(CONVENIENCE TRANSLATION OF
CONSOLIDATED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH- SEE NOTE 36)

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2018 AND INDEPENDENT AUDITOR'S REPORT

Deloitte.

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

INDEPENDENT AUDITOR'S REPORT

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

A) Report on the Audit of the Financial Statements

1) Opinion

We have audited the consolidated financial statements of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Turkish Financial Reporting Standards (TFRS).

2) Basis for Opinion

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

3) Key Audit Matters

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

Key Audit Matter	How the matter was addressed in the audit
Revenue recognition Revenue is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods. Due to the nature of the Group's operations, there are some goods invoiced and cash collection is completed although the Group retains physical possession. Those goods are kept at premises of the Group as of the financial reporting date. Significant risks and rewards of ownership of these goods are transferred to the buyers (Note: 23). Therefore, revenue recognition for those goods in the correct accounting period is a key matter for our audit. Please refer to notes 2.8.1 and 23 to the consolidated financial statements for the Group's disclosures on revenue recognition, including the related accounting policy.	We performed the following procedures in relation to the revenue recognition: The design and implementation of the controls on the revenue process have been evaluated. The Group's sales and delivery procedures have been analyzed. Terms of trade and delivery with respect to contracts made with customers have been examined and the timing of revenue recognition in the financial statements for the different shipment arrangements has been assessed. For substantive procedures, special emphasis is given for transactions where the goods billed but revenue has not been earned. Testing of returns in the subsequent period to ensure revenue recognized in the proper accounting period. In addition, we assessed the adequacy of the disclosures in Note 23 of the Note under TFRS.

3) Key Audit Matters (cont'd)

Key Audit Matter	How the matter was addressed in the audit
Units of production depreciation calculation As explained in Note 2.8 (accounting policies) and Note 14 (notes to the financial statements), the Group perform units of production depreciation calculation method for relevant land improvements, machinery and equipment and vehicles. Units of production depreciation calculation is made for large number of assets and determining the remaining life and production capacities involve estimates. Therefore, there is risk that there may be an error on calculation of depreciation.	Procedures performed related with Units of production depreciation calculation risk are as follows: • Review of the expert report for the estimation of production capacity dated 22 February 2017. • Comparison of net book values of property, plant and equipment that are included in the report with net book values in the financial statements • Evaluation of the production capacity estimates by comparing with the estimations used in previous periods by negotiating with the Group management • Analysis of production amount of yearly production and production capacity • Recalculation of depreciation amount of the year In addition, we assessed the adequacy of the disclosures in Note 14 to property, plant and equipment under TFRS.

4) Emphasis of Matter

Without qualifying our opinion, we draw attention to the matter in Note 17 to the accompanying consolidated financial statements. The court cases related to Capital Market Board's ("CMB") claim that the Company had prepared its 31 December 2005 financial statements in accordance with International Financial Reporting Standards instead of Communique Serial XI, No: 25 on "Accounting Standards in Capital Markets" without taking the permission of the CMB in prior years were concluded against the Company at Council of State and such conclusions declared to the Company via notifications sent in July 2012. On 1 August 2012, the Company applied to the Administrative Court to remove the conflicting decisions of this court, but the Administrative Court decided to reject the application by the notification made on 17 February 2014. For the lawsuit filed by the Republic of Turkey Prime Ministry Privatization Administration ("PA") decision of the local court has been reversed by the Supreme Court 11th Civil Chamber with the decision dated 24 May 2017 and 2015/15771 Docket; 2017/3040 Decision number. The decision of reversal has been notified to the Company on 2 August 2017. The Company has applied for rectification. Legal process is ongoing as of the date of audit report and our opinion is not qualified in respect of this matter.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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B) Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 398 of the Turkish Commercial Code No. 6102 ("TCC"), the auditor's report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Company on 7 February 2019.

In accordance with paragraph four of the Article 402 of TCC, nothing has come to our attention that may cause us to believe that the Group's set of accounts and financial statements prepared for the period 1 January-31 December 2018 does not comply with TCC and the provisions of the Company's articles of association in relation to financial reporting.

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

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

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

Volkan Becerik
Partner

İstanbul, 7 February 2019

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2018

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

ASSETS	Note	(Audited) Current Period 31 December 2018 USD'000	(Audited) Current Period 31 December 2018 TRY'000	(Audited) Previous Period 31 December 2017 USD'000	(Audited) Previous Period 31 December 2017 TRY'000
Current Assets		**4.279.144**	**22.512.149**	**3.934.814**	**14.841.725**
Cash and Cash Equivalents	4	1.645.980	8.659.336	1.865.224	7.035.440
Financial Investments	5	11.595	61.000	-	-
Financial Derivative Instruments	6	10.064	52.945	915	3.452
Trade Receivables	8	836.639	4.401.474	684.564	2.582.106
Due From Related Parties	*32*	*13.037*	*68.586*	*21.988*	*82.936*
Other Trade Receivables	*8*	*823.602*	*4.332.888*	*662.576*	*2.499.170*
Other Receivables	9	342	1.800	530	2.000
Inventories	10	1.689.853	8.890.150	1.336.066	5.039.509
Prepaid Expenses	11	17.108	90.005	14.047	52.982
Other Current Assets	20	67.563	355.439	33.468	126.236
Non Current Assets		**3.662.864**	**19.269.961**	**3.588.147**	**13.534.130**
Other Receivables	9	1.786	9.397	3.617	13.643
Financial Investments	5	1.539	8.095	3.562	13.437
Financial Derivative Instruments	6	1.226	6.448	1.298	4.896
Investments Accounted by Using Equity Method	12	27.616	145.284	-	-
Investment Properties	13	45.993	241.962	26.961	101.695
Property, Plant and Equipment	14	3.432.913	18.060.211	3.465.591	13.071.862
Intangible Assets	15	53.891	283.516	56.022	211.311
Prepaid Expenses	11	62.969	331.275	15.787	59.543
Due to Related Parties	32	*12.976*	*68.266*	-	-
Other Prepaid Expenses	11	*49.993*	*263.009*	*15.787*	*59.543*
Deferred Tax Assets	30	12.840	67.552	15.309	57.743
Other Non Current Assets	20	22.091	116.221	-	-
TOTAL ASSETS		**7.942.008**	**41.782.110**	**7.522.961**	**28.375.855**

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2018

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

LIABILITIES	Note	(Audited) Current Period 31 December 2018 USD'000	(Audited) Current Period 31 December 2018 TRY'000	(Audited) Previous Period 31 December 2017 USD'000	(Audited) Previous Period 31 December 2017 TRY'000
Current Liabilities		**1.499.266**	**7.887.487**	**1.464.605**	**5.524.344**
Short Term Borrowings	7	694.574	3.654.083	594.801	2.243.529
Short Term Portion of Long Term Borrowings	7	202.703	1.066.402	233.890	882.211
Financial Derivative Instruments	6	408	2.144	11.064	41.734
Trade Payables	8	367.983	1.935.922	249.951	942.791
Due to Related Parties	*32*	*28.089*	*147.772*	*14.289*	*53.897*
Other Trade Payables	*8*	*339.894*	*1.788.150*	*235.662*	*888.894*
Other Payables	9	8.133	42.786	11.124	41.958
Deferred Revenue	21	52.622	276.841	39.842	150.280
Current Tax Liabilities	30	95.937	504.716	211.554	797.961
Short Term Provisions	18	38.164	200.777	35.636	134.414
Payables for Employee Benefits	17	36.016	189.476	47.175	177.938
Other Current Liabilities	20	2.726	14.340	29.568	111.528
Non Current Liabilities		**881.978**	**4.639.998**	**960.618**	**3.623.354**
Long Term Borrowings	7	266.204	1.400.475	361.804	1.364.688
Financial Derivative Instruments	6	453	2.382	453	1.707
Provisions for Employee Benefits	17	127.239	669.391	168.831	636.813
Deferred Tax Liabilities	30	487.787	2.566.196	429.417	1.619.718
Other Non Current Liabilities	20	295	1.554	113	428
EQUITY		**5.560.764**	**29.254.625**	**5.097.738**	**19.228.157**
Equity Attributable to Equity Holders of the Parent		**5.391.722**	**28.366.761**	**4.953.574**	**18.684.383**
Share Capital	22	1.818.371	3.500.000	1.818.371	3.500.000
Inflation Adjustment to Capital	22	81.366	156.613	81.366	156.613
Treasury Shares (-)	22	(60.387)	(116.232)	(60.387)	(116.232)
Share Issue Premium (Discounts)	22	55.303	106.447	55.303	106.447
Other Comprehensive Income/Expense Not to be Reclassified to Profit/ (Loss)		(47.992)	10.132.859	(55.297)	5.510.152
Revaluation Reserve of Tangible Assets		*10.760*	*51.239*	*11.107*	*33.917*
Foreign Currency Translation Reserves		*(15.685)*	*10.153.725*	*(15.685)*	*5.587.482*
Actuarial (Loss)/ Gain funds		*(43.067)*	*(72.105)*	*(50.719)*	*(111.247)*
Other Comprehensive Income/Expense to be Reclassified to Profit/ (Loss)		(56.338)	4.362.222	(38.789)	2.061.722
Cash Flow Hedging Gain (Loss)		*2.491*	*13.103*	*(4.314)*	*(16.272)*
Foreign Currency Translation Reserves		*(58.829)*	*4.349.119*	*(34.475)*	*2.077.994*
Restricted Reserves Assorted from Profit	22	805.774	2.287.528	625.450	1.567.280
Retained Earnings	22	1.635.660	2.339.334	1.497.692	2.144.646
Net Profit for the Period		1.159.965	5.597.990	1.029.865	3.753.755
Non-Controlling Interests		**169.042**	**887.864**	**144.164**	**543.774**
TOTAL LIABILITIES AND EQUITY		**7.942.008**	**41.782.110**	**7.522.961**	**28.375.855**

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

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

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Note	(Audited) Current Period 1 January - 31 December 2018 USD'000	(Audited) Current Period 1 January - 31 December 2018 TRY'000	(Audited) Previous Period 1 January - 31 December 2017 USD'000	(Audited) Previous Period 1 January - 31 December 2017 TRY'000
Revenue	23	5.597.856	27.015.254	5.140.456	18.736.447
Cost of Sales	23	(3.860.745)	(18.631.954)	(3.698.582)	(13.480.960)
GROSS PROFIT		**1.737.111**	**8.383.300**	**1.441.874**	**5.255.487**
Marketing Expenses	25	(43.158)	(208.281)	(45.138)	(164.522)
General Administrative Expenses	25	(90.362)	(436.088)	(88.387)	(322.163)
Research and Development Expenses	25	(3.636)	(17.546)	(3.598)	(13.113)
Other Operating Income	26	54.893	264.913	66.404	242.036
Other Operating Expenses	26	(35.637)	(171.987)	(26.243)	(95.653)
OPERATING PROFIT		**1.619.211**	**7.814.311**	**1.344.912**	**4.902.072**
Income from Investing Activities	27	2.183	10.534	1.659	6.046
Expenses from Investing Activities	27	(30.673)	(148.029)	(3.958)	(14.426)
Share of Investments' Profit Accounted by Using The Equity Method	12	1.152	5.558	-	-
OPERATING PROFIT BEFORE FINANCE INCOME (EXPENSES)		**1.591.873**	**7.682.374**	**1.342.613**	**4.893.692**
Finance Income	28	212.569	1.234.773	50.836	223.607
Finance Expense	29	(59.360)	(286.470)	(44.660)	(162.783)
PROFIT BEFORE TAX		**1.745.082**	**8.630.677**	**1.348.789**	**4.954.516**
Tax (Expense) Income	30	(533.992)	(2.785.956)	(279.475)	(1.056.974)
Current Corporate Tax Expense (Income)		(480.371)	(2.527.182)	(301.685)	(1.137.927)
Deferred Tax (Expense) Income		(53.621)	(258.774)	22.210	80.953
NET PROFIT FOR THE PERIOD		**1.211.090**	**5.844.721**	**1.069.314**	**3.897.542**
Non-Controlling Interests		51.125	246.731	39.449	143.787
Equity Holders of the Parent		1.159.965	5.597.990	1.029.865	3.753.755
EARNINGS PER SHARE (TRY 1 Nominal value per share)	31		1,5994		1,0725

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Note	(Audited) Current Period 1 January - 31 December 2018 USD'000	(Audited) Current Period 1 January - 31 December 2018 TRY'000	(Audited) Previous Period 1 January - 31 December 2017 USD'000	(Audited) Previous Period 1 January - 31 December 2017 TRY'000
PROFIT FOR THE PERIOD		**1.211.090**	**5.844.721**	**1.069.314**	**3.897.542**
OTHER COMPREHENSIVE INCOME					
Not to be reclassified subsequently to profit or loss					
Increase (Decrease) in Revaluation Reserve of Tangible Assets		(369)	17.322	344	4.480
Actuarial Gain (Loss) of Defined Benefit Plans	17	10.056	51.444	(3.650)	(12.618)
Tax Effect of Actuarial Gain (Loss) of Defined Benefit Plans	30	(2.212)	(11.318)	774	2.673
Foreign Currency Translation Gain (Loss)		-	4.566.243	-	818.155
To be reclassified subsequently to profit or loss					
Gain (Loss) in Cash Flow Hedging Reserves		8.724	37.660	(8.316)	(30.663)
Tax Effect of Gain (Loss) in Cash Flow Hedging Reserves	30	(1.919)	(8.285)	1.830	6.746
Foreign Currency Translation Gain (Loss)		(22.149)	2.481.276	(7.162)	359.267
OTHER COMPRHENSIVE INCOME (LOSS)		**(7.869)**	**7.134.342**	**(16.180)**	**1.148.040**
TOTAL COMPREHENSIVE INCOME		**1.203.221**	**12.979.063**	**1.053.134**	**5.045.582**
Distribution of Total Comprehensive Income					
Non-controlling Interests		53.499	457.866	38.672	178.081
Equity Holders of the Parent		1.149.722	12.521.197	1.014.462	4.867.501

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

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

						Other comprehensive income (expense) not to be reclassified subsequently to profit or loss			Other comprehensive income (expense) to be reclassified subsequently to profit or loss			Retained Earnings				
(Audited)	Note	Share Capital	Inflation Adjustment to Capital	Treasury Shares (-)	Share Issue Premium / Discounts	Revaluation Reserve of Tangible Assets	Foreign Currency Translation Reserves	Actuarial Gain/(Loss) Funds	Cash Flow Hedging Gain/(Loss)	Foreign Currency Translation Reserves	Restricted Reserves Assorted from Profit	Retained Earnings	Net Profit For The Period	**Equity Attributable to the Parent**	Non-controlling Interests	**Total Shareholders' Equity**
1 January 2018 (Previously reported)		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**33.917**	**5.587.482**	**(111.247)**	**(16.272)**	**2.077.994**	**1.567.280**	**2.144.646**	**3.753.755**	**18.684.383**	**543.774**	**19.228.157**
Effect of change in accounting principle (Note 2.2)		-	-	-	-	-	-	-	-	-	-	(11.412)	-	**(11.412)**	-	**(11.412)**
1 January 2018 (Restated)		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**33.917**	**5.587.482**	**(111.247)**	**(16.272)**	**2.077.994**	**1.567.280**	**2.133.234**	**3.753.755**	**18.672.971**	**543.774**	**19.216.745**
Net profit for the period		-	-	-	-	-	-	-	-	-	-	-	5.597.990	**5.597.990**	246.731	**5.844.721**
Other comprehensive income/(loss)		-	-	-	-	17.322	4.566.243	39.142	29.375	2.271.125	-	-	-	**6.923.207**	211.135	**7.134.342**
Total comprehensive income/(loss)		-	-	-	-	17.322	4.566.243	39.142	29.375	2.271.125	-	-	5.597.990	**12.521.197**	457.866	**12.979.063**
Dividends (*)		-	-	-	-	-	-	-	-	-	-	(2.849.417)	-	**(2.849.417)**	(134.157)	**(2.983.574)**
Transfers	22	-	-	-	-	-	-	-	-	-	720.248	3.033.507	(3.753.755)	-	-	-
Decrease/increase in subsidiaries due to changes in share rates not end up with lose control		-	-	-	-	-	-	-	-	-	-	22.010	-	**22.010**	20.381	**42.391**
31 December 2018		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**51.239**	**10.153.725**	**(72.105)**	**13.103**	**4.349.119**	**2.287.528**	**2.339.334**	**5.597.990**	**28.366.761**	**887.864**	**29.254.625**
(Audited)																
1 January 2017		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**29.437**	**4.769.327**	**(101.527)**	**8.013**	**1.752.878**	**1.166.197**	**2.420.078**	**1.516.438**	**15.207.669**	**452.364**	**15.660.033**
Net profit for the period		-	-	-	-	-	-	-	-	-	-	-	3.753.755	**3.753.755**	143.787	**3.897.542**
Other comprehensive income (loss)		-	-	-	-	4.480	818.155	(9.720)	(24.285)	325.116	-	-	-	**1.113.746**	34.294	**1.148.040**
Total comprehensive income (loss)		-	-	-	-	4.480	818.155	(9.720)	(24.285)	325.116	-	-	3.753.755	**4.867.501**	178.081	**5.045.582**
Dividends (*)		-	-	-	-	-	-	-	-	-	-	(1.390.787)	-	**(1.390.787)**	(86.671)	**(1.477.458)**
Transfers	22	-	-	-	-	-	-	-	-	-	401.083	1.115.355	(1.516.438)	-	-	-
31 December 2017		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**33.917**	**5.587.482**	**(111.247)**	**(16.272)**	**2.077.994**	**1.567.280**	**2.144.646**	**3.753.755**	**18.684.383**	**543.774**	**19.228.157**

(*) In annual General Assembly dated 30 March 2018, dividend distribution (gross dividend per share: TRY 0,84 (2017: TRY 0,41) amounting to TRY 2.940.000 thousand (31 March 2017: TRY 1.435.000 thousand) from 2017 net profit was approved. As the Company holds 3,08 % of its shares with a nominal value of TRY 1 as of 30 March 2018, dividends for treasury shares are netted off under dividends paid. The dividend payment was started at 29 May 2018. The Group paid TRY 134.157 thousand divident to non-controlling interests on İsdemir and Ermaden apart from the Equity holders of the Parent in current year (2017: TRY 86.671 thousand).

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Note	(Audited) Current Period 1 January- 31 December 2018 USD'000	(Audited) Current Period 1 January- 31 December 2018 TRY'000	(Audited) Previous Period 1 January- 31 December 2017 USD'000	(Audited) Previous Period 1 January- 31 December 2017 TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES		**848.302**	**4.150.453**	**1.099.532**	**3.624.616**
Profit (Loss) for The Period		**1.211.090**	**5.844.721**	**1.069.314**	**3.897.542**
Adjustments to Reconcile Profit (Loss)		**733.694**	**3.749.706**	**497.182**	**1.852.283**
Adjustments for Depreciation and Amortisation Expenses	23/25	188.219	908.345	197.453	719.695
Adjustments for Impairment Loss (Reversal of Impairment Loss)		28.974	139.825	878	3.201
Adjustments for Provision (Reversal of Provision) for Receivables	8/9	*3.102*	*14.967*	*(251)*	*(914)*
Adjustments for Provision (Reversal of Provision) for Inventories	10	*5.605*	*27.048*	*1.129*	*4.115*
Adjustments for Provision (Reversal of Provision) for Property, Plant and Equipment	14	*20.267*	*97.810*	-	-
Adjustments for Provisions		51.218	249.234	37.018	135.198
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	17	*30.586*	*147.605*	*30.510*	*111.209*
Adjustments for Provision (Reversal of Provision) for Pending Claims and/or Lawsuits	18	*15.024*	*74.566*	*6.508*	*23.989*
Adjustments for Free Provision (Reversal of Provision) for Possible Risks	29	*5.608*	*27.063*	-	-
Adjustments for Interest (Income) and Expenses		(69.420)	(335.018)	(36.246)	(130.591)
Adjustments for Interest Income	28	*(97.535)*	*(470.705)*	*(56.735)*	*(206.792)*
Adjustments for Interest Expense	29	*36.718*	*177.203*	*28.901*	*105.342*
Unearned Financial Income from Credit Sales		*(8.603)*	*(41.516)*	*(8.412)*	*(29.141)*
Adjustments for Unrealised Foreign Exchange Differences		(820)	(3.959)	15.119	55.106
Adjustments for Fair Value Losses (Gains)		(5.339)	(27.834)	1.379	5.025
Adjustments for Fair Value Losses (Gains) on Financial Assets		*(61)*	*(2.364)*	-	-
Adjustments for Fair Value Losses (Gains) on Derivative Financial Instruments	28/29	*(5.278)*	*(25.470)*	*1.379*	*5.025*
Adjustments for Undistributed Profits of Investments Accounted for Using Equity Method	12	(1.152)	(5.558)	-	-
Adjustments for Tax (Income) Expenses	30	533.992	2.785.956	279.475	1.056.974
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		8.022	38.715	2.106	7.675
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment	27	*8.022*	*38.715*	*2.106*	*7.675*
Changes in Working Capital		**(478.635)**	**(2.518.054)**	**(220.584)**	**(1.232.002)**
Adjustments for Decrease (Increase) in Trade Receivables		(142.081)	(747.474)	(106.572)	(555.503)
Decrease (Increase) in Trade Receivables from Related Parties		*8.951*	*47.090*	*(6.394)*	*(28.059)*
Decrease (Increase) in Trade Receivables from Third Parties		*(151.032)*	*(794.564)*	*(100.178)*	*(527.444)*
Adjustments for Decrease (Increase) in Other Receivables Related from Operations		7.055	37.116	859	(2.930)
Decrease (Increase) in Other Receivables Related from Operations from Third Parties		*7.055*	*37.116*	*859*	*(2.930)*
Decrease (Increase) in Derivative Financial Instruments		(9.077)	(47.753)	17.753	61.917
Adjustments for Decrease (Increase) in Inventories		(349.142)	(1.836.801)	(130.712)	(813.242)
Decrease (Increase) in Prepaid Expenses		(21.900)	(115.213)	(1.487)	(9.103)
Adjustments for Increase (Decrease) in Trade Payables		118.032	620.954	(10.073)	27.715
Increase (Decrease) in Trade Payable to Related Parties		*13.800*	*72.600*	*4.341*	*18.889*
Increase (Decrease) in Trade Payable to Third Parties		*104.232*	*548.354*	*(14.414)*	*8.826*
Adjustments for Increase (Decrease) in Other Payables Related from Operations		(14.802)	(77.872)	(1.615)	9.046
Increase (Decrease) in Other Payables to Third Parties Related from Operations		*(14.802)*	*(77.872)*	*(1.615)*	*9.046*
Increase (Decrease) in Derivative Liabilities		3.346	17.603	(4.202)	(13.445)
Adjustments for Other Increase (Decrease) in Working Capital		(70.066)	(368.614)	15.465	63.543
Decrease (Increase) in Other Assets Related from Operations		*(56.186)*	*(295.592)*	*(3.202)*	*(19.721)*
Increase (Decrease) in Other Payables Related from Operations		*(13.880)*	*(73.022)*	*18.667*	*83.264*
Cash Flows Provided by Operating Activities		**1.466.149**	**7.076.373**	**1.345.913**	**4.517.823**
Payments Related to Provisions for Employee Termination Benefits	17	(13.218)	(63.790)	(15.195)	(55.385)
Payments Related to Other Provisions	18	(8.642)	(41.703)	(11.587)	(42.232)
Income Taxes Refund (Paid)	30	(595.987)	(2.820.427)	(219.599)	(795.590)
CASH FLOWS FROM INVESTING ACTIVITIES		**(268.698)**	**(1.385.744)**	**(205.862)**	**(754.952)**
Cash Inflow Due to Share Sales of Subsidiaries' not End Up with Losing Control		9.692	42.391	-	-
Cash Ouflow Due to Share Purchases of Subsidiaries' not End Up with Losing Control		(1.512)	(8.000)	-	-
Cash Outflows Arising From Purchase of Shares or Capital Increase of Associates and/or Joint Ventures	12	(22.929)	(87.334)	(3.527)	(13.315)
Cash Outflows Arising From Purchase of Third Parties' Debt Instruments or Funds		(11.629)	(61.181)	-	-
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		1.951	9.413	1.961	7.148
Cash Inflow from Sales of Property, Plant and Equipment	14/15/27	*1.951*	*9.413*	*1.961*	*7.148*
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(196.703)	(949.288)	(208.135)	(758.633)
Cash Outflow from Purchase of Property, Plant and Equipment	14	*(194.113)*	*(936.790)*	*(205.556)*	*(749.232)*
Cash Outflow from Purchase of Intangible Assets	15	*(2.590)*	*(12.498)*	*(2.579)*	*(9.401)*
Cash Outflow from Purchase of Investment Property		(19.225)	(92.779)	-	-
Cash Advances and Debts Given		(28.343)	(238.966)	3.839	9.848
Other Cash Advances and Debts Given		*(28.343)*	*(238.966)*	*3.839*	*9.848*
CASH FLOWS FROM FINANCING ACTIVITIES		**(621.488)**	**(1.029.091)**	**(312.656)**	**(865.058)**
Cash Inflow from Borrowings		1.207.169	5.838.030	982.379	3.608.910
Cash Inflow from Loans	7	*1.207.169*	*5.838.030*	*982.379*	*3.608.910*
Cash Outflow from Repayments of Borrowings		(1.234.176)	(4.207.464)	(921.579)	(3.096.109)
Cash Outflow from Loan Repayments	7	*(1.234.176)*	*(4.207.464)*	*(921.579)*	*(3.096.109)*
Dividends Paid		(660.958)	(2.977.190)	(400.591)	(1.475.801)
Interest Paid		(39.320)	(189.758)	(29.215)	(106.485)
Interest Received		105.797	507.291	56.350	204.427
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		**(41.884)**	**1.735.618**	**581.014**	**2.004.606**
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(167.918)	(69.440)	(21.537)	434.392
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(209.802)**	**1.666.178**	**559.477**	**2.438.998**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	1.860.257	7.016.703	1.300.780	4.577.705
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	**1.650.455**	**8.682.881**	**1.860.257**	**7.016.703**

NOTE 1 – GROUP'S ORGANIZATION AND NATURE OF OPERATIONS

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

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

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

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

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

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

Name of the Company	Country of Operation	Operation	2018 Share (%)	2017 Share (%)
İskenderun Demir ve Çelik A.Ş. (*)	Turkey	Integrated Steel Production	94,87	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 Mühendilik Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100	100
Erdemir Romania S.R.L.	Romania	Silicon Steel Production	100	100
Erdemir Asia Pacific Private Limited	Singapore	Trading	100	100
İsdemir Linde Gaz Ortaklığı A.Ş.	Turkey	Industrial Gas Production and Sales	50	50
Erdemir Enerji Üretim A.Ş. (**)	Turkey	Renewable Energy Production	100	-

(*)The share held in the Iskenderun Demir Çelik A.Ş.'s capital has decided to 94,87% from 95,07% after realization of the sales of shares of the Company with the value of TRY 42.391 thousand in aggregate at TRY 7,5 par value per share (total par value of TRY 5.652 thousand) on 13 April 2018 with Iskenderun Demir Çelik A.Ş.'s 95,07% share in the capital of the Company. With the change of such share ratio, since the requirements in the BIAŞ Listing Regulations have met, the shares of "ISDMR" which is formerly traded on Pre-Market Trading Platform have been started to be traded at Star Market as of 19 April 2018.

(**) A new Company called "Erdemir Enerji Üretim A.Ş." has a capital of TRY 8 million established for energy production with the % 100 capital of the Company. The Company isn't included the consolidation due to not started it's operations in 2018.

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

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

The number of the personnel employed by the Group as at 31 December 2018 and 31 December 2017 are as follows:

	Paid Hourly Personnel	Paid Montly Personnel	31 December 2018 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.161	1.683	5.844
İskenderun Demir ve Çelik A.Ş.	2.980	1.744	4.724
Erdemir Madencilik San. ve Tic. A.Ş.	143	129	272
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	221	74	295
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	211	211
Erdemir Romania S.R.L.	220	40	260
Erdemir Asia Pacific Private Limited	-	1	1
	7.725	3.882	11.607

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

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 accompanying financial statements are prepared in accordance with the requirements of Capital Markets Board ("CMB") Communiqué Serial II, No: 14.1 "Basis of Financial Reporting in Capital Markets", which was published in the Official Gazette No:28676 on 13 June 2013. The accompanying financial statements are prepared based on the Turkish Accounting Standards and interpretations ("TAS") that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority ("POA") under Article 5 of the Communiqué.

The financial statements and disclosures have been prepared in accordance with the resolution of CMB dated 7 June 2013 about the "illustrations of financial statements and application guidance".

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values. (Derivative financial instruments and iron ore and silicon steel used in the production of fixed assets). Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

2.1 Basis of Presentation (cont'd)

Functional and Reporting Presentation Currency

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

Functional currency for the subsidiaries abroad

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

Presentation currency translation

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

a) The assets and liabilities on financial position as of 31 December 2018 are translated from USD Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 5,2609=US $ 1 and TRY 6,0280=EUR 1 on the balance sheet date (31 December 2017: TRY 3,7719= US $ 1, TRY 4,5155=EUR 1).

b) For the year ended 31 December 2018, income statements are translated from the 12 months average TRY 4,8260 = US $ 1 and TRY 5,6772=EUR 1 rates of 2018 January - December period (31 December 2017: TRY 3,6449 = US $ 1 TRY 4,1139 = 1 EUR).

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

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

USD amounts presented in the financial statements

The figures in USD amounts presented in the accompanying consolidated financial statements comprising the statements of financial position as of 31 December 2018 and 31 December 2017, consolidated statement of income and other comprehensive income, and consolidated statement of cash flows for the year ended 31 December 2018 represent the consolidated financial statements within the frame of functional currency change that the Company has made, which is effective as of July 1, 2013, prepared in accordance with the TAS 21- Effects of Changes in Foreign Exchange Rates.

Going concern

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

Approval of the consolidated financial statements

The consolidated financial statements have been approved and authorized to be published on 7 February 2019 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

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

2.2 Restatement and errors in the accounting policies and estimates

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

Based on the changes in TFRS 9 "Financial Instruments (version 2017) and accounting principle change effective from 1 January 2018, effects from impairment of monetary assets as a result of evaluation of credit risk summarized below:

	Before change in accounting principle 31 December 2018	Effect of TFRS 9 31 December 2018	After change in accounting principle 31 December 2018
Cash and Cash Equivalents	8.708.741	(49.405)	8.659.336
Financial Investments	61.502	(502)	61.000
Deffered Tax Assets	56.572	10.980	67.552
Foreign Currency Translation	4.355.526	(6.407)	4.349.119
Retained Earnings	2.350.746	(11.412)	2.339.334
Finance Expenses	(259.407)	(27.063)	(286.470)
Deffered Tax (Expense) Income	(264.728)	5.954	(258.774)

2.3 Consolidation Principles

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

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

The consolidated financial statements incorporate the financial statements of the Company and entities *(including structured entities)* controlled by the Company and its subsidiaries. Control is achieved when the Company;

(i) has power over the investee, (ii) is exposed, or has rights, to variable returns from its involvement with the investee; (iii) has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

2.3 Consolidation Principles (cont'd)

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

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

	31 December 2018			31 December 2017		
	Functional Currency	Ownership Interest	Effective Shareholding	Functional Currency	Ownership Interest	Effective Shareholding
İsdemir	US Dollars	94,87	94,87	US Dollars	95,07	95,07
Ersem	US Dollars	100,00	100,00	US Dollars	100,00	100,00
Ermaden	Turkish Lira	90,00	90,00	Turkish Lira	90,00	90,00
Erdemir Mühendislik	Turkish Lira	100,00	100,00	Turkish Lira	100,00	100,00
Erdemir Romania S.R.L.	Euro	100,00	100,00	Euro	100,00	100,00
Erdemir Asia Pasific	US Dollars	100,00	100,00	US Dollars	100,00	100,00
İsdemir Linde Gaz	US Dollars	50,00	50,00	US Dollars	50,00	50,00
Erdemir Enerji Üretim (*)	Turkish Lira	100,00	100,00	Turkish Lira	-	-

(*) As of 31 December 2018, non-operating joint venture Erdemir Enerji Üretim A.Ş. recognized in financial investments on financial statements since the effect on financials are not material.

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

The Group's consolidated financial statements are presented in accordance with the communiqué numbered II-14,1 "Communiqué on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") announced by the Capital Markets Board ("CMB"). The Group's consolidated financial statements are prepared in comparison with the previous period in order to allow for the determination of the financial position and performance trends in accordance with a new illustrative financial statements and guidance that has been effective from the interim periods ended after 30 June 2013.

Classifications on statement of financial position as follows:

Account	(Previously Reported) 1 January - 31 December 2017	(Restated) 1 January - 31 December 2017	(Difference) 1 January - 31 December 2017
Other Comprehensive Income/Expense Not to be Reclassified to Profit/ (Loss)			
Foreign Currency Translation Differences (1)	(77.330)	5.510.152	5.587.482
Other Comprehensive Income/Expense to be Reclassified to Profit/ (Loss)			
Foreign Currency Translation Differences (1)	7.649.204	2.061.722	(5.587.482)
			-

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

2.4 Comparative Information and Restatement of Consolidated Financial Statements with Prior Periods (cont'd)

(1) As of 31 December 2017 and previous periods currency translation differences amounting to TRY 5.587.482 thousand recognized in "Other Comprehensive Income/Expenses to be Reclassifed to Profit/(Loss) classified to "Other Comprehensive Income/Expenses not to be Reclassifed to Profit/(Loss)".

Account	(Previously Reported) 1 January - 31 December 2017	(Restated) 1 January - 31 December 2017	(Difference) 1 January - 31 December 2017
Revenue (1)	18.643.914	18.736.447	92.533
Other Operating Income (1) (2) (4)	277.354	242.036	(35.318)
Other Operating Expenses (3)	(110.079)	(95.653)	14.426
Income from Investing Activities (2)	-	6.046	6.046
Expenses from Investing Activities (3)	-	(14.426)	(14.426)
Finance Income (4)	286.868	223.607	(63.261)
			-

(1) Interest income from sales with maturities amounting to TRY 92.533 thousand reported in "Other Operating Income" was reclassified to "Revenue" on the profit and loss statement for the period ended 31 December 2017.
(2) Gain on sales of tangible assets amounting to TRY 5.540 thousand and rent income amounting to TRY 506 thousand from investment properties reported as "Other Operating Income" before, was reclassified to "Income from Investing Activities" on the profit and loss statement for the period ended 31 December 2017.
(3) Losses on sales of tangible assets amounting to TRY (13.310) thousand and losses on disposal of tangible assets amounting to TRY (1.116) thousand reported as "Other Operating Expenses (-)" before, was reclassified to "Expenses from Investing Activities (-)" on the profit and loss statement for the period ended 31 December 2017.
(4) Foreign exchange gains from trade receivables and payables (net) amounting to TRY 63.261 thousand reported as "Finance Income (net)" before, was reclassified to "Other Operating Income" on the profit and loss statement for the period ended 31 December 2017.

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

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

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

The Group calculates depreciation for the fixed assets by taking into account their production amounts on the basis of cash flow unit set by independent expert valuation firm and useful lives that are stated in Note 2.8.3 and 2.8.4 (Note 14, Note 15).

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

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

2.5.2 Deferred tax

The Group recognizes deferred tax on the temporary timing differences between the carrying amounts of assets and liabilities in the financial statements prepared in accordance with TFRS and statutory financial statements which is used in the computation of taxable profit. The related differences are generally due to the timing difference of the tax base of some income and expense items between statutory and TFRS financial statements. The Group has deferred tax assets resulting from tax loss carry-forwards and deductible temporary differences, which could reduce taxable income in the future periods. All or partial amounts of the realizable deferred tax assets are estimated in current circumstances. The main factors which are considered include future earnings potential; cumulative fiscal losses in recent years; history of loss carry-forwards and other tax assets expiring, the carry-forward period associated with the deferred tax assets, future reversals of existing taxable temporary differences that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset (Note 30).

2.5.3 Fair values of derivative financial instruments

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

2.5.4 Provision for doubtful receivables

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

2.5.5 Provision for inventories

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

2.5.6 Provisions for employee benefits

Actuarial assumptions about discount rates, inflation rates, future salary increases and employee turnover rates are made to calculate Group's provision for employee benefits. The details related with the defined benefit plans are stated in Note 17.

2.5.7 Provision for lawsuits

Provision for lawsuits is evaluated by the Group based on opinions of Group Legal Counsel and legal consultants. The Group determines the amount of provisions based on best estimates. As of Reporting date, provision for lawsuits is stated in Note 18.

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

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

2.5.8 Impairments on Assets

The Group, performs impairment tests for assets that are subject to depreciation and amortization in case of being not possible to prevent recovery of the assets at each reporting period. Assets are grouped at the lowest levels which there are separately identifiable cash flows for evaluation of impairment (cash generating units). As a result of the impairment tests performed by the Group, additional impairment is estimated in the accompanying financial statements for the non financial assets recognized in expenses from investment activities (Note 27).

2.5.9 Impairment in financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

2.5.10 Calculation of loss allowance

When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

2.6 Offsetting

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

2.7 Adoption of New and Revised Financial Reporting Standards

The accounting policies adopted in preparation of the interim condensed consolidated financial statements as at 31 December 2018 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of 1 January 2018 summarized below.

Efffects of these standarts and interpretations on Group's financial position and performance summarized following paragraphs.

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

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

The new standards, amendments and interpretations which are effective as at 1 January 2018 are as follows (cont'd)

TFRS 9 Financial Instruments

(a) Classification and measurement of financial assets

In the current year, the Group has applied TFRS 9 Financial Instruments (2017 version) and the related consequential amendments to other TFRS Standards that are effective for an annual period that begins on or after 1 January 2018.

TFRS 9 introduced new requirements for:

1) The classification and measurement of financial assets and financial liabilities,
2) Impairment of financial assets, and
3) General hedge accounting.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied TFRS 9 in accordance with the transition provisions set out in TFRS 9.

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of TFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of TFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

All recognised financial assets that are within the scope of TFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

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

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

The new standards, amendments and interpretations which are effective as at 1 January 2018 are as follows (cont'd)

TFRS 9 Financial Instruments (cont'd)

(a) Classification and measurement of financial assets (cont'd)

Despite the aforegoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. See (b) below.

The directors of the Company reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of TFRS 9 has had the following impact on the Group's financial assets as regards their classification and measurement.

Group classifies its financial assets in three categories of financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit of loss. The classification of financial assets is determined considering the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The appropriate classification of financial assets is determined at the time of the purchase.

"Financial assets measured at amortised cost", are non-derivative assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Group's financial assets measured at amortised cost comprise "cash and cash equivalents", "trade receivables" and "receivables from finance sector operations". Financial assets carried at amortised cost are measured at their fair value at initial recognition and by effective interest rate method at subsequent measurements. Gains and losses on valuation of non-derivative financial assets measured at amortised cost are accounted for under the consolidated statement of income.

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

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

The new standards, amendments and interpretations which are effective as at 1 January 2018 are as follows (cont’d)

TFRS 9 Financial Instruments (cont’d)

(a) Classification and measurement of financial assets (cont’d)

“Financial assets measured at fair value through other comprehensive income”, are non-derivative assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Gains or losses on a financial asset measured at fair value through other comprehensive income is recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses until the financial asset is derecognised or reclassified. When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified to retained earning.

“Financial assets measured at fair value through profit or loss”, are assets that are not measured at amortised cost or at fair value through other comprehensive income. Gains and losses on valuation of these financial assets are accounted for under the consolidated statement of income.

Changes regarding the classification of financial assets in terms of TFRS 9 are summarised below.

Financial Assets	Previous Classification According to TAS 39	New Classification According to TFRS 9
Cash and cash equivalents	Borrowings and receivables	Amortised cost
Trade receivables	Borrowings and receivables	Amortised cost
Other financial assets	Borrowings and receivables	Amortised cost
Financial investments	Financial assets held for sale	Fair value differences reflected in income statement
Financial derrivative instruments	Fair value differences reflected in income statement or other comprehensive income	Fair value differences reflected in income statement or other comprehensive income

Related changes in classification do not result in changes in measurement of the financial assets and liabilities.

(b) Impairment on financial assets

“Expected credit loss model” defined in TFRS 9 “Financial Instruments” superseded the “incurred credit loss model” in TAS 39 “Financial Instruments: Recognition and Measurement” which was effective prior to 1 January 2018. Expected credit losses are a probability weighted estimate of credit losses over the expected life of the financial instrument. The calculation of expected credit loss is performed based on the past experiences and future expectations of the Group.

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

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

The new standards, amendments and interpretations which are effective as at 1 January 2018 are as follows (cont'd)

TFRS 9 Financial Instruments (cont'd)

(b) Impairment on financial assets (cont'd)

Trade receivables, receibvables from related parties and contractual assets;

- ➢ Group has preferred to apply "simplified approach" defined in TFRS 9 for the recognition of impairment losses on trade receivables, carried at amortised cost and that do not comprise of any significant finance component (those with maturity less than 12 months). In accordance with the simplified approach, Group measures the loss allowances regarding its trade receivables at an amount equal to "lifetime expected credit losses" except incurred credit losses in which trade receivables are already impaired for a specific reason.
- ➢ Group uses a provision matrix for the calculation of the expected credit losses on trade receivables. The provision matrix calculates fixed provision rates depending on the number of days that a trade receivable is past due and those provision rates are reviewed and, revised if necessary, in every reporting period. The changes in the expected credit losses on trade receivables are accounted for under "other operating income/expenses" account of the consolidated statement of income

(c) Classification and measurement of financial liabilities

A significant change introduced by TFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, TFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under TMS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

Changes regarding the classification of financial liabilities in terms of TFRS 9 are summarised below.

Financial Liabilities	Previous Classification According to TAS 39	New Classification According to TFRS 9
Borrowings	Amortised cost	Amortised cost
Trade payables	Amortised cost	Amortised cost
Other liabilities	Amortised cost	Amortised cost
Financial derrivative instruments	Fair value differences reflected in income statement or other comprehensive income	Fair value differences reflected in income statement or other comprehensive income

The application of TFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.

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

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

The new standards, amendments and interpretations which are effective as at 1 January 2018 are as follows (cont'd)

TFRS 9 Financial Instruments (cont'd)

(d) General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting.

Specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Group's risk management activities have also been introduced.

In accordance with TFRS 9's transition provisions for hedge accounting, the Group has applied the TFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 January 2018. The Group's qualifying hedging relationships in place as at 1 January 2018 also qualify for hedge accounting in accordance with TFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on 1 January 2018. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under TFRS 9's effectiveness assessment requirements.

The Group has also not designated any hedging relationships under TFRS 9 that would not have met the qualifying hedge accounting criteria under TMS 39.

Impact of application of TFRS 15 Revenue from Contracts with Customers

Impact on the Financial Statements

In the current year, the Group has applied TFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. TFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in TFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Group's consolidated financial statements are described below.

TFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position.

Accounting policies related with revenue items explained in Note 2.8.1. implementation of TFRS 15 hasn't significant effect on Company's financials and Company's performance.

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

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

The new standards, amendments and interpretations which are effective as at 1 January 2018 are as follows (cont'd)

Impact of application of TFRS 15 Revenue from Contracts with Customers (cont'd)

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

The amendments clarify the standard in respect of the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature. Changer in TFRS 2 hasn't significant effect on Company's financials.

Amendments to TMS 40 *Transfers of Investment Property*

Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.

Annual Improvements to TFRS Standards 2014–2016 Cycle

TMS 28: Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. Annual improvements to TFRS Standards 2014-2016 cycle have no impact on the Group's consolidated financial statements.

TFRS Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

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

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

The new standards, amendments and interpretations which are effective as at 1 January 2018 are as follows (cont'd)

New and revised TFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, The Group has not applied the following new and revised TFRS Standards that have been issued but are not yet effective:

- TFRS 16 Leases [(1)]
- Amendments to TMS 28 *Long-term Interests in Associates and Joint Ventures* [(1)]
- IFRIC 23 *Uncertainty over Income Tax Treatments* [(1)]
- TFRS 10 and TMS 28 (amendments) *Consolidated Financial Statements Sale of Contribution of Assets between an Investor and its Associate or Joint Venture* [(1)]
- Amendments to *TMS 19 Employee Benefits Plan Amendment, Curtailment or Settlement* [(1)]
- Annual Improvements to TFRS Standards 2015–2017 Cycle *Amendments to TFRS 3 Business* [(1)]
- *Combinations, TFRS 11 Joint Arrangements*, *TMS 12 Income Taxes and TMS 23 Borrowing Costs* [(1)]

[(1)] Effective from periods on or after 1 January 2019.

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

<u>TFRS 16 Leases</u>

General impact of application of TFRS 16 Leases

TFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. TFRS 16 will supersede the current lease guidance including TMS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of TFRS 16 for the Group will be 1 January 2019.

In contrast to lessee accounting, TFRS 16 substantially carries forward the lessor accounting requirements in TMS 17.

Impact of the new definition of a lease

The Group will make use of the practical expedient available on transition to TFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with TMS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. TFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

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

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

The new standards, amendments and interpretations which are effective as at 1 January 2018 are as follows (cont'd)

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

TFRS 16 Leases (cont'd)

The Group will apply the definition of a lease and related guidance set out in TFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of TFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in TFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

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

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

TFRS Interpretation 23 Uncertainty over Income Tax Treatments

This interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under TMS 12.

TFRS 10 Consolidated Financial Statements and TMS 28 (Amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

Amendments to TMS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position).

Annual Improvements to TFRS Standards 2015–2017 Cycle

Annual Improvements to TFRS Standards 2015–2017 Cycle include amendments to TFRS 3 Business Combinations and TFRS 11 Joint Arrangements in when a party that participates in, but does not have joint control of, TMS 12 Income Taxes; income tax consequences of dividends in profit or loss, and TMS 23 Borrowing Costs in capitalized borrowing costs.

The Group assess the possible impacts of the application of the amendments on the Group's consolidated financial statements.

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

2.8 Valuation Principles Applied / Significant Accounting Policies

Accounting policies implemented during preparation of financial statemens as follows:

2.8.1 Revenue recognition

Group recognizes revenue when the goods or services is transferred to the customer and when performance obligation is fulfilled. Goods is counted to be transferred when the control belongs to the customer.

Group recognizes revenue based on the following main principles:

a) Identification of customer contracts
b) Identification of performance obligations
c) Determination of transaction price in the contract
d) Allocation of price to performance obligations
e) Recognition of revenue when the performance obligations are fulfilled

Group recognized revenue from its customers only when all of the following criteria are met:

a) The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations,
b) Group can identify each party's rights regarding the goods or services to be transferred,
c) Group can identify the payment terms for the goods or services to be transferred;
d) The contract has commercial substance,
e) It is probable that Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due.

Revenue recognized in accordance with TMS 18 untill 31 December 2017.

2.8.2 Inventories

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

2.8.3 Property, plant and equipment

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

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

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

2.8.3 Property, plant and equipment (cont'd)

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

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

Depreciation is recognized so as to write off the cost or valuation of assets, other than freehold land and properties under construction, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

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

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

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

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

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

2.8.4 Intangible assets

Intangible assets purchased are recognized at acquisition cost less any amortization and impairment loss. Intangible assets are amortized principally on a straight-line basis over their estimated useful lives and production amounts. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, and any changes in the estimate are accounted for on a prospective basis.

The amortization rates of the intangible assets are stated below:

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

2.8.5 Investment properties

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

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

2.8.6 Impairment of assets

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

2.8.7 Borrowing costs

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

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

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

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

2.8.8 Financial Instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

The Group classifies its financial assets as (a) Business model used for managing financial assets, (b) financial assets subsequently measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss based on the characteristics of contractual cash flows. The Company reclassifies all financial assets effected from the change in the business model it uses for the management of financial assets. The reclassification of financial assets is applied prospectively from the reclassification date. In such cases, no adjustment is made to gains, losses (including any gains or losses of impairment) or interest previously recognized in the financial statements.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

2.8.8 Financial instruments (cont'd)

Classification of financial assets (cont'd)

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset; the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met.

(i) Amortised cost and effective interest method

Interest income on financial assets carried at amortized cost is calculated using the effective interest method. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. This income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset:

a) Credit-impaired financial assets when purchased or generated. For such financial assets, the Company applies the effective interest rate on the amortized cost of a financial asset based on the loan from the date of the recognition in the financial statements.
b) Non-financial assets that are impaired at the time of acquisition or generation but subsequently become a financial asset that has been impaired. For such financial assets, the Company applies the effective interest rate to the amortized cost of the asset in the subsequent reporting periods.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI.

Interest income is recognised in profit or loss and is included in the "finance income – interest income" line item (Note 28).

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI (see (i) to (iii) above) are measured at FVTPL. Specifically:

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy).

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

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

2.8.8 Financial instruments (cont'd)

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically,

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other gains and losses' line item;
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss in the 'other gains and losses' line item. Other exchange differences are recognised in other comprehensive income in the investments revaluation reserve;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other gains and losses' line item (and
- for equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the investments revaluation reserve.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as financial guarantee contracts. No impairment loss is recognised for investments in equity instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group utilizes a simplified approach for trade receivables, contract assets and lease receivables that does not have significant financing component and calculates the allowance for impairment against the lifetime ECL of the related financial assets.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

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

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

2.8.8 Financial instruments (cont'd)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities

Financial liabilities are classified as at FVTPL on initial recognition. On initial recognition of liabilities other than those that are recognised at FVTPL, transaction costs directly attributable to the acquisition or issuance thereof are also recognised in the fair value.

A financial liability is subsequently classified at amortized cost except:

a) Financial liabilities at FVTPL: These liabilities including derivative instruments are subsequently measured at fair value.
b) Financial liabilities arising if the transfer of the financial asset does not meet the conditions of derecognition from the financial statements or if the ongoing relationship approach is applied: When the Group continues to present an asset based on the ongoing relationship approach, a liability in relation to this is also recognised in the financial statements. The transferred asset and the related liability are measured to reflect the rights and liabilities that the Company continues to hold. The transferred liability is measured in the same manner as the net book value of the transferred asset.
c) A contingent consideration recognized in the financial statements by the entity acquired in a business combination where TFRS 3 is applied: After initial recognition, the related contingent consideration is measured as at FVTPL.

The Company does not reclassify any financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

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

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

2.8.8 Financial instruments (cont'd)

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, options and interest rate swaps. Further details of derivative financial instruments are disclosed in note 6.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both legal right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge accounting

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations as appropriate. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge).

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

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

2.8.8 Financial instruments (cont'd)

The Group designates the full change in the fair value of a forward contract (i.e. including the forward elements) as the hedging instrument for all of its hedging relationships involving forward contracts.

Note 6 sets out details of the fair values of the derivative instruments used for hedging purposes.

Movements in the hedging reserve in equity are detailed in Note 6.

Financial instruments recognized in accordance with TMS 39 untill 31 December 2017.

2.8.9 The effects of foreign exchange rate changes

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

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

2.8.10 Earnings per share

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

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

2.8.11 Subsequent events

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

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

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

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

2.8.12 Provisions, contingent liabilities and contingent assets

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

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

2.8.13 Related parties

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

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

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

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

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

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

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

2.8.13 Related parties (cont'd)

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

2.8.14 Taxation and deferred income taxes

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

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

<u>Current tax</u>

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

<u>Deferred tax</u>

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

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

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

2.8.14 Taxation and deferred income taxes (cont'd)

Deferred tax (cont'd)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

Current and deferred tax for the period

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

2.8.15 Employee benefits

According to the Turkish and Romanian law and union agreements, employee termination payments are made to employees in the case of retiring or involuntarily leaving. Such payments are considered as a part of defined retirement benefit plan in accordance with TMS19 (revised) *Employee Benefits* ("TMS 19").

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

The Group makes certain assumptions about discount rates, inflation rates, future salary increases and employee turnover rates in calculation of provisions for employee benefits. The present value of employee benefits is calculated by an independent actuary and some changes are done in accounting assumptions used in calculations. The impact of the changes in assumptions is recognized in the statement of income. The details related with the defined benefit plans are stated in Note 17.

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

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

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

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

2.8.16 Government grants and incentives

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

2.8.17 Statement of cash flows

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

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

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

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

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

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

2.8.18 Share capital and dividends

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

2.8.19 Erdemir repurchased shares (Treasury shares)

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

NOTE 3 – SEGMENTAL REPORTING

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

NOTE 4 – CASH AND CASH EQUIVALENTS

As of reporting date the detail of cash and cash equivalents as follows:

	31 December 2018	31 December 2017
Cash	37	31
Banks – demand deposits	256.671	68.679
Banks – time deposits	8.402.628	6.966.730
	8.659.336	7.035.440
TFRS 9 effect	49.405	-
Time deposit interest accruals (-)	(25.860)	(18.737)
Cash and cash equivalents excluding interest accruals	8.682.881	7.016.703

The details of demand deposits are presented below:

	31 December 2018	31 December 2017
US Dollars	172.772	57.769
TRY	58.492	6.096
EURO	12.895	3.695
Romanian Lei	12.286	617
Other	226	502
	256.671	68.679

The details of time deposits in banks as follows:

	31 December 2018	31 December 2017
US Dollars	8.303.821	6.704.513
TRY	38.671	12.015
EURO	59.870	250.006
Romanian Lei	266	196
	8.402.628	6.966.730

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

NOTE 5 – FINANCIAL INVESTMENTS

As of reporting date the detail of financial investments as follows:

	31 December 2018	31 December 2017
Tresuary bonds	61.502	-
TFRS 9 effect	(502)	-
	61.000	-

The Group invested in USD and TRY denominated fixed income securities which terms will be expired in 2019 issued by banks or private sector in Turkey to make profit. These fixed income securities held for collection of contractual cash flows that includes principal and interest payments related with principal amount (Note 2.8.8).

Long term financial investments:

	31 December 2018	31 December 2017
Available for sale financial assets	-	13.437
Fair value differences reflected in income statement	143	-
Investments in subsidirias	7.952	-
	8.095	13.437

As of reporting date, ratios, shares of subsidiaries and amounts and subsidiaries recognized as financial investments as follows:

Company	Ratio %	31 December 2018	Ratio %	31 December 2017
Financial investments without an active market				
Teknopark Hatay A.Ş.	5	143	5	102
Joint venture				
İsdemir Linde Gaz Ortaklığı A.Ş. (*)	50	-	50	13.335
Consolidated subsidiary				
Erdemir Enerji Üretim A.Ş. (**)	100	7.952	-	-
		8.095		13.437

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

(**) As of 31 December 2018, non-operating joint venture Erdemir Enerji Üretim A.Ş. recognized on financial investments on financial statements since the effect on financials are not material.

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS

As of reporting date the detail of financial derivative instruments as follows:

	31 December 2018		31 December 2017	
	Asset	Liability	Asset	Liability
Fair value hedging derivative financial assets				
Forward contracts for fair value hedges of currency risk of sales	34.117	226	27	9.470
Forward contracts	85	78	1.514	17
Interest rate swap contracts	5.397	-	4.159	-
Basis Swap contracts	-	2.379	-	943
	39.599	2.683	5.700	10.430
Cash flow hedging derivative financial assets				
Forward contracts for cash flow hedges of currency risk of sales	17.250	1.843	1	24.017
Interest rate swap contracts for cash flow hedges of interest rate risk of borrowings	714	-	572	12
Commodity swap contracts for cash flow hedges of price fluctuations of raw material purchases	1.830	-	2.075	8.982
	19.794	1.843	2.648	33.011
	59.393	4.526	8.348	43.441

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Derivative instruments for fair value hedge

As of reporting date, the details of forward, swap and cross currency swap transactions for fair value hedge are as follows:

		Assets		Liabilities	
31 December 2018		Nominal value	Fair Value	Nominal value	Fair Value
Forward contracts for fair value hedges of currency risk of sales					
Buy USD/Sell EUR	Less than 3 months	664.473	34.107	75.031	226
Buy USD/Sell EUR	Between 3 - 6 months	1.827	10	-	-
		666.300	34.117	75.031	226
Forward contracts					
Buy USD/Sell EUR	Less than 3 months	-	-	2.766	25
Buy USD/Sell EUR	Between 3 - 6 months	-	-	5.304	53
Buy EUR/Sell USD	Less than 3 months	2.773	31	-	-
Buy EUR/Sell USD	Between 3 - 6 months	5.317	54	-	-
		8.090	85	8.070	78
Interest rate swap contracts					
USD floating interest collection / Fixed interest payment	Between 1 - 5 years	241.125	5.397	-	-
		241.125	5.397	-	-
Basis interest swap contracts					
USD basis floating interest collection / Basis floating interest payment	Between 1 - 5 years	-	-	454.655	2.379
		-	-	454.655	2.379
		915.515	39.599	537.756	2.683

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

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Derivative instruments for cash flow hedge

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

Buy USD – Sell EUR forward contracts measured at fair value through other comprehensive income are designated as hedging instruments in cash flow hedges of forecast sales in EUR. These forecast transactions are highly probable and their maturities vary between January 2019 and March 2020.

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

In respect of these contracts which has a nominal value of TRY 1.498.946 thousand for the purpose of hedging cash flow risk, with related deferred tax effect TRY 15.407 thousand was included in other comprehensive income/expense (31 December 2017: TRY (24.016) thousand).

In the current period, TRY 115.593 thousand resulting from the sales related forward contracts was accounted under the revenue account of the profit or loss table (31 December 2017: TRY (61.857) thousand).

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

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

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

In respect of these contracts which has a nominal value of TRY 60.703 thousand, for the purpose of hedging cash flow risk, with related deferred tax effect TRY 714 thousand was included in other comprehensive income (31 December 2017: TRY 560 thousand).

Commodity swap cont1racts for hedges of price risk of raw material purchases:

The Group purchases iron ore on an ongoing basis as its operating activities. The Group has concluded iron ore swap contracts in order to be protected from price risk of iron ore which shall be supplied in future and shall be used in the production of related sales in line with its contracted sales. Group's iron ore forward contracts measured at fair value through other comprehensive income match iron ore price risk associated with future long term sales contracts.

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Derivative instruments for cash flow hedge (cont'd)

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

The maturities' varies until January 2019 contracts of 45 thousands tonne of iron ore has a nominal value of TRY 15.837 thousand and fair value of TRY 1.019 thousand except from deffered tax effect recognized on other comprehensive income (31 December 2017: TRY 2.075 thousand). Amounts recognized on other comprehensive income table TRY 1.019 thousand related with commodity price hedging swap contracts for raw material purchases, realized as of 31 December 2018 and capitalized on inventories.

The maturities' varies until January 2019 contracts of 4 thousands tons of coal, has a nominal value of TRY 4.320 thousand and fair value of TRY 811 thousand except from deffered tax effect recognized on other comprehensive income. Amounts recognized on other comprehensive income table TRY 811 thousand related with commodity price hedging swap contracts for raw material purchases, realized as of 31 December 2018 and capitalized on inventories.

As of 31 December 2018 TRY (3.293) thousand reflected from other comprehensive income to inventory cost thousand (31 December 2017: TRY (11.198) thousand).

NOTE 7 – BORROWINGS

As of reporting date details of borrowings disclosed at amortized are as follows:

	31 December 2018	31 December 2017
Short term borrowings	3.654.083	2.243.529
Current portion of long term borrowings	1.066.402	882.211
Total short term borrowings	4.720.485	3.125.740
Long term borrowings	1.400.475	1.364.688
Total long term borrowings	1.400.475	1.364.688
	6.120.960	4.490.428

As of 31 December 2018, the breakdown of the Group's loans with their original currency and their weighted average interest rates is presented as follows:

Interest Type	Type of Currency	Weighted Average Rate of Interest (%)	Short Term Portion	Long Term Portion	31 December 2018
No interest	TRY	-	32.284	-	32.284
Fixed	US Dollars	3,31	2.835.450	72.873	2.908.323
Fixed	EURO	2,80	12.035	32.145	44.180
Floating	US Dollars	Libor+1,64	1.743.193	1.008.245	2.751.438
Floating	EURO	Euribor+2,23	97.523	287.212	384.735
			4.720.485	1.400.475	6.120.960

NOTE 7 – BORROWINGS (cont'd)

As of 31 December 2017, the breakdown of the Group's loans with their original currency and their weighted average interest rates is presented as follows:

Interest Type	Type of Currency	Weighted Average Rate of Interest (%)	Short Term Portion	Long Term Portion	31 December 2017
No interest	TRY	-	3.386	-	3.386
Fixed	TRY	14,48	195.422	-	195.422
Fixed	US Dollars	2,32	1.717.216	79.635	1.796.851
Fixed	EURO	3,01	74.063	32.129	106.192
Floating	US Dollars	Libor+1,67	1.002.212	976.479	1.978.691
Floating	EURO	Euribor+2,08	133.441	276.445	409.886
			3.125.740	1.364.688	4.490.428

	31 December 2018	31 December 2017
Within 1 year	4.720.485	3.125.740
Between 1-2 years	740.278	537.186
Between 2-3 years	242.089	487.084
Between 3-4 years	189.274	130.335
Between 4-5 years	107.370	117.133
Five years or more	121.464	92.950
	6.120.960	4.490.428

Recoincilation of net financial borrowings as follows:

	31 December 2018	31 December 2017
Opening balance	4.490.428	3.919.488
Interest expenses	177.203	105.342
Interest paid	(189.758)	(106.485)
Unrealised foreign exchange differences	(3.959)	55.106
Capitalized	16.480	4.176
Cash inflow from loans	5.838.030	3.608.910
Cash outflow from loan repayments	(4.207.464)	(3.096.109)
Closing balance	6.120.960	4.490.428

NOTE 8 – TRADE RECEIVABLES AND PAYABLES

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

	31 December 2018	31 December 2017
Short term trade receivables		
Trade receivables	4.469.265	2.599.865
Due from related parties (Note 32)	68.586	82.936
Discount on receivables (-)	-	(2.119)
Provision for doubtful trade receivables (-)	(136.377)	(98.576)
	4.401.474	2.582.106

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

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance	98.576	90.482
Provision for the period	39.863	431
Doubtful receivables collected (-)	-	(4.179)
Provision released (-)	(26.970)	(4.335)
Translation difference	24.908	16.177
Closing balance	136.377	98.576

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

As the Group provides services and products to a large number of customers, collection risk is widely distributed amongst these customers and there is no significant credit risk exposure. Therefore, the Group does not provide for any further provision beyond the doubtful receivables provisions that the Group has already provided for in the consolidated financial statements. The detail of overdue receivables included in trade receivables as of the reporting date is disclosed in the management of credit risk management (Note 33). The Group provides provision according to the balances of all unsecured receivables under legal follow up.

Group's past due but not impaired receivable amount is TRY 2.650 thousand and the maturities' of them between 0 and 30 days (Note 33).

In accordance with TFRS 9 "Financial Instruments" standart, expected credit loss measured regarding trade receivables and no significant effect ascertained on financial statements.

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

Short term trade payables	31 December 2018	31 December 2017
Trade payables	1.786.442	892.236
Due to related parties (Note 32)	147.772	53.897
Discount on trade payables (-)	-	(4.077)
Expense accruals	1.708	735
	1.935.922	942.791

NOTE 9 – OTHER RECEIVABLES AND PAYABLES

As of the reporting date, the details of the Group's other receivables are as follows:

Short term other receivables	31 December 2018	31 December 2017
Receivables from water system construction	1.504	1.701
Deposits and guarantees given	296	299
	1.800	2.000

Long term other receivables	31 December 2018	31 December 2017
Receivables from Privatization Authority	75.142	73.193
Receivables from water system construction	8.817	12.591
Deposits and guarantees given	580	1.052
Provision for receivables from Privatization Authority (-)	(75.142)	(73.193)
	9.397	13.643

Privatization Administration Litigation

In the litigation filed by the Company for indemnification of the payments made to the Company as per the share transfer agreement, with the File No 2015/125 E to the 19th Commercial Court of First Instance in Ankara against the Privatization Administration, the Court decided to accept the claim partially and to collect the amount of TRY 52.857 thousandwith the interest to be accrued thereon from 26 January 2012 and pay such amounts to the Company. the ruling was appealed by TR Prime Ministry Privatization Administration, where after 11th Chamber Office of the Supreme Court approved the resolution of the 19th Commercial Court of First Instance in Ankara, and such approval decision was notified to our Company. As the adjustment process against the approval decision was not eliminated, our company has continued to carry the provisions for the receivables in the financial statements in the reporting period related to this subject.

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

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance	73.193	70.236
Provision for the period	2.457	2.990
Provision released (-)	(383)	-
Other doubtful receivables collected (-)	(414)	-
Translation difference	289	(33)
Closing balance	75.142	73.193

NOTE 9 – OTHER RECEIVABLES AND PAYABLES (cont'd)

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

Short term other payables	31 December 2018	31 December 2017
Taxes payable	30.014	30.206
Deposits and guarantees received	8.897	8.745
Dividend payables to shareholders (*)	3.875	3.007
	42.786	41.958

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

NOTE 10 – INVENTORIES

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

	31 December 2018	31 December 2017
Raw materials	2.133.042	1.184.596
Work in progress	1.712.760	921.580
Finished goods	2.322.664	1.143.812
Spare parts	1.115.108	781.590
Goods in transit	1.405.980	895.153
Other inventories	548.341	341.025
Allowance for impairment on inventories (-)	(347.745)	(228.247)
	8.890.150	5.039.509

The movement of the allowance for impairment on inventories:

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance	228.247	208.787
Provision for the period	30.450	39.530
Provision released (-)	(3.402)	(35.415)
Translation difference	92.450	15.345
Closing balance	347.745	228.247

The Group has provided an allowance for the impairment on the inventories 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 23).

NOTE 11 – PREPAID EXPENSES

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

	31 December 2018	31 December 2017
Insurance expenses	56.359	37.495
Advances given suppliers	17.197	3.890
Prepaid utility allowance to employees	9.718	7.608
Other prepaid expenses	6.731	3.989
	90.005	52.982

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

	31 December 2018	31 December 2017
Order advances given	225.384	54.684
Fixed asset advances given to related parties (Note 32)	68.266	-
Insurance expenses	25.409	654
Other prepaid expenses	12.216	4.205
	331.275	59.543

NOTE 12 – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

The details of the Groups financial investments using equity method as follows:

Company	Right to vote ratio %	31 December 2018	Business segment
Joint Venture			
İsdemir Linde Gaz Ortaklığı A.Ş.	50	145.284	Industrial Gas Production and Sale

The Group's shares on assets of investments accounted for using equity method as follows:

	31 December 2018	31 December 2017
Total assets	380.489	278.444
Total liabilities	89.921	246.568
Net assets	290.568	31.876
Group's share on net assets	145.284	15.938

	31 December 2018	31 December 2017
Share capital	201.667	27.000

NOTE 12 – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (cont'd)

In General Assembly dated 8 March 2018 of Isdemir Linde Gaz Ortaklığı A.Ş. it was decided that the Company's share capital increased by TRY 174.667 thousand (USD 45.857 thousand equivalent) from TRY 27.000 thousand to TRY 201.667 thousand (Isdemir's share is amunting to TRY 87.333 thousand / USD 22.929 thousand). Increased capital amound paid by shareholders on 9 March 2018.

Group's share on profit of investments accounted for using equity method as follows:

	1 January – 31 December 2018	1 January – 31 December 2017
Revenue	82.922	168
Net profit (loss) for the period	11.117	(2.060)
Group's share on net profit	5.558	(1.030)

İsdemir Linde Gaz Ortaklığı A.Ş, as an affiliate of the Group under joint management, has the right of to deduct the investment deduction where profit will occur in the upcoming years pursuant to the Resolution No 2012/3305 on Government Aids in Investments and the Cabinet Decision issued in the Official gazette on 22 February 2017. Since İsdemir Linde Gaz Ortaklığı A.Ş. was established recently and it is not yet possible for İsdemir Linde Gaz Ortaklığı A.Ş. to make a reasonable forecast for full or partial recovery of the investment deduction amount for the upcoming periods under the current conditions, the deferred tax asset of TRY 67.230 thousand (its effect in the profit or loss statement of Isdemir is TRY 33.615 thousand) is not included in the financial statements prepared as of 31 December 2018.

NOTE 13 – INVESTMENT PROPERTIES

Cost	1 January - 31 December 2018	1 January - 31 December 2017
As of 1 January	101.695	94.882
Additions	92.779	-
Current amortization (-)	(934)	-
Translation difference	48.422	6.813
As of 31 December	241.962	101.695
Book value	241.962	101.695

The fair value of the Group's investment properties is TRY 901.487 thousand (31 December 2017: TRY 558.868 thousand). The fair values of the investment properties have been determined in reference to the valuations of independent valuation firms authorized by the CMB of Turkey. The valuations are undertaken predominantly by using the precedent values of similar properties as references under market approach. The Group's all investment properties consist of land parcels and buildings.

For the year ended 31 December 2018, the Group generated rent income amounting to TRY 1.257 thousand (31 December 2017: TRY 506 thousand) recognized investment properties within the scope of operating leases (Note 27).

	31 December 2018	31 December 2017
General administrative expenses	934	-
	934	-

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Machinery and equipment	Vehicles	Furniture and Fixtures	Other Property, Plant and Equipment	Construction in Progress (CIP)	Total
Cost									
Opening balance as of 1 January	218.337	3.237.524	5.025.209	21.731.205	1.233.293	614.226	219.698	811.304	33.090.796
Translation difference	80.471	1.257.353	1.996.460	8.576.399	432.678	207.447	40.590	332.714	12.924.112
Additions (*)	210	9.284	137.576	171.831	30.843	26.216	11.663	565.647	953.270
Transfers from CIP (**)	63	34.883	96.803	333.223	8.724	6.299	1.152	(491.990)	(10.843)
Disposals	(247)	(150)	(23)	(103.051)	(1.932)	(17.525)	(7.753)	(23.561)	(154.242)
Closing balance as of 31 December 2018	298.834	4.538.894	7.256.025	30.709.607	1.703.606	836.663	265.350	1.194.114	46.803.093
Accumulated Depreciation									
Opening balance as of 1 January	-	(2.356.873)	(3.636.434)	(12.753.336)	(745.586)	(325.575)	(142.179)	(58.951)	(20.018.934)
Translation difference	-	(923.000)	(1.441.366)	(5.058.592)	(240.770)	(95.196)	(25.276)	(24.201)	(7.808.401)
Charge for the period	-	(82.841)	(119.801)	(616.945)	(44.760)	(34.108)	(25.396)	-	(923.851)
Impairment (***)	-	(1.720)	(5.031)	(91.005)	-	(39)	(15)	-	(97.810)
Disposals	-	90	23	87.925	1.838	11.893	4.345	-	106.114
Closing balance as of 31 December 2018	-	(3.364.344)	(5.202.609)	(18.431.953)	(1.029.278)	(443.025)	(188.521)	(83.152)	(28.742.882)
Net book value as of 31 December 2017	218.337	880.651	1.388.775	8.977.869	487.707	288.651	77.519	752.353	13.071.862
Net book value as of 31 December 2018	298.834	1.174.550	2.053.416	12.277.654	674.328	393.638	76.829	1.110.962	18.060.211

(*) The amount of capitalized borrowing cost is TRY 16.480 thousand for the current period (31 December 2017: TRY 4.176 thousand).

(**) TRY 10.843 thousand is transferred to intangible assets (Note 15).

(***) The Group review the recoverable amount of fixed asset which is not able to generate cash flows independendly. As a result of the review. For non used assets, an impairment loss of TRY (97.810) thousand is recognised that on income statement under expenses from investment activities (Not 27).

As of 31 December 2018, the Group has no collaterals or pledges upon its tangible assets.

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Land	Land Improvements	Buildings	Machinery and equipment	Vehicles	Furniture and Fixtures	Other Property, Plant and Equipment	Construction in Progress (CIP)	Total
Cost									
Opening balance as of 1 January	202.545	2.991.528	4.657.660	20.040.944	1.140.463	569.555	200.261	449.821	30.252.777
Translation difference	15.403	212.975	337.651	1.452.934	72.858	34.522	7.394	45.138	2.178.875
Additions (*)	-	809	796	110.507	23.320	17.610	9.699	590.667	753.408
Transfers from CIP (**)	389	32.628	29.341	194.676	5.221	2.687	2.599	(273.866)	(6.325)
Disposals	-	(416)	(239)	(67.856)	(8.569)	(10.148)	(255)	(456)	(87.939)
Closing balance as of 31 December 2017	218.337	3.237.524	5.025.209	21.731.205	1.233.293	614.226	219.698	811.304	33.090.796
Accumulated Depreciation									
Opening balance as of 1 January	-	(2.143.248)	(3.307.623)	(11.498.679)	(684.027)	(294.378)	(118.006)	(54.844)	(18.100.805)
Translation difference	-	(153.862)	(242.211)	(845.299)	(40.098)	(15.144)	(4.391)	(4.107)	(1.305.112)
Charge for the period	-	(60.063)	(86.804)	(464.382)	(29.852)	(25.021)	(20.011)	-	(686.133)
Disposals	-	300	204	55.024	8.391	8.968	229	-	73.116
Closing balance as of 31 December 2017	-	(2.356.873)	(3.636.434)	(12.753.336)	(745.586)	(325.575)	(142.179)	(58.951)	(20.018.934)
Net book value as of 31 December 2016	202.545	848.280	1.350.037	8.542.265	456.436	275.177	82.255	394.977	12.151.972
Net book value as of 31 December 2017	218.337	880.651	1.388.775	8.977.869	487.707	288.651	77.519	752.353	13.071.862

(*) The amount of capitalized borrowing cost is TRY 4.176 thousand for the current period (31 December 2016: TRY 2.028 thousand).
(**) TRY 6.325 thousand is transferred to intangible assets (Note 15).

As of 31 December 2017, the Group has no collaterals or pledges upon its tangible assets.

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (cont'd)

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

	31 December 2018	31 December 2017
Associated with cost of production	865.368	649.088
General administrative expenses	19.129	9.652
Marketing, sales and distribution expenses	36.021	25.299
Research and development expenses	3.333	2.094
	923.851	686.133

NOTE 15 – INTANGIBLE ASSETS

	Rights	Other Intangible Assets	Total
Cost			
Opening balance as of 1 January	465.590	22.162	487.752
Translation difference	180.358	11.228	191.586
Additions	12.061	437	12.498
Transfers from CIP	10.295	548	10.843
Net book value as of 31 December 2018	668.304	34.375	702.679
Accumulated amortization			
Opening balance as of 1 January	(256.399)	(20.042)	(276.441)
Translation difference	(98.929)	(10.852)	(109.781)
Charge for the period	(32.238)	(703)	(32.941)
Closing balance as of 31 December 2018	(387.566)	(31.597)	(419.163)
Closing balance as of 31 December 2017	209.191	2.120	211.311
Net book value as of 31 December 2018	280.738	2.778	283.516

As of 31 December 2018, the Group has no collaterals or pledges upon its intangible assets (31 December 2017: None).

NOTE 15 – INTANGIBLE ASSETS (cont'd)

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

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

	31 December 2018	31 December 2017
Associated with cost of production	21.716	14.256
General administrative expenses	11.053	9.249
Marketing, sales and distribution expenses	4	620
Research and development expenses	168	117
	32.941	24.242

NOTE 16 – GOVERNMENT GRANTS AND INCENTIVES

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

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

Research and development incentive premiums taken or certain to be taken amounts to TRY 1.266 thousand (31 December 2017: TRY 1.348 thousand) which are accounted under income statement for the year ended 31 December 2018.

NOTE 17 – EMPLOYEE BENEFITS

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

	31 December 2018	31 December 2017
Due to personnel	153.178	113.687
Social security premiums payable	36.298	64.251
	189.476	177.938

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

	31 December 2018	31 December 2017
Provisions for employee termination benefits	530.083	511.971
Provisions for seniority incentive premium	55.351	43.468
Provision for unpaid vacations	83.957	81.374
	669.391	636.813

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

As of 31 December 2018, the amount payable consists of one month's salary limited to a maximum of TRY 5.434,42 (31 December 2017: TRY 4.732,48). As of 1 January 2019, the employee termination benefit has been updated to a maximum of TRY 6.017,60.

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

The employee termination benefit has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. TAS 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the Group's obligation under defined benefit plans. The obligation as of 31 December 2018 has been calculated by an independent actuary. The actuarial assumptions used in the calculation of the present value of the future probable obligation are as follows:

	31 December 2018	31 December 2017
Discount rate	16,00%	11,50%
Inflation rate	11,30%	8,30%
Salary increase	real 1,5%	real 1,5%
Maximum liability increase	11,30%	8,30%

NOTE 17 – EMPLOYEE BENEFITS (cont'd)

Discount rates are determined considering the expected duration of the retirement obligations and the currency in which the obligations will be paid. In calculations as of 31 December 2018, a fixed discount rate is used. Long term inflation estimates are made using an approach consistent with discount rate estimates and long term inflation rate fixed over years is used.

The anticipated rate of resignation which do not result in the payment of employee benefits is also considered in the calculation. The anticipated rate of resignation is assumed to be related with the past experience, therefore past experiences of employees are analyzed and considered in the calculation. In the actuarial calculation as of 31 December 2018, the anticipated rate of resignation is considered to be inversely proportional to the past experience. The anticipated rate of resignation is between 2%-0% for the employees with past experience between 0-15 years or over.

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

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance	511.971	448.932
Service cost	49.971	43.762
Interest cost	67.345	46.296
Actuarial (gain)/loss	(51.444)	12.618
Termination benefits paid	(49.700)	(39.717)
Translation difference	1.940	80
Closing balance	530.083	511.971

The sensitivity analysis of the assumptions which was used for the calculation of provision for employment termination benefits as of 31 December 2018 as follows:

	Interest rate	
Change in rate	1% increase	1% decrease
Change in employee benefits liability	(39.759)	45.428

	Inflation rate	
Change in rate	1% increase	1% decrease
Change in employee benefits liability	47.028	(41.673)

NOTE 17 – EMPLOYEE BENEFITS (cont'd)

According to the current labor agreement, employees completing their 5th, 10th, 15th and 20th service years receive seniority incentive premium payments.

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

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance	43.468	38.884
Service cost	4.954	4.189
Interest cost	5.859	3.883
Actuarial loss/(gain)	8.423	6.244
Termination benefits paid	(7.276)	(9.798)
Translation difference	(77)	66
Closing balance	55.351	43.468

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

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance	81.374	79.603
Provision for the period	79.218	68.042
Vacation paid during the period (-)	(6.814)	(5.870)
Provisions released (-)	(68.165)	(61.207)
Translation difference	(1.656)	806
Closing balance	83.957	81.374

NOTE 18 – PROVISIONS

The Group's short term provisions are as follows:

	31 December 2018	31 December 2017
Provision for lawsuits	165.568	103.689
Penalty provision for employment shortage of disabled personnel	10.421	6.374
Provision for state right on mining activities	7.650	5.102
Provision for land occupation	7.013	11.665
Provision for the potential tax penalty	10.125	7.584
	200.777	134.414

NOTE 18 – PROVISIONS (cont'd)

The movement of the short term provisions is as follows:

	1 January 2018	Change for the period	Payments	Provision released	Translation difference	31 December 2018
Provision for lawsuits	103.689	80.437	(14.307)	(38.454)	34.203	165.568
Penalty provision for employment shortage of disabled personnel	6.374	4.075	-	-	(28)	10.421
Provision for state right on mining activities	5.102	8.043	(5.495)	-	-	7.650
Provision for land occupation	11.665	20.465	(21.901)	-	(3.216)	7.013
Provision for the tax penalty	7.584	-	-	-	2.541	10.125
	134.414	113.020	(41.703)	(38.454)	33.500	200.777

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

NOTE 18 – PROVISIONS (cont'd)

Provision for lawsuits

As of 31 December 2018 and 31 December 2017, lawsuits filed by and against the Group are as follows:

	31 December 2018	31 December 2017
Lawsuits filed by the Group	763.070	581.107
Provision for lawsuits filed by the Group	200.393	153.126

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

	31 December 2018	31 December 2017
Lawsuits filed against the Group	498.341	377.793
Provision for lawsuits filed against the Group	165.568	103.689

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 (TFRS) caused a decrease amounting to TRY 152.330 thousand on the period due to negative goodwill income.

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

NOTE 18 – 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 TFRS, 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 TFRS 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 TFRS after December 31, 2005, it would also have to present the comparative consolidated financial statements in accordance with TFRS based on "TFRS 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 "TFRS 3: Business Combinations". Therefore, the net profit for the periods ended December 31, 2018 and December 31, 2017 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 TFRS. Privatization Administration, who has a usufruct right over 1 (one) equity share among the Company shares it transferred to Ataer Holding A.Ş., filed a lawsuit at 1 May 2006 the 3th Commercial Court of Ankara against the aforementioned General Assembly decision, and claimed that, dividend distribution decision must be abolished and TRY 35.673 thousand allegedly unpaid dividend must be paid to itself (E. 2006/218). The Court rejected the case on 23 October 2008; Privatization Administration appealed this rejection on 7 January 2009. Court of Appeals' 11th Chamber reversed this rejection judgment on 30 November 2010; this time the Company appealed the Chamber's decision on 18 February 2011. However, the Chamber rejected the Company's appeal on 14 July 2011. The case file, sent back to 3th Commercial Court of Ankara once again. The case was dismissed at the hearing held on 26 June 2015. Decision of the local court has been reversed by the Supreme Court 11th Civil Chamber with the decision dated 24 May 2017 and 2015/15771 Docket; 2017/3040 Decision number. The decision of reversal has been notified to the Company on 2 August 2017. Erdemir has applied for revision of the decision against the Supreme Court 11th Civil Chamber's decision dated 24 May 2017 and 2015/15771 Docket; 2017/3040 Decision number. Conclusion of the application for revision of the decision is expected.

The Company, based on the above mentioned reasons, doesn't expect for the possible effects of changes in the net profit for the year ended 31 December 2005 due to the lawsuits mentioned above to have any impact in the accompanying consolidated financial statements as of 31 December 2018 and 31 December 2017.

NOTE 18 – 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. Decision of the local court has been approved by the Supreme Court 23th Civil Chamber with the decision dated 07.05.2018 and 2017/2657 Docket; 2018/2943 Decision number. The decision of approval has been notified to our Company on 26 June 2018. Enerjia has applied for revision of the decision. Conclusion of the application for revision of the decision is expected. 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.

Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.). located at Illinois state of United States of America and the Company executed a contract in 2008. The company fulfilled all its performances arisen from this contract in January and February in 2009.

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

It is learnt through a notified made to the Company on 31 October 2012 that Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.) filed an action for compensation at amount of USD 4.800 thousand together with accessory against the Company before Ankara 14. 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 continued on file no. 2013/63 in Karadeniz Ereğli 2nd Civil Court of First Instance. At the hearing of the ongoing case dated 28 November 2017, Kdz. Ereğli 2. Civil Court of First Instance has decided to partially accept the case against our Company. Our company has applied for the appeal against the decision. A provision amounting to TRY 42.810 thousand recognised on financial statements for related lawsuit.

NOTE 18 – PROVISIONS (cont'd)

Provision for state right on mining activities

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

Land occupation

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

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

Tax Penalty Provision

As a result of the comprehensive corporate tax audit carried out by the relevant tax administration for the period 2009-2014 for one of the Group's subsidiaries, Erdemir Romania SRL in Romania, a total payment of TRY 10.125 thousand (RON 7.579 thousand) was notified for all tax and tax penalties. Provision was recognised for the amount to be paid in the accompanying financial statements.

Resolution of Constitutional Court on Electric and Coal Gas Tax

The claims filed every month for refunding of taxes paid and deduction thereof from Electric and Coal Gas Tax collected by the Municipality on the Electric and Coal Gas consumption quantity produced by the Company in the facilities and used for industrial production of the Company were concluded in the court of first instance and the Council of State against the company. Thereafter, the Company used its right on 16 March 2015 to apply the Constitutional Court individually. In the General Assembly Resolution adopted by the Constitutional Court notified to the Company on 27 December 2018, it is stated that the property rights of the Company were violated, and retrial was decided for the applicable claims to eliminate the consequences of the violation of the property rights.

NOTE 19 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	31 December 2018	31 December 2017
Letters of guarantees received	3.378.056	1.976.567
	3.378.056	1.976.567

NOTE 19 – COMMITMENTS AND CONTINGENCIES (cont'd)

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

	31 December 2018	31 December 2017
A. Total CPM given for the Company's own legal entity	103.870	116.263
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	221.267	176.335
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	-	-
D. Other CPM given	-	-
i. Total CPM given in favour of parent entity	-	-
ii. Total CPM given in favour of other Group companies out of the scope of clause B and C	-	-
iii. Total CPM given in favour of other 3rd parties out of the scope of clause C	-	-
	325.137	292.598

TRY 221.267 thousand of total CPM given in favor of subsidiaries is related with financial borrowings stated in Note 7. As of 31 December 2018, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2017: 0%).

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

	31 December 2018	31 December 2017
US Dollars	221.267	70.205
TRY	79.155	180.249
EURO	24.715	42.144
	325.137	292.598

NOTE 20 – OTHER ASSETS AND LIABILITIES

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

<u>Other current assets</u>

	31 December 2018	31 December 2017
Other VAT receivable	172.096	67.269
Deferred VAT	160.040	26.431
Prepaid taxes and funds	2.345	2.146
Other current assets	20.958	30.390
	355.439	126.236

NOTE 20 – OTHER ASSETS AND LIABILITIES (cont'd)

Other non-current assets

	31 December 2018	31 December 2017
Other VAT receivable	116.221	-
	116.221	-

Other current liabilities

	31 December 2018	31 December 2017
VAT payable	10.552	106.512
Other current liabilities	3.788	5.016
	14.340	111.528

Other non-current liabilities

	31 December 2018	31 December 2017
Other non-current liabilities	1.554	428
	1.554	428

NOTE 21 – DEFERRED INCOME

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

	31 December 2018	31 December 2017
Advances received	266.047	142.980
Deferred income	10.794	7.300
	276.841	150.280

NOTE 22 – EQUITY

As of reporting date the capital structure is as follows:

Shareholders	(%)	31 December 2018	(%)	31 December 2017
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
Historical capital	100,00	3.500.000	100,00	3.500.000
Effect of inflation		156.613		156.613
Restated capital		3.656.613		3.656.613
Treasury shares		(116.232)		(116.232)
		3.540.381		3.540.381

NOTE 22 – EQUITY (cont'd)

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

The issued capital of the Company consists of 350.000.000.000 lots of shares (31 December 2017: 350.000.000.000 lots). The nominal value of each share is 1 Kr (Turkish cent) (31 December 2017: 1 Kr). This capital is split between A and B group shares. Group A shares consist of 1 share with a share value of 1 Kr and Group B shares consist of 3.499.999.999,99 shares representing TRY 349.999.999.999 of the issued capital.

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

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

Article IV-K of Articles of Association "According to Turkish Commercial Code Article 329, transactions of an entity's own shares" Erdemir, as of 31 December 2018, holds its own shares with a nominal value of TRY 107.837 thousand (31 December 2017: TRY 107.837 thousand). Erdemir's own shares have been reclassified with its inflation adjusted value in the consolidated balance sheet as a deduction under equity.

Other Equity Items	31 December 2018	31 December 2017
Share Premium	106.447	106.447
Revaluation Reserves of Tangible Assets	51.239	33.917
Cash Flow Hedging Reserves	13.103	(16.272)
Foreign Currency Translation Reserves	14.502.844	7.665.476
Actuarial (Loss)/ Gain Fund	(72.105)	(111.247)
Restricted Reserves Assorted from Profit	2.287.528	1.567.280
-Legal Reserves	*2.287.528*	*1.567.280*
Retained Earnings	2.339.334	2.144.646
	19.228.390	11.390.247

NOTE 22 – EQUITY (cont'd)

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

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

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

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

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

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate for the publicly-held subsidiaries. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of incorporation. In addition, dividend can be distributed by fixed or variable installments and advance dividend can be paid in accordance with profit on interim financial statements of the Company.

In accordance with the Turkish Commercial Code (TCC), unless the required reserves and the dividend for shareholders as determined in the article of association or in the dividend distribution policy of the company are set aside, no decision may be made to set aside other reserves, to transfer profits to the subsequent year or to distribute dividends to the holders of usufruct right certificates, to the members of the board of directors or to the employees; and no dividend can be distributed to these persons unless the determined dividend for shareholders is paid in cash.

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

Other sources which might be used in dividend distribution, except the net profit for the period, in statutory books of the Company are equal to TRY 109.042 thousand as of 31 December 2018 (31 December 2017: TRY 182.726 thousand).

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

NOTE 22 – EQUITY (cont'd)

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

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

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

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

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

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

NOTE 23 – SALES AND COST OF SALES

The Group derives its revenue from the transfer of goods at a point in time in the following major product lines. The amount of performance obligations in the ongoing contracts of the Group will be eligible for recognition in the future is TRY 266.047 thousand. The Company planning to recognize related revenue amount as a revenue in a year.

	1 January - 31 December 2018	1 January - 31 December 2017
Sales Revenue		
Domestic sales	20.998.266	15.812.158
Export sales	5.355.325	2.480.404
Other revenues (*)	687.965	403.195
Interest income from sales with maturities	151.322	92.533
Sales returns (-)	(23.075)	(37.610)
Sales discounts (-)	(154.549)	(14.233)
	27.015.254	18.736.447
Cost of sales (-)	(18.631.954)	(13.480.960)
Gross profit	8.383.300	5.255.487

(*)The total amount of by product exports in other revenues is TRY 257.751 thousand (31 December 2017: TRY 191.125 thousand).

The detail of cost of sales for the periods 1 January – 31 December 2018 and 1 January – 31 December 2017 is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Raw material usage	(14.069.003)	(9.805.665)
Personnel costs	(1.590.098)	(1.457.439)
Energy costs	(872.028)	(671.070)
Depreciation and amortization expenses	(837.703)	(672.664)
Manufacturing overheads	(464.170)	(412.100)
Other cost of goods sold	(284.382)	(209.234)
Non-operating costs (*)	(77.096)	(25.368)
Freight costs for sales delivered to customers	(329.314)	(199.017)
Allowance expenses for impairment on inventories (Note 10)	(30.450)	(39.530)
Inventory provision released (Note 10)	3.402	35.415
Other	(81.112)	(24.288)
	(18.631.954)	(13.480.960)

(*) 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 (77.096) thousand, has been accounted directly under cost of sales (31 December 2017: TRY (25.368) thousand).

NOTE 24 – RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

The detail of marketing, sales and distribution expenses according to their nature for the periods 1 January – 31 December 2018 and 1 January – 31 December 2017 is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Marketing, sales and distribution expenses (-)	(208.281)	(164.522)
General administrative expenses (-)	(436.088)	(322.163)
Research and development expenses (-)	(17.546)	(13.113)
	(661.915)	(499.798)

NOTE 25 – OPERATING EXPENSES ACCORDING TO THEIR NATURE

The detail of marketing, sales and distribution expenses according to their nature for the periods 1 January – 31 December 2018 and 1 January – 31 December 2017 is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Personnel expenses (-)	(88.530)	(81.242)
Depreciation and amortization (-)	(36.025)	(25.919)
Service expenses (-)	(83.726)	(57.361)
	(208.281)	(164.522)

The detail of general administrative expenses for the periods 1 January – 31 December 2018 and 1 January – 31 December 2017 is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Personnel expenses (-)	(183.535)	(174.144)
Depreciation and amortization (-)	(31.116)	(18.901)
Service expenses (-)	(162.976)	(122.408)
Tax, duty and charges (-)	(17.899)	(7.624)
Provision for doubtful receivables (net)	(40.562)	914
	(436.088)	(322.163)

The detail of research and development expenses for the periods 1 January – 31 December 2018 and 1 January – 31 December 2017 is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Personnel expenses (-)	(10.502)	(8.475)
Depreciation and amortization (-)	(3.501)	(2.211)
Other (-)	(3.543)	(2.427)
	(17.546)	(13.113)

NOTE 26 – OTHER INCOME/(EXPENSES) FROM OPERATING ACTIVITIES

The detail of other operating income for the periods 1 January – 31 December 2018 and 1 January – 31 December 2017 is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Other operating income		
Foreign exchange gain from trade receivables and payables (net)	129.773	63.261
Discount income	2.896	9.210
Provisions released	38.454	47.001
Service income	19.597	16.514
Maintenance repair and rent income	14.989	11.816
Warehouse income	7.252	4.771
Indemnity and penalty detention income	14.476	2.968
Insurance indemnity income	11.130	45.398
Lawsuit income	326	7.496
Overdue interest income	7.802	1.521
Income related collections from tax office	-	7.931
Other income and gains	18.218	24.149
	264.913	242.036

The detail of other operating expenses for the periods 1 January – 31 December 2018 and 1 January – 31 December 2017 is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Other operating expenses (-)		
Provision expenses	(84.512)	(48.734)
Discount expenses	(8.368)	(6.342)
Lawsuit compensation expenses	(7.456)	(4.738)
Port facility pre-licence expenses	(20.572)	(6.443)
Donation expenses	(4.351)	(2.573)
Service expenses	(8.991)	(7.058)
Stock exchange registration expenses	(2.265)	(1.396)
Rent expenses	(4.290)	(1.631)
Penalty expenses	(12.794)	(1.345)
Interest expenses from purchases with maturities	(367)	-
Other expenses and losses	(18.021)	(15.393)
	(171.987)	(95.653)

NOTE 27 –INCOME/(EXPENSES) FROM INVESMENT ACTIVITIES

The detail of income from investment activities for the periods 1 January – 31 December 2018 and 1 January – 31 December 2017 is as follows:

Income From Investment Activities	1 January - 31 December 2018	1 January - 31 December 2017
Income from sales on tangible assets	9.277	5.540
Rent income from investment properties	1.257	506
	10.534	6.046

The detail of expenses from investment activities for the periods 1 January – 31 December 2018 and 1 January – 31 December 2017 is as follows:

Expenses From Investment Activities (-)	1 January - 31 December 2018	1 January - 31 December 2017
Loss on sales of tangible assets	(27.486)	(95)
Loss on disposal of tangible assets	(20.506)	(13.215)
Impairment of property, plant and equipment (Note 14)	(97.810)	-
Expenses from investment properties	(2.227)	(1.116)
	(148.029)	(14.426)

NOTE 28 – FINANCE INCOME

The breakdown of finance income for the periods 1 January – 31 December 2018 and 1 January – 31 December 2017 is as follows:

Finance income	1 January - 31 December 2018	1 January - 31 December 2017
Interest income on bank deposits	470.705	206.792
Foreign exchange gains (net)	735.209	16.588
Interest income from financial investments	2.568	-
Fair value differences of derivative financial instruments (net)	25.470	-
Other financial income	821	227
	1.234.773	223.607

NOTE 29 – FINANCE EXPENSES

The breakdown of finance expenses for the periods 1 January – 31 December 2018 and 1 January – 31 December 2017 is as follows:

Finance expenses (-)	1 January - 31 December 2018	1 January - 31 December 2017
Interest expenses on borrowings	(177.203)	(105.342)
Interest cost of employee benefits	(73.204)	(50.179)
Fair value differences of derivative financial instruments (net)	-	(5.025)
Allowance for impairment on financial assets (Note 2.2)	(27.063)	-
Other financial expenses	(9.000)	(2.237)
	(286.470)	(162.783)

During the period, the interest expenses of TRY 16.480 thousand have been capitalized as part of the Group's property, plant and equipment (31 December 2017: TRY 4.176 thousand).

NOTE 30 – TAX ASSETS AND LIABILITIES

	31 December 2018	31 December 2017
Corporate tax payable:		
Current corporate tax provision	2.527.182	1.137.927
Prepaid taxes and funds (-)	(2.022.466)	(339.966)
	504.716	797.961

	1 January - 31 December 2018	1 January - 31 December 2017
Taxation:		
Current corporate tax expense	2.527.182	1.137.927
Deferred tax (income) / expense	258.774	(80.953)
	2.785.956	1.056.974

Corporate tax

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

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

The effective corporate tax rate in Turkey is 22%, 16% in Romania and 17% in Singapore as of 31 December 2018 (31 December 2017: in Turkey 20%, in Romania 16%, in Singapore 17%).

NOTE 30 – TAX ASSETS AND LIABILITIES (cont'd)

The total amount of the corporate tax paid by the Group in 2018 is TRY 2.820.427 thousand (31 December 2017: TRY 795.590 thousand).

In Turkey, advance tax returns are filed on a quarterly basis. The temporary tax of 2018 has been calculated over the corporate earnings using the rate 22%, during the temporary taxation period. (31 December 2017: 20%).

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

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

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

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

Income withholding tax

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

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

NOTE 30 – TAX ASSETS AND LIABILITIES (cont'd)

Investment allowance application

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

Regarding the cancellation decision taken by the Constitutional Court, an amendment was made in the 69th article in Income Tax Regulation using the regulation numbered 6009 and dated 23 July 2010. Consequently, in compliance with the cancellation decision of the Constitutional Court, the year limitation has been abolished and investment allowance has been limited to 25% of the profit. As limitation of investment allowance to 25% of the profit by regulation numbered 6009 is found to be contrary to law by the Constitutional Court, the Constitutional Court cancelled the regulation and stayed an execution. Corporate tax ratio of 30% in the previous regulation for the ones who benefit from investment allowance has been decreased to the effective corporate tax with the amendment made (31 December 2017: 22%).

Deferred tax

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

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

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

NOTE 30 – TAX ASSETS AND LIABILITIES (cont'd)

	31 December 2018	31 December 2017
Deferred tax assets:		
Provisions for employee benefits	137.095	129.580
Investment incentive	-	66.046
Provision for lawsuits	29.747	22.383
Fair value adjustment of the derrivative financial instruments	-	7.717
Inventories	88.971	19.170
Provision for other doubtful receivables	16.531	14.639
Tangible and intangible assets	17.416	16.039
Other	69.407	47.082
	359.167	322.656
Deferred tax liabilities:		
Tangible and intangible assets	(2.729.613)	(1.832.586)
Fair values of the derivative financial instruments	(11.721)	-
Amortized cost adjustment on loans	(11.075)	(4.994)
Inventories	(96.070)	(34.872)
Other	(9.332)	(12.179)
	(2.857.811)	(1.884.631)
	(2.498.644)	(1.561.975)

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

Presentation of deferred tax assets/(liabilities):

	31 December 2018	31 December 2017
Deferred tax assets	67.552	57.743
Deferred tax (liabilities)	(2.566.196)	(1.619.718)
	(2.498.644)	(1.561.975)

NOTE 30 – TAX ASSETS AND LIABILITIES (cont'd)

Movements of deferred tax asset / (liability)

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance	(1.561.975)	(1.542.789)
Effects of change in acounting policy	3.218	-
Deferred tax (expense)/income	(258.774)	80.953
The amount in comprehensive income	(19.603)	9.419
Translation difference	(661.510)	(109.558)
Closing balance	(2.498.644)	(1.561.975)

Reconciliation of tax provision is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Profit before tax	8.630.677	4.954.516
Statutory tax rate	22%	20%
Calculated tax expense acc. to effective tax rate	(1.898.749)	(990.903)
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	(11.196)	(4.252)
- Adjustment effect of rates subjected to corporate tax and deffered tax	(111.100)	(5.387)
- Effect of currency translation to non taxable assets	(763.368)	(123.270)
- Investment incentive	-	66.942
- Effect of the different tax rates due to foreign subsidiaries	(1.543)	(104)
Total tax exp. in reported in the stat. of income	(2.785.956)	(1.056.974)

NOTE 30 – TAX ASSETS AND LIABILITIES (cont'd)

As of 1 January – 31 December 2018 and 2017, the details of the tax gains/(losses) of the other comprehensive income/(expense) are as follows:

	1 January -31 December 2018		
Other comprehensive income/(loss)	Amount before tax	Tax income/ (expense)	Amount after tax
Change in revaluation reserves of fixed assets	17.322	-	17.322
Change in actuarial (loss)/gain	51.444	(11.318)	40.126
Change in cash flow hedging reserves	37.660	(8.285)	29.375
Change in foreign currency translation reserves	7.047.519	-	7.047.519
	7.153.945	(19.603)	7.134.342

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

NOTE 31 – EARNINGS PER SHARE

	1 January - 31 December 2018	1 January- 31 December 2017
Number of shares outstanding	350.000.000.000	350.000.000.000
Net profit attributable to equity holders - TRY thousand	5.597.990	3.753.755
Profit per share with 1 TRY nominal value TRY %	1,5994 / %159,94	1,0725 / %107,25

NOTE 32 – RELATED PARTY DISCLOSURES

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

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

NOTE 32 – RELATED PARTY DISCLOSURES (cont'd)

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

Due from related parties (short term)	31 December 2018	31 December 2017
OYAK Renault Otomobil Fab. A.Ş.[2]	53.806	59.622
Bolu Çimento Sanayi A.Ş.[1]	3.776	7.507
Adana Çimento Sanayi T.A.Ş. [1]	8.525	10.195
İsdemir Linde Gaz Ortaklığı A.Ş.[3]	724	3.820
Other	1.755	1.792
	68.586	82.936

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

Prepaid expenses to related parties (long term)	31 December 2018	31 December 2017
OYAK Konut İnşaat A.Ş.[1]	509	-
OYAK Savunma ve Güvenlik Sistemleri A.Ş.[1]	67.757	-
	68.266	-

Prepaid expenses generally related with purchasing of safety equipments and tangible assets.

Due to related parties (short term)	31 December 2018	31 December 2017
Omsan Lojistik A.Ş.[1]	24.447	14.466
Omsan Denizcilik A.Ş.[1]	2.863	11.696
OYAK Pazarlama Hizmet ve Turizm A.Ş.[1]	12.053	7.846
OYAK Savunma ve Güvenlik Sistemleri A.Ş.[1]	15.484	8.156
OYAK Denizcilik ve Liman İşletmeleri A.Ş.[1]	7.067	7.322
OYAK Grup Sigorta ve Reasürans Brokerliği A.Ş. [1]	74.262	1.980
Other	11.596	2.431
	147.772	53.897

On 21 December 2018, issued loan amount by the Group's related party OYAK Anker Bank is EUR 2.000 thousand. The loan used has floating interest and the maturity date is 21 March 2019. On 21 September 2018, the Group purchased bond amounting to TRY 35.470 thousand from it's related party Hektaş Ticaret A.Ş..The financial asset purchased by the Group has a floating interest once every 3 months and the maturity of 20 September 2019.

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

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

NOTE 32 – RELATED PARTY DISCLOSURES (cont’d)

Major sales to related parties	1 January - 31 December 2018	1 January - 31 December 2017
OYAK Renault Otomobil Fab. A.Ş.[2]	305.221	223.492
Adana Çimento Sanayi T.A.Ş.[1]	27.521	20.527
Bolu Çimento Sanayi A.Ş.[1]	10.531	9.635
Aslan Çimento A.Ş.[1]	2.572	2.320
OYAK Denizcilik ve Liman İşletmeleri A.Ş.[1]	15.882	11.245
Mardin Çimento Sanayi ve Ticaret A.Ş.[1]	1.046	1.104
Omsan Lojistik A.Ş.[1]	1.356	1.101
İsdemir Linde Gaz Ortaklığı A.Ş.[3]	49.642	3.341
Other	2.332	1.612
	416.103	274.377

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

Major purchases from related parties	1 January - 31 December 2018	1 January - 31 December 2017
Omsan Denizcilik A.Ş.[1]	171.129	125.918
OYAK Pazarlama Hizmet ve Turizm A.Ş.[1]	104.398	89.863
Omsan Lojistik A.Ş.[1]	203.566	96.159
OYAK Savunma ve Güvenlik Sistemleri A.Ş.[1]	58.278	40.845
Omsan Logistica SRL[1]	16.342	13.346
OYAK Denizcilik ve Liman İşletmeleri A.Ş.[1]	121.671	55.565
OYAK Grup Sigorta ve Reasürans Brokerliği A.Ş. [1]	97.830	7.324
İsdemir Linde Gaz Ortaklığı A.Ş.[3]	77.229	-
Ordu Yardımlaşma Kurumu	9.268	9.280
Omsan Havacılık A.Ş.[1]	14.422	829
OYAK Elektrik Enerjisi Toptan Satış A.Ş.[1]	29.004	-
Diğer	13.397	11.223
	916.534	450.352

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

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

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

The period end balances are un-secured and their collections will be done in cash. As of 31 December 2018, the Group provides no provision for the receivables from related parties (31 December 2017: None).

NOTE 32 – RELATED PARTY DISCLOSURES (cont'd)

Salaries, bonuses and other benefits of the key management:

For the year ended 31 December 2018, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 21.509 thousand (31 December 2017: TRY 26.741 thousand).

NOTE 33 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

Additional information about financial instruments

(a) Capital risk management

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

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

The capital structure of the Group consists of debt which includes the financial liabilities disclosed in Note 7, cash and cash equivalents and equity attributable to equity holders of the parent company, comprising issued capital, reserves and retained earnings as disclosed in Note 22.

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

As of 31 December 2018 and 31 December 2017 the net (credit) debt /equity ratio is as follows:

	Note	31 December 2018	31 December 2017
Total financial liabilities	7	6.120.960	4.490.428
Less: Cash and cash equivalents	4	8.659.336	7.035.440
Net (credit) debt		(2.538.376)	(2.545.012)
Total adjusted equity (*)		29.313.627	19.355.676
Total resources		26.775.251	16.810.664
Net (credit) debt/Total adjusted equity ratio		-9%	-13%
Distribution of net (credit) debt/ total adjusted equity		-9/109	-15/115

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

NOTE 33 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

(b) Significant accounting policies

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

(c) Financial risk management objectives

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

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

(d) Market risk

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

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

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

NOTE 33 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(e) Credit risk management

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

Credit risk of financial instruments	Receivables					Derivative financial instruments
	Trade Receivables		Other Receivables		Bank Deposits	
31 December 2018	Related Party	Other Party	Related Party	Other Party		
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	68.586	4.332.888	-	11.197	8.659.299	59.393
- Secured part of the maximum credit risk exposure via collateral etc.	-	3.971.736	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	68.586	4.330.238	-	11.197	8.659.299	59.393
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	2.650	-	-	-	-
- secured part via collateral etc.	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	136.377	-	75.142	-	-
- Impairment (-)	-	(136.377)	-	(75.142)	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
- Not overdue (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-

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

NOTE 33 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(e) Credit risk management (cont'd)

Credit risk of financial instruments	Receivables					Derivative financial instruments
	Trade Receivables		Other Receivables		Bank Deposits	
31 December 2017	Related Party	Other Party	Related Party	Other Party		
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	82.936	2.499.170	-	15.643	7.035.409	8.348
- Secured part of the maximum credit risk exposure via collateral etc.	-	2.113.550	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	82.936	2.462.615	-	15.643	7.035.409	8.348
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	36.555	-	-	-	-
- secured part via collateral etc.	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	98.576	-	73.193	-	-
- Impairment (-)	-	(98.576)	-	(73.193)	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
- Not overdue (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-

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

NOTE 33 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(e) Credit risk management (cont'd)

In order to minimise credit risk, the Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group monitors the credibility of the parties with whom they perform transactions and also takes into account the credit rating of the related instruments when making the investment preference. The credit rating information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Before accepting any new customer, credit limits by customer are determined and defined after the assessment of the potential customer's credit quality.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. In order to minimize the credit risk, the Group has performed credit ratings considering the default risks of the counterparties and categorized the related parties.

The Group's current credit risk rating methodology includes the following categories:

Category	**Description**	**Basis for recognizing expected credit losses**
Secured receivables	Consist of secured receivables	Not generating credit losses
Recoverable receivables	The counterparty has a low risk of default and secured	Not generating credit losses
Doubtful or past due receivables	Amount is past due or there has been a significant	%100 allowance for unsecured receivables
Write-off	There is evidence indicating the asset is credit-impaired	Amount is written off

NOTE 33 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

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

As of 31 December 2018 and 31 December 2017, stated in Note 2.8.9 the foreign currency position of the Group in terms of original currency is calculated as it as follows

31 December 2018	TRY (Total in reporting currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	RON (Original currency)
1. Trade Receivables	963.794	71.325	142.855	-	24.355
2a. Monetary financial assets	216.789	130.934	12.133	171	9.766
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	390.865	389.161	12	27.534	252
4. CURRENT ASSETS (1+2+3)	**1.571.448**	**591.420**	**155.000**	**27.705**	**34.373**
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	8.095	8.095	-	-	-
6b. Non- monetary financial assets	-	-	-	-	-
7. Other	321.954	164.785	22.223	487.162	35
8. Non-current assets (5+6+7)	**330.049**	**172.880**	**22.223**	**487.162**	**35**
9. Total assets (4+8)	**1.901.497**	**764.300**	**177.223**	**514.867**	**34.408**
10. Trade payables	583.245	457.703	20.063	3.597	3.323
11. Financial liabilities	141.843	32.284	18.175	-	-
12a. Other monetary financial liabilities	1.082.601	1.064.602	667	-	10.864
12b. Other non-monetary financial liabilities	-	-	-	-	-
13. Current liabilities (10+11+12)	**1.807.689**	**1.554.589**	**38.905**	**3.597**	**14.187**
14. Trade payables	-	-	-	-	-
15. Financial liabilities	319.358	-	52.979	-	-
16a. Other monetary financial liabilities	653.342	650.794	-	-	1.980
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. Non-current liabilities (14+15+16)	**972.700**	**650.794**	**52.979**	**-**	**1.980**
18. Total liabilities (13+17)	**2.780.389**	**2.205.383**	**91.884**	**3.597**	**16.167**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	**(714.873)**	**-**	**(118.592)**	**-**	**-**
19a. Off-balance sheet foreign currency derivative financial assets	-	-	-	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	714.873	-	118.592	-	-
20. Net foreign currency asset/liability position (9-18+19)	**(1.593.765)**	**(1.441.083)**	**(33.253)**	**511.270**	**18.241**
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**(1.591.711)**	**(1.995.029)**	**63.104**	**(3.426)**	**17.954**
22. Fair value of derivative financial instruments used in foreign currency hedge	49.219	-	8.165	-	-
23. Hedged foreign currency assets	714.873	-	118.592	-	-
24. Hedged foreign currency liabilities	-	-	-	-	-
25. Exports	5.613.076				
26. Imports	13.809.566				

NOTE 33 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

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

31 December 2017	TRY (Total in reporting currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	RON (Original currency)
1. Trade Receivables	400.354	47.969	75.455	208	4
2a. Monetary financial assets	272.343	17.528	56.033	200	3
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	156.535	155.013	337	-	-
4. Current assets (1+2+3)	**829.232**	**220.510**	**131.825**	**408**	**6**
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-	-
7. Other	48.402	22.182	4.491	191.111	-
8. Non-current assets (5+6+7)	**48.402**	**22.182**	**4.491**	**191.111**	**-**
9. Total assets (4+8)	**877.634**	**242.692**	**136.316**	**191.519**	**6**
10. Trade payables	326.770	282.292	7.856	206.922	50
11. Financial liabilities	406.475	198.808	45.990	-	-
12a. Other monetary financial liabilities	1.328.564	1.324.145	979	-	-
12b. Other non-monetary financial liabilities	-	-	-	-	-
13. Current liabilities (10+11+12)	**2.061.809**	**1.805.245**	**54.825**	**206.922**	**50**
14. Trade payables	-	-	-	-	-
15. Financial liabilities	308.573	-	68.336	-	-
16a. Other monetary financial liabilities	620.791	620.791	-	-	-
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. Non-current liabilities (14+15+16)	**929.364**	**620.791**	**68.336**	**-**	**-**
18. Total liabilities (13+17)	**2.991.173**	**2.426.036**	**123.161**	**206.922**	**50**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	**(304.620)**	**-**	**(67.461)**	**-**	**-**
19a. Off-balance sheet foreign currency derivative financial assets	-	-	-	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	304.620	-	67.461	-	-
20. Net foreign currency asset/liability position (9-18+19)	**(2.418.159)**	**(2.183.344)**	**(54.306)**	**(15.403)**	**(43)**
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**(2.318.476)**	**(2.360.539)**	**8.327**	**(206.514)**	**(43)**
22. Fair value of derivative financial instruments used in foreign currency hedge	(9.443)	-	(2.091)	-	-
23. Hedged foreign currency assets	304.620	-	67.461	-	-
24. Hedged foreign currency liabilities	-	-	-	-	-
25. Exports	2.671.529				
26. Imports	9.620.585				

NOTE 33 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

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

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

As of 31 December 2018 asset and liability balances are translated by using the following exchange rates: TRY 5,2609 = US $ 1,TRY 6,0280 = EUR 1 and TRY 0,0475= JPY 1 (31 December 2017: TRY 3,7719 = US $ 1,TRY 4,5155 = EUR 1 and TRY 0,0334= JPY 1).

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2018	Appreciation of foreign currency	Depreciation of foreign currency
1- TRY net asset/liability	(144.108)	144.108
2- Hedged portion from TRY risk (-)	-	-
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(144.108)	144.108
5- RON net asset/liability	2.347	(2.347)
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- RON net effect (5+6+7)	2.347	(2.347)
9- Euro net asset/liability	51.442	(51.442)
10- Hedged portion from Euro risk (-)	(71.487)	71.487
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	(20.045)	20.045
13- Jap. Yen net asset/liability	2.431	(2.431)
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	2.431	(2.431)
TOTAL (4+8+12+16)	**(159.375)**	**159.375**

NOTE 33 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

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

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2017	Appreciation of foreign currency	Depreciation of foreign currency
1- TRY net asset/liability	(218.334)	218.334
2- Hedged portion from TRY risk (-)	23.266	(23.266)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(195.068)	195.068
5- RON net asset/liability	-	-
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- RON Dollars net effect (5+6+7)	-	-
9- Euro net asset/liability	5.940	(5.940)
10- Hedged portion from Euro risk (-)	(30.462)	30.462
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	(24.522)	24.522
13- Jap. Yen net asset/liability	(48)	48
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(48)	48
TOTAL (4+8+12+16)	**(219.638)**	**219.638**

(g) Interest rate risk management

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

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

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

NOTE 33 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

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

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

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

Interest position table

	31 December 2018	31 December 2017
Floating interest rate financial instruments		
Financial liabilities	3.136.173	2.388.577

For the year round, if the US Dollars, EURO and Jap. Yen denominated interest rates increase/decrease by 100 base points in TRY, 50 base points in US Dollars and EURO and 25 base points in Jap.Yen respectively ceteris paribus, the profit before taxation and non-controlling interest after considering the effect of capitalization and hedging would be lower/higher TRY 12.611 thousand.

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and loating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

As the critical terms of the interest rate swap contracts and their corresponding hedged items are the same, the Group performs a qualitative assessment of effectiveness and it is expected that the value of the interest rate swap contracts and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying interest rates. The main source of hedge ineffectiveness in these hedge relationships is the effect of the counterparty and the Group’s own credit risk on the fair value of the interest rate swap contracts, which is not reflected in the fair value of the hedged item attributable to the change in interest rates. No other sources of ineffectiveness emerged from these hedging relationships.

Interest rate swap contract assets and liabilities are included in Note 6.

NOTE 33 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(h) Liquidity risk management

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

Liquidity risk tables

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

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

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

NOTE 33 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(h) Liquidity risk management (cont'd)

31 December 2018

Contractual maturity analysis	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Borrowings from banks	6.120.960	6.374.418	1.665.280	3.196.581	1.371.859	140.698
Trade payables	1.935.922	1.935.922	1.935.922	-	-	-
Other financial liabilities (*)	431.997	431.997	431.997	-	-	-
Total liabilities	**8.488.879**	**8.742.337**	**4.033.199**	**3.196.581**	**1.371.859**	**140.698**
Derivative financial liabilities						
Derivative cash inflows	59.393	2.578.421	1.169.126	1.092.584	316.711	-
Derivative cash outflows	(4.526)	(2.646.058)	(1.107.857)	(1.069.485)	(468.716)	-
	54.867	**(67.637)**	**61.269**	**23.099**	**(152.005)**	**-**

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

NOTE 33 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(h) Liquidity risk management (cont'd)

31 December 2017

Contractual maturity analysis	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Borrowings from banks	4.490.428	4.645.182	1.148.427	2.040.381	1.325.130	131.244
Trade payables	942.791	946.868	946.868	-	-	-
Other financial liabilities (*)	268.419	268.419	268.419	-	-	-
Total liabilities	**5.701.638**	**5.860.469**	**2.363.714**	**2.040.381**	**1.325.130**	**131.244**
Derivative financial liabilities						
Derivative cash inflows	8.348	1.935.602	739.147	838.705	357.750	-
Derivative cash outflows	(43.441)	(2.407.663)	(856.187)	(1.015.794)	(535.682)	-
	(35.093)	**(472.061)**	**(117.040)**	**(177.089)**	**(177.932)**	**-**

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

NOTE 34 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES)

Categories of the financial instruments and their fair values

31 December 2018	Cash and cash equivalent	Loans and receivables	Available for sale financial assets	Financial assets/ liabilities at amortized cost	Derivative financial instruments through other comprehensive income/loss	Derivative financial instruments through profit/loss	Carrying value	Not
Financial Assets								
Cash and cash equivalents	-	-	-	8.659.336	-	-	8.659.336	4
Trade receivables	-	-	-	4.401.474	-	-	4.401.474	8
Financial investments	-	-	-	61.000	-	8.095	69.095	5
Other financial assets	-	-	-	11.197	-	-	11.197	9
Derivative financial instruments	-	-	-	-	19.794	39.599	59.393	6
Financial Liabilities								
Financial liabilities	-	-	-	6.120.960	-	-	6.120.960	7
Trade payables	-	-	-	1.935.922	-	-	1.935.922	8
Other liabilities	-	-	-	431.997	-	-	431.997	9/17/20
Derivative financial instruments	-	-	-	-	1.843	2.683	4.526	6
31 December 2017								
Financial Assets								
Cash and cash equivalents	7.035.440	-	-	-	-	-	7.035.440	4
Trade receivables	-	2.582.106	-	-	-	-	2.582.106	8
Financial investments	-	-	13.437	-	-	-	13.437	5
Other financial assets	-	15.643	-	-	-	-	15.643	9
Derivative financial instruments	-	-	-	-	2.648	5.700	8.348	6
Financial Liabilities								
Financial liabilities	-	-	-	4.490.428	-	-	4.490.428	7
Trade payables	-	-	-	942.791	-	-	942.791	8
Other liabilities	-	-	-	268.419	-	-	268.419	9/17/20
Derivative financial instruments	-	-	-	-	33.011	10.430	43.441	6

NOTE 34 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (cont'd)

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

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

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

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

Financial asset and liabilities at fair value		Fair value level as of reporting date		
	31 December 2018	Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Financial assets held for trading	-	-	-	-
Derivative financial assets	39.599	-	39.599	-
Derivative financial liabilities	(2.683)	-	(2.683)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	19.794	-	19.794	-
Derivative financial liabilities	(1.843)	-	(1.843)	-
Total	54.867	-	54.867	-

NOTE 34 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (cont'd)

Financial asset and liabilities at fair value		Fair value level as of reporting date		
	31 December 2017	Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Financial assets held for trading	-	-	-	-
Derivative financial assets	5.700	-	5.700	-
Derivative financial liabilities	(10.430)	-	(10.430)	-
Financial assets and liabilities at fair				
Derivative financial assets	2.648	-	2.648	-
Derivative financial liabilities	(33.011)	-	(33.011)	-
Total	(35.093)	-	(35.093)	-

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

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

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

NOTE 35 – SUBSEQUENT EVENTS

None.

NOTE 36 – OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION

Convenience translation to English:

As at December 31, 2018, 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 ("TFRS") 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 TFRS.