January - 31 December 2016
Opening balance	90.482	77.993
Provision for the period	431	1.417
Doubtful receivables collected (-)	(4.179)	-
Provision released (-)	(4.335)	(610)
Translation difference	16.177	11.682
Closing balance	98.576	90.482

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.

The detail of overdue receivables included in trade receivables as of the reporting date is disclosed in the management of credit risk management (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 2017	31 December 2016
Trade payables	892.236	882.527
Due to related parties (Note 30)	53.897	35.008
Discount on trade payables (-)	(4.077)	(4.159)
Expense accruals	735	1.700
	942.791	915.076

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 2017	31 December 2016
Receivables from water system construction	1.701	1.592
Deposits and guarantees given	299	291
	2.000	1.883

Long term other receivables	31 December 2017	31 December 2016
Receivables from Privatization Authority	73.193	70.236
Receivables from water system construction	12.591	12.808
Deposits and guarantees given	1.052	979
Provision for receivables from Privatization Authority (-)	(73.193)	(70.236)
	13.643	13.787

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

	1 January - 31 December 2017	1 January - 31 December 2016
Opening balance	70.236	67.397
Provision for the period	2.990	2.887
Other doubtful receivables collected (-)	-	(227)
Translation difference	(33)	179
Closing balance	73.193	70.236

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

Short term other payables	31 December 2017	31 December 2016
Taxes payable	2.863	2.709
Employee's income tax payables	27.343	27.766
Deposits and guarantees received	8.745	9.539
Dividend payables to shareholders (*)	3.007	2.112
	41.958	42.126

(*) 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 2017	31 December 2016
Raw materials	1.184.596	834.711
Work in progress	921.580	720.679
Finished goods	1.143.812	866.700
Spare parts	781.590	768.861
Goods in transit	895.153	983.678
Other inventories	341.025	289.205
Allowance for impairment on inventories (-)	(228.247)	(208.787)
	5.039.509	4.255.047

The movement of the allowance for impairment on inventories:

	1 January - 31 December 2017	1 January - 31 December 2016
Opening balance	208.787	168.433
Provision for the period	39.530	39.576
Provision released (-)	(35.415)	(35.305)
Translation difference	15.345	36.083
Closing balance	228.247	208.787

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 2017	31 December 2016
Insurance expenses	37.495	24.355
Order advances given	3.890	5.142
Prepaid utility allowance to employees	7.608	7.657
Other prepaid expenses	3.989	5.359
	52.982	42.513

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 2017	31 December 2016
Order advances given	54.684	64.532
Insurance expenses	654	3.262
Other prepaid expenses	4.205	2.963
	59.543	70.757

NOTE 12 – INVESTMENT PROPERTIES

Cost	1 January - 31 December 2017	1 January - 31 December 2016
As of 1 January	94.882	71.731
Transfers (*)	-	6.916
Translation difference	6.813	16.235
As of 31 December	101.695	94.882
Book value	101.695	94.882

According to the recent valuation reports, the fair value of the Group's investment properties is TRY 558.868 thousand (31 December 2016: TRY 484.801 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 2017, the Group generated rent income amounting to TRY 506 thousand (31 December 2016: TRY 419 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	202.545	2.991.528	4.657.660	20.040.944	1.140.463	569.555	200.261	449.821	30.252.777
Translation difference	15.403	212.975	337.651	1.452.934	72.858	34.522	7.394	45.138	2.178.875
Additions (*)	-	809	796	110.507	23.320	17.610	9.699	590.667	753.408
Transfers from CIP (**)	389	32.628	29.341	194.676	5.221	2.687	2.599	(273.866)	(6.325)
Disposals	-	(416)	(239)	(67.856)	(8.569)	(10.148)	(255)	(456)	(87.939)
Closing balance as of 31 December 2017	218.337	3.237.524	5.025.209	21.731.205	1.233.293	614.226	219.698	811.304	33.090.796
Accumulated Depreciation									
Opening balance as of 1 January	-	(2.143.248)	(3.307.623)	(11.498.679)	(684.027)	(294.378)	(118.006)	(54.844)	(18.100.805)
Translation difference	-	(153.862)	(242.211)	(845.299)	(40.098)	(15.144)	(4.391)	(4.107)	(1.305.112)
Charge for the period	-	(60.063)	(86.804)	(464.382)	(29.852)	(25.021)	(20.011)	-	(686.133)
Disposals	-	300	204	55.024	8.391	8.968	229	-	73.116
Closing balance as of 31 December 2017	-	(2.356.873)	(3.636.434)	(12.753.336)	(745.586)	(325.575)	(142.179)	(58.951)	(20.018.934)
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
Net book value as of 31 December 2017	218.337	880.651	1.388.775	8.977.869	487.707	288.651	77.519	752.353	13.071.862

(*) The amount of capitalized borrowing cost is TRY 4.176 thousand for the current period (31 December 2016: TRY 2.028 thousand).

(**) TRY 6.325 thousand is transferred to intangible assets (Note 14).

As of 31 December 2017, the Group has no collaterals or pledges upon its tangible assets (31 December 2016: 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	173.843	2.418.629	3.815.068	16.107.877	958.465	474.272	155.854	560.468	24.664.476
Transfers (***)	(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.

(**) 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);

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).

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

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

	31 December 2017	31 December 2016
Associated with cost of production	649.088	609.576
General administrative expenses	9.652	8.397
Marketing, sales and distribution expenses	25.299	20.416
Research and development expenses	2.094	1.309
	686.133	639.698

NOTE 14 – INTANGIBLE ASSETS

	Rights	Other Intangible Assets	Total
Cost			
Opening balance as of 1 January	420.373	19.564	439.937
Translation difference	29.846	2.243	32.089
Additions	9.053	348	9.401
Transfers from CIP	6.318	7	6.325
Net book value as of 31 December 2017	465.590	22.162	487.752
Accumulated amortization			
Opening balance as of 1 January	(217.425)	(17.033)	(234.458)
Translation difference	(15.676)	(2.065)	(17.741)
Charge for the period	(23.298)	(944)	(24.242)
Closing balance as of 31 December 2017	(256.399)	(20.042)	(276.441)
Net book value as of 31 December 2016	202.948	2.531	205.479
Net book value as of 31 December 2017	209.191	2.120	211.311

As of 31 December 2017, the Group has no collaterals or pledges upon its intangible assets (31 December 2016: None).

NOTE 14 – INTANGIBLE ASSETS (cont'd)

	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)
Closing balance 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

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

	31 December 2017	31 December 2016
Associated with cost of production	14.256	12.815
General administrative expenses	9.249	6.469
Marketing, sales and distribution expenses	620	629
Research and development expenses	117	76
	24.242	19.989

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 1.348 thousand (31 December 2016: TRY 1.062 thousand) which are accounted under income statement for the year ended 31 December 2017.

NOTE 16 – EMPLOYEE BENEFITS

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

	31 December 2017	31 December 2016
Due to personnel	113.687	109.062
Social security premiums payable	64.251	59.662
	177.938	168.724

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

	31 December 2017	31 December 2016
Provisions for employee termination benefits	511.971	448.932
Provisions for seniority incentive premium	43.468	38.884
Provision for unpaid vacations	81.374	79.603
	636.813	567.419

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 2017, the amount payable consists of one month's salary limited to a maximum of TRY 4.732,48 (31 December 2016: TRY 4.297,21). As of 1 January 2018, the employee termination benefit has been updated to a maximum of TRY 5.001,76.

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 2017 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 2017	31 December 2016
Discount rate	%11,50	%11,00
Inflation rate	%8,30	%7,80
Salary increase	real 1,5%	real 1,5%
Maximum liability increase	%8,30	%7,80

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 2017, 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 2017, 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 2017	1 January - 31 December 2016
Opening balance	448.932	404.699
Service cost	43.762	41.921
Interest cost	46.296	40.319
Actuarial loss/(gain)	12.618	(8.006)
Termination benefits paid	(39.717)	(30.965)
Translation difference	80	964
Closing balance	511.971	448.932

The sensitivity analysis of the assumptions which was used for the calculation of provision for employment termination benefits as of 31 December 2017 as follows:

	Interest rate	
Change in rate	1% increase	1% decrease
Change in employee benefits liability	(21.996)	23.646

	Inflation rate	
Change in rate	1% increase	1% decrease
Change in employee benefits liability	22.110	(20.772)

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 2017	1 January - 31 December 2016
Opening balance	38.884	28.289
Service cost	4.189	4.315
Interest cost	3.883	3.069
Actuarial loss/(gain)	6.244	4.802
Termination benefits paid	(9.798)	(1.522)
Translation difference	66	(69)
Closing balance	43.468	38.884

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

	1 January - 31 December 2017	1 January - 31 December 2016
Opening balance	79.603	72.927
Provision for the period	68.042	60.847
Vacation paid during the period (-)	(5.870)	(4.214)
Provisions released (-)	(61.207)	(50.255)
Translation difference	806	298
Closing balance	81.374	79.603

NOTE 17 – PROVISIONS

The Group's short term provisions are as follows:

	31 December 2017	31 December 2016
Provision for lawsuits	103.689	105.448
Penalty prov. for employment shortage of disabled pers.	6.374	7.488
Provision for state right on mining activities	5.102	2.650
Provision for land occupation	11.665	16.602
Provision for the potential tax penalty	7.584	13.398
	134.414	145.586

NOTE 17 – PROVISIONS (cont'd)

The movement of the short term provisions is as follows:

	1 January 2017	Change for the period	Payments	Provision released	Translation difference	31 December 2017
Provision for lawsuits	105.448	44.635	(6.275)	(45.881)	5.762	103.689
Penalty prov. for employment shortage of disabled pers.	7.488	3.890	(3.486)	(1.120)	(398)	6.374
Provision for state right on mining activities	2.650	5.102	(2.560)	(90)	-	5.102
Provision for land occupation	16.602	17.244	(22.535)	-	354	11.665
Provision for the tax penalty	13.398	209	(7.376)	-	1.353	7.584
	145.586	71.080	(42.232)	(47.091)	7.071	134.414

	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

NOTE 17 – PROVISIONS (cont'd)

Provision for lawsuits

As of 31 December 2017 and 31 December 2016, lawsuits filed by and against the Group are as follows:

	31 December 2017	31 December 2016
Lawsuits filed by the Group	581.107	526.308
Provision for lawsuits filed by the Group	79.933	64.076

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

	31 December 2017	31 December 2016
Lawsuits filed against the Group	377.793	348.856
Provision for lawsuits filed against the Group	103.689	105.448

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 a decrease amounting to 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 2017 and 31 December 2016 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. Decision of the local court has been reversed by the Supreme Court 11th Civil Chamber with the decision dated 24 May 2017 and 2015/15771 Docket; 2017/3040 Decision number. The decision of reversal has been notified to the Company on 2 August 2017. Erdemir has applied for revision of the decision against the Supreme Court 11th Civil Chamber's decision dated 24.05.2017 and 2015/15771 Docket; 2017/3040 Decision number. Conclusion of the application for revision of the decision is expected.

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 2017 and 31 December 2016.

NOTE 17 – PROVISIONS (cont'd)

Provision for lawsuits (cont'd)

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.

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 of Kdz. Ereğli on 17 April 2013 for the compensation of the loss arising from the sales contract has been dismissed in favor of the Company at the stages of appeal and revision of decision.

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. At the hearing of the ongoing case dated 28 November 2017, Kdz. Ereğli 2. Civil Court of First Instance has decided to partially accept the case against our Company. Our company has applied for the appeal against the decision. A provision amounting to TRY 31.099 thousand recognised on financial statements for related lawsuit.

NOTE 17 – PROVISIONS (cont'd)

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

The Group have land property within the Erdemir factory area 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.

In current period, land occupation provision recognised on balance sheet, considering property fair values presented land occupation notifications and yearly probable increases.

Tax Penalty Provision

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 7.584 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 Aralık 2017	31 Aralık 2016
Letters of guarantees received	1.976.567	1.797.646
	1.976.567	1.797.646

NOTE 18 – COMMITMENTS AND CONTINGENCIES (cont'd)

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

	31 December 2017	31 December 2016
A. Total CPM given for the Company's own legal entity	116.263	112.584
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	176.335	625.603
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	-	-
	292.598	738.187

TRY 93.835 thousand of total CPM given in favor of subsidiaries TRY 176.335 thousand is related with financial borrowings stated in Note 6 and TRY 82.500 thousand of total CPM given by the Group is related with jointly controlled entity of Isdemir, Isdemir Linde Gaz A.Ş.'s financial borrowings.As of 31 December 2017, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2016: 0%).

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

	31 December 2017	31 December 2016
US Dollars	70.205	472.815
TRY	180.249	109.989
EURO	42.144	135.753
Japanese Yen	-	19.630
	292.598	738.187

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 2017	31 December 2016
Other VAT receivable	67.269	68.156
Deferred VAT	26.431	8.815
Prepaid taxes and funds	2.146	2.013
Other current assets	30.390	16.675
	126.236	95.659

Other non-current assets

	31 December 2017	31 December 2016
Other VAT receivable	-	10.856
	-	10.856

Other current liabilities

	31 December 2017	31 December 2016
VAT payable	106.512	64.382
Other current liabilities	5.016	7.758
	111.528	72.140

Other non-current liabilities

	31 December 2017	31 December 2016
Other non-current liabilities	428	479
	428	479

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 2017	31 December 2016
Advances received	142.980	99.215
Deferred income	7.300	7.138
	150.280	106.353

NOTE 21 – EQUITY

As of 31 December 2017 and 31 December 2016, the capital structure is as follows:

Shareholders	(%)	31 December 2017	(%)	31 December 2016
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 2017 consists of 350.000.000.000 lots of shares (31 December 2016: 350.000.000.000 lots). The nominal value of each share is 1 Kr (Turkish cent) (31 December 2016: 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 2017, holds its own shares with a nominal value of TRY 107.837 thousand (31 December 2016: 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 2017	31 December 2016
Share Premium	106.447	106.447
Revaluation Reserves of Tangible Assets	33.917	29.437
-Revaluation Reserves of Tangible Assets	*33.917*	*29.437*
Cash Flow Hedging Reserves	(16.272)	8.013
Foreign Currency Translation Reserves	7.665.476	6.522.205
Actuarial (Loss)/ Gain Fund	(111.247)	(101.527)
Restricted Reserves Assorted from Profit	1.567.280	1.166.197
-Legal Reserves	*1.567.280*	*1.166.197*
Retained Earnings	2.144.646	2.420.078
	11.390.247	10.150.850

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" item 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 1 February 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 the inflation adjustment differences in dividend distribution in cash, it is subject to corporate 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 182.726 thousand as of 31 December 2017 (31 December 2016: TRY 375.632 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 2017	1 January - 31 December 2016
Sales Revenue		
Domestic sales	15.812.158	9.936.330
Export sales	2.480.404	1.474.428
Other revenues (*)	403.195	255.177
Sales returns (-)	(37.610)	(18.506)
Sales discounts (-)	(14.233)	(10.925)
	18.643.914	11.636.504
Cost of sales (-)	(13.480.960)	(9.166.325)
Gross profit	5.162.954	2.470.179

(*)The total amount of by product exports in other revenues is TRY 191.125 thousand (31 December 2016: TRY 85.696 thousand).

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

The breakdown of cost of sales for the periods 1 January – 31 December 2017 and 1 January – 31 December 2016 is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Raw material usage	(9.805.665)	(5.859.664)
Personnel costs	(1.457.439)	(1.299.385)
Energy costs	(671.070)	(744.573)
Depreciation and amortization expenses	(672.664)	(620.483)
Factory overheads	(412.100)	(335.818)
Other cost of goods sold	(209.234)	(110.057)
Non-operating costs (*)	(25.368)	(19.392)
Freight costs for sales delivered to customers	(199.017)	(145.532)
Inventory write-downs within the period (Note 10)	(39.530)	(39.576)
Reversal of inventory write-downs (Note 10)	35.415	35.305
Other	(24.288)	(27.150)
	(13.480.960)	(9.166.325)

(*) 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 (25.368) thousand, has been accounted directly under cost of sales (31 December 2016: TRY (19.392) thousand).

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

The detail of marketing, sales and distribution expenses according to their nature for the periods 1 January – 31 December 2017 and 1 January – 31 December 2016 is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Marketing, sales and distribution expenses (-)	(164.522)	(141.215)
General administrative expenses (-)	(322.163)	(288.275)
Research and development expenses (-)	(13.113)	(11.088)
	(499.798)	(440.578)

NOTE 24 – OPERATING EXPENSES ACCORDING TO THEIR NATURE

The detail of marketing, sales and distribution expenses according to their nature for the periods 1 January – 31 December 2017 and 1 January – 31 December 2016 is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Personnel expenses (-)	(81.242)	(75.697)
Depreciation and amortization(-)	(25.919)	(21.045)
Service expenses (-)	(57.361)	(44.473)
	(164.522)	(141.215)

The detail of general administrative expenses for the periods 1 January – 31 December 2017 and 1 January – 31 December 2016 is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Personnel expenses (-)	(174.144)	(158.976)
Depreciation and amortization (-)	(18.901)	(14.866)
Service expenses (-)	(122.408)	(103.477)
Tax, duty and charges (-)	(7.624)	(7.262)
Provision for doubtful receivables (-)	914	(3.694)
	(322.163)	(288.275)

The detail of research and development expenses for the periods 1 January – 31 December 2017 and 1 January – 31 December 2016 is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Personnel expenses (-)	(8.475)	(7.575)
Depreciation and amortization (-)	(2.211)	(1.385)
Other (-)	(2.427)	(2.128)
	(13.113)	(11.088)

NOTE 25 – OTHER OPERATING INCOME/(EXPENSES)

The breakdown of other operating income for the periods 1 January – 31 December 2017 and 1 January – 31 December 2016 is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Other operating income		
Provisions released for land occupation (Note 17)	-	63.786
Interest income from sales with maturities	94.054	60.210
Discount income	9.210	6.281
Provisions released	47.001	23.726
Service income	16.514	14.017
Maintenance repair and rent income	12.322	10.723
Warehouse income	4.771	4.548
Indemnity and penalty detention income	2.968	2.301
Insurance indemnity income	45.398	7.046
Lawsuit income	7.496	353
Gain on sale of tangible assets	5.540	683
Gain on sale of investment properties	7.931	-
Other income and gains	24.149	29.640
	277.354	223.314

The breakdown of other operating expenses for the periods 1 January – 31 December 2017 and 1 January – 31 December 2016 is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Other operating expenses (-)		
Provision expenses	(48.734)	(49.137)
Discount expenses	(6.342)	(6.852)
Lawsuit compensation expenses	(4.738)	(5.515)
Port facility pre-licence expenses	(6.443)	(5.399)
Donation expenses	(2.573)	(3.329)
Service expenses	(7.058)	(5.531)
Loss on disposal of tangible assets	(13.215)	(3.617)
Stock exchange registration expenses	(1.396)	(1.077)
Rent expenses	(1.631)	(1.516)
Penalty expenses	(1.345)	(2.741)
Impairment of property, plant and equipment (Note 13)	-	(34.181)
Other expenses and losses	(16.604)	(31.349)
	(110.079)	(150.244)

NOTE 26 – FINANCE INCOME

The breakdown of finance income for the periods 1 January – 31 December 2017 and 1 January – 31 December 2016 is as follows:

Finance income	1 January - 31 December 2017	1 January - 31 December 2016
Interest income on bank deposits	206.792	123.634
Foreign exchange gains (net)	79.849	232.928
Other financial income	227	-
	286.868	356.562

NOTE 27 – FINANCE EXPENSES

The breakdown of finance expenses for the periods 1 January – 31 December 2017 and 1 January – 31 December 2016 is as follows:

Finance expenses (-)	1 January - 31 December 2017	1 January - 31 December 2016
Interest expenses on borrowings	(105.342)	(104.548)
Interest cost of employee benefits	(50.179)	(43.388)
Fair value differences of derivative financial instruments (net)	(5.025)	(37.228)
Other financial expenses	(2.237)	(2.641)
	(162.783)	(187.805)

During the period, the interest expenses of TRY 4.176 thousand have been capitalized as part of the Group's property, plant and equipment (31 December 2016: TRY 2.028 thousand).

NOTE 28 – TAX ASSETS AND LIABILITIES

	31 December 2017	31 December 2016
Corporate tax payable:		
Current corporate tax provision	1.137.927	530.673
Prepaid taxes and funds (-)	(339.966)	(75.049)
	797.961	455.624

	1 January - 31 December 2017	1 January - 31 December 2016
Taxation:		
Current corporate tax expense	1.137.927	530.673
Deferred tax (income) / expense	(80.953)	169.053
	1.056.974	699.726

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 2017 (31 December 2016: in Turkey 20%, in Romania 16%, in Singapore 17%). The total amount of the corporate tax paid by the Group in 2017 is TRY 795.590 thousand (31 December 2016: TRY 292.818 thousand).

In Turkey, advance tax returns are filed on a quarterly basis. The temporary tax of 2017 has been calculated over the corporate earnings using the rate 20%, during the temporary taxation period. (31 December 2016: 20%).

Pursuant to the Provisional Article 10 of the Law No. 7061 added with the Article 91 of the Law on Corporate Income Tax, published in the Official Gazette dated December 5, 2017 and numbered 30261, the corporate tax rate for corporate earnings to be obtained during the tax years 2018, 2019 and 2020 has been increased from 20% to 22%.

Except for the changes in the corporate tax rate, the 75% exemption applied to the earnings generated from the sale of intangibles is reduced to 50% and the deferred tax rate to be applied based on the temporary differences arising on the revaluation of the related assets, 10% instead of 5%.

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 since 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.

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

Income withholding tax (cont'd)

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.

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 2016: 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.

Deferred tax assets and liabilities (excluding land) tax rate used for calculating corporate tax for the subsidiaries in Turkey in accordance with the additional provisional Article 10 of Corporate Tax Law; corporate tax rate will be 22% for the corporate earnings to be obtained in the taxation periods of 2018, 2019, 2020 and 20% for the following years. The effective corporate tax rate is 17% in Singapore and 16% in Romania as of 31 December 2017 (31 December 2016: in Turkey 20%, in Romania 16%, in Singapore 17). The deferred tax on the temporary timing differences arising from land is calculated with the 10% tax rate. (31 December 2016: 5%)

In accordance with the Provisional Article added to the Law of Corporate Income Tax, the corporate tax rate for corporate earnings to be obtained during the tax years 2018, 2019 and 2020 has been increased from 20% to 22%.

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 2017	31 December 2016
Deferred tax assets:		
Carry forward tax losses	737	2.017
Provisions for employee benefits	129.580	113.400
Investment incentive	66.046	7.760
Provision for lawsuits	22.383	21.089
Provision for termination fee of long term contract	7.717	453
Inventories	19.170	12.683
Provision for other doubtful receivables	14.639	14.047
Tangible and intangible assets	16.039	15.819
Other	46.345	39.860
	322.656	227.128
Deferred tax liabilities:		
Tangible and intangible assets	(1.832.586)	(1.667.791)
Fair values of the derivative financial instruments	-	(10.267)
Amortized cost adjustment on loans	(4.994)	(1.930)
Inventories	(34.872)	(80.088)
Other	(12.179)	(9.841)
	(1.884.631)	(1.769.917)
	(1.561.975)	(1.542.789)

In accordance with the Provisional Article added to the Law of Corporate Income Tax, the corporate tax rate for corporate earnings to be obtained during the tax years 2018, 2019 and 2020 has been increased from 20% to 22 for the Group's subsidiaries operate in Turkey. Group recorded the effect on corporate tax rate change to the deffered tax calculations according to the current circumstances.

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 2017	31 December 2016
Deferred tax assets	57.743	34.243
Deferred tax (liabilities)	(1.619.718)	(1.577.032)
	(1.561.975)	(1.542.789)

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 2017	31 December 2016	31 December 2017	31 December 2016
1 year	-	-	-	-
2 year	4.606	-	4.606	-
3 year	-	12.606	-	12.606
4 year	-	-	-	-
5 year	-	-	-	-
	4.606	12.606	4.606	12.606

Movements of deferred tax asset / (liability)

	1 January - 31 December 2017	1 January - 31 December 2016
Opening balance	(1.542.789)	(1.024.995)
Deferred tax (expense)/income	80.953	(169.053)
The amount in comprehensive income	9.419	(4.209)
Translation difference	(109.558)	(344.532)
Closing balance	(1.561.975)	(1.542.789)

Reconciliation of tax provision is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Profit before tax	4.954.516	2.271.428
Statutory tax rate	20%	20%
Calculated tax expense acc. to effective tax rate	(990.903)	(454.286)
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	(4.252)	(2.890)
- Adjustment effect of rates subjected to corporate tax and deffered tax	(5.387)	-
- Effect of currency translation to non taxable assets	(123.270)	(239.896)
- Investment incentive	66.942	(2.772)
- Effect of the different tax rates due to foreign subsidiaries	(104)	118
Total tax exp. in reported in the stat. of income	(1.056.974)	(699.726)

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

As of 1 January – 31 December 2017 and 2016, the details of the tax gains/(losses) of the other comprehensive income/(expense) are as follows:

	1 January -31 December 2017		
Other comprehensive income/(loss) in the current period	Amount before tax	Tax income/ (expense)	Amount after tax
Change in revaluation reserves of fixed assets	4.480	-	4.480
Change in actuarial (loss)/gain	(12.618)	2.673	(9.945)
Change in cash flow hedging reserves	(30.663)	6.746	(23.917)
Change in foreign currency translation reserves	1.177.422	-	1.177.422
	1.138.621	9.419	1.148.040

	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

NOTE 29 – EARNINGS PER SHARE

	1 January - 31 December 2017	1 January- 31 December 2016
Number of shares outstanding	350.000.000.000	350.000.000.000
Net profit attributable to equity holders - TRY thousand	3.753.755	1.516.438
Profit per share with 1 TRY nominal value TRY %	1,0725 / %107,25	0,4333 / %43,33

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 2017	31 December 2016
Oyak Renault Otomobil Fab. A.Ş.[2]	59.622	40.722
Bolu Çimento Sanayi A.Ş.[1]	7.507	7.484
Adana Çimento Sanayi T.A.Ş. [1]	10.195	6.065
İsdemir Linde Gaz Ortaklığı A.Ş.[3]	3.820	-
Other	1.792	606
	82.936	54.877

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

Due to related parties (short term)	31 December 2017	31 December 2016
Omsan Lojistik A.Ş.[1]	14.466	8.021
Omsan Denizcilik A.Ş.[1]	11.696	11.747
Oyak Pazarlama Hizmet ve Turizm A.Ş.[1]	7.846	8.045
Oyak Savunma ve Güvenlik Sistemleri A.Ş.[1]	8.156	3.865
Oyak Denizcilik ve Liman İşletmeleri A.Ş.[1]	7.322	-
Oyak Grup Sigorta ve Reasürans Brokerliği A.Ş. [1]	1.980	-
Other	2.431	3.330
	53.897	35.008

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

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

NOTE 30 – RELATED PARTY DISCLOSURES (cont'd)

Major sales to related parties	1 January - 31 December 2017	1 January - 31 December 2016
Oyak Renault Otomobil Fab. A.Ş.[2]	223.492	143.767
Adana Çimento Sanayi T.A.Ş.[1]	20.527	16.523
Bolu Çimento Sanayi A.Ş.[1]	9.635	14.337
Aslan Çimento A.Ş.[1]	2.320	1.635
Oyak Denizcilik ve Liman İşletmeleri A.Ş.[1]	11.245	-
Mardin Çimento Sanayi ve Ticaret A.Ş.[1]	1.104	650
Omsan Lojistik A.Ş.[1]	1.101	889
İsdemir Linde Gaz Ortaklığı A.Ş.[3]	3.341	-
Diğer	1.612	1.958
	274.377	179.759

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 2017	1 January - 31 December 2016
Omsan Denizcilik A.Ş.[1]	125.918	91.641
Oyak Pazarlama Hizmet ve Turizm A.Ş.[1]	89.863	64.352
Omsan Lojistik A.Ş.[1]	96.159	64.534
Oyak Savunma ve Güvenlik Sistemleri A.Ş.[1]	40.845	31.846
Omsan Logistica SRL[1]	13.346	8.733
Oyak Denizcilik ve Liman İşletmeleri A.Ş.[1]	55.565	-
Oyak Grup Sigorta ve Reasürans Brokerliği A.Ş. [1]	7.324	-
Other	21.332	16.060
	450.352	277.166

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

[1] Subsidiaries of the parent company
[2] Joint venture of the parent company
[3] Joint venture of subsidiary

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 2017, the Group provides no provision for the receivables from related parties (31 December 2016: None).

Salaries, bonuses and other benefits of the key management:

For the year ended 31 December 2017, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 26.741 thousand (31 December 2016: TRY 22.919 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 2017 and 31 December 2016 the net (credit) debt /equity ratio is as follows:

	Note	31 December 2017	31 December 2016
Total financial liabilities	7	4.490.428	3.919.488
Less: Cash and cash equivalents	4	7.035.440	4.586.911
Net (credit) debt		(2.545.012)	(667.423)
Total adjusted equity (*)		19.355.676	15.753.547
Total resources		16.810.664	15.086.124
Net (credit) debt/Total adjusted equity ratio		-13%	-4%
Distribution of net (credit) debt/ total adjusted equity		-15/115	-4/104

(*)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 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 arisng from any customer.

Credit risk of financial instruments	Receivables					Derivative financial instruments
	Trade Receivables		Other Receivables		Bank Deposits	
31 December 2017	Related Party	Other Party	Related Party	Other Party		
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	82.936	2.499.170	-	15.643	7.035.409	8.348
- Secured part of the maximum credit risk exposure via collateral etc.	-	2.113.550	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	82.936	2.462.615	-	15.643	7.035.409	8.348
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	-	36.555	-	-	-	-
- secured part via collateral etc.	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	98.576	-	73.193	-	-
- Impairment (-)	-	(98.576)	-	(73.193)	-	-
- 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 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)

(f) Foreign currency risk management

As of 31 December 2017 and 31 December 2016, 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 2017			
	TRY (Total in currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)
1. Trade Receivables	400.354	47.969	75.455	208
2a. Monetary financial assets	272.343	17.528	56.033	200
2b. Non- monetary financial assets	-	-	-	-
3. Other	156.535	155.013	337	-
4. Current assets (1+2+3)	**829.232**	**220.510**	**131.825**	**408**
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	48.402	22.182	4.491	191.111
8. Non-current assets (5+6+7)	**48.402**	**22.182**	**4.491**	**191.111**
9. Total assets (4+8)	**877.634**	**242.692**	**136.316**	**191.519**
10. Trade payables	326.770	282.292	7.856	206.922
11. Financial liabilities	406.475	198.808	45.990	-
12a. Other monetary financial liabilities	543.414	538.995	979	-
12b. Other non-monetary financial liabilities	785.150	785.150	-	-
13. Current liabilities (10+11+12)	**2.061.809**	**1.805.245**	**54.825**	**206.922**
14. Trade payables	-	-	-	-
15. Financial liabilities	308.573	-	68.336	-
16a. Other monetary financial liabilities	620.791	620.791	-	-
16b. Other non-monetary financial liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	**929.364**	**620.791**	**68.336**	**-**
18. Total liabilities (13+17)	**2.991.173**	**2.426.036**	**123.161**	**206.922**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	**(1.398.078)**	**232.660**	**(361.142)**	**-**
19a. Off-balance sheet foreign currency derivative financial assets	232.660	232.660	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	1.630.738	-	361.142	-
20. Net foreign currency asset/liability position (9-18+19)	**(3.511.617)**	**(1.950.684)**	**(347.987)**	**(15.403)**
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**(1.533.326)**	**(1.575.389)**	**8.327**	**(206.514)**
22. Fair value of derivative financial instruments used in foreign currency hedge	(31.961)	-	(7.078)	-
23. Hedged foreign currency assets	1.630.738	-	361.142	-
24. Hedged foreign currency liabilities	232.660	232.660	-	-
25. Exports	2.671.529			
26. Imports	9.620.585			

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 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)

The following table shows the Group's sensitivity to a 10% (+/-) change in the TRY, 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 2017 asset and liability balances are translated by using the following exchange rates: TRY 3,7719 = US $ 1,TRY 4,5155 = EUR 1 and TRY 0,0334= JPY 1 (31 December 2016: TRY 3,5192 = US $ 1,TRY 3,7099 = EUR 1 and TRY 0,0300= JPY 1).

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2017	Appreciation of foreign currency	Depreciation of foreign currency
1- TRY net asset/liability	(218.334)	218.334
2- Hedged portion from TRY risk (-)	23.266	(23.266)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(195.068)	195.068
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	5.940	(5.940)
10- Hedged portion from Euro risk (-)	-	-
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	5.940	(5.940)
13- Jap. Yen net asset/liability	(48)	48
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(48)	48
TOTAL (4+8+12+16)	**(189.176)**	**189.176**

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 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**

(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 2017	31 December 2016
Floating interest rate financial instruments		
Financial liabilities	2.388.577	2.967.313

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 8.516 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 2017

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	4.490.428	4.645.182	1.148.427	2.040.381	1.325.130	131.244
Trade payables	942.791	946.868	946.868	-	-	-
Other financial liabilities (*)	268.419	268.419	268.419	-	-	-
Total liabilities	**5.701.638**	**5.860.469**	**2.363.714**	**2.040.381**	**1.325.130**	**131.244**
Derivative financial liabilities						
Derivative cash inflows	8.348	1.935.602	739.147	838.705	357.750	-
Derivative cash outflows	(43.441)	(2.407.663)	(856.187)	(1.015.794)	(535.682)	-
	(35.093)	**(472.061)**	**(117.040)**	**(177.089)**	**(177.932)**	**-**

(*) 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 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 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 2017	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	7.035.440	-	-	-	-	-	7.035.440	4
Trade receivables	-	2.582.106	-	-	-	-	2.582.106	8
Financial investments	-	-	13.437	-	-	-	13.437	5
Other financial assets	-	15.643	-	-	-	-	15.643	9
Derivative financial instruments	-	-	-	-	2.648	5.673	8.321	6
Financial Liabilities								
Financial liabilities	-	-	-	4.490.428	-	-	4.490.428	7
Trade payables	-	-	-	942.791	-	-	942.791	8
Other liabilities	-	-	-	268.419	-	-	268.419	9/16/19
Derivative financial instruments	-	-	-	-	33.011	10.430	43.441	6
31 December 2016								
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

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 2017	Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	5.700	-	5.700	-
Derivative financial liabilities	(10.430)	-	(10.430)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	2.648	-	2.648	-
Derivative financial liabilities	(33.011)	-	(33.011)	-
Total	(35.093)	-	(35.093)	-

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 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	-

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

In the Board of Directors meeting of Iskenderun Demir ve Çelik AS, a subsidiary of the Company, dated 2 February 2018; it has been decided to participate 50% in the capital increase of Isdemir Linde Gaz Ortaklığı A.Ş., which is a jointly controlled entity, amounting to USD 46 million.

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, 2017, 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.