

**(CONVENIENCE TRANSLATION OF CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH - SEE NOTE 17)**

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

**CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS FOR THE PERIOD 1 JANUARY - 30 JUNE 2017 AND
REVIEW REPORT**

**(CONVENIENCE TRANSLATION OF THE REPORT ON REVIEW OF CONDENSED
INTERIM FINANCIAL INFORMATION ORIGINALLY ISSUED IN TURKISH)**

**REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM
FINANCIAL INFORMATION**

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

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (“the Company”) and its subsidiaries (together will be referred as “the Group”) as of 30 June 2017 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended. Group management is responsible for the preparation and presentation of this consolidated interim financial information in accordance with Turkish Accounting Standards 34 “Interim Financial Reporting” (“TAS 34”). Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with Independent Auditing Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Independent Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information is not prepared, in all material respects, in accordance with TAS 34 “Interim Financial Reporting”.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the matter in Note 7 to the accompanying interim condensed consolidated financial statements. In the case about Capital Market Board's ("CMB") claim that the Company had prepared its 31 December 2005 financial statements in accordance with International Financial Reporting Standards instead of Communiqué Serial XI, No: 25 on "Accounting Standards in Capital Markets" without taking the permission of the CMB in prior years; were concluded against the Company at Council of State and such conclusions declared to the Company via notifications sent in July 2012. On 1 August 2012, the Company applied to the Administrative Court to remove the conflicting decisions of this court; but the Administrative Court decided to reject the application by the notification made on 17 February 2014. In the other court case about the request of the Turkish Republic Privatization Administration (PA) to cancel the decision taken by the Company General Assembly dated 30 March 2006 for profit distribution; 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. Lawsuit process is ongoing as of the date of review report and this matter is not basis for our review conclusion.

Other Matter

The audit of the consolidated financial statements for the year ended 31 December 2016 was performed by another audit firm. The predecessor audit firm expressed an unqualified opinion in the auditor's report for the year ended 31 December 2016, dated 7 February 2017. Based on financial statements as at 30 June 2016, nothing has come to independent auditor's attention that causes the consolidated interim financial information is not prepared, in accordance with TAS 34 "Interim Financial Reporting" at the auditor's review report dated 10 August 2016.

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



Volkan Becerik
Partner

İstanbul, 8 August 2017

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(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 30 JUNE 2017

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

	Note	(Reviewed)	(Reviewed)	(Audited)	(Audited)
		Current Period 30 June 2017 USD'000	Current Period 30 June 2017 TRY'000	Previous Period 31 December 2016 USD'000	Previous Period 31 December 2016 TRY'000
ASSETS					
Current Assets		3.022.276	10.599.423	3.143.675	11.063.224
Cash and Cash Equivalents		1.065.050	3.735.236	1.303.396	4.586.911
Financial Derivative Instruments		3.906	13.698	18.274	64.310
Trade Receivables		565.771	1.984.213	573.114	2.016.901
<i>Due From Related Parties</i>	3	20.084	70.435	15.594	54.877
<i>Other Trade Receivables</i>		545.687	1.913.778	557.520	1.962.024
Other Receivables		595	2.086	535	1.883
Inventories	4	1.331.145	4.668.459	1.209.095	4.255.047
Prepaid Expenses		24.389	85.533	12.080	42.513
Other Current Assets		31.420	110.198	27.181	95.659
Non Current Assets		3.556.690	12.473.668	3.576.965	12.588.053
Other Receivables		3.942	13.826	3.918	13.787
Financial Investments		3.562	12.493	35	122
Financial Derivative Instruments		972	3.409	1.692	5.955
Investment Properties		26.961	94.556	26.961	94.882
Property, Plant and Equipment	5	3.423.693	12.007.232	3.453.050	12.151.972
Intangible Assets	5	56.859	199.409	58.388	205.479
Prepaid Expenses		30.740	107.809	20.106	70.757
Deferred Tax Assets	10	9.961	34.934	9.730	34.243
Other Non Current Assets		-	-	3.085	10.856
TOTAL ASSETS		6.578.966	23.073.091	6.720.640	23.651.277

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

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 30 JUNE 2017

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

	Note	(Reviewed)	(Reviewed)	(Audited)	(Audited)
		Current Period 30 June 2017 USD'000	Current Period 30 June 2017 TRY'000	Previous Period 31 December 2016 USD'000	Previous Period 31 December 2016 TRY'000
LIABILITIES					
Current Liabilities		1.070.407	3.754.026	1.201.046	4.226.720
Short Term Borrowings	6	433.314	1.519.674	357.464	1.257.986
Short Term Portion of Long Term Borrowings	6	191.657	672.159	296.649	1.043.968
Financial Derivative Instruments		8.482	29.747	5.438	19.137
Trade Payables		165.438	580.209	260.024	915.076
<i>Due to Related Parties</i>	3	8.407	29.485	9.948	35.008
<i>Other Trade Payables</i>		157.031	550.724	250.076	880.068
Other Payables		14.032	49.213	11.970	42.126
Deferred Revenue		45.354	159.062	30.221	106.353
Current Tax Liabilities	10	99.763	349.879	129.468	455.624
Short Term Provisions	7	39.000	136.776	41.369	145.586
Payables for Employee Benefits	8	41.707	146.271	47.944	168.724
Other Current Liabilities		31.660	111.036	20.499	72.140
Non Current Liabilities		961.113	3.370.716	1.069.709	3.764.524
Long Term Borrowings	6	375.792	1.317.939	459.631	1.617.534
Financial Derivative Instruments		251	880	585	2.060
Provisions for Employee Benefits	8	177.759	623.417	161.235	567.419
Deferred Tax Liabilities	10	407.192	1.428.062	448.122	1.577.032
Other Non Current Liabilities		119	418	136	479
EQUITY		4.547.446	15.948.349	4.449.885	15.660.033
Equity Attributable to Equity Holders of the Parent		4.415.222	15.484.627	4.321.343	15.207.669
Share Capital	11	1.818.371	3.500.000	1.818.371	3.500.000
Inflation Adjustment to Capital		81.366	156.613	81.366	156.613
Treasury Shares (-)		(60.387)	(116.232)	(60.387)	(116.232)
Share Issue Premium (Discounts)		55.303	106.447	55.303	106.447
Other Comprehensive Income/Expense Not to be Reclassified to Profit/ (Loss)		(40.329)	(83.386)	(37.151)	(72.090)
<i>Revaluation Reserve of Tangible Assets</i>		11.004	30.153	10.757	29.437
<i>Actuarial (Loss)/ Gain funds</i>		(51.333)	(113.539)	(47.908)	(101.527)
Other Comprehensive Income/Expense to be Reclassified to Profit/ (Loss)		(49.012)	6.439.858	(41.532)	6.530.218
<i>Cash Flow Hedging Gain (Loss)</i>		(4.031)	(14.138)	2.277	8.013
<i>Foreign Currency Translation Reserves</i>		(44.981)	6.453.996	(43.809)	6.522.205
Restricted Reserves Assorted from Profit		606.456	1.492.841	516.714	1.166.197
Retained Earnings		1.516.686	2.219.085	1.486.278	2.420.078
Net Profit for the Period		486.768	1.769.401	502.381	1.516.438
Non-Controlling Interests		132.224	463.722	128.542	452.364
TOTAL LIABILITIES AND EQUITY		6.578.966	23.073.091	6.720.640	23.651.277

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

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017

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

	Note	(Reviewed) Current Period		(Reviewed) Current Period		Current Period		(Reviewed) Previous Period		(Reviewed) Previous Period	
		1 January - 30 June 2017 USD'000	1 January - 30 June 2017 TRY'000	1 January - 30 June 2017 USD'000	1 January - 30 June 2017 TRY'000	1 April - 30 June 2017 TRY'000	1 January - 30 June 2016 USD'000	1 January - 30 June 2016 TRY'000	1 April - 30 June 2016 TRY'000		
Revenue	12	2,441,667	8,875,459	1,796,621	4,684,436	2,668,633	5,245,415	2,668,633			
Cost of Sales	12	(1,778,325)	(6,464,211)	(1,536,150)	(3,532,903)	(2,155,046)	(4,484,943)	(2,155,046)			
GROSS PROFIT		663,342	2,411,248	260,471	1,151,533	513,587	760,472	513,587			
Marketing Expenses	13	(22,216)	(80,755)	(23,940)	(40,931)	(36,338)	(69,895)	(36,338)			
General Administrative Expenses	13	(44,425)	(161,485)	(49,315)	(80,454)	(74,115)	(143,979)	(74,115)			
Research and Development Expenses	13	(1,685)	(6,124)	(1,872)	(3,431)	(3,100)	(5,465)	(3,100)			
Other Operating Income	13	38,914	141,452	46,505	65,054	34,938	135,777	34,938			
Other Operating Expenses	13	(19,389)	(70,480)	(17,604)	(28,489)	(27,667)	(51,399)	(27,667)			
OPERATING PROFIT		614,541	2,233,856	214,245	1,063,282	407,305	625,511	407,305			
Finance Income	14	23,966	87,115	24,763	(1,706)	47,528	72,298	47,528			
Finance Expense	14	(26,978)	(116,792)	(28,897)	(75,815)	1,351	(85,229)	1,351			
PROFIT BEFORE TAX		611,529	2,204,179	210,111	985,761	456,184	612,580	456,184			
Tax (Expense) Income	10	(107,931)	(373,600)	(39,047)	(85,292)	(124,838)	(113,142)	(124,838)			
Current Corporate Tax Expense (Income)		(146,428)	(513,538)	(33,014)	(213,003)	(80,559)	(95,529)	(80,559)			
Deferred Tax (Expense) Income		38,497	139,938	(6,033)	127,711	(44,279)	(17,613)	(44,279)			
NET PROFIT FOR THE PERIOD		503,598	1,830,579	171,064	900,469	331,346	499,438	331,346			
Non-Controlling Interests		16,830	61,178	5,998	33,085	13,365	17,512	13,365			
Equity Holders of the Parent		486,768	1,769,401	165,066	867,384	317,981	481,926	317,981			
EARNINGS PER SHARE			0,5055		0,2478		0,1377				
(TRY 1 Nominal value per share)											

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(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017

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

	(Reviewed) Current Period 1 January - 30 June 2017 USD'000	(Reviewed) Current Period 1 January - 30 June 2017 TRY'000	Current Period 1 April - 30 June 2017 TRY'000	(Reviewed) Previous Period 1 January - 30 June 2016 USD'000	(Reviewed) Previous Period 1 January - 30 June 2016 TRY'000	Previous Period 1 April - 30 June 2016 TRY'000
PROFIT (LOSS) FOR THE PERIOD	503.598	1.830.579	900.469	171.064	499.438	331.346
OTHER COMPREHENSIVE INCOME						
Not to be reclassified subsequently to profit or loss						
Increase (Decrease) in Revaluation Reserve of Tangible Assets	333	1.016	(889)	67	(9)	512
Actuarial Gain (Loss) of Defined Benefit Plans	(4.403)	(15.440)	(15.440)	(8.002)	(23.154)	(23.154)
Tax Effect of Actuarial Gain (Loss) of Defined Benefit Plans	881	3.088	3.088	1.600	4.631	4.631
To be reclassified subsequently to profit or loss						
Gain (Loss) in Cash Flow Hedging Reserves	(7.733)	(26.949)	(17.327)	860	2.802	18.875
Tax Effect of Gain (Loss) in Cash Flow Hedging Reserves	1.547	5.390	3.466	(172)	(560)	(3.775)
Foreign Currency Translation Gain (Loss)	(1.230)	(70.512)	(575.845)	2.498	(79.527)	233.338
OTHER COMPREHENSIVE INCOME	(10.605)	(103.407)	(602.947)	(3.149)	(95.817)	230.427
TOTAL COMPREHENSIVE INCOME (LOSS)	492.993	1.727.172	297.522	167.915	403.621	561.773
Distribution of Total Comprehensive Income						
Non-controlling Interests	16.882	59.427	17.468	6.070	15.575	19.438
Equity Holders of the Parent	476.111	1.667.745	280.054	161.845	388.046	542.335

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017

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

	Share Capital	Inflation Adjustment to Capital	Treasury Shares (-)	Share Issue Premium / Discounts	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			Total Shareholders' Equity
					Revaluation Reserve of Tangible Assets	Actuarial Gain/(Loss) Funds	Cash Flow Hedging Gain/(Loss)	Foreign Currency Transition Reserves	Restricted Reserves Assorted from Profit	Retained Earnings	Net Profit For The Period	Equity Atributable to the Parent	Non-controlling Interests		
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	-	-	-	-	-	-	(22.151)	(68.209)	-	-	1.769.401	1.769.401	61.178	1.830.579	
Other comprehensive income/(loss)	-	-	-	-	716	(12.012)	(22.151)	(68.209)	-	-	-	(101.656)	(1.751)	(103.407)	
Total comprehensive income/(loss)	-	-	-	-	716	(12.012)	(22.151)	(68.209)	-	-	1.769.401	1.667.745	59.427	1.727.172	
Dividends (*)	-	-	-	-	-	-	-	-	-	(1.390.787)	-	(1.390.787)	(48.069)	(1.438.856)	
Transfers	-	-	-	-	-	-	-	-	326.644	1.189.794	(1.516.438)	-	-	-	
30 June 2017	3.500.000	156.613	(116.232)	106.447	30.153	(113.539)	(14.138)	6.453.996	1.492.841	2.219.085	1.769.401	15.484.627	463.722	15.948.349	
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	-	-	-	-	-	-	-	-	-	-	481.926	481.926	17.512	499.438	
Other comprehensive income/(loss)	-	-	-	-	(9)	(18.093)	1.852	(77.630)	-	-	-	(93.880)	(1.937)	(95.817)	
Total comprehensive income/(loss)	-	-	-	-	(9)	(18.093)	1.852	(77.630)	-	-	481.926	388.046	15.375	403.621	
Dividends (*)	-	-	-	-	-	-	-	-	-	(1.017.649)	-	(1.017.649)	(31.665)	(1.049.314)	
Transfers	-	-	-	-	-	-	-	-	215.366	910.547	(1.125.913)	-	-	-	
30 June 2016	3.500.000	156.613	(116.232)	106.447	27.206	(125.888)	(340)	3.934.819	1.166.197	2.420.078	481.926	11.550.826	341.673	11.892.499	

(*) 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 48.069 thousand dividend to non-controlling interests on Isdemir and Erdemir Maden apart from the Equity holders of the Parent in current year (2016: TRY 31.665 thousand).

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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

CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017

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

		(Reviewed) Current Period 1 January- 30 June 2017	(Reviewed) Current Period 1 January- 30 June 2017	(Reviewed) Previous Period 1 January- 30 June 2016	(Reviewed) Previous Period 1 January- 30 June 2016
	Note	USD'000	TRY'000	USD'000	TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit (Loss) for The Period		349.944	1.298.877	274.484	798.118
Adjustments to Reconcile Profit (Loss)		503.598	1.830.579	171.064	499.438
Adjustments for Depreciation and Amortisation Expenses	5/12	226.351	804.061	158.291	461.279
Adjustments for Impairment Loss (Reversal of Impairment Loss)		98.675	358.685	110.192	321.716
Adjustments for Provision (Reversal of Provision) for Receivables		(2.969)	(10.790)	(3.701)	(10.806)
Adjustments for Provision (Reversal of Provision) for Inventories	4	(625)	(2.271)	754	2.201
Adjustments for Provisions		(2.344)	(8.519)	(4.455)	(13.007)
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	8	20.391	74.120	7.563	22.080
Adjustments for Provision (Reversal of Provision) for Pending Claims and/or Lawsuits	7	19.226	69.885	20.916	61.068
Adjustments for Interest (Income) and Expenses		1.165	4.235	(13.353)	(38.988)
Adjustments for Interest Income	14	(9.451)	(34.354)	(920)	(2.689)
Adjustments for Interest Expense	14	(22.916)	(83.300)	(18.005)	(52.367)
Unearned Financial Income from Credit Sales		14.138	51.393	16.930	49.428
Adjustments for Unrealised Foreign Exchange Differences		(673)	(2.447)	155	450
Adjustments for Fair Value (Gains) Losses		10.213	37.124	1.375	4.013
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments	14	(1.050)	(3.815)	4.537	13.246
Adjustments for Tax (Income) Expenses	10	107.931	373.600	39.047	113.142
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		2.611	9.491	198	577
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment	13	2.611	9.491	198	577
Changes in Working Capital		(192.324)	(674.501)	129.122	373.625
Adjustments for Decrease (Increase) in Trade Receivables		7.424	26.036	65.888	190.653
Decrease (Increase) in Trade Receivables from Related Parties		(4.436)	(15.558)	1.056	3.057
Decrease (Increase) in Trade Receivables from Third Parties		11.860	41.594	64.832	187.596
Adjustments for Decrease (Increase) in Other Receivables Related from Operations		(721)	(2.529)	(918)	(2.656)
Decrease (Increase) in Derivative Financial Instruments		(721)	(2.529)	(918)	(2.656)
Decrease (Increase) in Inventories		15.088	52.915	10.818	31.303
Decrease (Increase) in Prepaid Expenses		(121.122)	(424.788)	92.482	267.605
Adjustments for Increase (Decrease) in Trade Payables		(12.877)	(45.162)	(2.433)	(7.041)
Increase (Decrease) in Trade Payable to Related Parties		(94.586)	(331.723)	(55.469)	(102.633)
Increase (Decrease) in Trade Payable to Third Parties		(1.575)	(5.523)	(1.045)	(3.024)
Adjustments for Increase (Decrease) in Other Payables Related from Operations		(93.011)	(326.200)	(34.424)	(99.609)
Increase (Decrease) in Derivative Liabilities		(4.175)	(14.642)	(3.855)	(11.155)
Increase (Decrease) in Other Payables to Third Parties Related from Operations		(4.175)	(14.642)	(3.855)	(11.155)
Increase (Decrease) in Derivative Liabilities		(3.503)	(12.286)	(7.484)	(21.656)
Adjustments for Other Increase (Decrease) in Working Capital		22.148	77.678	10.093	29.205
Decrease (Increase) in Other Assets Related from Operations		(4.146)	(14.539)	1.267	3.666
Increase (Decrease) in Other Payables Related from Operations		26.294	92.217	8.826	25.539
Cash Flows Provided by Operating Activities		537.625	1.960.139	458.477	1.334.342
Payments Related to Provisions for Employee Termination Benefits	8	(7.821)	(28.429)	(8.250)	(24.085)
Payments Related to Other Provisions	7	(3.727)	(13.550)	(98.431)	(287.379)
Income Taxes Refund (Paid)	10	(176.133)	(619.283)	(77.312)	(224.760)
CASH FLOWS FROM INVESTING ACTIVITIES		(78.596)	(284.342)	(91.072)	(265.782)
Cash Outflows Arising From Purchase of Shares or Capital Increase of Associates and/or Joint Ventures		(3.527)	(12.371)	-	-
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		354	1.285	1.910	5.576
Cash Inflow from Sales of Property, Plant and Equipment	5/13	354	1.285	1.910	5.576
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(68.349)	(248.447)	(88.747)	(259.105)
Cash Outflow from Purchase of Property, Plant and Equipment	5	(67.866)	(246.691)	(88.222)	(257.574)
Cash Outflow from Purchase of Intangible Assets	5	(483)	(1.756)	(525)	(1.532)
Cash Advances and Debts Given		(7.074)	(24.809)	(4.235)	(12.253)
Other Cash Advances and Debts Given		(7.074)	(24.809)	(4.235)	(12.253)
CASH FLOWS FROM FINANCING ACTIVITIES		(505.886)	(1.840.346)	(153.748)	(423.014)
Cash Inflow from Borrowings		365.012	1.280.133	569.124	1.646.819
Cash Inflow from Loans		365.012	1.280.133	569.124	1.646.819
Cash Outflow from Repayments of Borrowings		(487.690)	(1.710.423)	(353.373)	(1.022.541)
Cash Outflow from Loan Repayments		(487.690)	(1.710.423)	(353.373)	(1.022.541)
Dividends Paid		(391.142)	(1.438.856)	(369.900)	(1.048.454)
Interest Paid		(14.993)	(54.500)	(17.610)	(51.412)
Interest Received		22.927	83.300	18.011	52.574
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		(234.538)	(825.811)	29.664	109.322
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(3.808)	(25.864)	2.171	(31.337)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(238.346)	(851.675)	31.835	77.985
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		1.303.396	4.586.911	1.009.321	2.934.703
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		1.065.050	3.735.236	1.041.156	3.012.688

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017

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

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 (OYAK/Armed Forces Pension Fund), respectively.

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

The Company 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	Steel Production	95,07	95,07
Erdemir Madencilik San. ve Tic. A.Ş.	Turkey	Iron Ore and Pellet	90	90
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Turkey	Steel Service Center	100	100
Erdemir Mühendislik 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 subsidiary İsdemir's production and to reduce the costs with an effective and efficient management. İsdemir Linde Gaz Ortaklığı A.Ş, which will be recognised by using the equity pick-up method is not included in the consolidation, since it is not operational yet as of the reporting date, and that the financial statements are not affected significantly. The capital of the joint venture amounting to TRY 12.398 thousand has been reported under financial investments on the financial statements.

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

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

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

The number of the personnel employed by the Group as at 30 June 2017 and 31 December 2016 are as follows:

	Paid Hourly Personnel	Paid Monthly Personnel	30 June 2017 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.375	1.727	6.102
İskenderun Demir ve Çelik A.Ş.	3.159	1.687	4.846
Erdemir Madencilik San. ve Tic. A.Ş.	136	124	260
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	221	90	311
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	228	228
Erdemir Romania S.R.L.	219	49	268
Erdemir Asia Pacific Private Limited	-	4	4
	8.110	3.909	12.019
	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 condensed 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”).

In accordance with the Turkish Accounting Standard No: 34 “Interim Financial Reporting”, entities are allowed to prepare a complete or condensed set of interim financial statements. In this respect, the Group has preferred to prepare condensed interim consolidated financial statements in the interim period. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2016.

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017

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

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

2.1 Basis of Presentation (cont’d)

Functional and reporting currency

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

Functional currency for the subsidiary abroad

The functional currency of the foreign subsidiaries Erdemir Asia Pacific Private Limited “EAPPL” and Erdemir Romania S.R.L is US Dollars and EUR respectively.

Presentation currency translation

Presentation currency of the consolidated financial statements is Turkish Lira. According to IAS 21 (“The Effects of Changes in Foreign Exchange Rates”) financial statements, that are prepared in US Dollars for the Company, İsdemir, Ersem, 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 30 June 2017 are translated from US Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 3,5071=US \$ 1 and TRY 4,0030=EUR 1 on the balance sheet date (31 December 2016: TRY 3,5192= US \$ 1, TRY 3,7099=EUR 1).
- b) For the six months period ended 30 June 2017, income statements are translated from the average TRY 3,6350 = US \$ 1 and TRY 3,9306=EUR 1 rates of 2017 January - June period (30 June 2016: TRY 2,9196 = US \$ 1 TRY 3,2569 = 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 condensed interim financial statements

The figures in USD amounts presented in the accompanying condensed interim consolidated financial statements comprising the statements of financial position as of 30 June 2017 and 31 December 2016, consolidated statement of income and other comprehensive income and consolidated statement of cash flows for the interim period ended 30 June 2017 represent the consolidated financial statements prepared according to USD reporting currency 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 condensed interim consolidated financial statements in accordance with the going concern assumption.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017

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

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 condensed interim consolidated financial statements have been approved and authorized to be published on 8 August 2017 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

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

The Group’s condensed 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 condensed 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.

Reclassification of profit and loss statement is as follows:

Account	(Previously Reported)	(Restated)	(Difference)
	1 January - 30 June 2016	1 January - 30 June 2016	1 January - 30 June 2016
Financial Income ⁽¹⁾	81.017	72.298	(8.719)
Deferred Tax (Expense) Income ⁽¹⁾	(26.332)	(17.613)	8.719
			<u>-</u>

(1) Foreign exchange gain from deferred tax base amounting to TRY 8.719 thousand which were reported under "Finance Income" was reclassified to "Deferred Tax (Expense) Income" on the consolidated statement of income for the six months period ended 30 June 2016.

2.3 Adoption of New and Revised Financial Reporting Standards

- Amendments to TAS affecting amounts reported and/or disclosures in the consolidated financial statements: None
- Effective from 2017, new and revised TAS applied with no material effect on the consolidated financial statements: None.
- New and revised TAS in issue but not yet effective:

The Group has not applied the following new and revised TAS that have been issued but are not yet effective:

- TFRS 9 *Financial Instruments* ⁽¹⁾
- TFRS 15 *Revenue from Contracts with Customers* ⁽¹⁾

⁽¹⁾ Effective for annual periods beginning on or after 1 January 2018.

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017

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

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.3 Adoption of New and Revised Financial Reporting Standards (cont’d)

TFRS 9 Financial Instruments

TFRS 9, issued by Public Oversight Authority (“POA”) in 2010, introduces new requirements for the classification and measurement of financial assets. TFRS 9 is amended in 2011 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Revised version of IFRS 9 is issued by POA in January 2017 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income (“FVTOCI”) measurement category for certain simple debt instruments.

TFRS 9 is effective for the annual periods beginning on or after 1 January 2018. Early adoption is permitted.

TFRS 15 Revenue from Contracts with Customers

TFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer,
- Identify the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contracts,
- Recognise revenue when the entity satisfies a performance obligation.

TFRS 15 also clarifies three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and provides some transition relief for modified contracts and completed contracts.

The Group evaluates the effects of these standards, amendments and improvements on the consolidated financial statements.

2.4 Summary of Significant Accounting Policies

The condensed interim consolidated financial statements for the six months period ended 30 June 2017 have been prepared in accordance with TAS 34. The accounting policies used in the preparation of these condensed interim consolidated financial statements for the period ended 30 June 2017 are consistent with those used in the preparation of annual consolidated financial statements for the year ended 31 December 2016. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2016.

There has been no change in total ownership interests and effective interests of the subsidiaries, included in the scope of consolidation as of 30 June 2017, from the interests reported as of 31 December 2016.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017**

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

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 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 realised, 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 condensed consolidated financial statements, depreciation expense would be higher amounting to TRY 40.360 thousand for the first six month.

2.6 Segment 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.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017

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

NOTE 3 –RELATED PARTY DISCLOSURES

The immediate parent and ultimate controlling parties 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:

<u>Due from related parties (short term)</u>	30 June 2017	31 December 2016
Oyak Renault Otomobil Fab. A.Ş. ⁽²⁾	57.954	40.722
Bolu Çimento Sanayi A.Ş. ⁽¹⁾	4.308	7.484
Adana Çimento Sanayi T.A.Ş. ⁽¹⁾	6.906	6.065
Other	1.267	606
	<u>70.435</u>	<u>54.877</u>

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

<u>Due to related parties (short term)</u>	30 June 2017	31 December 2016
Omsan Lojistik A.Ş. ⁽¹⁾	8.995	8.021
Omsan Denizcilik A.Ş. ⁽¹⁾	3.260	11.747
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	8.063	8.045
Oyak Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	3.618	3.865
Other	5.549	3.330
	<u>29.485</u>	<u>35.008</u>

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

<u>Major sales to related parties</u>	1 January - 30 June 2017	1 January - 30 June 2016
Oyak Renault Otomobil Fab. A.Ş. ⁽²⁾	110.820	71.986
Adana Çimento Sanayi T.A.Ş. ⁽¹⁾	9.887	7.035
Bolu Çimento Sanayi A.Ş. ⁽¹⁾	5.398	7.017
Aslan Çimento A.Ş. ⁽¹⁾	1.116	973
Other	1.986	1.324
	<u>129.207</u>	<u>88.335</u>

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

(1) Subsidiaries of the parent company

(2) Joint venture of the parent company

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

NOTE 3 –RELATED PARTY DISCLOSURES (cont’d)

<u>Major purchases from related parties</u>	1 January - 30 June 2017	1 January - 30 June 2016
Omsan Denizcilik A.Ş. ⁽¹⁾	49.253	40.696
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	45.145	32.228
Omsan Lojistik A.Ş. ⁽¹⁾	42.139	29.897
Oyak Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	18.278	15.224
Omsan Logistica SRL ⁽¹⁾	7.105	4.183
Oyak Denizcilik ve Liman İşletmeleri A.Ş. ⁽¹⁾	11.335	-
Other	9.954	6.100
	<u>183.209</u>	<u>128.328</u>

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

⁽¹⁾ Subsidiaries of the parent company

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

The period end balances are un-secured and their collections will be in cash. As of 30 June 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 six months period ended 30 June 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 16.750 thousand (30 June 2016: TRY 15.144 thousand).

NOTE 4 – INVENTORIES

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

	30 June 2017	31 December 2016
Raw materials	912.612	834.711
Work in progress	872.209	720.679
Finished goods	1.111.744	866.700
Spare parts	752.381	768.861
Goods in transit	926.729	983.678
Other inventories	292.753	289.205
Allowance for impairment on inventories (-)	(199.969)	(208.787)
	<u>4.668.459</u>	<u>4.255.047</u>

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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NOTE 4 – INVENTORIES (cont’d)

The movement of the allowance for impairment on inventories:

	1 January - 30 June 2017	1 January - 30 June 2016
Opening balance	208.787	168.433
Provision for the period	15.536	16.496
Provision released (-)	(24.055)	(29.503)
Translation difference	(299)	(676)
Closing balance	199.969	154.750

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 12).

NOTE 5 – TANGIBLE AND INTANGIBLE ASSETS

The movement of tangible assets for the periods 1 January – 30 June 2017 and 1 January – 30 June 2016 is as follows:

	30 June 2017	30 June 2016
<u>Opening balance as of 1 January</u>		
Cost	30.252.777	24.664.476
Accumulated depreciation	(18.100.805)	(14.400.015)
Net book value	12.151.972	10.264.461
Net book value at the begin.of the period	12.151.972	10.264.461
Additions (*)	247.925	260.381
Disposals (-)	(10.776)	(6.153)
<i>Cost of disposals</i>	(37.389)	(16.350)
<i>Accumulated depreciation of disposals</i>	26.613	10.197
Transfers to intangible assets	(4.663)	(3.871)
Transfers to investment properties	-	(6.689)
Currency translation difference	(35.566)	(47.956)
<i>Cost currency translation difference</i>	(100.359)	(117.358)
<i>Accumulated depreciation currency translation difference</i>	64.793	69.402
Current period depreciation (-)	(341.660)	(305.439)
Net book value at the end of the period	12.007.232	10.154.734
<u>Closing balance as of</u>		
Cost	30.358.291	24.780.589
Accumulated depreciation	(18.351.059)	(14.625.855)
Net book value	12.007.232	10.154.734

(*) The amount of capitalized borrowing cost is TRY 1.234 thousand for the current period (30 June 2016: TRY 2.808 thousand).

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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NOTE 5 – TANGIBLE AND INTANGIBLE ASSETS (cont’d)

As of balance sheet date, the Group has no collaterals or pledges upon its tangible assets (30 June 2016: None).

The movement of intangible assets for the periods 1 January – 30 June 2017 and 1 January – 30 June 2016 is as follows:

	30 June 2017	30 June 2016
<u>Opening balance as of 1 January</u>		
Cost	439.937	348.133
Accumulated amortisation	(234.458)	(175.268)
Net book value	<u>205.479</u>	<u>172.865</u>
Net book value at the begin.of the period	205.479	172.865
Additions	1.756	1.532
Transfers from tangible assets	4.663	3.871
Currency translation difference	(487)	(779)
<i>Cost currency translation difference</i>	(1.458)	(1.659)
<i>Accumulated depreciation currency translation difference</i>	971	880
Current period amortisation (-)	(12.002)	(9.399)
Net book value at the end of the period	<u>199.409</u>	<u>168.090</u>
<u>Closing balance end of period</u>		
Cost	444.898	351.877
Accumulated amortisation	(245.489)	(183.787)
Net book value	<u>199.409</u>	<u>168.090</u>

As of balance sheet date, the Group has no collaterals or pledges upon its intangible assets (30 June 2016: None).

The breakdown of depreciation and amortisation expenses related to tangible and intangible assets are as follows:

	30 June 2017	30 June 2016
Associated with cost of production	330.288	296.948
General administrative expenses	9.265	7.153
Marketing expenses	13.090	10.107
Research and development expenses	1.019	630
	<u>353.662</u>	<u>314.838</u>

Accounting policy used in useful life assumptions of the Group’s tangible assets explained on Note 2.5.

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NOTE 6 – BORROWINGS

Breakdown of borrowings is as follows:

	30 June 2017	31 December 2016
Short term borrowings	1.519.674	1.257.986
Current portion of long term borrowings	672.159	1.043.968
Total short term borrowings	<u>2.191.833</u>	<u>2.301.954</u>
Long term borrowings	1.317.939	1.617.534
Total long term borrowings	<u>1.317.939</u>	<u>1.617.534</u>
	<u>3.509.772</u>	<u>3.919.488</u>

As of 30 June 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		30 June 2017
			Portion	Long Term Portion	
No interest	TRY	-	34.190	-	34.190
Fixed	US Dollars	2,21	1.168.552	87.787	1.256.339
Fixed	EURO	3,01	64.967	32.494	97.461
Floating	US Dollars	Libor+1,77	751.950	925.450	1.677.400
Floating	EURO	Euribor+1,81	152.713	272.208	424.921
Floating	Japanese Yen	JPY Libor+0,22	19.461	-	19.461
			<u>2.191.833</u>	<u>1.317.939</u>	<u>3.509.772</u>

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		31 December 2016
			Portion	Long Term Portion	
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
			<u>2.301.954</u>	<u>1.617.534</u>	<u>3.919.488</u>

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NOTE 6 – BORROWINGS (cont’d)

Breakdown of loan repayment is as follows:

	30 June 2017	31 December 2016
Within 1 year	2.191.833	2.301.954
Between 1-2 years	491.715	585.316
Between 2-3 years	483.420	480.309
Between 3-4 years	171.001	332.078
Between 4-5 years	75.571	102.893
Five years or more	96.232	116.938
	<u>3.509.772</u>	<u>3.919.488</u>

NOTE 7 – PROVISIONS

The Group’s short term provisions are as follows:

	30 June 2017	31 December 2016
Provision for lawsuits	93.014	105.448
Penalty prov. for employment shortage of disabled pers.	9.490	7.488
Provision for state right on mining activities	2.484	2.650
Provision for land occupation	25.064	16.602
Provision for the potential tax penalty	6.724	13.398
	<u>136.776</u>	<u>145.586</u>

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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NOTE 7 – PROVISIONS (cont'd)

The movement of the provisions is as follows:

	1 January 2017	Change for the period	Payments	Provision released	Translation difference	30 June 2017
Provision for lawsuits	105.448	26.822	(3.614)	(35.724)	82	93.014
Penalty prov. for employment shortage of disabled pers.	7.488	2.016	-	-	(14)	9.490
Provision for state right on mining activities	2.650	2.484	(2.560)	(90)	-	2.484
Provision for land occupation	16.602	8.518	-	-	(56)	25.064
Provision for the tax penalty	13.398	209	(7.376)	-	493	6.724
	<u>145.586</u>	<u>40.049</u>	<u>(13.550)</u>	<u>(35.814)</u>	<u>505</u>	<u>136.776</u>

	1 January 2016	Change for the period	Payments	Provision released	Translation difference	30 June 2016
Provision for lawsuits	88.280	18.913	(3.778)	(6.684)	(1.331)	95.400
Provision for termination fee of long term contract	218.070	-	(218.970)	-	900	-
Penalty prov. for employment shortage of disabled pers.	5.434	1.950	(610)	(1.334)	(12)	5.428
Provision for state right on mining activities	2.589	1.298	(2.589)	-	-	1.298
Provision for land occupation	122.634	8.565	(61.432)	(61.696)	393	8.464
	<u>437.007</u>	<u>30.726</u>	<u>(287.379)</u>	<u>(69.714)</u>	<u>(50)</u>	<u>110.590</u>

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NOTE 7 – PROVISIONS (cont’d)

Provision for lawsuits

As of 30 June 2017 and 31 December 2016, lawsuits filed by and against the Group are as follows:

	30 June 2017	31 December 2016
Lawsuits filed by the Group	542.697	526.308
Provision for lawsuits filed by the Group	71.022	64.076

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

	30 June 2017	31 December 2016
Lawsuits filed against the Group	354.529	348.856
Provision for lawsuits filed against the Group	93.014	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 decrease amount of TRY 152.330 thousand on the period due to negative goodwill income.

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

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NOTE 7 – 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 30 June 2017 and 30 June 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 24.05.2017 and 2015/15771 Docket; 2017/3040 Decision number. The decision of reversal has been notified to the Company on 02.08.2017. Date of trial has not been determined yet.

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 30 June 2017 and 31 December 2016.

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NOTE 7 – 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 rejected by Court of Appeals’ 19th Chamber’s decision dated 18 April 2017. The Court dismissed the case, in favor of the Company.

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 TRY 8.669 thousand (USD 4.800 thousand) together with accessory against the Company before Ankara 14th Commercial Court of First Instance. As a result of adjudication made; the court adjudged to dismiss the case on procedural grounds because of non-competence and to send the file to commissioned and competent Karadeniz Ereğli Commercial Court of First Instance in Duty when the judgment becomes definite and in case of request. The case still continues on file no. 2013/63 in Karadeniz Ereğli 2nd Civil Court of First Instance. Date of next hearing of the case is 19 October 2017. A provision recognised on financial statements for related lawsuit.

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.

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NOTE 7 – PROVISIONS (cont’d)

Land occupation

There is a land property within the Erdemir factory area of The Group being the property of the treasury within the provision and possession of the state. General Communiqué 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 communiqué, 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, amounting to TRY 25.064 thousand 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 6.724 thousand (RON 7.579 thousand) was notified for all tax and tax penalties. Provision recognised as of 31 December 2016 in the accompanying financial statements is still in effect for the amount to be paid.

NOTE 8 – EMPLOYEE BENEFITS

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

	30 June 2017	31 December 2016
Due to personnel	109.604	109.062
Social security premiums payable	36.667	59.662
	<u>146.271</u>	<u>168.724</u>

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

	30 June 2017	31 December 2016
Provisions for employee termination benefits	487.054	448.932
Provisions for seniority incentive premium	41.633	38.884
Provision for unpaid vacations	94.730	79.603
	<u>623.417</u>	<u>567.419</u>

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NOTE 8 – EMPLOYEE BENEFITS (cont’d)

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 30 June 2017, the amount payable consists of one month’s salary limited to a maximum of TRY 4.426,16 (31 December 2016: TRY 4.297,21). As of 1 July 2017, the employee termination benefit has been updated to a maximum of TRY 4.732,48.

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 30 June 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:

	30 June 2017	31 December 2016
Discount rate	10,40%	11,00%
Inflation rate	7,30%	7,80%
Salary increase	reel 1,5%	reel 1,5%
Maximum liability increase	7,30%	7,80%

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 30 June 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 30 June 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.

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NOTE 8 – EMPLOYEE BENEFITS (cont’d)

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

	1 January - 30 June 2017	1 January - 30 June 2016
Opening balance	448.932	404.699
Service cost	22.511	20.087
Interest cost	23.228	20.654
Actuarial loss/(gain)	15.440	23.154
Termination benefits paid	(22.660)	(20.214)
Translation difference	(397)	(118)
Closing balance	487.054	448.262

The sensitivity analysis of the assumptions which was used for the calculation of provision for employment termination benefits as of 30 June 2017 as follows:

	Interest rate	
	1% increase	1% decrease
Change in rate		
Change in employee benefits liability	(39.793)	46.194
	Inflation rate	
	1% increase	1% decrease
Change in rate		
Change in employee benefits liability	44.803	(39.239)

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 - 30 June 2017	1 January - 30 June 2016
Opening balance	38.884	28.289
Service cost	2.023	1.654
Interest cost	1.954	1.489
Actuarial loss/(gain)	885	5.487
Termination benefits paid	(2.125)	(1.511)
Translation difference	12	(18)
Closing balance	41.633	35.390

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NOTE 8 – EMPLOYEE BENEFITS (cont’d)

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

	1 January - 30 June 2017	1 January - 30 June 2016
Opening balance	79.603	72.927
Provision for the period	37.972	30.349
Vacation paid during the period (-)	(3.644)	(2.360)
Provisions released (-)	(18.688)	(18.652)
Translation difference	(513)	(147)
Closing balance	<u>94.730</u>	<u>82.117</u>

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	30 June 2017	31 December 2016
Letters of guarantees received	<u>1.908.745</u>	<u>1.797.646</u>
	<u>1.908.745</u>	<u>1.797.646</u>

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

	30 June 2017	31 December 2016
A. Total CPM given for the Company's own legal entity	111.411	112.584
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	199.225	625.603
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	63.593	-
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	-	-
	<u>374.229</u>	<u>738.187</u>

Total CPM given by the Group in favor of subsidiaries consolidated on line-by-line basis amounting to TRY 199.225 thousand has been given as collateral for financial liabilities explained in Note 6. Total CPM given by the Group in favour of other third parties amounting to TRY 63.593 thousand has been given as collateral for financial liabilities of İsdemir’s subsidiary Linde Gaz Ortaklığı A.Ş. As of 30 June 2017, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2016: 0%).

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NOTE 9 – COMMITMENTS AND CONTINGENCIES (cont’d)

The breakdown of the Group’s collaterals, pledges and mortgages according to their original currency is as follows:

	30 June 2017	31 December 2016
US Dollars	114.442	472.815
TRY	158.592	109.989
EURO	91.029	135.753
Japanese Yen	10.166	19.630
	<u>374.229</u>	<u>738.187</u>

NOTE 10 – TAX ASSETS AND LIABILITIES

	30 June 2017	31 December 2016
<u>Corporate tax payable:</u>		
Current corporate tax provision	513.538	530.673
Prepaid taxes and funds (-)	(163.659)	(75.049)
	<u>349.879</u>	<u>455.624</u>
	1 January - 30 June 2017	1 January - 30 June 2016
<u>Taxation:</u>		
Current corporate tax expense	513.538	95.529
Deferred tax (income) / expense	(139.938)	17.613
	<u>373.600</u>	<u>113.142</u>

Corporate tax

The effective corporate tax rate in Turkey is 20%, 16% in Romania and 17% in Singapore as of 30 June 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 619.283 thousand (30 June 2016: TRY 224.760 thousand).

Deferred tax

Tax rate used in the calculation of deferred tax assets and liabilities (excluding land) are 20% for the subsidiaries in Turkey, 16% for the subsidiary in Romania and 17% for the subsidiary in Singapore (31 December 2016: in Turkey 20%, in Romania 16%, in Singapore 17%). Deferred tax related with the temporary differences arising from land parcels is calculated with the tax rate of 5% (31 December 2016: 5%).

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NOTE 10 – TAX ASSETS AND LIABILITIES (cont’d)

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.

	30 June 2017	31 December 2016
<u>Deferred tax assets:</u>		
Carry forward tax losses	2.176	2.017
Provisions for employee benefits	124.669	113.400
Investment incentive	52.748	7.760
Provision for lawsuits	18.603	21.089
Inventories	12.225	12.683
Provision for other doubtful receivables	14.446	14.047
Tangible and intangible assets	16.641	15.819
Other	44.881	40.313
	<u>286.389</u>	<u>227.128</u>
<u>Deferred tax liabilities:</u>		
Tangible and intangible assets	(1.649.392)	(1.667.791)
Fair values of the derivative financial instruments	(3.380)	(10.267)
Amortized cost adjustment on loans	(3.051)	(1.930)
Inventories	(13.838)	(80.088)
Other	(9.856)	(9.841)
	<u>(1.679.517)</u>	<u>(1.769.917)</u>
	<u>(1.393.128)</u>	<u>(1.542.789)</u>

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.

	30 June 2017	31 December 2016
Deferred tax assets	34.934	34.243
Deferred tax (liabilities)	(1.428.062)	(1.577.032)
	<u>(1.393.128)</u>	<u>(1.542.789)</u>

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NOTE 10 – TAX ASSETS AND LIABILITIES (cont’d)

Deferred tax asset/(liability) movements is as follows:

	1 January - 30 June 2017	1 January - 30 June 2016
Opening balance	(1.542.789)	(1.024.995)
Deferred tax (expense)/income	139.938	(17.613)
The amount in comprehensive (expense)/income	8.478	4.071
Translation difference	1.245	6.200
Closing balance	<u>(1.393.128)</u>	<u>(1.032.337)</u>

Reconciliation of tax provision is as follows:

	1 January - 30 June 2017	1 January - 30 June 2016
Profit before tax	2.204.179	612.580
Statutory tax rate	20%	20%
Calculated tax expense acc. to effective tax rate	440.836	122.516
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	6.803	6.757
- Effect of currency translation to non taxable assets	(28.689)	(14.317)
- Effect of non-taxable adjustments	(312)	(1.732)
- Investment incentive	(44.988)	-
- Effect of the different tax rates due to foreign subsidiaries	(50)	(82)
Total tax exp. in reported in the stat. of income	<u>373.600</u>	<u>113.142</u>

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NOTE 11 – EQUITY

As of 30 June 2017 and 31 December 2016, the capital structure is as follows:

<u>Shareholders</u>	<u>(%)</u>	<u>30 June 2017</u>	<u>(%)</u>	<u>31 December 2016</u>
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)
		<u>3.540.381</u>		<u>3.540.381</u>

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 7.000.000.000 in accordance with the requirements as set forth herein.

The issued capital of the Company consists of 350.000.000.000 lots of shares (2016: 350.000.000.000 lots). The nominal value of each share is 1 Kr (one Kurus) (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 TRY 3.499.999.999,99 shares representing 349.999.999.999 of the issued capital.

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NOTE 12 – SALES AND COST OF SALES

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
<u>Sales Revenue</u>				
Domestic sales	7.154.274	3.683.490	4.567.370	2.292.619
Export sales	1.518.732	910.641	574.188	312.733
Other revenues (*)	210.971	94.045	116.118	68.431
Sales returns (-)	(3.439)	(2.754)	(6.599)	(3.038)
Sales discounts (-)	(5.079)	(986)	(5.662)	(2.112)
	8.875.459	4.684.436	5.245.415	2.668.633
<u>Cost of sales (-)</u>	<u>(6.464.211)</u>	<u>(3.532.903)</u>	<u>(4.484.943)</u>	<u>(2.155.046)</u>
Gross profit	2.411.248	1.151.533	760.472	513.587

(*) The total amount of by product exports in other revenues is TRY 91.208 thousand (30 June 2016: TRY 41.766 thousand).

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NOTE 12 – SALES AND COST OF SALES (cont'd)

The breakdown of cost of goods sales for the periods 1 January – 30 June 2017 and 1 January – 30 June 2016 is as follows:

	1 January -		1 April -		1 January -		1 April -	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016	30 June 2016	30 June 2016	30 June 2016	1 April -
								30 June 2016
Raw material usage	(4.747.746)	(2.613.894)	(2.613.894)	(2.868.933)	(2.868.933)	(2.868.933)	(2.868.933)	(1.323.053)
Personnel costs	(698.409)	(380.798)	(380.798)	(630.285)	(630.285)	(630.285)	(630.285)	(325.798)
Energy costs	(330.907)	(161.824)	(161.824)	(379.371)	(379.371)	(379.371)	(379.371)	(184.222)
Depreciation and amortization expenses	(335.311)	(170.359)	(170.359)	(303.826)	(303.826)	(303.826)	(303.826)	(149.438)
Factory overheads	(133.325)	(78.420)	(78.420)	(174.588)	(174.588)	(174.588)	(174.588)	(90.454)
Other cost of goods sold	(89.438)	(46.538)	(46.538)	(54.116)	(54.116)	(54.116)	(54.116)	(32.342)
Non-operating costs (*)	(12.357)	(10.953)	(10.953)	(7.410)	(7.410)	(7.410)	(7.410)	(7.410)
Freight costs for sales delivered to customers	(107.966)	(61.710)	(61.710)	(64.611)	(64.611)	(64.611)	(64.611)	(34.443)
Inventory write-downs within the period (Note 4)	(15.536)	(2.616)	(2.616)	(16.496)	(16.496)	(16.496)	(16.496)	(11.604)
Reversal of inventory write-downs (Note 4)	24.055	1.849	1.849	29.503	29.503	29.503	29.503	10.918
Other	(17.271)	(7.640)	(7.640)	(14.810)	(14.810)	(14.810)	(14.810)	(7.200)
	(6.464.211)	(3.532.903)	(3.532.903)	(4.484.943)	(4.484.943)	(4.484.943)	(4.484.943)	(2.155.046)

(*) 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 (12.357) thousand, has been accounted directly under cost of goods sold (30 June 2016: TRY (7.410) thousand).

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NOTE 13 – OPERATING EXPENSES AND OTHER OPERATING INCOME/(EXPENSES)

The breakdown of marketing expenses according to their nature for the periods 1 January – 30 June 2017 and 1 January – 30 June 2016 is as follows:

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Personnel expenses (-)	(41.011)	(21.482)	(37.428)	(19.690)
Depreciation and amortization(-)	(13.090)	(6.329)	(10.107)	(5.123)
Service expenses (-)	(26.654)	(13.120)	(22.360)	(11.525)
	<u>(80.755)</u>	<u>(40.931)</u>	<u>(69.895)</u>	<u>(36.338)</u>

The breakdown of general administrative expenses for the periods 1 January – 30 June 2017 and 1 January – 30 June 2016 is as follows:

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Personnel expenses (-)	(89.883)	(46.511)	(81.454)	(43.414)
Depreciation and amortization (-)	(9.265)	(4.619)	(7.153)	(3.687)
Service expenses (-)	(60.316)	(31.051)	(49.812)	(24.544)
Tax, duty and charges (-)	(4.292)	(1.855)	(3.723)	(1.903)
Provision for doubtful receivables (-)	2.271	3.582	(1.837)	(567)
	<u>(161.485)</u>	<u>(80.454)</u>	<u>(143.979)</u>	<u>(74.115)</u>

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NOTE 13 – OPERATING EXPENSES AND OTHER OPERATING INCOME/(EXPENSES) (cont'd)

The breakdown of other operating income for the periods 1 January – 30 June 2017 and 1 January – 30 June 2016 is as follows:

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
<u>Other operating income</u>	-	-	61.696	(568)
Provisions released for land occupation	44.477	21.459	29.276	14.182
Interest income from sales with maturities	5.299	(974)	4.971	941
Discount income	35.724	26.149	8.018	5.459
Provisions released	7.112	3.884	6.384	2.583
Service income	6.002	3.001	5.387	3.328
Maintenance repair and rent income	4.111	1.782	2.168	1.368
Warehouse income	1.248	839	1.101	572
Indemnity and penalty detention income	19.751	4.981	1.131	827
Insurance indemnity income	7.060	(42)	118	36
Lawsuit income	462	140	243	195
Gain on sale of tangible assets	10.206	3.835	15.284	6.015
Other income and gains	141.452	65.054	135.777	34.938

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NOTE 13 – OPERATING EXPENSES AND OTHER OPERATING INCOME/(EXPENSES) (cont’d)

The breakdown of other operating expenses for the periods 1 January – 30 June 2017 and 1 January – 30 June 2016 is as follows:

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
<u>Other operating expenses (-)</u>				
Provision expenses	(29.047)	(14.878)	(20.863)	(11.625)
Discount expenses	(7.267)	136	(5.029)	(1.487)
Lawsuit compensation expenses	(2.380)	(570)	(2.816)	(1.310)
Port facility pre-licence expenses	(3.260)	(1.581)	(2.566)	(1.294)
Donation expenses	(1.404)	(999)	(1.579)	(575)
Service expenses	(3.404)	(1.769)	(2.613)	(1.770)
Loss on disposal of tangible assets	(9.953)	(4.341)	(820)	(236)
Stock exchange registration expenses	(1.248)	19	(1.042)	(1.042)
Rent expenses	(911)	(445)	(683)	(380)
Penalty expenses	(952)	(416)	(477)	(223)
Other expenses and losses	(10.654)	(3.645)	(12.911)	(7.725)
	<u>(70.480)</u>	<u>(28.489)</u>	<u>(51.399)</u>	<u>(27.667)</u>

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NOTE 14 – FINANCIAL INCOME / EXPENSES

The breakdown of financial income for the periods 1 January – 30 June 2017 and 1 January – 30 June 2016 is as follows:

<u>Financial incomes</u>	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Interest income on bank deposits	83.300	41.095	52.567	27.797
Foreign exchange gains (net)	-	(44.595)	19.731	19.731
Fair value differences of derivative financial instruments (net)	3.815	1.794	-	-
	<u>87.115</u>	<u>(1.706)</u>	<u>72.298</u>	<u>47.528</u>

The breakdown of financial expense for the periods 1 January – 30 June 2017 and 1 January – 30 June 2016 is as follows:

<u>Financial expenses (-)</u>	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Interest expenses on borrowings	(51.393)	(23.606)	(49.428)	(22.133)
Foreign exchange loss (net)	(38.918)	(38.918)	-	47.289
Interest cost of employee benefits	(25.182)	(12.649)	(22.143)	(11.086)
Fair value differences of derivative financial instruments (net)	-	-	(13.246)	(12.502)
Other financial expenses	(1.299)	(642)	(412)	(217)
	<u>(116.792)</u>	<u>(75.815)</u>	<u>(85.229)</u>	<u>1.351</u>

During the period, the interest expenses of TRY 1.234 thousand have been capitalized as part of the Group's property, plant and equipment (1 January - 30 June 2016: TRY 2.808 thousand).

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NOTE 15 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

Additional information about financial instruments

Foreign currency risk management

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). Foreign currency position table represents foreign currencies other than each entity’s functional currency. As of 30 June 2017, the foreign currency position of the Group in terms of original currency is calculated as it as follows:

	30 June 2017			
	TRY (Total in currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)
1. Trade Receivables	295.030	32.859	63.705	-
2a. Monetary financial assets	151.273	115.412	8.385	178
2b. Non- monetary financial assets	-	-	-	-
3. Other	168.359	167.529	207	-
4. Current assets (1+2+3)	614.662	315.800	72.297	178
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	47.560	27.962	3.961	120.295
8. Non-current assets (5+6+7)	47.560	27.962	3.961	120.295
9. Total assets (4+8)	662.222	343.762	76.258	120.473
10. Trade payables	296.405	258.430	6.065	382.113
11. Financial liabilities	273.085	34.190	54.717	638.661
12a. Other monetary financial liabilities	539.341	531.537	1.950	-
12b. Other non-monetary financial liabilities	334.544	334.544	-	-
13. Current liabilities (10+11+12)	1.443.375	1.158.701	62.732	1.020.774
14. Trade payables	-	-	-	-
15. Financial liabilities	304.703	-	76.119	-
16a. Other monetary financial liabilities	607.800	607.800	-	-
16b. Other non-monetary financial liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	912.503	607.800	76.119	-
18. Total liabilities (13+17)	2.355.878	1.766.501	138.851	1.020.774
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	(785.293)	(19.975)	(191.186)	-
19a. Off-balance sheet foreign currency derivative financial assets	27.847	-	6.957	-
19b. Off-balance sheet foreign currency derivative financial liabilities	813.140	19.975	198.143	-
20. Net foreign currency asset/liability position (9-18+19)	(2.478.949)	(1.442.714)	(253.779)	(900.301)
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(1.575.031)	(1.283.686)	(66.761)	(1.020.596)
22. Fair value of derivative financial instruments used in foreign currency hedge	(16.040)	13.430	(7.362)	-
23. Hedged foreign currency assets	813.140	19.975	198.143	-
24. Hedged foreign currency liabilities	27.847	-	6.957	-
25. Exports	1.609.940	-	-	-
26. Imports	4.852.269	-	-	-

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NOTE 15 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

Foreign currency risk management (cont’d)

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). As of 31 December 2016, the foreign currency position of the Group in terms of original currency is calculated as it as follows:

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017**

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

NOTE 15 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

Foreign currency risk management (cont’d)

The following table shows the Group’s sensitivity to a 10% (+/-) change in the TRY, USD, EUR 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 30 June 2017 asset and liability balances are translated by using the following exchange rates: TRY 3,5071 = US \$ 1, TRY 4,0030 = EUR 1 and TRY 0,0311= JPY 1 (31 December 2016: TRY 3,5192 = US \$ 1, TRY 3,7099 = EUR 1 and TRY 0,0300= JPY 1).

	<u>Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest</u>	
	<u>Appreciation of foreign currency</u>	<u>Depreciation of foreign currency</u>
30 June 2017		
1- TRY net asset/liability	(142.274)	142.274
2- Hedged portion from TRY risk (-)	-	-
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	<u>(142.274)</u>	<u>142.274</u>
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)	<u>-</u>	<u>-</u>
9- Euro net asset/liability	(25.056)	25.056
10- Hedged portion from Euro risk (-)	2.785	(2.785)
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	<u>(22.271)</u>	<u>22.271</u>
13- Jap. Yen net asset/liability	(2.800)	2.800
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	<u>(2.800)</u>	<u>2.800</u>
TOTAL (4+8+12+16)	<u>(167.345)</u>	<u>167.345</u>

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017**

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

NOTE 15 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

Foreign currency risk management (cont’d)

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

NOTE 16 – SUBSEQUENT EVENTS

None.

NOTE 17 – 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 of 30 June 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.