

**(CONVENIENCE TRANSLATION OF CONDENSED INTERIM  
CONSOLIDATED FINANCIAL STATEMENTS  
ORIGINALLY ISSUED IN TURKISH - SEE NOTE 19)**

**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 2016**

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(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish ó See Note 19)

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 31 MARCH 2016**

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

	Note	(Unaudited)	(Unaudited)	(Audited)	(Audited)
		Current Period	Current Period	Previous Period	Previous Period
		31 March	31 March	31 December	31 December
		2016	2016	2015	2015
ASSETS		USD'000	TRY'000	USD'000	TRY'000
<b>Current Assets</b>		<b>2.739.016</b>	<b>7.760.726</b>	<b>2.751.401</b>	<b>7.999.975</b>
Cash and Cash Equivalents		1.191.750	3.376.705	1.009.321	2.934.703
Financial Derivative Instruments		9.014	25.540	15.286	44.445
Trade Receivables		502.846	1.424.763	561.504	1.632.629
<i>Due From Related Parties</i>	3	13.185	37.357	14.834	43.130
<i>Other Trade Receivables</i>		489.661	1.387.406	546.670	1.589.499
Other Receivables		748	2.120	712	2.069
Inventories	4	983.037	2.785.336	1.113.595	3.237.890
Prepaid Expenses		21.517	60.966	18.143	52.754
Other Current Assets		30.104	85.296	32.840	95.485
<b>Non Current Assets</b>		<b>3.652.592</b>	<b>10.349.255</b>	<b>3.657.490</b>	<b>10.634.515</b>
Other Receivables		5.317	15.064	5.183	15.069
Financial Investments		27	77	27	79
Financial Derivative Instruments		14.437	40.906	14.639	42.564
Investment Properties		24.670	69.901	24.670	71.731
Property, Plant and Equipment	5	3.512.666	9.952.787	3.520.075	10.234.969
Intangible Assets	5	68.791	194.913	69.596	202.357
Prepaid Expenses		18.061	51.175	15.112	43.939
Deferred Tax Assets	11	8.623	24.432	8.188	23.807
<b>TOTAL ASSETS</b>		<b>6.391.608</b>	<b>18.109.981</b>	<b>6.408.891</b>	<b>18.634.490</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.

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish (See Note 19))

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

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 31 MARCH 2016

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

	Note	(Unaudited)	(Unaudited)	(Audited)	(Audited)
		Current Period 31 March 2016 USD'000	Current Period 31 March 2016 TRY'000	Previous Period 31 December 2015 USD'000	Previous Period 31 December 2015 TRY'000
<b>LIABILITIES</b>					
<b>Current Liabilities</b>		<b>1.185.361</b>	<b>3.358.603</b>	<b>899.513</b>	<b>2.615.423</b>
Financial Liabilities	6	11.818	33.486	8.353	24.286
Short Term Portion of Long Term Fin. Liab.	6	417.080	1.181.754	360.179	1.047.256
Financial Derivative Instruments		10.701	30.319	6.705	19.495
Trade Payables		162.849	461.416	200.235	582.203
<i>Due to Related Parties</i>	3	6.875	19.479	9.159	26.630
<i>Other Trade Payables</i>		155.974	441.937	191.076	555.573
Other Payables	7	387.228	1.097.172	11.583	33.680
Deferred Revenue		34.946	99.017	32.115	93.377
Current Tax Liabilities	11	78.227	221.648	74.896	217.769
Short Term Provisions	8	36.031	102.091	150.298	437.007
Payables for Employee Benefits	9	32.622	92.431	41.168	119.700
Other Current Liabilities		13.859	39.269	13.981	40.650
<b>Non Current Liabilities</b>		<b>1.207.261</b>	<b>3.420.652</b>	<b>1.197.164</b>	<b>3.480.875</b>
Financial Liabilities	6	668.263	1.893.455	654.960	1.904.361
Financial Derivative Instruments		7.663	21.713	7.345	21.355
Provisions for Employee Benefits	9	180.640	511.826	173.997	505.915
Deferred Tax Liabilities	11	350.553	993.256	360.711	1.048.802
Other Non Current Liabilities		142	402	151	442
<b>EQUITY</b>		<b>3.998.986</b>	<b>11.330.726</b>	<b>4.312.214</b>	<b>12.538.192</b>
<b>Equity Attributable to Equity Holders of the Parent</b>		<b>3.885.259</b>	<b>11.008.491</b>	<b>4.189.170</b>	<b>12.180.429</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		55.303	106.447	55.303	106.447
Other Comprehensive Income/Expense Not to be					
Reclassified to Profit/ (Loss)		(35.962)	(81.101)	(36.155)	(80.580)
<i>Revaluation Reserve of Tangible Assets</i>		12.816	26.694	12.623	27.215
<i>Actuarial (Loss)/ Gain funds</i>		(48.778)	(107.795)	(48.778)	(107.795)
Other Comprehensive Income/Expense to be					
Reclassified to Profit/ (Loss)		(32.065)	3.692.544	(31.483)	4.010.257
<i>Cash Flow Hedging Reserves</i>		(5.343)	(15.138)	(754)	(2.192)
<i>Foreign Currency Translation Reserves</i>		(26.722)	3.707.682	(30.729)	4.012.449
Restricted Reserves Assorted from Profit		516.714	1.166.197	441.058	950.831
Retained Earnings		1.486.278	2.420.078	1.506.960	2.527.180
Net Profit for the Period		55.641	163.945	414.137	1.125.913
<b>Non-Controlling Interests</b>		<b>113.727</b>	<b>322.235</b>	<b>123.044</b>	<b>357.763</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>6.391.608</b>	<b>18.109.981</b>	<b>6.408.891</b>	<b>18.634.490</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.

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish ó See Note 19)

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

**CONSOLIDATED STATEMENTS OF INCOME FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2016**

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

		(Unaudited) Current Period 1 January - 31 March 2016 USD'000	(Unaudited) Current Period 1 January - 31 March 2016 TRY'000	(Unaudited) Previous Period 1 January - 31 March 2015 USD'000	(Unaudited) Previous Period 1 January - 31 March 2015 TRY'000
<b>OPERATING INCOME</b>					
Revenue	13	874.523	2.576.782	1.179.144	2.895.741
Cost of Sales (-)	13	(790.734)	(2.329.897)	(938.358)	(2.304.419)
<b>GROSS PROFIT</b>		<b>83.789</b>	<b>246.885</b>	<b>240.786</b>	<b>591.322</b>
Marketing, Sales and Distribution Expenses (-)	14	(11.389)	(33.557)	(12.702)	(31.194)
General Administrative Expenses (-)	14	(23.711)	(69.864)	(27.088)	(66.522)
Research and Development Expenses (-)		(803)	(2.365)	(805)	(1.976)
Other Operating Income	14	34.223	100.839	18.040	44.303
Other Operating Expenses (-)	14	(8.053)	(23.732)	(12.213)	(29.993)
<b>OPERATING PROFIT</b>		<b>74.056</b>	<b>218.206</b>	<b>206.018</b>	<b>505.940</b>
Finance Income	15	24.848	73.214	88.249	216.723
Finance Expense (-)	15	(29.182)	(86.580)	(112.985)	(268.428)
<b>PROFIT BEFORE TAX</b>		<b>69.722</b>	<b>204.840</b>	<b>181.282</b>	<b>454.235</b>
Tax Expense	11	(12.674)	(36.748)	(40.345)	(108.121)
- Current Corporate Tax Expense		(5.283)	(14.970)	(58.546)	(152.818)
- Deferred Tax Income		(7.391)	(21.778)	18.201	44.697
<b>NET PROFIT FOR THE PERIOD</b>		<b>57.048</b>	<b>168.092</b>	<b>140.937</b>	<b>346.114</b>
- Non-Controlling Interests		1.407	4.147	3.528	8.664
- Equity Holders of the Parent		55.641	163.945	137.409	337.450
<b>EARNINGS PER SHARE</b>			0,0468		0,0964
(TRY 1 Nominal value per share)					

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**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 2016**

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

	(Unaudited) Current Period 1 January - 31 March 2016 USD'000	(Unaudited) Current Period 1 January - 31 March 2016 TRY'000	(Unaudited) Previous Period 1 January - 31 March 2015 USD'000	(Unaudited) Previous Period 1 January - 31 March 2015 TRY'000
<b>PROFIT FOR THE PERIOD</b>	<b>57.048</b>	<b>168.092</b>	<b>140.937</b>	<b>346.114</b>
<b>Other Comprehensive Income/(Expense):</b>				
<b>Not to be reclassified subsequently to profit or loss</b>				
Change in Revaluation Reserve of Tangible Assets	193	(521)	(692)	2.603
<b>To be reclassified subsequently to profit or loss</b>				
Change in Cash Flow Hedging Reserves	(5.807)	(16.073)	7.946	21.739
Tax Effect of Change in Cash Flow Hedging Reserves	1.161	3.215	(1.589)	(4.348)
Change in Foreign Currency Translation Reserves	4.374	(312.865)	(10.317)	1.284.816
<b>OTHER COMP. INCOME/ EXPENSE FOR THE PERIOD (AFTER TAX)</b>	<b>(79)</b>	<b>(326.244)</b>	<b>(4.652)</b>	<b>1.304.810</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>56.969</b>	<b>(158.152)</b>	<b>136.285</b>	<b>1.650.924</b>
<b>Distribution of Total Comprehensive Income</b>				
- Non-controlling Interests	1.718	(3.863)	1.703	43.020
- Equity Holders of the Parent	55.251	(154.289)	134.582	1.607.904

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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 2016

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

(Unaudited)	Note			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		
		Share Capital	Inflation Adjustment to Capital	Treasury Shares (-)	Share Issue Premium	Revaluation Reserve of Tangible Assets	Actuarial loss/(gain) funds	Cash Flow Hedging Reserves	Foreign Currency Translation Reserves	Restricted Reserves Assorted from Profit				Retained Earnings	Net Profit For The Period
<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)	-	-	<b>(154.289)</b>	(3.863)	<b>(158.152)</b>	
Dividend payable (*)		-	-	-	-	-	-	-	-	-	(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>
(Unaudited)															
<b>1 January 2015</b>		<b>3.500.000</b>	<b>156.613</b>	<b>(116.232)</b>	<b>106.447</b>	<b>24.151</b>	<b>(125.714)</b>	<b>7.160</b>	<b>1.616.002</b>	<b>617.355</b>	<b>2.616.106</b>	<b>1.601.415</b>	<b>10.003.303</b>	<b>307.004</b>	<b>10.310.307</b>
Net profit for the period		-	-	-	-	-	-	-	-	-	337.450	<b>337.450</b>	8.664	<b>346.114</b>	
Other comprehensive income/(loss)		-	-	-	-	2.603	-	17.643	1.250.208	-	-	<b>1.270.454</b>	34.356	<b>1.304.810</b>	
Total comprehensive income/(loss)		-	-	-	-	2.603	-	17.643	1.250.208	-	-	<b>1.607.904</b>	43.020	<b>1.650.924</b>	
Dividend distributed (*)		-	-	-	-	-	-	-	-	-	(1.356.865)	<b>(1.356.865)</b>	(52.240)	<b>(1.409.105)</b>	
Transfers		-	-	-	-	-	-	-	-	333.476	1.267.939	(1.601.415)	-	-	
<b>31 March 2015</b>		<b>3.500.000</b>	<b>156.613</b>	<b>(116.232)</b>	<b>106.447</b>	<b>26.754</b>	<b>(125.714)</b>	<b>24.803</b>	<b>2.866.210</b>	<b>950.831</b>	<b>2.527.180</b>	<b>337.450</b>	<b>10.254.342</b>	<b>297.784</b>	<b>10.552.126</b>

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

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish (See Note 19))

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

**CONSOLIDATED STATEMENTS OF CASH FLOW  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2016**

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

	Note	(Unaudited)		(Unaudited)	
		Current Period	Current Period	Previous Period	Previous Period
		1 January 31 March 2016	1 January 31 March 2016	1 January 31 March 2015	1 January 31 March 2015
		US'000	TRY'000	US'000	TRY'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Profit before tax and non-controlling interests		69.722	204.840	181.282	454.235
<b>Adjustments to reconcile net profit before tax to net cash provided by operating activities:</b>					
Depreciation and amortization expenses	13/14	55.375	163.163	47.971	117.808
Provision for employee termination benefits	9	6.697	19.734	8.115	19.929
Provision for seniority incentive premium	9	512	1.508	529	1.298
Gain on sale of property plant and equipment	14	(16)	(48)	(39)	(96)
Loss on write off of property plant and equipment	14	198	584	220	541
Increase in provision for doubtful receivables		556	1.637	884	2.172
(Decrease) in the allowance for inventories	4	(4.647)	(13.693)	(764)	(1.877)
(Decrease) in provision for unpaid vacations	9	(579)	(1.706)	(925)	(2.272)
(Decrease)/increase in provision for pending claims and lawsuits	8	(19.055)	(56.147)	618	1.517
Increase in penalty prov. for obligatory empl.t shortage of disabled people	8	204	601	134	330
Increase in provision for land occupation	8	1.296	3.820	-	-
Increase in provision for state right on mining activities	8	238	700	324	795
Increase in provision for civil defense fund	8	-	-	35	85
Interest expenses	15	12.482	36.779	15.601	38.312
Interest income from bank deposits	15	(8.407)	(24.770)	(6.992)	(17.172)
Interest income from overdue sales	14	(5.123)	(15.094)	(6.521)	(16.015)
Unrealized foreign currency (profit) of financial liabilities		(3.482)	(10.261)	(10.476)	(25.726)
Loss on fair value changes of derivative financial instruments	15	253	744	3.929	9.650
<b>Net cash provided by operating activities before changes in working capital</b>		<b>106.224</b>	<b>312.391</b>	<b>233.925</b>	<b>583.514</b>
Changes in working capital	18	152.995	433.496	173.375	452.543
Interest income from overdue sales collected		6.123	18.040	8.653	21.250
Lawsuits paid	8	(709)	(2.090)	(775)	(1.903)
Penalty paid for the employment shortage of disabled people	8	(209)	(615)	(900)	(2.209)
Corporate tax paid	11	(3.764)	(11.091)	(54.236)	(133.193)
Employee termination benefits paid	9	(4.099)	(12.078)	(5.495)	(13.495)
Termination fee of long term contract paid	8	(75.000)	(220.988)	-	-
Unused vacation paid	9	(455)	(1.340)	(584)	(1.433)
Seniority incentive premium paid	8	(21.045)	(62.009)	-	-
<b>Net cash provided by operating activities</b>		<b>160.061</b>	<b>453.716</b>	<b>353.963</b>	<b>905.074</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Cash used in the purchase of tangible assets	5	(45.761)	(134.834)	(25.954)	(63.738)
Cash used in the purchase of intangible assets	5	(466)	(1.374)	(11)	(27)
Cash provided by sales of tangible assets	5/14	1.135	3.344	4.249	10.435
<b>Net cash used in investing activities</b>		<b>(45.092)</b>	<b>(132.864)</b>	<b>(21.716)</b>	<b>(53.330)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
New borrowings		124.068	351.534	163.868	427.727
Repayment of borrowings		(48.300)	(136.853)	(639.469)	(1.669.141)
Interest paid		(11.098)	(32.700)	(15.017)	(36.878)
Interest received on bank deposits		7.293	21.490	8.015	19.684
<b>Net cash provided/used in by financing activities</b>		<b>71.963</b>	<b>203.471</b>	<b>(482.603)</b>	<b>(1.258.608)</b>
<b>NET CHANGES IN CASH AND CASH EQUIVALENTS</b>		<b>186.932</b>	<b>524.323</b>	<b>(150.356)</b>	<b>(406.864)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>		<b>1.007.944</b>	<b>2.930.698</b>	<b>940.865</b>	<b>2.181.773</b>
Currency translation difference, net		(5.697)	(85.601)	41.781	397.534
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<b>1.189.179</b>	<b>3.369.420</b>	<b>832.290</b>	<b>2.172.443</b>
Accrued interest income		2.571	7.285	995	2.597
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD INCLUDING ACCRUED INTEREST INCOME</b>		<b>1.191.750</b>	<b>3.376.705</b>	<b>833.285</b>	<b>2.175.040</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 19)

## 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 2016

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

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

Erdemir Grubu (öGroupö), is composed of Ere li Demir ve Çelik Fabrikalar, T.A. . (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. . and Ordu Yard,mla ma 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'Ös shares have been traded in Istanbul Stock Exchange since the establishment of the Istanbul Stock Exchange (year 1986).

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

Name of the Company	Country of Operation	Operation	2016 Share %	2015 Share %
skenderun Demir ve Çelik A. .	Turkey	Integrated Steel Production	95,07	95,07
Erdemir Madencilik San. ve Tic. A. .	Turkey	Iron Ore and Pellet	90	90
Erdemir Çelik Servis Merkezi San. ve Tic. A. .	Turkey	Steel Service Center	100	100
Erdemir Mühendislik Yön. ve Dan. Hiz. A. .	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

The registered address of the Company is Barbaros Mahallesi Ard,ç Sokak No:6 Ata ehir / stanbul.

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish 6 See Note 19)

## 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 2016

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

#### NOTE 1 6 GROUP6S ORGANIZATION AND NATURE OF OPERATIONS (cont6d)

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

	Paid Hourly Personnel	Paid Monthly Personnel	31 March 2016 Personnel
Ere li Demir ve elik Fab.T.A. .	4.501	1.786	6.287
skenderun Demir ve elik A. .	3.370	1.794	5.164
Erdemir Madencilik San. ve Tic. A. .	128	126	254
Erdemir elik Servis Merkezi San. ve Tic. A. .	218	89	307
Erdemir Mühendislik Yönetim ve Dan., manlık Hızı	-	231	231
Erdemir Romania S.R.L.	216	50	266
Erdemir Asia Pacific Private Limited	-	5	5
	<u>8.433</u>	<u>4.081</u>	<u>12.514</u>
	Paid Hourly Personnel	Paid Monthly Personnel	31 December 2015 Personnel
Ere li Demir ve elik Fab.T.A. .	4.530	1.797	6.327
skenderun Demir ve elik A. .	3.446	1.816	5.262
Erdemir Madencilik San. ve Tic. A. .	128	127	255
Erdemir elik Servis Merkezi San. ve Tic. A. .	215	87	302
Erdemir Mühendislik Yön. ve Dan. Hiz. A. .	-	240	240
Erdemir Romania S.R.L.	218	50	268
Erdemir Asia Pacific Private Limited	-	5	5
	<u>8.537</u>	<u>4.122</u>	<u>12.659</u>

#### NOTE 2 6 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 (6Statutory Financial Statements6) in accordance with accounting principles issued by the Turkish Commercial Code (6TCC6) and tax legislation.

The Group6s condensed consolidated financial statements and disclosures have been prepared in accordance with the communiqué numbered II-14,1 6Communiqué on the Principles of Financial Reporting In Capital Markets6 (6the Communiqué6) announced by the Capital Markets Board (6CMB6) (hereinafter will be referred to as 6the CMB Accounting Standards6) 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 (6POA6).

In accordance with the Turkish Accounting Standard No: 34 6Interim Financial Reporting6, 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 2015.

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish ö See Note 19)

## **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 2016**

(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 (contö)**

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

###### 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, manlık Hizmetleri A. . are TRY.

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

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

###### Presentation currency translation

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

- a) The assets and liabilities on financial position as of 31 March 2016 are translated from USD Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 2,8334=US \$ 1 and TRY 3,2081=EUR 1 on the balance sheet date (31 December 2015: TRY 2,9076= US \$ 1, TRY 3,1776=EUR 1).
- b) For the three months period ended 31 March 2016, income statements are translated from the average TRY 2,9465 = US \$ 1 and TRY 3,2454=EUR 1 rates of 2016 January - March period (31 March 2015: TRY 2,6102 = US \$ 1 TRY 2,8309 = 1 EUR).
- c) Exchange differences are shown in other comprehensive income as of foreign currency translation reserve.
- d) The differences between presentation of statutory and historical figures are recognised as translation differences under equity. All capital, capital measures and other measures are represneted with their statutory figures, other equity accounts are represented with their historic cost figures in the accompanying financial statements.

###### USD amounts presented in the 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 2016 and 31 December 2015, consolidated statement of income and other comprehensive income and consolidated statement of cash flows for the interim period ended 31 March 2016 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 2016**

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

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

**2.1 Basis of Presentation (cont6d)**

Approval of the consolidated financial statements

The condensed interim consolidated financial statements have been approved and authorized to be published on 22 April 2016 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 Group6s condensed interim consolidated financial statements are presented in accordance with the communiqué numbered II-14,1 6Communiqué on the Principles of Financial Reporting In Capital Markets6 (6the Communiqué6) announced by the Capital Markets Board (6CMB6). The Group6s condensed interim 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.

Reclassifications of income statement are as follows:

<b>Account</b>	(Previously Reported) 1 January - 31 March 2015	(Restated) 1 January - 31 March 2015	(Difference) 1 January - 31 March 2015
Financial Income <sup>(1)</sup>	17.172	216.723	199.551
Financial Expense (-) <sup>(1)</sup>	(68.877)	(268.428)	(199.551)
			<u>-</u>

(1) Foreign exchange loss (net) TRY (12.435) thousand out of TRY 199.551 thousand which were reported under 6Financial Expense (-)6 was reclassified to foreign exchange gain 6Financial Income6 for the three months period ended 31 March 2015.

**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 2016 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)

**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 2016**

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

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**NOTE 2 ó BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (contó)**

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

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

- 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)
- TFRS 10, TFRS 12 and TAS 28: Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 and IAS 28)
- TAS 1: Disclosure Initiative (Amendments to TAS 1)
- TFRS 14 - Regulatory Deferral Accounts

**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:

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish 6 See Note 19)

## **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 2016**

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

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#### **NOTE 2 6 BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont6d)**

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

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 9 Financial Instruments 6 Classification and measurement

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.

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

- IFRS 13 Fair Value Measurement

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

- IFRS 15 Revenue from Contracts with Customers
- Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Amendment)
- IFRS 9 Financial Instruments - Final standard (2014)
- IFRS 16 Leases
- IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)
- IAS 7 'Statement of Cash Flows (Amendments)

**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 2016**

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

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**NOTE 2 6 BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont6d)**

**2.4 Summary of Significant Accounting Policies**

The condensed interim consolidated financial statements for the three months period ended 31 March 2016 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 2016 are consistent with those used in the preparation of annual consolidated financial statements for the year ended 31 December 2015. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2015.

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 2016, from the interests reported as of 31 December 2015.

**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.

The accounting policies, estimations and assumptions used in the preparation of these condensed interim consolidated financial statements for the period ended 31 March 2016 are consistent with those used in the preparation of annual consolidated financial statements for the year ended 31 December 2015.

**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.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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(Amounts are expressed in thousands of Turkish Lira (óTRY Thousandö) unless otherwise indicated.)

**NOTE 3 óRELATED 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 2016	31 December 2015
Oyak Renault Otomobil Fab. A. . <sup>(2)</sup>	29.744	30.868
Bolu Çimento Sanayi A. . <sup>(1)</sup>	3.066	6.060
Adana Çimento Sanayi T.A. . <sup>(1)</sup>	4.546	6.068
Other	1	134
	<u>37.357</u>	<u>43.130</u>

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

<u>Due to related parties (short term)</u>	31 March 2016	31 December 2015
Omsan Lojistik A. . <sup>(1)</sup>	6.608	6.286
Omsan Denizcilik A. . <sup>(1)</sup>	3.378	6.162
Oyak Pazarlama Hizmet ve Turizm A. . <sup>(1)</sup>	5.254	8.954
Oyak Savunma ve Güvenlik Sistemleri A. . <sup>(1)</sup>	2.610	3.542
Other	1.629	1.686
	<u>19.479</u>	<u>26.630</u>

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

<u>Major sales to related parties</u>	1 January - 31 March 2016	1 January - 31 March 2015
Oyak Renault Otomobil Fab. A. . <sup>(2)</sup>	37.123	38.556
Adana Çimento Sanayi T.A. . <sup>(1)</sup>	3.334	4.431
Bolu Çimento Sanayi A. . <sup>(1)</sup>	3.016	3.832
Aslan Çimento A. . <sup>(1)</sup>	-	293
Other	704	772
	<u>44.177</u>	<u>47.884</u>

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

(1) Subsidiaries of the parent company

(2) Joint venture



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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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(Amounts are expressed in thousands of Turkish Lira (óTRY Thousandö) unless otherwise indicated.)

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

<u>Major purchases from related parties</u>	<u>1 January - 31 March 2016</u>	<u>1 January - 31 March 2015</u>
Omsan Denizcilik A. . <sup>(1)</sup>	11.438	22.644
Oyak Pazarlama Hizmet ve Turizm A. . <sup>(1)</sup>	17.169	14.352
Omsan Lojistik A. . <sup>(1)</sup>	7.747	7.775
Oyak Savunma ve Güvenlik Sistemleri A. . <sup>(1)</sup>	3.652	6.476
Omsan Logistica SRL <sup>(1)</sup>	1.982	533
Other	3.146	2.264
	<u>45.134</u>	<u>54.044</u>

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

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

<sup>(2)</sup> Joint venture

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

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

Salaries, bonuses and other benefits of the key management:

For the three months period ended 31 March 2016, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 10.983 thousand (31 March 2015: TRY 11.547 thousand).

**NOTE 4 ó INVENTORIES**

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

	<u>31 March 2016</u>	<u>31 December 2015</u>
Raw materials	688.654	730.302
Work in progress	384.897	473.829
Finished goods	734.080	890.682
Spare parts	605.551	603.435
Goods in transit	233.681	409.524
Other inventories	289.491	298.551
Allowance for impairment on inventories (-)	(151.018)	(168.433)
	<u>2.785.336</u>	<u>3.237.890</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 2016**

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

**NOTE 4 ó INVENTORIES (contd)**

The movement of the allowance for impairment on inventories:

	1 January - 31 March 2016	1 January - 31 March 2015
Opening balance	168.433	111.752
Provision for the period	4.892	4.393
Provision released (-)	(18.585)	(6.270)
Translation difference	(3.722)	13.563
Closing balance	<u>151.018</u>	<u>123.438</u>

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 2016 and 1 January ó 31 March 2015 is as follows:

	31 March 2016	31 March 2015
<u>Opening balance as of 1 January</u>		
Cost	24.568.642	19.275.851
Accumulated depreciation	(14.333.673)	(11.076.494)
Net book value	<u>10.234.969</u>	<u>8.199.357</u>
Net book value at the begin.of the period	10.234.969	8.199.357
Additions (*)	134.834	63.738
Disposals (-)	(3.880)	(10.880)
<i>Cost of disposals</i>	(8.692)	(39.999)
<i>Accumulated depreciation of disposals</i>	4.812	29.119
Transfers	(1.672)	-
Currency translation difference	(257.878)	1.017.012
<i>Cost currency translation difference</i>	(619.426)	2.367.392
<i>Accumulated depreciation currency translation difference</i>	361.548	(1.350.380)
Current period depreciation (-)	(153.586)	(119.872)
Net book value at the end of the period	<u>9.952.787</u>	<u>9.149.355</u>
<u>Closing balance as of</u>		
Cost	24.073.686	21.666.982
Accumulated depreciation	(14.120.899)	(12.517.627)
Net book value	<u>9.952.787</u>	<u>9.149.355</u>

(\*) The amount of capitalized financial expense is TRY 7.782 thousand for the current period (The capitalized financial expenses for the three months period ended 31 March 2015 is TRY 353 thousand).

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish ó See Note 19)

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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(Amounts are expressed in thousands of Turkish Lira (óTRY Thousandó) unless otherwise indicated.)

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

As of balance sheet date, the Group has no collaterals or pledges upon its tangible assets. (31 March 2015: None).

The movement of intangible assets for the periods 1 January ó 31 March 2016 and 1 January ó 31 March 2015 is as follows:

	31 March 2016	31 March 2015
<u>Opening balance as of 1 January</u>		
Cost	443.967	358.050
Accumulated amortisation	(241.610)	(189.491)
Net book value	<u>202.357</u>	<u>168.559</u>
Net book value at the begin.of the period	202.357	168.559
Additions	1.374	27
Transfers	1.672	-
Currency translation difference	(4.237)	16.734
<i>Cost currency translation difference</i>	(8.718)	31.799
<i>Accumulated depreciation currency translation difference</i>	4.481	(15.065)
Current period amortisation (-)	(6.253)	(5.196)
Net book value at the end of the period	<u>194.913</u>	<u>180.124</u>
<u>Closing balance end of period</u>		
Cost	438.295	389.876
Accumulated amortisation	(243.382)	(209.752)
Net book value	<u>194.913</u>	<u>180.124</u>

As of balance sheet date, the Group has no collaterals or pledges upon its intangible assets. (31 March 2015: None).

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

	31 March 2016	31 March 2015
Associated with cost of production	151.064	118.467
General administrative expenses	3.466	2.334
Marketing, sales and distribution expenses	4.984	4.120
Research and development expenses	325	147
	<u>159.839</u>	<u>125.068</u>

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**NOTE 6 6 FINANCIAL LIABILITIES**

Breakdown of financial liabilities is as follows:

	31 March 2016	31 December 2015
Short term financial liabilities	33.486	24.286
Current portion of long term financial liabilities	1.181.754	1.047.256
Total short term financial liabilities	1.215.240	1.071.542
Long term financial liabilities	1.893.455	1.904.361
Total long term financial liabilities	1.893.455	1.904.361
	<u>3.108.695</u>	<u>2.975.903</u>

As of 31 March 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 (%)	31 March 2016	
			Short Term Portion	Long Term Portion
No interest	TRY	-	33.486	-
Fixed	TRY	9,43	125.646	12.860
Fixed	US Dollars	3,96	22.058	46.529
Fixed	EURO	3,25	2.787	45.272
Floating	US Dollars	Libor+2,03	892.247	1.380.644
Floating	EURO	Euribor+1,36	107.249	377.254
Floating	Japanese Yen	JPY Libor+0,22	31.767	30.896
			<u>1.215.240</u>	<u>1.893.455</u>
			<u>3.108.695</u>	<u>3.108.695</u>

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

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

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**NOTE 6 6 FINANCIAL LIABILITIES (cont6d)**

Breakdown of financial liabilities is as follows:

	31 March 2016	31 December 2015
Within 1 year	1.215.240	1.071.542
Between 1-2 years	842.581	921.923
Between 2-3 years	468.888	488.184
Between 3-4 years	361.719	328.902
Between 4-5 years	218.848	163.914
Five years or more	1.419	1.438
	<u>3.108.695</u>	<u>2.975.903</u>

**NOTE 7 6 OTHER PAYABLES**

The Group6s short term other payables are as follows:

	31 March 2016	31 December 2015
<u>Short term other payables</u>		
Taxes payable	21.132	3.093
Employee's income tax payables	24.847	21.453
Deposits and guarantees received	7.504	7.394
Dividend payables to shareholders (*)	1.043.689	1.740
	<u>1.097.172</u>	<u>33.680</u>

(\*) The Ordinary General Meeting held on March 31, 2016 it was resolved to distribute TRY 1.050.000 thousand dividend from 2015 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 2016	31 December 2015
Provision for lawsuits	89.570	210.914
Provision for termination fee of long term contract	-	218.070
Penalty prov. for employment shortage of disabled pers.	5.412	5.434
Provision for state right on mining activities	3.289	2.589
Provision for land occupation	3.820	-
	<u>102.091</u>	<u>437.007</u>

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish ó See Note 19)

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**NOTE 8 ó PROVISIONS (contöd)**

The movement of the provisions is as follows:

	1 January 2016	Change for the period	Payments	Provision released	Translation difference	31 March 2016
Provision for lawsuits	210.914	8.206	(64.099)	(64.353)	(1.098)	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	-	3.820	-	-	-	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>
	1 January 2015	Change for the period	Payments	Provision released	Translation difference	31 March 2015
Provision for lawsuits	214.722	12.331	(1.903)	(10.814)	6.986	221.322
Penalty prov. for employment shortage of disabled pers.	5.223	1.038	(2.209)	(708)	(80)	3.264
Provision for state right on mining activities	4.484	795	-	-	-	5.279
Provision for civil defense fund	10.099	85	-	-	2	10.186
	<u>234.528</u>	<u>14.249</u>	<u>(4.112)</u>	<u>(11.522)</u>	<u>6.908</u>	<u>240.051</u>

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**NOTE 8 6 PROVISIONS (cont6d)**

**Provision for lawsuits**

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

	31 March 2016	31 December 2015
Lawsuits filed by the Group	403.641	474.468
Provision for lawsuits filed by the Group	62.076	54.849

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

	31 March 2016	31 December 2015
Lawsuits filed against the Group	289.019	293.156
Provision for lawsuits filed against the Group	89.570	210.914

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 September 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 Company6 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 CMB6 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 CMB6 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 Chamber6 decision on 6 September 2010. 13th Chamber of the Council of State accepted CMB6 appeal and reverted its previous abolishment decision, and ratified 11th Administrative Court of Ankara6 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 Company6 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 2016 and 31 December 2015 will not be affected from the above mentioned disputes.

Company6 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 Chamber6 decision on 18 February 2011. However, the Chamber rejected the Company6 appeal on 14 July 2011. The case file, sent back to 3th Commercial Court of Ankara once again. (E. 2011/551). 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, doesn6 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 2016 and 31 December 2015.

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.



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**NOTE 8 6 PROVISIONS (cont6d)**

**Provision for lawsuits (cont6d)**

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 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) and after this, the case file was sent back to the 7th Commercial Court of Ankara. 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.

An action of debt was instituted by Messrs. Bor-San Is, Sistemleri Üretim ve Pazarlama A. . 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, which was served to the company on 1 November 2013 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. . 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 (2015/16 E.) has dismissed at the hearing held on 9 September 2015. The case is at the stage of appeal.

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. The court file has been entrusted to the expert. Date of next hearing of the case is 24 May 2016.

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**NOTE 8 6 PROVISIONS (cont6d)**

**Provision for termination fee of long term contract**

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

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

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

Despite the termination process of finalizing the protocol signed in the period after the reporting date as described above, The Company has considered the termination cost as constructive obligation since the Management has taken a decision towards termination process related to the contract as of December 31, 2015 as well as an expectation is also formed by the supplier regarding the termination of aforementioned agreement and cash flows can be estimated in a trustable manner as of December 31, 2015 even if the termination process is concluded with the protocol after 31 December 2015. As a result, the payment of TRY 218.070 thousand (equivalent to USD 75.000 thousand) provision recognised under statement of financial position for the period ended 31 December 2015, was completed at 25 March 2016 equivalent to TRY 220.988 thousand (equivalent to USD 75.000 thousand).

**Provision for state right on mining activities**

According to 6Mining Law6 numbered 3213 and regulation on 6Mining Law Enforcement6published in the Official Gazette, numbered 25716 on 3 February 2005, the Group is obliged to pay state right on mining activities based on the sales.

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**NOTE 8 6 PROVISIONS (cont6d)**

**Provision for land occupation**

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

The company filed a case in Zonguldak Tax Court on the date 23.05.2012 on the grounds that it is against the law that the property tax value that had been determined by Karadeniz Ere li Municipality in the year 2009 in respect of the whole of the factory area had been calculated over the market value that had been designated for Uzunkum Street that is used only as a postal address; that it is required to undertake a separate value designation for the property tax of the immovable properties within the factory area; that the property tax should be designated over different tax values for the factory areas that are located within a certain region independent from the streets and by-lanes of the county and that are different in terms of their values. The court ruled on the date 5th June 2013 that there are no legal grounds for taking the market value for Uzunkum Street as the basis for designating the tax value for the whole factory. As for the land occupation to be deposited, during the court case and after in respect of the designation of the new property tax market values and in respect of dividing the factory area depending on different tax zones the company had recognised TRY 122.634 thousand provision (USD 42.177 thousand) as against the case for the period between 1st July 2011 and 31st December 2015 over the minimum values on the basis of current property tax values of the relevant dates.

The company had been served on the date 9th March 2016 with the notifications for land occupation with an amount of TRY 93.156 thousand. In accordance with the provisions of the 11th article of the General Communique of National Estate with the series number 336, under circumstances where no objection had been raised against the deposits of land occupation payment and under circumstances where there is an cash payment; there is a right to make use of a discount to the rate of a total 35 %. As a result, with reference to the said provision, the method of cash payment without raising an objection had been decided upon by the administration of the company and TRY 60.552 thousand (equivalent to USD 21.045 thousand) had been paid to Karadeniz Ere li District Fiscal Office. TRY 62.264 thousand (equivalent to USD 21.132 thousand) provision for land occupation released under operating income (Note 14).

As of 9 March 2016, TRY 3.820 thousand provision recognised over the expected land occupation values for the period between 1 January 6 31 March 2016.

**NOTE 9 6 EMPLOYEE BENEFITS**

The Group6s short term payables for employee benefits are as follows:

	31 March 2016	31 December 2015
Due to personnel	59.596	93.459
Social security premiums payable	32.835	26.241
	<u>92.431</u>	<u>119.700</u>

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

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

	31 March 2016	31 December 2015
Provisions for employee termination benefits	412.149	404.699
Provisions for seniority incentive premium	29.831	28.289
Provision for unpaid vacations	69.846	72.927
	<u>511.826</u>	<u>505.915</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 2016, the amount payable consists of one month6 salary limited to a maximum of TRY 4.092,53 (31 December 2015: TRY 3.828,37).

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 Group6 obligation under defined benefit plans. The obligation as of 31 March 2016 has been calculated by an independent actuary. The actuarial assumptions used in the calculation of the present value of the future probable obligation are as follows:

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 2016, a fixed discount rate is used. Long term inflation estimates are made using an approach consistent with discount rate estimates and long term inflation rate fixed over years is used.

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

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**NOT 9 6 EMPLOYEE BENEFITS (cont6d)**

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

	1 January - 31 March 2016	1 January - 31 March 2015
Opening balance	404.699	393.478
Service cost	9.377	12.526
Interest cost	10.357	7.403
Termination benefits paid	(12.078)	(13.495)
Translation difference	(206)	16
Closing balance	<u>412.149</u>	<u>399.928</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 2016	1 January - 31 March 2015
Opening balance	28.289	25.389
Service cost	808	786
Interest cost	700	512
Translation difference	34	13
Closing balance	<u>29.831</u>	<u>26.700</u>

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

	1 January - 31 March 2016	1 January - 31 March 2015
Opening balance	72.927	68.857
Provision for the period	9.213	8.007
Vacation paid during the period (-)	(1.340)	(1.433)
Provisions released (-)	(10.919)	(10.279)
Translation difference	(35)	97
Closing balance	<u>69.846</u>	<u>65.249</u>

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**NOTE 10 6 COMMITMENTS AND CONTINGENCIES**

The guarantees received by the Group are as follows:

	31 March 2016	31 December 2015
Letters of guarantees received	1.582.339	1.514.383
	<u>1.582.339</u>	<u>1.514.383</u>

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

	31 March 2016	31 December 2015
A. Total CPM given for the Company's own legal entity	107.039	105.891
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	767.606	787.106
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	-	-
D. Other CPM given	-	-
i. Total CPM given in favour of parent entity	-	-
ii. Total CPM given in favour of other Group companies out of the scope of clause B and C	-	-
iii. Total CPM given in favour of other 3rd parties out of the scope of clause C	-	-
	<u>874.645</u>	<u>892.997</u>

As of 31 March 2016, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2015: 0%). Total CPM given in favor of subsidiaries consolidated on line-by-line basis amounting to TRY 767.606 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 2016	31 December 2015
US Dollars	501.827	514.969
TRY	141.532	140.257
EURO	198.368	206.288
Japanese Yen	32.918	31.483
	<u>874.645</u>	<u>892.997</u>

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish 6 See Note 19)

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**NOTE 11 6 TAX ASSETS AND LIABILITIES**

	31 March 2016	31 December 2015
<u>Corporate tax payable:</u>		
Corporation tax for the year of 2015	472.407	-
Current corporate tax provision	14.970	472.407
Prepaid taxes and funds (-)	(265.729)	(254.638)
	<u>221.648</u>	<u>217.769</u>
	1 January - 31 March 2016	1 January - 31 March 2015
<u>Taxation:</u>		
Current corporate tax expense	14.970	152.818
Deferred tax income / (expense)	21.778	(44.697)
	<u>36.748</u>	<u>108.121</u>

Corporate tax

The effective corporate tax rate in Turkey is 20%, 16% in Romania and 17% in Singapore as of 31 March 2016 (31 December 2015: in Turkey 20%, in Romania 16%, in Singapore 17%). The total amount of the corporate tax paid by the Group in 2016 is TRY 11.091 thousand (31 March 2015: TRY 133.193 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 2015: in Turkey 20%, in Romania 16%, in Singapore 17%). Deferred tax related with the temporary differences arising from land parcels is calculated with the tax rate of 5% (31 December 2015: 5%).

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

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

	31 March 2016	31 December 2015
<u>Deferred tax assets:</u>		
Carry forward tax losses	49.684	2.316
Provisions for employee benefits	102.362	101.179
Investment incentive	10.451	10.532
Provision for lawsuits	17.914	42.183
Provision for termination fee of long term contract	-	43.614
Inventories	9.238	7.491
Provision for other doubtful receivables	13.805	13.479
Tangible and intangible assets	13.883	11.227
Other	30.960	29.857
	<u>248.297</u>	<u>261.878</u>
<u>Deferred tax liabilities:</u>		
Tangible and intangible assets	(1.200.558)	(1.250.788)
Fair values of the derivative financial instruments	(4.331)	(9.232)
Amortized cost adjustment on loans	(2.708)	(3.472)
Inventories	(112)	(17.625)
Other	(9.412)	(5.756)
	<u>(1.217.121)</u>	<u>(1.286.873)</u>
	<u>(968.824)</u>	<u>(1.024.995)</u>

The Group has unused investment incentive expenditures by 200% within the scope of investment incentive certificate dated 27.07.2001 and numbered 66445. In accordance with Article 61st Temporary Income Tax Law, 19,8% income tax rate will be applied to earnings from investment incentives.

In the financial statements which are prepared according to the TAS, of Ere li Demir ve elik 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 elik 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 2016	31 December 2015
Deferred tax assets	24.432	23.807
Deferred tax (liabilities)	(993.256)	(1.048.802)
	<u>(968.824)</u>	<u>(1.024.995)</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 2016	1 January - 31 March 2015
Opening balance	(1.024.995)	(626.229)
Deferred tax income	(21.778)	44.697
The amount in comprehensive (expense)/income	3.215	(4.348)
Translation difference	74.734	(304.525)
Closing balance	<u>(968.824)</u>	<u>(890.405)</u>

Reconciliation of tax provision is as follows:

	1 January - 31 March 2016	1 January - 31 March 2015
Profit before tax	204.840	454.235
Statutory tax rate	20%	20%
Calculated tax acc. to effective tax rate	40.968	90.847
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	3.296	3.182
- Effect of currency translation to non taxable assets	(5.650)	14.906
- Effect of non-taxable adjustments	(1.850)	(657)
- Effect of the different tax rates due to foreign subsidiaries	(16)	(157)
Tax exp. in reported in the consolidate stat. of income	<u>36.748</u>	<u>108.121</u>

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**NOTE 12 6 EQUITY**

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

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

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

	<u>1 January - 31 March 2016</u>	<u>1 January - 31 March 2015</u>
<u>Sales Revenue</u>		
Domestic sales	2.274.751	2.658.776
Export sales	271.603	185.033
Other revenues (*)	37.539	57.761
Sales returns (-)	(3.561)	(4.386)
Sales discounts (-)	(3.550)	(1.443)
	<u>2.576.782</u>	<u>2.895.741</u>
<u>Cost of sales (-)</u>	<u>(2.329.897)</u>	<u>(2.304.419)</u>
Gross profit	<u>246.885</u>	<u>591.322</u>

(\*)The total amount of by product exports in other revenues is TRY 1.672 thousand (31 March 2015: TRY 15.222 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 2016 and 1 January ó 31 March 2015 is as follows:

	1 January - 31 March 2016	1 January - 31 March 2015
Raw material usage	(1.553.176)	(1.640.456)
Personnel costs	(304.487)	(275.899)
Energy costs	(195.149)	(165.042)
Depreciation and amortization expenses	(154.388)	(111.207)
Factory overheads	(84.134)	(68.694)
Other cost of goods sold	(14.478)	(20.372)
Non-operating costs	-	(4.918)
Freight costs for sales delivered to customers	(30.168)	(16.661)
Inventory write-downs within the period (Note 4)	(4.892)	(4.393)
Reversal of inventory write-downs (Note 4)	18.585	6.270
Other	(7.610)	(3.047)
	<u>(2.329.897)</u>	<u>(2.304.419)</u>

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

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

	1 January - 31 March 2016	1 January - 31 March 2015
Personnel expenses (-)	(17.738)	(16.639)
Depreciation and amortization(-)	(4.984)	(4.120)
Service expenses (-)	(10.835)	(10.435)
	<u>(33.557)</u>	<u>(31.194)</u>

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

	1 January - 31 March 2016	1 January - 31 March 2015
Personnel expenses (-)	(38.040)	(37.147)
Depreciation and amortization (-)	(3.466)	(2.334)
Service expenses (-)	(25.268)	(23.732)
Tax, duty and charges (-)	(1.820)	(1.563)
Provision for doubtful receivables (-)	(1.270)	(1.746)
	<u>(69.864)</u>	<u>(66.522)</u>

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

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

	1 January - 31 March 2016	1 January - 31 March 2015
<u>Other operating income</u>		
Provisions released for land occupation	62.264	-
Interest income from on credit sales	15.094	16.015
Discount income	4.030	5.574
Provisions released	2.559	11.644
Service income	3.801	3.315
Maintenance repair and rent income	2.059	1.851
Warehouse income	800	973
Indemnity and penalty detention income	529	339
Insurance indemnity income	304	66
Gain on sale of tangible assets	48	96
Other income and gains	9.351	4.430
	<u>100.839</u>	<u>44.303</u>

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

	1 January - 31 March 2016	1 January - 31 March 2015
<u>Other operating expenses (-)</u>		
Provision expenses	(9.238)	(11.006)
Discount expenses	(3.542)	(9.388)
Lawsuit compensation expenses	(1.506)	(810)
Port facility pre-licence expenses	(1.272)	(2.066)
Donation expenses	(1.004)	(328)
Service expenses	(843)	(591)
Loss on disposal of tangible assets	(584)	(541)
Rent expenses	(303)	(162)
Penalty expenses	(254)	(1.051)
Other expenses and losses	(5.186)	(4.050)
	<u>(23.732)</u>	<u>(29.993)</u>

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**NOTE 15 ó FINANCIAL INCOME / EXPENSES**

The breakdown of financial income for the periods 1 January ó 31 March 2016 and 1 January ó 31 March 2015 is as follows:

	1 January - 31 March 2016	1 January - 31 March 2015
<u>Financial incomes</u>		
Interest income on bank deposits	24.770	17.172
Foreign exchange gains (net)	-	199.551
Foreign exchange gain from deferred tax base	48.444	-
	<u>73.214</u>	<u>216.723</u>

The breakdown of financial expense for the periods 1 January ó 31 March 2016 and 1 January ó 31 March 2015 is as follows:

	1 January - 31 March 2016	1 January - 31 March 2015
<u>Financial expenses (-)</u>		
Interest expenses on financial liabilities	(36.779)	(38.312)
Foreign exchange loss (net)	(37.805)	-
Interest cost of employee benefits	(11.057)	(7.915)
Foreign exchange loss from deferred tax base	-	(211.986)
Fair value differences of derivative financial instruments (net)	(744)	(9.650)
Other financial expenses	(195)	(565)
	<u>(86.580)</u>	<u>(268.428)</u>

During the period, the interest expenses of TRY 7.782 thousand have been capitalized as part of the Group's property, plant and equipment (1 January - 31 March 2015: TRY 353 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 2016, the foreign currency position of the Group in terms of original currency is calculated as it as follows:

	31 March 2016			
	TRY (Total in currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)
1. Trade Receivables	215.889	37.681	55.023	-
2a. Monetary financial assets	106.438	34.468	21.964	3.181
2b. Non- monetary financial assets	-	-	-	-
3. Other	130.407	128.402	625	-
<b>4. Current assets (1+2+3)</b>	<b>452.734</b>	<b>200.551</b>	<b>77.612</b>	<b>3.181</b>
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	30.008	19.704	2.135	120.053
<b>8. Non-current assets (5+6+7)</b>	<b>30.008</b>	<b>19.704</b>	<b>2.135</b>	<b>120.053</b>
<b>9. Total assets (4+8)</b>	<b>482.742</b>	<b>220.255</b>	<b>79.747</b>	<b>123.234</b>
10. Trade payables	291.749	260.614	6.125	389.741
11. Financial liabilities	301.307	159.132	34.243	1.283.851
12a. Other monetary financial liabilities	378.452	375.163	1.025	-
12b. Other non-monetary financial liabilities	215.923	215.923	-	-
<b>13. Current liabilities (10+11+12)</b>	<b>1.187.431</b>	<b>1.010.832</b>	<b>41.393</b>	<b>1.673.592</b>
14. Trade payables	-	-	-	-
15. Financial liabilities	466.281	12.860	131.706	1.227.239
16a. Other monetary financial liabilities	499.959	499.959	-	-
16b. Other non-monetary financial liabilities	-	-	-	-
<b>17. Non-current liabilities (14+15+16)</b>	<b>966.240</b>	<b>512.819</b>	<b>131.706</b>	<b>1.227.239</b>
<b>18. Total liabilities (13+17)</b>	<b>2.153.671</b>	<b>1.523.651</b>	<b>173.099</b>	<b>2.900.831</b>
<b>19. Net asset/liability position of off-balance sheet derivative</b>	<b>(642.238)</b>	<b>(12.224)</b>	<b>(196.383)</b>	<b>-</b>
19a. Off-balance sheet foreign currency derivative financial assets	157.447	68.178	27.826	-
19b. Off-balance sheet foreign currency derivative financial liabilities	799.685	80.402	224.209	-
<b>20. Net foreign currency asset/liability position (9-18+19)</b>	<b>(2.313.167)</b>	<b>(1.315.620)</b>	<b>(289.735)</b>	<b>(2.777.597)</b>
<b>21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>(1.615.421)</b>	<b>(1.235.579)</b>	<b>(96.112)</b>	<b>(2.897.650)</b>
22. Fair value of derivative financial instruments used in foreign currency hedge	(11.430)	-	(3.563)	-
23. Hedged foreign currency assets	799.685	80.402	224.209	-
24. Hedged foreign currency liabilities	157.447	68.178	27.826	-
25. Exports	273.275			
26. Imports	1.143.841			

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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 2015, the foreign currency position of the Group in terms of original currency is calculated as it as follows:

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

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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 2016 asset and liability balances are translated by using the following exchange rates: TRY 2,8334 = US \$ 1, TRY 3,2081 = EUR 1 and TRY 0,0252= JPY 1 (31 December 2015: TRY 2,9076 = US \$ 1, TRY 3,1776 = EUR 1 and TRY 0,0224= 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 2016		
1- TRY net asset/liability	(130.340)	130.340
2- Hedged portion from TRY risk (-)	6.818	(6.818)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(123.522)	123.522
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	(29.948)	29.948
10- Hedged portion from Euro risk (-)	8.927	(8.927)
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	(21.021)	21.021
13- Jap. Yen net asset/liability	(6.993)	6.993
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(6.993)	6.993
<b>TOTAL (4+8+12+16)</b>	<b>(151.536)</b>	<b>151.536</b>

In addition to the Group6s foreign currency sensitivity to a 10% (+/-) change in TRY, TRY 150.338 thousand of income / (TRY (127.288) thousand expense) will occur due to the decrease/ (increase) in deferred tax base. (31 December 2015: TRY 155.806 thousand income / TRY (127.478 thousand expense).



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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)

31 December 2015	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	(142.106)	142.106
2- Hedged portion from TRY risk (-)	6.818	(6.818)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(135.288)	135.288
5- US Dollars net asset/liability	-	-
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- US Dollars net effect (5+6+7)	-	-
9- Euro net asset/liability	(8.327)	8.327
10- Hedged portion from Euro risk (-)	8.842	(8.842)
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	515	(515)
13- Jap. Yen net asset/liability	(7.040)	7.040
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(7.040)	7.040
<b>TOTAL (4+8+12+16)</b>	<b>(141.813)</b>	<b>141.813</b>

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish 6 See Note 19)

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2016**

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

**NOTE 17 6 SUBSEQUENT EVENTS**

None.

**NOTE 18 6 ADDITIONAL INFORMATION FOR CASH FLOW STATEMENTS**

Details of changes in working capital for the periods between 1 January 6 31 March 2016 and 1 January 6 31 March 2015 are as follows:

	1 January- 31 March 2016	1 January- 31 March 2015
Current trade receivables	164.136	330.110
Inventories	379.843	114.696
Other short term receivables / current assets	15.861	(8.611)
Other long term receivables / non current assets	(11.512)	(4.770)
Current trade payables	(105.929)	(19.707)
Other short term payables / liabilities	(9.779)	21.314
Other long term payables / liabilities	876	19.511
	<u>433.496</u>	<u>452.543</u>

**NOTE 19 - 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 2016, the accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying financial statements differ from International Financial Reporting Standards (6IFRS6) 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.