

**(CONVENIENCE TRANSLATION OF CONDENSED INTERIM  
CONSOLIDATED FINANCIAL STATEMENTS  
ORIGINALLY ISSUED IN TURKISH - SEE NOTE 18)**

**ERE L DEM R VE ÇEL K  
FABR KALARI T.A. . AND ITS SUBSIDIARIES**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS FOR THE PERIOD 1 JANUARY - 31 MARCH 2017**

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(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish ó See Note 18)

## ERE L DEM R VE ÇEL K FABR KALARI T.A. . AND ITS SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 31 MARCH 2017

(Amounts are expressed in thousands of Turkish Lira (óTRY Thousandó) unless otherwise indicated.)

	Note	(Unaudited)	(Unaudited)	(Audited)	(Audited)
		Current Period 31 March 2017 USD'000	Current Period 31 March 2017 TRY'000	Previous Period 31 December 2016 USD'000	Previous Period 31 December 2016 TRY'000
<b>ASSETS</b>					
<b>Current Assets</b>		<b>3.342.050</b>	<b>12.160.382</b>	<b>3.143.675</b>	<b>11.063.224</b>
Cash and Cash Equivalents		1.312.694	4.776.370	1.303.396	4.586.911
Financial Derivative Instruments		13.418	48.822	18.274	64.310
Trade Receivables		578.527	2.105.028	573.114	2.016.901
<i>Due From Related Parties</i>	3	16.141	58.729	15.594	54.877
<i>Other Trade Receivables</i>		562.386	2.046.299	557.520	1.962.024
Other Receivables		549	1.997	535	1.883
Inventories	4	1.394.757	5.074.964	1.209.095	4.255.047
Prepaid Expenses		12.028	43.766	12.080	42.513
Other Current Assets		30.077	109.435	27.181	95.659
<b>Non Current Assets</b>		<b>3.562.587</b>	<b>12.962.830</b>	<b>3.576.965</b>	<b>12.588.053</b>
Other Receivables		3.789	13.787	3.918	13.787
Financial Investments		3.562	12.962	35	122
Financial Derivative Instruments		1.216	4.423	1.692	5.955
Investment Properties		26.961	98.102	26.961	94.882
Property, Plant and Equipment	5	3.434.986	12.498.540	3.453.050	12.151.972
Intangible Assets	5	57.000	207.399	58.388	205.479
Prepaid Expenses		23.064	83.921	20.106	70.757
Deferred Tax Assets	11	9.234	33.598	9.730	34.243
Other Non Current Assets		2.775	10.098	3.085	10.856
<b>TOTAL ASSETS</b>		<b>6.904.637</b>	<b>25.123.212</b>	<b>6.720.640</b>	<b>23.651.277</b>

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

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

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 31 MARCH 2017**

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

	Note	(Unaudited)	(Unaudited)	(Audited)	(Audited)
		Current Period 31 March 2017 USD'000	Current Period 31 March 2017 TRY'000	Previous Period 31 December 2016 USD'000	Previous Period 31 December 2016 TRY'000
<b>LIABILITIES</b>					
<b>Current Liabilities</b>		<b>1.590.377</b>	<b>5.786.746</b>	<b>1.201.046</b>	<b>4.226.720</b>
Short Term Borrowings	6	343.750	1.250.770	357.464	1.257.986
Short Term Portion of Long Term Borrowings	6	275.045	1.000.777	296.649	1.043.968
Financial Derivative Instruments		6.465	23.523	5.438	19.137
Trade Payables		242.746	883.255	260.024	915.076
<i>Due to Related Parties</i>	3	8.732	31.772	9.948	35.008
<i>Other Trade Payables</i>		234.014	851.483	250.076	880.068
Other Payables	7	412.326	1.500.289	11.970	42.126
Deferred Revenue		46.814	170.338	30.221	106.353
Current Tax Liabilities	11	166.351	605.285	129.468	455.624
Short Term Provisions	8	40.800	148.454	41.369	145.586
Payables for Employee Benefits	9	37.354	135.916	47.944	168.724
Other Current Liabilities		18.726	68.139	20.499	72.140
<b>Non Current Liabilities</b>		<b>1.012.928</b>	<b>3.685.639</b>	<b>1.069.709</b>	<b>3.764.524</b>
Long Term Borrowings	6	411.455	1.497.120	459.631	1.617.534
Financial Derivative Instruments		737	2.683	585	2.060
Provisions for Employee Benefits	9	157.853	574.363	161.235	567.419
Deferred Tax Liabilities	11	442.769	1.611.060	448.122	1.577.032
Other Non Current Liabilities		114	413	136	479
<b>EQUITY</b>		<b>4.301.332</b>	<b>15.650.827</b>	<b>4.449.885</b>	<b>15.660.033</b>
<b>Equity Attributable to Equity Holders of the Parent</b>		<b>4.178.688</b>	<b>15.204.573</b>	<b>4.321.343</b>	<b>15.207.669</b>
Share Capital	12	1.818.371	3.500.000	1.818.371	3.500.000
Inflation Adjustment to Capital		81.366	156.613	81.366	156.613
Treasury Shares (-)		(60.387)	(116.232)	(60.387)	(116.232)
Share Issue Premium (Discounts)		55.303	106.447	55.303	106.447
Other Comprehensive Income/Expense Not to be Reclassified to Profit/ (Loss)		(37.121)	(70.485)	(37.151)	(72.090)
<i>Revaluation Reserve of Tangible Assets</i>		10.787	31.042	10.757	29.437
<i>Actuarial (Loss)/ Gain funds</i>		(47.908)	(101.527)	(47.908)	(101.527)
Other Comprehensive Income/Expense to be Reclassified to Profit/ (Loss)		(46.362)	7.014.287	(41.532)	6.530.218
<i>Cash Flow Hedging Gain (Loss)</i>		33	119	2.277	8.013
<i>Foreign Currency Translation Reserves</i>		(46.395)	7.014.168	(43.809)	6.522.205
Restricted Reserves Assorted from Profit		606.456	1.492.841	516.714	1.166.197
Retained Earnings		1.516.686	2.219.085	1.486.278	2.420.078
Net Profit for the Period		244.376	902.017	502.381	1.516.438
<b>Non-Controlling Interests</b>		<b>122.644</b>	<b>446.254</b>	<b>128.542</b>	<b>452.364</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>6.904.637</b>	<b>25.123.212</b>	<b>6.720.640</b>	<b>23.651.277</b>

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish ó See Note 18)

**ERE L DEM R VE ÇEL K FABR KALARI T.A. . AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2017**

(Amounts are expressed in thousands of Turkish Lira (óTRY Thousandö) unless otherwise indicated.)

		(Unaudited) Current Period 1 January - 31 March 2017 USD'000	(Unaudited) Current Period 1 January - 31 March 2017 TRY'000	(Unaudited) Previous Period 1 January - 31 March 2016 USD'000	(Unaudited) Previous Period 1 January - 31 March 2016 TRY'000
	Note				
Revenue	13	1.135.440	4.191.023	874.523	2.576.782
Cost of Sales	13	(794.156)	(2.931.308)	(790.734)	(2.329.897)
<b>GROSS PROFIT</b>		<b>341.284</b>	<b>1.259.715</b>	<b>83.789</b>	<b>246.885</b>
Marketing Expenses	14	(10.789)	(39.824)	(11.389)	(33.557)
General Administrative Expenses	14	(21.953)	(81.031)	(23.711)	(69.864)
Research and Development Expenses		(730)	(2.693)	(803)	(2.365)
Other Operating Income	14	20.698	76.398	34.223	100.839
Other Operating Expenses	14	(11.376)	(41.991)	(8.053)	(23.732)
<b>OPERATING PROFIT</b>		<b>317.134</b>	<b>1.170.574</b>	<b>74.056</b>	<b>218.206</b>
Finance Income	15	24.064	88.821	8.407	24.770
Finance Expense	15	(9.928)	(40.977)	(29.182)	(86.580)
<b>PROFIT BEFORE TAX</b>		<b>331.270</b>	<b>1.218.418</b>	<b>53.281</b>	<b>156.396</b>
Tax (Expense) Income	11	(79.283)	(288.308)	3.767	11.696
Current Corporate Tax Expense (Income)		(82.596)	(300.535)	(5.283)	(14.970)
Deferred Tax (Expense) Income		3.313	12.227	9.050	26.666
<b>NET PROFIT FOR THE PERIOD</b>		<b>251.987</b>	<b>930.110</b>	<b>57.048</b>	<b>168.092</b>
Non-Controlling Interests		7.611	28.093	1.407	4.147
Equity Holders of the Parent		244.376	902.017	55.641	163.945
<b>EARNINGS PER SHARE</b>			0,2577		0,0468
(TRY 1 Nominal value per share)					

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

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish ó See Note 18)

**ERE L DEM R VE ÇEL K FABR KALARI T.A. . AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OTHER COMPREHENS VE INCOME FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2017**

(Amounts are expressed in thousands of Turkish Lira (óTRY Thousandö) unless otherwise indicated.)

	<b>(Unaudited)</b> <b>Current Period</b> <b>1 January -</b> <b>31 March 2017</b> <b>USD'000</b>	<b>(Unaudited)</b> <b>Current Period</b> <b>1 January -</b> <b>31 March 2017</b> <b>TRY'000</b>	<b>(Unaudited)</b> <b>Previous Period</b> <b>1 January -</b> <b>31 March 2016</b> <b>USD'000</b>	<b>(Unaudited)</b> <b>Previous Period</b> <b>1 January -</b> <b>31 March 2016</b> <b>TRY'000</b>
<b>PROFIT (LOSS) FOR THE PERIOD</b>	<b>251.987</b>	<b>930.110</b>	<b>57.048</b>	<b>168.092</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
<b>Not to be reclassified subsequently to profit or loss</b>				
Increase (Decrease) in Revaluation Reserve of Tangible Assets	113	1.905	193	(521)
<b>To be reclassified subsequently to profit or loss</b>				
Gain (Loss) in Cash Flow Hedging Reserves	(2.789)	(9.622)	(5.807)	(16.073)
Tax Effect of Gain (Loss) in Cash Flow Hedging Reserves	558	1.924	1.161	3.215
Foreign Currency Translation Gain (Loss)	(2.990)	505.333	4.374	(312.865)
<b>OTHER COMPRHENSIVE INCOME</b>	<b>(5.108)</b>	<b>499.540</b>	<b>(79)</b>	<b>(326.244)</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>246.879</b>	<b>1.429.650</b>	<b>56.969</b>	<b>(158.152)</b>
<b>Distribution of Total Comprehensive Income</b>				
Non-controlling Interests	7.303	41.959	1.718	(3.863)
Equity Holders of the Parent	239.576	1.387.691	55.251	(154.289)

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## ERE L DEM R VE ÇEL K FABR KALARI T.A. . AND ITS SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2017

(Amounts are expressed in thousands of Turkish Lira (óTRY Thousandó) unless otherwise indicated.)

(Unaudited)	Share Capital	Inflation Adjustment to Capital	Treasury Shares (-)	Share Issue Premium / Discounts	Other comprehensive income (expense) not to be reclassified subsequently to profit or loss		Other comprehensive income (expense) to be reclassified subsequently to profit or loss			Retained Earnings		Equity Attributable to the Parent	Non-controlling Interests	Total Shareholders' Equity
					Revaluation Reserve of Tangible Assets	Actuarial Gain/(Loss) Funds	Cash Flow Hedging Gain/(Loss)	Foreign Currency Translation Reserves	Restricted Reserves Assorted from Profit	Retained Earnings	Net Profit For The Period			
<b>1 January 2017</b>	<b>3.500.000</b>	<b>156.613</b>	<b>(116.232)</b>	<b>106.447</b>	<b>29.437</b>	<b>(101.527)</b>	<b>8.013</b>	<b>6.522.205</b>	<b>1.166.197</b>	<b>2.420.078</b>	<b>1.516.438</b>	<b>15.207.669</b>	<b>452.364</b>	<b>15.660.033</b>
Net profit for the period	-	-	-	-	-	-	-	-	-	-	902.017	<b>902.017</b>	28.093	<b>930.110</b>
Other comprehensive income/(loss)	-	-	-	-	1.605	-	(7.894)	491.963	-	-	-	<b>485.674</b>	13.866	<b>499.540</b>
Total comprehensive income/(loss)	-	-	-	-	1.605	-	(7.894)	491.963	-	-	902.017	<b>1.387.691</b>	41.959	<b>1.429.650</b>
Dividends (*)	-	-	-	-	-	-	-	-	-	(1.390.787)	-	<b>(1.390.787)</b>	(48.069)	<b>(1.438.856)</b>
Transfers	-	-	-	-	-	-	-	-	326.644	1.189.794	(1.516.438)	-	-	-
<b>31 March 2017</b>	<b>3.500.000</b>	<b>156.613</b>	<b>(116.232)</b>	<b>106.447</b>	<b>31.042</b>	<b>(101.527)</b>	<b>119</b>	<b>7.014.168</b>	<b>1.492.841</b>	<b>2.219.085</b>	<b>902.017</b>	<b>15.204.573</b>	<b>446.254</b>	<b>15.650.827</b>
(Unaudited)														
<b>1 January 2016</b>	<b>3.500.000</b>	<b>156.613</b>	<b>(116.232)</b>	<b>106.447</b>	<b>27.215</b>	<b>(107.795)</b>	<b>(2.192)</b>	<b>4.012.449</b>	<b>950.831</b>	<b>2.527.180</b>	<b>1.125.913</b>	<b>12.180.429</b>	<b>357.763</b>	<b>12.538.192</b>
Net profit for the period	-	-	-	-	-	-	-	-	-	-	163.945	<b>163.945</b>	4.147	<b>168.092</b>
Other comprehensive income/(loss)	-	-	-	-	(521)	-	(12.946)	(304.767)	-	-	-	<b>(318.234)</b>	(8.010)	<b>(326.244)</b>
Total comprehensive income/(loss)	-	-	-	-	(521)	-	(12.946)	(304.767)	-	-	163.945	<b>(154.289)</b>	(3.863)	<b>(158.152)</b>
Dividends (*)	-	-	-	-	-	-	-	-	-	(1.017.649)	-	<b>(1.017.649)</b>	(31.665)	<b>(1.049.314)</b>
Transfers	-	-	-	-	-	-	-	-	215.366	910.547	(1.125.913)	-	-	-
<b>31 March 2016</b>	<b>3.500.000</b>	<b>156.613</b>	<b>(116.232)</b>	<b>106.447</b>	<b>26.694</b>	<b>(107.795)</b>	<b>(15.138)</b>	<b>3.707.682</b>	<b>1.166.197</b>	<b>2.420.078</b>	<b>163.945</b>	<b>11.008.491</b>	<b>322.235</b>	<b>11.330.726</b>

(\*) Annual General Assembly dated 31 March 2017, dividend distribution (gross dividend per share: TRY 0,4100 (2016: TRY 0,3000)) amounting to TRY 1.435.000 thousand (31 March 2016: TRY 1.050.000 thousand) from 2016 net profit was approved. As the Company holds 3,08% of its shares with a nominal value of TRY 1 as of 31 March 2017, dividends for treasury shares are netted off under dividends paid. The dividend payment was started at 5 April 2017. The Group will pay TRY 48.069 thousand dividend to non-controlling interests on sdemir and Erdemir Maden apart from the Equity holders of the Parent in current year (2016: TRY 31.665 thousand).

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish ö See Note 18)

**ERE L DEM R VE ÇEL K FABR KALARI T.A. . AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOW  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2017**

(Amounts are expressed in thousands of Turkish Lira (öTRY Thousandö) unless otherwise indicated.)

	(Unaudited) Current Period 1 January- 31 March 2017	(Unaudited) Current Period 1 January- 31 March 2017	(Unaudited) Previous Period 1 January- 31 March 2016	(Unaudited) Previous Period 1 January- 31 March 2016
Note	USD'000	TRY'000	USD'000	TRY'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>129.806</b>	<b>502.806</b>	<b>146.641</b>	<b>413.728</b>
<b>Profit (Loss) for The Period</b>	<b>251.987</b>	<b>930.110</b>	<b>57.048</b>	<b>168.092</b>
<b>Adjustments to Reconcile Profit (Loss)</b>	<b>124.874</b>	<b>456.591</b>	<b>38.858</b>	<b>113.895</b>
Adjustments for Depreciation and Amortisation Expenses	5/13 47.911	176.844	55.375	163.163
Adjustments for Impairment Loss (Reversal of Impairment Loss)	(2.161)	(7.975)	(4.091)	(12.056)
Adjustments for Provision (Reversal of Provision) for Receivables	355	1.311	556	1.637
Adjustments for Provision (Reversal of Provision) for Inventories	4 (2.516)	(9.286)	(4.647)	(13.693)
Adjustments for Provisions	9.870	36.430	(10.687)	(31.490)
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	9 7.273	26.844	6.630	19.536
Adjustments for Provision (Reversal of Provision) for Pending Claims and/or Lawsuits	8 2.597	9.586	(17.317)	(51.026)
Adjustments for Interest (Income) and Expenses	(4.304)	(15.888)	5.075	14.955
Adjustments for Interest Income	15 (11.434)	(42.205)	(8.407)	(24.770)
Adjustments for Interest Expense	15 7.528	27.787	12.482	36.779
Unearned Financial Income from Credit Sales	(398)	(1.470)	1.000	2.946
Adjustments for Unrealised Foreign Exchange Differences	(6.610)	(24.397)	(3.482)	(10.261)
Adjustments for Fair Value (Gains) Losses	(548)	(2.021)	253	744
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments	15 (548)	(2.021)	253	744
Adjustments for Tax (Income) Expenses	11 79.283	288.308	(3.767)	(11.696)
Adjustments for Losses (Gains) on Disposal of Non-Current Assets	1.433	5.290	182	536
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment	14 1.433	5.290	182	536
<b>Changes in Working Capital</b>	<b>(193.328)</b>	<b>(703.443)</b>	<b>156.016</b>	<b>441.952</b>
Adjustments for Decrease (Increase) in Trade Receivables	(5.211)	(18.961)	55.540	157.265
Decrease (Increase) in Trade Receivables from Related Parties	(1.059)	(3.852)	2.037	5.773
Decrease (Increase) in Trade Receivables from Third Parties	(4.152)	(15.109)	53.503	151.492
Adjustments for Decrease (Increase) in Other Receivables Related from Operations	412	1.500	(1.352)	(3.831)
Decrease (Increase) in Other Receivables from Operations from Third Parties	412	1.500	(1.352)	(3.831)
Decrease (Increase) in Derivative Financial Instruments	5.332	19.401	6.474	18.343
Adjustments for Decrease (Increase) in Inventories	(182.524)	(664.133)	134.059	379.843
Decrease (Increase) in Prepaid Expenses	1.455	5.295	(2.785)	(7.892)
Adjustments for Increase (Decrease) in Trade Payables	(17.278)	(62.868)	(37.386)	(105.929)
Increase (Decrease) in Trade Payable to Related Parties	(889)	(3.236)	(2.524)	(7.151)
Increase (Decrease) in Trade Payable to Third Parties	(16.389)	(59.632)	(34.862)	(98.778)
Adjustments for Increase (Decrease) in Other Payables Related from Operations	(5.665)	(20.614)	(3.243)	(9.189)
Increase (Decrease) in Other Payables to Third Parties Related from Operations	(5.665)	(20.614)	(3.243)	(9.189)
Increase (Decrease) in Derivative Liabilities	(879)	(3.197)	(1.601)	(4.537)
Adjustments for Other Increase (Decrease) in Working Capital	11.030	40.134	6.310	17.879
Decrease (Increase) in Other Assets Related from Operations	(3.786)	(13.776)	3.596	10.189
Increase (Decrease) in Other Payables Related from Operations	14.816	53.910	2.714	7.690
<b>Cash Flows Provided by Operating Activities</b>	<b>183.533</b>	<b>683.258</b>	<b>251.922</b>	<b>723.939</b>
Payments Related to Provisions for Employee Termination Benefits	9 (5.330)	(19.671)	(4.554)	(13.418)
Payments Related to Other Provisions	8 (2.684)	(9.907)	(96.963)	(285.702)
Income Taxes Refund (Paid)	11 (45.713)	(150.874)	(3.764)	(11.091)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(37.416)</b>	<b>(137.754)</b>	<b>(49.240)</b>	<b>(144.588)</b>
Cash Outflows Arising From Purchase of Shares or Capital Increase of Associates and/or Joint Ventures	(3.529)	(12.840)	-	-
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets	102	378	1.135	3.344
Cash Inflow from Sales of Property, Plant and Equipment	5/14 102	378	1.135	3.344
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets	(30.828)	(113.790)	(45.977)	(135.471)
Cash Outflow from Purchase of Property, Plant and Equipment	5 (30.563)	(112.811)	(45.511)	(134.097)
Cash Outflow from Purchase of Intangible Assets	5 (265)	(979)	(466)	(1.374)
Cash Advances and Debts Given	(3.161)	(11.502)	(4.398)	(12.461)
Other Cash Advances and Debts Given	(3.161)	(11.502)	(4.398)	(12.461)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>(73.306)</b>	<b>(266.257)</b>	<b>74.284</b>	<b>210.019</b>
Cash Inflow from Borrowings	169.197	615.639	124.068	351.534
Cash Inflow from Loans	169.197	615.639	124.068	351.534
Cash Outflow from Repayments of Borrowings	(246.058)	(895.322)	(48.550)	(137.590)
Cash Outflow from Loan Repayments	(246.058)	(895.322)	(48.550)	(137.590)
Interest Paid	(7.798)	(28.779)	(11.098)	(32.700)
Interest Received	11.353	42.205	9.864	28.775
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES</b>	<b>19.084</b>	<b>98.795</b>	<b>171.685</b>	<b>479.159</b>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(9.786)	90.664	10.744	(37.157)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>9.298</b>	<b>189.459</b>	<b>182.429</b>	<b>442.002</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>1.303.396</b>	<b>4.586.911</b>	<b>1.009.321</b>	<b>2.934.703</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>1.312.694</b>	<b>4.776.370</b>	<b>1.191.750</b>	<b>3.376.705</b>

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



(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish ö See Note 18)

## ERE Lİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2017

(Amounts are expressed in thousands of Turkish Lira (öTRY Thousandö) unless otherwise indicated.)

#### NOTE 1 ö GROUP'S ORGANIZATION AND NATURE OF OPERATIONS

Erdemir Grubu (öGroupö), is composed of Ere li Demir ve Çelik Fabrikalar, T.A.Ş. (öErdemirö or öthe Companyö), 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 Yardımları Kurumu (OYAK/Armed Forces Pension Fund), respectively.

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

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

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

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

Name of the Company	Country of Operation	Operation	2017 Share %	2016 Share %
İskenderun Demir ve Çelik A.Ş.	Turkey	Steel Production	95,07	95,07
Erdemir Madencilik San. ve Tic. A.Ş.	Turkey	Iron Ore and Pellet	90	90
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Turkey	Steel Service Center	100	100
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100	100
Erdemir Romania S.R.L.	Romania	Silicon Steel Production	100	100
Erdemir Asia Pacific Private Limited	Singapore	Trading	100	100
İsdemir Linde Gaz Ortaklığı, A.Ş. (*)	Turkey	Energy	50	50

(\*) As of 18 November 2016, İsdemir Linde Gas Partnership A.Ş. has been established through 50%-50% partnership with the German Linde Group in order to supply the additional industrial gases required for our subsidiary İsdemir's production and to reduce the costs with an effective and efficient management. İsdemir Linde Gaz Ortaklığı, A.Ş., which will be recognised by using the equity pick-up method is not included in the consolidation as of the reporting period, by reason of not functioning yet, and that the financial statements are not affected significantly. The capital of the joint venture amounting to TRY 12.863 thousand has been reported under financial investments on the financial statements.

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish ó See Note 18)

## ERE Lİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2017

(Amounts are expressed in thousands of Turkish Lira (óTRY Thousandó) unless otherwise indicated.)

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

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

	Paid Hourly Personnel	Paid Monthly Personnel	31 March 2017 Personnel
Ere li Demir ve Çelik Fab.T.A.Ş.	4.373	1.722	6.095
Skenderun Demir ve Çelik A.Ş.	3.197	1.707	4.904
Erdemir Madencilik San. ve Tic. A.Ş.	138	125	263
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	219	90	309
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	229	229
Erdemir Romania S.R.L.	218	50	268
Erdemir Asia Pacific Private Limited	-	4	4
	<u>8.145</u>	<u>3.927</u>	<u>12.072</u>
	Paid Hourly Personnel	Paid Monthly Personnel	31 December 2016 Personnel
Ere li Demir ve Çelik Fab.T.A.Ş.	4.424	1.746	6.170
Skenderun Demir ve Çelik A.Ş.	3.286	1.742	5.028
Erdemir Madencilik San. ve Tic. A.Ş.	139	126	265
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	219	89	308
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	239	239
Erdemir Romania S.R.L.	213	50	263
Erdemir Asia Pacific Private Limited	-	4	4
	<u>8.281</u>	<u>3.996</u>	<u>12.277</u>

#### NOTE 2 ó 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 (óStatutory Financial Statementsó) in accordance with accounting principles issued by the Turkish Commercial Code (óTCCó) and tax legislation.

The Group's condensed consolidated financial statements and disclosures have been prepared in accordance with the communiqué numbered II-14,1 óCommuniqué on the Principles of Financial Reporting In Capital Marketsó (óthe Communiquéó) announced by the Capital Markets Board (óCMBó) (hereinafter will be referred to as óthe CMB Accounting Standardsó) on 13 June 2013 which is published on Official Gazette numbered 28676. The financial statements are prepared on cost basis, except the derivative financial instruments and iron ore and silicon steel used in the production of fixed assets carried on fair value measured at business at acquisition date.

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

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish ö See Note 18)

## **ERE L DEM R VE ÇEL K FABR KALARI T.A. . AND ITS SUBSIDIARIES**

### **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2017**

(Amounts are expressed in thousands of Turkish Lira (öTRY Thousandö) unless otherwise indicated.)

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#### **NOTE 2 ö BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (contöđ)**

##### **2.1 Basis of Presentation (contöđ)**

###### Functional and reporting currency

The functional currency of the Company and its subsidiariesø skenderun Demir ve Çelik A. . ö sdemirö and Erdemir Çelik Servis Merkezi San. ve Tic. A. öErsemö are US Dollars; Erdemir Madencilik San. ve Tic. A. . öErmadenö and Erdemir Mühendislik Yönetim ve Dan, manl,k Hizmetleri A. . are TRY.

###### *Functional currency for the subsidiary abroad*

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

###### Presentation currency translation

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

- a) The assets and liabilities on financial position as of 31 March 2017 are translated from USD Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 3,6386=US \$ 1 and TRY 3,9083=EUR 1 on the balance sheet date (31 December 2016: TRY 3,5192= US \$ 1, TRY 3,7099=EUR 1).
- b) For the three months period ended 31 March 2017, income statements are translated from the average TRY 3,6911 = US \$ 1 and TRY 3,9308=EUR 1 rates of 2017 January - March period (31 March 2016: TRY 2,9465 = US \$ 1 TRY 3,2454 = 1 EUR).
- c) Exchange differences are shown in other comprehensive income as of foreign currency translation reserve.
- d) The differences between presentation of statutory and historical figures are recognised as translation differences under equity. All capital, capital measures and other measures are represented with their statutory figures, other equity accounts are represented with their historic cost figures in the accompanying financial statements.

###### USD amounts presented in the condensed interim financial statements

The figures in USD amounts presented in the accompanying condensed interim consolidated financial statements comprising the statements of financial position as of 31 March 2017 and 31 December 2016, consolidated statement of income and other comprehensive income and consolidated statement of cash flows for the interim period ended 31 March 2017 represent the consolidated financial statements prepared according to USD reporting currency within the frame of functional currency change that the Company has made, which is effective as of July 1, 2013, prepared in accordance with the TAS 21- Effects of Changes in Foreign Exchange Rates.

###### Going concern

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

**ERE L DEM R VE ÇEL K FABR KALARI T.A. . AND ITS SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2017**

(Amounts are expressed in thousands of Turkish Lira (óTRY Thousandó) unless otherwise indicated.)

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

**2.1 Basis of Presentation (cont'd)**

Approval of the consolidated financial statements

The condensed interim consolidated financial statements have been approved and authorized to be published on 20 April 2017 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

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

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

Reclassification of profit and loss statement is as follows:

<b>Account</b>	(Previously Reported)	(Restated)	(Difference)
	1 January - 31 March 2016	1 January - 31 March 2016	1 January - 31 March 2016
Financial Income <sup>(1)</sup>	73.214	24.770	(48.444)
Deferred Tax (Expense) Income <sup>(1)</sup>	(21.778)	26.666	48.444
			<u>-</u>

(1) Foreign exchange gain from deferred tax base amounting to TRY 48.444 thousand which were reported under "Financial Income" was reclassified to "Deferred Tax (Expense) Income" on the consolidated statement of income for the three months period ended 31 March 2016.

**2.3 Adoption of New and Revised Financial Reporting Standards**

The accounting policies adopted in the preparation of the condensed interim consolidated financial statements as of 31 March 2017 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and IFRIC interpretations effective as of 1 January 2016 summarized below.

Standards, amendments and interpretations effective as of 1 January 2016:

- TFRS 11 Acquisition of an Interest in a Joint Operation (Amendment)
- TAS 16 and TAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to TAS 16 and TAS 38)
- TAS 16 Property, Plant and Equipment and TAS 41 Agriculture (Amendment) ó Bearer Plants
- TAS 27 Equity Method in Separate Financial Statements (Amendments to TAS 27)
- TFRS 10 and TAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

**ERE L DEM R VE ÇEL K FABR KALARI T.A. . AND ITS SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2017**

(Amounts are expressed in thousands of Turkish Lira (óTRY Thousandó) unless otherwise indicated.)

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**NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS  
(contóđ)**

**2.3 Adoption of New and Revised Financial Reporting Standards (contóđ)**

Standards, amendments and interpretations effective as of 1 January 2016 (contóđ):

- TFRS 10, TFRS 12 and TAS 28: Investment Entities: Applying the Consolidation Exception (Amendments to TFRS 10 and TAS 28)
- TAS 1: Disclosure Initiative (Amendments to TAS 1)

**Annual Improvements to TFRSs - 2012-2014 Period**

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

- TFRS 5 Non-current Assets Held for Sale and Discontinued Operations ó clarifies that changes in methods of disposal (through sale or distribution to owners) would not be considered a new plan of disposal, rather it is a continuation of the original plan.
- TFRS 7 Financial Instruments: Disclosures ó clarifies that i) the assessment of servicing contracts that includes a fee for the continuing involvement of financial assets in accordance with TFRS 7; ii) the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.
- TAS 19 Employee Benefits ó clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located.
- TAS 34 Interim Financial Reporting óclarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report.

Standards issued but not yet effective and not early adopted:

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

- TFRS 15 Revenue from Contracts with Customers
- TFRS 9 Financial Instruments

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

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

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish 6 See Note 18)

## **ERE L DEM R VE ÇEL K FABR KALARI T.A. . AND ITS SUBSIDIARIES**

### **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2017**

(Amounts are expressed in thousands of Turkish Lira (6TRY Thousand6) unless otherwise indicated.)

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#### **NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont6d)**

##### **2.3 Adoption of New and Revised Financial Reporting Standards (cont6d)**

###### **Annual Improvements 6 201062012 Period**

- TFRS 13 Fair Value Measurement

###### **Annual Improvements 6 201162013 Period**

- IFRS 16 Leases
- IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)
- IAS 7 Statement of Cash Flows (Amendments)
- IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)
- IFRS 4 Insurance Contracts (Amendments)
- IAS 40 Investment Property: Transfers of Investment Property (Amendments)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

###### **Annual Improvements to IFRSs - 2014-2016 Period**

The IASB issued Annual Improvements to IFRS Standards 201462016 Period, amending the following standards:

- IFRS 1 First-time Adoption of International Financial Reporting Standards
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 28 Investments in Associates and Joint Ventures

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

##### **2.4 Summary of Significant Accounting Policies**

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

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

**ERE L DEM R VE ÇEL K FABR KALARI T.A. . AND ITS SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2017**

(Amounts are expressed in thousands of Turkish Lira (6TRY Thousand6) unless otherwise indicated.)

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

**2.5 Restatement and errors in the accounting policies and estimates**

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

Based on the report of Hatch Associates Limited prepared as of 31 December 2008 and dated 12 May 2009, the Group changed the depreciation method of Erdemir and sdemir6 land improvements, machinery, equipment and vehicles from straight line to the units of production method, where it is appropriate, to reflect their expected consumption model in a more accurate way. After new investments and modernizations realised, The Group had a new valuation report prepared by Hatch Associates Limited as of 22 February 2017 effective from the date of 1 January 2017.

If the Group used previous useful life assumptions on the accompanied condensed consolidated financial statements, depreciation expense would be higher amounting to TRY 18.687 thousand for the first three month.

**2.6 Segment Reporting**

The operations of the Group in skenderun and Ere li 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 3 6RELATED PARTY DISCLOSURES**

The immediate parent and ultimate controlling parties of the Group are Ataer Holding A. . and Ordu Yard,mla ma Kurumu respectively (Note 1).

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

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

<u>Due from related parties (short term)</u>	31 March 2017	31 December 2016
Oyak Renault Otomobil Fab. A. . <sup>(2)</sup>	44.830	40.722
Bolu 7imento Sanayi A. . <sup>(1)</sup>	7.231	7.484
Adana 7imento Sanayi T.A. . <sup>(1)</sup>	6.004	6.065
Other	664	606
	<u>58.729</u>	<u>54.877</u>

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

<sup>1)</sup> Subsidiaries of the parent company

<sup>(2)</sup> Joint venture of the parent company

**ERE L DEM R VE ÇEL K FABR KALARI T.A. . AND ITS SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2017**

(Amounts are expressed in thousands of Turkish Lira (óTRY Thousandó) unless otherwise indicated.)

**NOTE 3 óRELATED PARTY DISCLOSURES (contd)**

<u>Due to related parties (short term)</u>	31 March 2017	31 December 2016
Omsan Lojistik A. . <sup>(1)</sup>	7.796	8.021
Omsan Denizcilik A. . <sup>(1)</sup>	4.160	11.747
Oyak Pazarlama Hizmet ve Turizm A. . <sup>(1)</sup>	13.578	8.045
Oyak Savunma ve Güvenlik Sistemleri A. . <sup>(1)</sup>	3.008	3.865
Other	3.230	3.330
	<u>31.772</u>	<u>35.008</u>

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

<u>Major sales to related parties</u>	1 January - 31 March 2017	1 January - 31 March 2016
Oyak Renault Otomobil Fab. A. . <sup>(2)</sup>	49.378	37.123
Adana Çimento Sanayi T.A. . <sup>(1)</sup>	4.393	3.334
Bolu Çimento Sanayi A. . <sup>(1)</sup>	2.536	3.016
Other	1.289	704
	<u>57.596</u>	<u>44.177</u>

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

<sup>1)</sup> Subsidiaries of the parent company

<sup>2)</sup> Joint venture of the parent company



**ERE L DEM R VE ÇEL K FABR KALARI T.A. . AND ITS SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2017**

(Amounts are expressed in thousands of Turkish Lira (óTRY Thousandö) unless otherwise indicated.)

**NOTE 3 óRELATED PARTY DISCLOSURES (contød)**

<u>Major purchases from related parties</u>	1 January - 31 March 2017	1 January - 31 March 2016
Omsan Denizcilik A. . <sup>(1)</sup>	27.356	15.840
Oyak Pazarlama Hizmet ve Turizm A. . <sup>(1)</sup>	26.156	22.903
Omsan Lojistik A. . <sup>(1)</sup>	17.129	13.956
Oyak Savunma ve Güvenlik Sistemleri A. . <sup>(1)</sup>	7.945	7.519
Omsan Logistica SRL <sup>(1)</sup>	2.842	1.982
Other	7.463	3.145
	<u>88.891</u>	<u>65.345</u>

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

<sup>1)</sup> Subsidiaries of the parent company

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

The period end balances are un-secured and their collections will be in cash. As of 31 March 2017, the Group provides no provision for the receivables from related parties (31 December 2016: None).

Salaries, bonuses and other benefits of the key management:

For the three months period ended 31 March 2017, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 10.199 thousand (31 March 2016: TRY 10.983 thousand).

**NOTE 4 ó INVENTORIES**

As of the balance sheet date, the details of the Groupø inventories are as follows:

	31 March 2017	31 December 2016
Raw materials	1.183.585	834.711
Work in progress	1.000.447	720.679
Finished goods	1.121.813	866.700
Spare parts	787.659	768.861
Goods in transit	895.671	983.678
Other inventories	292.536	289.205
Allowance for impairment on inventories (-)	(206.747)	(208.787)
	<u>5.074.964</u>	<u>4.255.047</u>

**ERE L DEM R VE ÇEL K FABR KALARI T.A. . AND ITS SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2017**

(Amounts are expressed in thousands of Turkish Lira (óTRY Thousandó) unless otherwise indicated.)

**NOTE 4 ó INVENTORIES (contóđ)**

The movement of the allowance for impairment on inventories:

	1 January - 31 March 2017	1 January - 31 March 2016
Opening balance	208.787	168.433
Provision for the period	12.920	4.892
Provision released (-)	(22.206)	(18.585)
Translation difference	7.246	(3.722)
Closing balance	206.747	151.018

The Group has provided an allowance for the impairment on the inventories of finished goods, work in progress and raw materials within the scope of aging reports in the cases when their net realizable values are lower than their costs or for slow moving inventories. The provision released has been recognized under cost of sales (Note 13).

**NOTE 5 ó TANGIBLE AND INTANGIBLE ASSETS**

The movement of tangible assets for the periods 1 January ó 31 March 2017 and 1 January ó 31 March 2016 is as follows:

	31 March 2017	31 March 2016
<u>Opening balance as of 1 January</u>		
Cost	30.252.777	24.664.476
Accumulated depreciation	(18.100.805)	(14.400.015)
Net book value	12.151.972	10.264.461
Net book value at the begin.of the period	12.151.972	10.264.461
Additions (*)	113.724	135.498
Disposals (-)	(5.668)	(3.880)
<i>Cost of disposals</i>	(19.794)	(8.692)
<i>Accumulated depreciation of disposals</i>	14.126	4.812
Transfers to intangible assets	(46)	(1.672)
Currency translation difference	411.657	(257.878)
<i>Cost currency translation difference</i>	1.011.843	(619.426)
<i>Accumulated depreciation currency translation difference</i>	(600.186)	361.548
Current period depreciation (-)	(173.099)	(155.122)
Net book value at the end of the period	12.498.540	9.981.407
<u>Closing balance as of</u>		
Cost	31.358.504	24.170.184
Accumulated depreciation	(18.859.964)	(14.188.777)
Net book value	12.498.540	9.981.407

(\*) The amount of capitalized borrowing cost is TRY 913 thousand for the current period (31 March 2016: TRY 737 thousand).

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**NOTE 5 ó TANGIBLE AND INTANGIBLE ASSETS (contd)**

As of balance sheet date, the Group has no collaterals or pledges upon its tangible assets (31 March 2016: None).

The movement of intangible assets for the periods 1 January ó 31 March 2017 and 1 January ó 31 March 2016 is as follows:

	31 March 2017	31 March 2016
<u>Opening balance as of 1 January</u>		
Cost	439.937	348.133
Accumulated amortisation	(234.458)	(175.268)
Net book value	<u>205.479</u>	<u>172.865</u>
Net book value at the begin.of the period	205.479	172.865
Additions	979	710
Transfers from tangible assets	46	1.672
Currency translation difference	6.966	(4.237)
<i>Cost currency translation difference</i>	14.742	(8.718)
<i>Accumulated depreciation currency translation difference</i>	(7.776)	4.481
Current period amortisation (-)	(6.071)	(4.717)
Net book value at the end of the period	<u>207.399</u>	<u>166.293</u>
<u>Closing balance end of period</u>		
Cost	455.704	341.797
Accumulated amortisation	(248.305)	(175.504)
Net book value	<u>207.399</u>	<u>166.293</u>

As of balance sheet date, the Group has no collaterals or pledges upon its intangible assets (31 March 2016: None).

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

	31 March 2017	31 March 2016
Associated with cost of production	167.278	151.064
General administrative expenses	4.646	3.466
Marketing expenses	6.761	4.984
Research and development expenses	485	325
	<u>179.170</u>	<u>159.839</u>

Details of useful life assumptions of the Groupø tangible assets explained on Note 2.5.

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish ó See Note 18)

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### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2017

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#### NOTE 6 ó BORROWINGS

Breakdown of borrowings is as follows:

	31 March 2017	31 December 2016
Short term borrowings	1.250.770	1.257.986
Current portion of long term borrowings	1.000.777	1.043.968
Total short term borrowings	2.251.547	2.301.954
Long term borrowings	1.497.120	1.617.534
Total long term borrowings	1.497.120	1.617.534
	<u>3.748.667</u>	<u>3.919.488</u>

As of 31 March 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	Long Term	31 March 2017
			Portion	Portion	
No interest	TRY	-	41.907	-	41.907
Fixed	TRY	12,45	14.562	-	14.562
Fixed	US Dollars	2,28	674.555	100.158	774.713
Fixed	EURO	2,85	62.653	35.326	97.979
Floating	US Dollars	Libor+1,82	1.267.498	1.047.712	2.315.210
Floating	EURO	Euribor+1,65	148.976	313.924	462.900
Floating	Japanese Yen	JPY Libor+0,22	41.396	-	41.396
			<u>2.251.547</u>	<u>1.497.120</u>	<u>3.748.667</u>

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

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish 6 See Note 18)

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**NOTE 6 6 BORROWINGS (cont6d)**

Breakdown of loan repayment is as follows:

	31 March 2017	31 December 2016
Within 1 year	2.251.547	2.301.954
Between 1-2 years	541.702	585.316
Between 2-3 years	495.353	480.309
Between 3-4 years	252.022	332.078
Between 4-5 years	81.590	102.893
Five years or more	126.453	116.938
	<u>3.748.667</u>	<u>3.919.488</u>

**NOTE 7 6 OTHER PAYABLES**

The Group6s short term other payables are as follows:

	31 March 2017	31 December 2016
<u>Short term other payables</u>		
Taxes payable	20.010	2.709
Employee's income tax payables	28.707	27.766
Deposits and guarantees received	10.621	9.539
Dividend payables to shareholders (*)	1.440.951	2.112
	<u>1.500.289</u>	<u>42.126</u>

(\*)The Ordinary General Meeting which held on 31 March 2017, it was decided by the majority of votes to distribute TRY 1.435.000 thousand dividend from 2016 profit in cash. Dividend payables to shareholders is the sum of total dividend decided to be distributed after dividends for treasury shares are netted off, dividend payables to non-controlling interests and uncollected dividend by shareholders related to previous periods.

**NOTE 8 6 PROVISIONS**

The Group6s short term provisions are as follows:

	31 March 2017	31 December 2016
Provision for lawsuits	109.134	105.448
Penalty prov. for employment shortage of disabled pers.	8.519	7.488
Provision for state right on mining activities	3.403	2.650
Provision for land occupation	20.833	16.602
Provision for the potential tax penalty	6.565	13.398
	<u>148.454</u>	<u>145.586</u>

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish ó See Note 18)

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**NOTE 8 ó PROVISIONS (contd)**

The movement of the provisions is as follows:

	1 January 2017	Change for the period	Payments	Provision released	Translation difference	31 March 2017
Provision for lawsuits	105.448	12.925	(2.531)	(9.575)	2.867	109.134
Penalty prov. for employment shortage of disabled pers.	7.488	1.035	-	-	(4)	8.519
Provision for state right on mining activities	2.650	753	-	-	-	3.403
Provision for land occupation	16.602	4.239	-	-	(8)	20.833
Provision for the tax penalty	13.398	209	(7.376)	-	334	6.565
	<u>145.586</u>	<u>19.161</u>	<u>(9.907)</u>	<u>(9.575)</u>	<u>3.189</u>	<u>148.454</u>

  

	1 January 2016	Change for the period	Payments	Provision released	Translation difference	31 March 2016
Provision for lawsuits	88.280	8.014	(2.090)	(2.089)	(2.545)	89.570
Provision for termination fee of long term contract	218.070	-	(220.988)	-	2.918	-
Penalty prov. for employment shortage of disabled pers.	5.434	1.071	(615)	(470)	(8)	5.412
Provision for state right on mining activities	2.589	700	-	-	-	3.289
Provision for land occupation	122.634	4.012	(62.009)	(62.264)	1.447	3.820
	<u>437.007</u>	<u>13.797</u>	<u>(285.702)</u>	<u>(64.823)</u>	<u>1.812</u>	<u>102.091</u>

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish 6 See Note 18)

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**NOTE 8 6 PROVISIONS (cont6d)**

**Provision for lawsuits**

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

	31 March 2017	31 December 2016
Lawsuits filed by the Group	551.211	526.308
Provision for lawsuits filed by the Group	67.122	64.076

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

	31 March 2017	31 December 2016
Lawsuits filed against the Group	360.465	348.856
Provision for lawsuits filed against the Group	109.134	105.448

The Company, prepared its consolidated financial statements as of 31 March 2005, 30 June 2005 and 30 September 2005 according to CMB6s Communiqu6 Serial XI No 25 on 6Accounting Standards to be implemented in Capital Markets6 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 Communiqu6, and CMB6s letter no. SPK.017/83-3483 dated 7 March 2006, sent to the Group Management. The aforementioned Communiqu6 (Serial XI No. 25 on the 6Accounting Standards to be implemented in Capital Markets6), and Communiqu6s inserting some provisions thereto together with the Communiqu6s 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 Company6s changing the accounting standards set used during the term (Serial XI, No 25) at the end of the same term (IFRS) caused decrease amount of TRY 152.330 thousand on the period due to negative goodwill income.

The Company challenged the aforementioned decision before the 11th Administrative Court of Ankara (E. 2006/1396). This lawsuit was rejected on 29 March 2007, but the Company appealed this rejection on 11 October 2007. 13th Chamber of the Council of State rejected the appeal on 12 May 2010; however the Company also appealed this rejection on 2 September 2010. However, 13th Chamber of the Council of State also dismissed this appeal against rejection on 6 June 2012 with its decision No. E. 2010/4196, K. 2012/1499. This decision was notified to the Company6s lawyers on 16 July 2012.

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**NOTE 8 6 PROVISIONS (cont6d)**

**Provision for lawsuits (cont6d)**

CMB, prepared the Company6s consolidated financial statements as of 31 December 2005, which had been prepared according to the IFRS, by adding the negative goodwill of TRY 152.330 thousand, that had previously been added to the accumulated earnings, to the profit of 2005 on its own motion and account, and published them on Istanbul Stock Exchange Bulletin on 15 August 2006; with the rationale that the Company had not fulfilled its due demand on grounds that 6Article 726 and Temporary Provision 1 of CMB6s Communiqu6 Serial XI, No. 25 authorize the use of IFRS on consolidated financial statements of 2005, although CMB had given the Company a 6permission6 No. SPK.0.17/83-3483 of 7 March 2006, and the lawsuits regarding this issue are still pending6. The Company challenged CMB6s 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 Chamber6s decision on 6 September 2010. 13th Chamber of the Council of State accepted CMB6s appeal and reverted its previous abolishment decision, and ratified 11th Administrative Court of Ankara6s 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 Company6s lawyers on 20 July 2012.

Had the Company started to prepare its consolidated financial statements in accordance with IFRS after 31 December 2005, it would also have to present the comparative consolidated financial statements in accordance with IFRS based on 6IFRS 1: First-time adoption of International Financial Reporting Standards6 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 6IFRS 3: Business Combinations6. Therefore, the net profit for the periods ended 31 March 2017 and 31 March 2016 will not be affected from the above mentioned disputes.

Company6s Shareholders6 General Assembly, which was held at 30 March 2006, decided dividend distribution according to the consolidated financial statements as of 31 December 2005, which was prepared according to IFRS. Privatization Administration, who has a usufruct right over 1 (one) equity share among the Company shares it transferred to Ataer Holding A. ., 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 Appeals6 11th Chamber reversed this rejection judgment on 30 November 2010; this time the Company appealed the Chamber6s decision on 18 February 2011. However, the Chamber rejected the Company6s appeal on 14 July 2011. The case file, sent back to 3th Commercial Court of Ankara once again. The case was dismissed at the hearing held on 26 June 2015. The case is at the stage of appeal.

The Company, based on the above mentioned reasons, doesn6t 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 March 2017 and 31 December 2016.

Enerjia Metal Maden Sanayi ve Ticaret A. . 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 6Additional Terms to the Erdemir-Enerjia Export Protocol No. 681976 drafted by and between Enerjia and the Company. However the process stopped upon the Company6s objection to Enerjia6s request, and that led Enerjia to file a lawsuit against the Company before the 7th Commercial Court of



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**NOTE 8 6 PROVISIONS (cont6d)**

**Provision for lawsuits (cont6d)**

Ankara on 27 March 2010 claiming that the objection should be overruled and USD 68.312.520 should be paid to itself (E. 2010/259). The Court dismissed the case, in favor of the Company, on 23 June 2011. Enerjia appealed this rejection. 23rd Chamber of the Court of Appeals accepted this rejection on 6 April 2012 (E. 2011/2915, K.2012/2675) and after this, the case file was sent back to the 7th Commercial Court of Ankara and received case file number E. 2013/17. The case file was sent to the 4th Commercial Court of Ankara due to the case shall seen by delegation according to the regulatory framework regarding the commercial courts. The Court has dismissed the case at the hearing held on 9 September 2015. The case is at the stage of appeal. No possible material cash outflow expected according to the evaluations of Company management and expert6 reports, as a result no provision recognised on financial statements for related lawsuit.

An action of debt was instituted by Bor-San Is, Sistemleri Üretim ve Pazarlama A.Ş. against our company at the 3rd Civil Court of Kdz. Ere li on 17 April 2013 under file no 2013/253 Esas claiming for the compensation of the loss arising from the sales contract of TRY 18 thousand, reserving the rights for surplus. The Company was informed from the amendment petition, that the plaintiff pleaded from the court to raise the claim to TRY 10.838 thousand as assessed by the expert opinion submitted to the court. The Company contested to the expert opinion and the amendment petition within the statutory period. The court has given the judgment of dismissal on 11 March 2014. The plaintiff, Bor-San Is, Sistemleri Üretim ve Pazarlama A.Ş. has appealed against the judgment. Upon the reversal of judgment, the Company appealed the decision of Supreme Court of Appeal. The rejection decision of Supreme Court of Appeal has been notified to the Company on 28 January 2015. The case ongoing with the Kdz. Ere li Civil Court of First Instance 3rd has dismissed at the hearing held on 9 September 2015. Court of Appeals6 19th Chamber dismissed the appellate request of Bor-San Is, Sistemleri Üretim ve Pazarlama A.Ş. and accepted the appellate request of the Company in terms of retainer fee. Revision of the decision has been demanded by Bor-San Is, Sistemleri Üretim ve Pazarlama A.Ş. against the decision of Court of Appeals6 19th Chamber. The case is at the stage of revision of decision at the Supreme Court.

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

It is learnt through a notified made to the Company on 31 October 2012 that Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.) filed an action for compensation at amount of TRY 8.669 thousand (USD 4.800 thousand) together with accessory against the Company before Ankara 14th Commercial Court of First Instance. As a result of adjudication made; the court adjudged to dismiss the case on procedural grounds because of non-competence and to send the file to commissioned and competent Karadeniz Ere li Commercial Court of First Instance in Duty when the judgment becomes definite and in case of request. The case still continues on file no. 2013/63 in Karadeniz Ere li 2nd Civil Court of First Instance. Date of next hearing of the case is 19 October 2017.

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**NOTE 9 6 EMPLOYEE BENEFITS**

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

	31 March 2017	31 December 2016
Due to personnel	95.433	109.062
Social security premiums payable	40.483	59.662
	<u>135.916</u>	<u>168.724</u>

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

	31 March 2017	31 December 2016
Provisions for employee termination benefits	454.259	448.932
Provisions for seniority incentive premium	40.826	38.884
Provision for unpaid vacations	79.278	79.603
	<u>574.363</u>	<u>567.419</u>

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 March 2017, the amount payable consists of one month's salary limited to a maximum of TRY 4.426,16 (31 December 2016: TRY 4.297,21).

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 (6Employee Benefits6) requires actuarial valuation methods to be developed to estimate the Group's obligation under defined benefit plans. The obligation as of 31 March 2017 has been calculated by an independent actuary. The actuarial assumptions used in the calculation of the present value of the future probable obligation are as follows:

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

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**NOTE 9 6 EMPLOYEE BENEFITS (cont6d)**

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 March 2017, a fixed discount rate is used. Long term inflation estimates are made using an approach consistent with discount rate estimates and long term inflation rate fixed over years is used.

The anticipated rate of resignation which do not result in the payment of employee benefits is also considered in the calculation. The anticipated rate of resignation is assumed to be related with the past experience, therefore past experiences of employees are analyzed and considered in the calculation. In the actuarial calculation as of 31 March 2017, the anticipated rate of resignation is considered to be inversely proportional to the past experience. The anticipated rate of resignation is between 2%-0% for the employees with past experience between 0-15 years or over.

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

	1 January - 31 March 2017	1 January - 31 March 2016
Opening balance	448.932	404.699
Service cost	10.766	9.377
Interest cost	11.579	10.357
Termination benefits paid	(16.992)	(12.078)
Translation difference	(26)	(206)
Closing balance	<u>454.259</u>	<u>412.149</u>

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

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

	1 January - 31 March 2017	1 January - 31 March 2016
Opening balance	38.884	28.289
Service cost	992	808
Interest cost	954	700
Translation difference	(4)	34
Closing balance	<u>40.826</u>	<u>29.831</u>

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

	1 January - 31 March 2017	1 January - 31 March 2016
Opening balance	79.603	72.927
Provision for the period	9.558	9.213
Vacation paid during the period (-)	(2.679)	(1.340)
Provisions released (-)	(7.005)	(10.919)
Translation difference	(199)	(35)
Closing balance	<u>79.278</u>	<u>69.846</u>

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**NOTE 10 6 COMMITMENTS AND CONTINGENCIES**

The guarantees received by the Group are as follows:

	31 March 2017	31 December 2016
Letters of guarantees received	1.809.326	1.797.646
	<u>1.809.326</u>	<u>1.797.646</u>

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

	31 March 2017	31 December 2016
A. Total CPM given for the Company's own legal entity	115.959	112.584
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	633.709	625.603
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	-	-
D. Other CPM given	-	-
i. Total CPM given in favour of parent entity	-	-
ii. Total CPM given in favour of other Group companies out of the scope of clause B and C	-	-
iii. Total CPM given in favour of other 3rd parties out of the scope of clause C	-	-
	<u>749.668</u>	<u>738.187</u>

As of 31 March 2017, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2016: 0%). Total CPM given in favor of subsidiaries consolidated on line-by-line basis amounting to TRY 633.709 thousand has been given as collateral for financial liabilities explained in Note 6.

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

	31 March 2017	31 December 2016
US Dollars	484.576	472.815
TRY	112.640	109.989
EURO	131.096	135.753
Japanese Yen	21.356	19.630
	<u>749.668</u>	<u>738.187</u>

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**NOTE 11 6 TAX ASSETS AND LIABILITIES**

	31 March 2017	31 December 2016
<u>Corporate tax payable:</u>		
Corporation tax for the year of 2016	530.673	-
Current corporate tax provision	300.535	530.673
Prepaid taxes and funds (-)	(225.923)	(75.049)
	<u>605.285</u>	<u>455.624</u>
	1 January - 31 March 2017	1 January - 31 March 2016
<u>Taxation:</u>		
Current corporate tax expense	300.535	14.970
Deferred tax (income) / expense	(12.227)	(26.666)
	<u>288.308</u>	<u>(11.696)</u>

Corporate tax

The effective corporate tax rate in Turkey is 20%, 16% in Romania and 17% in Singapore as of 31 March 2017 (31 December 2016: in Turkey 20%, in Romania 16%, in Singapore 17%). The total amount of the corporate tax paid by the Group in 2017 is TRY 150.874 thousand (31 March 2016: TRY 11.091 thousand).

Deferred tax

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

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.

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**NOTE 11 6 TAX ASSETS AND LIABILITIES (cont6d)**

	31 March 2017	31 December 2016
<u>Deferred tax assets:</u>		
Carry forward tax losses	2.125	2.017
Provisions for employee benefits	114.859	113.400
Investment incentive	17.039	7.760
Provision for lawsuits	21.827	21.089
Inventories	11.268	12.683
Provision for other doubtful receivables	14.307	14.047
Tangible and intangible assets	16.509	15.819
Other	37.909	40.313
	<u>235.843</u>	<u>227.128</u>
<u>Deferred tax liabilities:</u>		
Tangible and intangible assets	(1.742.441)	(1.667.791)
Fair values of the derivative financial instruments	(6.371)	(10.267)
Amortized cost adjustment on loans	(2.157)	(1.930)
Inventories	(52.400)	(80.088)
Other	(9.936)	(9.841)
	<u>(1.813.305)</u>	<u>(1.769.917)</u>
	<u>(1.577.462)</u>	<u>(1.542.789)</u>

In the financial statements which are prepared according to the TAS, of Ere li Demir ve 6elik Fabrikalar, 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 Ere li Demir ve 6elik Fabrikalar, T.A.Ş. and its subsidiaries6 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.

	31 March 2017	31 December 2016
Deferred tax assets	33.598	34.243
Deferred tax (liabilities)	(1.611.060)	(1.577.032)
	<u>(1.577.462)</u>	<u>(1.542.789)</u>

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**NOTE 11 6 TAX ASSETS AND LIABILITIES (cont6d)**

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

	1 January - 31 March 2017	1 January - 31 March 2016
Opening balance	(1.542.789)	(1.024.995)
Deferred tax (expense)/income	12.227	26.666
The amount in comprehensive (expense)/income	1.924	3.215
Translation difference	(48.824)	26.290
Closing balance	<u>(1.577.462)</u>	<u>(968.824)</u>

Reconciliation of tax provision is as follows:

	1 January - 31 March 2017	1 January - 31 March 2016
Profit before tax	1.218.418	156.396
Statutory tax rate	20%	20%
Calculated tax expense acc. to effective tax rate	243.684	31.279
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	4.261	3.296
- Effect of currency translation to non taxable assets	49.739	(44.405)
- Effect of non-taxable adjustments	(67)	(1.850)
- Investment incentive	(9.279)	-
- Effect of the different tax rates due to foreign subsidiaries	(30)	(16)
Total tax exp. in reported in the consolidate stat. of income	<u>288.308</u>	<u>(11.696)</u>

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**NOTE 12 6 EQUITY**

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

<u>Shareholders</u>	<u>(%)</u>	<u>31 March</u>		<u>31 December</u>	
		<u>2017</u>	<u>(%)</u>	<u>2016</u>	
Ataer Holding A. .	49,29	1.724.982	49,29	1.724.982	
Quoted in Stock Exchange	47,63	1.667.181	47,63	1.667.181	
Erdemir's own shares	3,08	107.837	3,08	107.837	
Historical capital	100,00	3.500.000	100,00	3.500.000	
Effect of inflation		156.613		156.613	
Restated capital		3.656.613		3.656.613	
Treasury shares		(116.232)		(116.232)	
		<u>3.540.381</u>		<u>3.540.381</u>	

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

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

**NOTE 13 6 SALES AND COST OF SALES**

	<u>1 January -</u>	<u>1 January -</u>
	<u>31 March 2017</u>	<u>31 March 2016</u>
<u>Sales Revenue</u>		
Domestic sales	3.470.784	2.274.751
Export sales	608.091	271.603
Other revenues (*)	116.926	37.539
Sales returns (-)	(685)	(3.561)
Sales discounts (-)	(4.093)	(3.550)
	<u>4.191.023</u>	<u>2.576.782</u>
<u>Cost of sales (-)</u>	<u>(2.931.308)</u>	<u>(2.329.897)</u>
Gross profit	<u>1.259.715</u>	<u>246.885</u>

(\*)The total amount of by product exports in other revenues is TRY 57.783 thousand (31 March 2016: TRY 11.820 thousand).



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**NOTE 13 ó SALES AND COST OF SALES (contd)**

The breakdown of cost of goods sales for the periods 1 January ó 31 March 2017 and 1 January ó 31 March 2016 is as follows:

	1 January - 31 March 2017	1 January - 31 March 2016
Raw material usage	(2.133.852)	(1.553.176)
Personnel costs	(317.611)	(304.487)
Energy costs	(169.083)	(195.149)
Depreciation and amortization expenses	(164.952)	(154.388)
Factory overheads	(54.905)	(84.134)
Other cost of goods sold	(42.900)	(14.478)
Non-operating costs (*)	(1.404)	-
Freight costs for sales delivered to customers	(46.256)	(30.168)
Inventory write-downs within the period (Note 4)	(12.920)	(4.892)
Reversal of inventory write-downs (Note 4)	22.206	18.585
Other	(9.631)	(7.610)
	<u>(2.931.308)</u>	<u>(2.329.897)</u>

(\*) Due to the planned/ unplanned halt production of plant of the Group, operations were suspended temporarily in the current period. As a result of this, unallocated overheads, TRY (1.404) thousand, has been accounted directly under cost of goods sold (31 March 2016: None).

**NOTE 14 ó OPERATING EXPENSES AND OTHER OPERATING INCOME/(EXPENSES)**

The breakdown of marketing expenses according to their nature for the periods 1 January ó 31 March 2017 and 1 January ó 31 March 2016 is as follows:

	1 January - 31 March 2017	1 January - 31 March 2016
Personnel expenses (-)	(19.529)	(17.738)
Depreciation and amortization(-)	(6.761)	(4.984)
Service expenses (-)	(13.534)	(10.835)
	<u>(39.824)</u>	<u>(33.557)</u>

The breakdown of general administrative expenses for the periods 1 January ó 31 March 2017 and 1 January ó 31 March 2016 is as follows:

	1 January - 31 March 2017	1 January - 31 March 2016
Personnel expenses (-)	(43.372)	(38.040)
Depreciation and amortization (-)	(4.646)	(3.466)
Service expenses (-)	(29.265)	(25.268)
Tax, duty and charges (-)	(2.437)	(1.820)
Provision for doubtful receivables (-)	(1.311)	(1.270)
	<u>(81.031)</u>	<u>(69.864)</u>

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**NOTE 14 6 OPERATING EXPENSES AND OTHER OPERATING INCOME/(EXPENSES)  
(cont6d)**

The breakdown of other operating income for the periods 1 January 6 31 March 2017 and 1 January 6 31 March 2016 is as follows:

	1 January - 31 March 2017	1 January - 31 March 2016
<u>Other operating income</u>		
Provisions released for land occupation	-	62.264
Interest income from sales with maturities	23.018	15.094
Discount income	6.273	4.030
Provisions released	9.575	2.559
Service income	3.228	3.801
Maintenance repair and rent income	3.001	2.059
Warehouse income	2.329	800
Indemnity and penalty detention income	409	529
Insurance indemnity income	14.770	304
Lawsuit income	7.102	82
Gain on sale of tangible assets	322	48
Other income and gains	6.371	9.269
	<u>76.398</u>	<u>100.839</u>

The breakdown of other operating expenses for the periods 1 January 6 31 March 2017 and 1 January 6 31 March 2016 is as follows:

	1 January - 31 March 2017	1 January - 31 March 2016
<u>Other operating expenses (-)</u>		
Provision expenses	(14.169)	(9.238)
Discount expenses	(7.403)	(3.542)
Lawsuit compensation expenses	(1.810)	(1.506)
Port facility pre-licence expenses	(1.679)	(1.272)
Donation expenses	(405)	(1.004)
Service expenses	(1.635)	(843)
Loss on disposal of tangible assets	(5.612)	(584)
Stock exchange registration expenses	(1.267)	-
Rent expenses	(466)	(303)
Penalty expenses	(536)	(254)
Other expenses and losses	(7.009)	(5.186)
	<u>(41.991)</u>	<u>(23.732)</u>

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**NOTE 15 ó FINANCIAL INCOME / EXPENSES**

The breakdown of financial income for the periods 1 January ó 31 March 2017 and 1 January ó 31 March 2016 is as follows:

<u>Financial incomes</u>	<u>1 January - 31 March 2017</u>	<u>1 January - 31 March 2016</u>
Interest income on bank deposits	42.205	24.770
Foreign exchange gains (net)	44.595	-
Fair value differences of derivative financial instruments (net)	2.021	-
	<u>88.821</u>	<u>24.770</u>

The breakdown of financial expense for the periods 1 January ó 31 March 2017 and 1 January ó 31 March 2016 is as follows:

<u>Financial expenses (-)</u>	<u>1 January - 31 March 2017</u>	<u>1 January - 31 March 2016</u>
Interest expenses on borrowings	(27.787)	(36.779)
Foreign exchange loss (net)	-	(37.805)
Interest cost of employee benefits	(12.533)	(11.057)
Fair value differences of derivative financial instruments (net)	-	(744)
Other financial expenses	(657)	(195)
	<u>(40.977)</u>	<u>(86.580)</u>

During the period, the interest expenses of TRY 913 thousand have been capitalized as part of the Group's property, plant and equipment (1 January - 31 March 2016: TRY 737 thousand).

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**NOTE 16 6 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS**

**Additional information about financial instruments**

Foreign currency risk management

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). Foreign currency position table represents foreign currencies other than each entity's functional currency. As of 31 March 2017, the foreign currency position of the Group in terms of original currency is calculated as it as follows:

	31 March 2017			
	TRY (Total in currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)
1. Trade Receivables	359.704	64.871	73.514	-
2a. Monetary financial assets	904.384	858.001	11.241	174
2b. Non- monetary financial assets	-	-	-	-
3. Other	147.956	147.678	71	-
<b>4. Current assets (1+2+3)</b>	<b>1.412.044</b>	<b>1.070.550</b>	<b>84.826</b>	<b>174</b>
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	60.874	34.181	5.817	121.210
<b>8. Non-current assets (5+6+7)</b>	<b>60.874</b>	<b>34.181</b>	<b>5.817</b>	<b>121.210</b>
<b>9. Total assets (4+8)</b>	<b>1.472.918</b>	<b>1.104.731</b>	<b>90.643</b>	<b>121.384</b>
10. Trade payables	293.962	256.831	5.408	432.377
11. Financial liabilities	311.415	56.469	54.482	1.286.117
12a. Other monetary financial liabilities	495.638	486.606	2.311	-
12b. Other non-monetary financial liabilities	594.851	594.851	-	-
<b>13. Current liabilities (10+11+12)</b>	<b>1.695.866</b>	<b>1.394.757</b>	<b>62.201</b>	<b>1.718.494</b>
14. Trade payables	-	-	-	-
15. Financial liabilities	349.250	-	89.361	-
16a. Other monetary financial liabilities	560.678	560.678	-	-
16b. Other non-monetary financial liabilities	-	-	-	-
<b>17. Non-current liabilities (14+15+16)</b>	<b>909.928</b>	<b>560.678</b>	<b>89.361</b>	<b>-</b>
<b>18. Total liabilities (13+17)</b>	<b>2.605.794</b>	<b>1.955.435</b>	<b>151.562</b>	<b>1.718.494</b>
<b>19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)</b>	<b>(800.951)</b>	<b>(441)</b>	<b>(204.823)</b>	<b>-</b>
19a. Off-balance sheet foreign currency derivative financial assets	83.840	28.533	14.151	-
19b. Off-balance sheet foreign currency derivative financial liabilities	884.791	28.974	218.974	-
<b>20. Net foreign currency asset/liability position (9-18+19)</b>	<b>(1.933.827)</b>	<b>(851.145)</b>	<b>(265.742)</b>	<b>(1.597.110)</b>
<b>21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>(746.855)</b>	<b>(437.712)</b>	<b>(66.807)</b>	<b>(1.718.320)</b>
22. Fair value of derivative financial instruments used in foreign currency hedge	35.395	24.354	2.825	-
23. Hedged foreign currency assets	884.791	28.974	218.974	-
24. Hedged foreign currency liabilities	83.840	28.533	14.151	-
25. Exports	665.874			
26. Imports	2.626.792			

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**NOTE 16 6 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont6d)**

**Additional information about financial instruments (cont6d)**

Foreign currency risk management (cont6d)

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

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

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**NOTE 16 6 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont6d)**

**Additional information about financial instruments (cont6d)**

Foreign currency risk management (cont6d)

The following table shows the Group6s sensitivity to a 10% (+/-) change in the TRY, USD, EUR and Japanese Yen. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management6s assessment of the possible change in foreign exchange rates.

As of 31 March 2017 asset and liability balances are translated by using the following exchange rates: TRY 3,6386 = US \$ 1, TRY 3,9083 = EUR 1 and TRY 0,0327= JPY 1 (31 December 2016: TRY 3,5192 = US \$ 1, TRY 3,7099 = EUR 1 and TRY 0,0300= JPY 1).

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency	Depreciation of foreign currency
31 March 2017		
1- TRY net asset/liability	(85.070)	85.070
2- Hedged portion from TRY risk (-)	2.853	(2.853)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(82.217)	82.217
5- US Dollars net asset/liability	-	-
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- US Dollars net effect (5+6+7)	-	-
9- Euro net asset/liability	(23.809)	23.809
10- Hedged portion from Euro risk (-)	5.531	(5.531)
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	(18.278)	18.278
13- Jap. Yen net asset/liability	(5.217)	5.217
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(5.217)	5.217
<b>TOTAL (4+8+12+16)</b>	<b>(105.712)</b>	<b>105.712</b>

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**NOTE 16 ö NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (contöđ)**

**Additional information about financial instruments (contöđ)**

Foreign currency risk management (contöđ)

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

**NOTE 17 ö SUBSEQUENT EVENTS**

None.

**NOTE 18 ö OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION**

**Convenience translation to English:**

As of 31 March 2017, the accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying financial statements differ from International Financial Reporting Standards (öIFRSö) issued by the International Accounting Standards Board with respect to the application of inflation accounting, certain reclassifications and also for certain disclosures requirement of the POA/CMB. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with IFRS.