TOWARDS FUTURE WITH STEEL

ErdemirGroup

2016 ANNUAL REPORT

CONTENTS

We are with you in every walk of your life, at every moment of the day...

We are Erdemir Group. We are working 24 hours a day, 365 days a year to offer you a safer, more comfortable, more aesthetically pleasing life, to create value for our country.

Backed by 50 years of experience, we are over 12,000 Erdemir employees in Ereğli, İskenderun, İstanbul, Sivas, Manisa, Targoviste and Singapore – whether we are working in front of thousand degree furnaces, at a desk or in the mines – we are laboring as one heart for a single objective.

We are Erdemir Group. We have been working to make your life more beautiful and easier for half a century. We thank all our stakeholders who have added value to us in our journey.

CORPORATE PROFILE

ERDEMİR GROUP IS AMONG THE LARGEST GROUPS IN TURKEY IN TERMS OF TOTAL ASSETS AND THE EMPLOYMENT THAT IT PROVIDES.

28%

Erdemir Group's crude steel production in 2016 accounted for 28% of Turkey's crude steel production.

ERDEMİR GROUP'S MARKET EXPERIENCE AND KNOWLEDGE IN PRODUCTION AND TRADE MADE ITS SUSTAINABLE GROWTH, DEVELOPMENT AND SUCCESS POSSIBLE.

TURKEY'S FIRST AND LARGEST INTEGRATED FLAT STEEL PRODUCER

The Erdemir Group has been producing steel and contributing to the development and employment of Turkish industry while investing in the future of our country for more than 50 years.

Erdemir Group, which has been the leading producer of Turkish steel industry for many years, is increasingly adding value to Turkish economy with its deeply rooted brand, high production capacity, wide product range and strong financial structure.

Erdemir Group has been under the OYAK roof since 2006. Erdemir Group, which is among the largest groups in Turkey in terms of total assets and the employment that it provides, operates in the fields of flat and long steel production, steel service center, mining, engineering and project management.

Erdemir Group includes İsdemir, the producer of flat and long steel; Erdemir Maden which has mining fields in Sivas and Malatya; Erdemir Romania which produces silicon flat steel in Romania; Erdemir Mühendislik which provides engineering and project management services to Group companies; the Erdemir Steel Service Center that meets the sector's need of sized flat steel; and Erdemir Asia Pacific Pte. Ltd. which conducts the Group's operations in the Asia-Pacific Region.

INVESTMENTS AIMED AT THE MANUFACTURE OF PRODUCTS WITH HIGH ADDED VALUE

Its sustainable growth, development and success has been made possible thanks to the current technological infrastructure of the Erdemir Group with its market experience and knowledge in production and trade, its competent human resources and its corporate investment and management philosophy based on analytical thinking.

Erdemir Group supplies raw materials to almost every branch of industry such as automotive, white goods, general machinery, pipe profile, packaging, shipbuilding and construction. It is the sole domestic producer of packaging steel and heavy plate in our country.

Erdemir Group attaches great importance to R&D and aims to meet the present and future needs of Turkish industry to the highest level by investing in the production of high value added products.

Erdemir Group's crude steel production in 2016 accounted for 28% of Turkey's crude steel production. The Group is ranked 45th among the world's largest steel producers and the third in Europe Union in terms of total production based on the World Steel Association (worldsteel) 2015 crude steel production reports.

The asset volume of the Erdemir Group, which continues its work unwaveringly with the aim of raising the added value that it creates for Turkey to ever higher levels, amounted to US$ 6.7 billion (TL 23.7 billion) as of the end of 2016.

ONE OF TURKEY'S PUBLICLY HELD COMPANIES WITH THE WIDEST BASE

Erdemir shares (EREGL) have been traded on the stock exchange since the foundation of Borsa İstanbul in 1986. Erdemir is one of the Turkey's broadest publicly traded companies with a free float of 47.63% and is included in the BIST 30 index. The majority of Erdemir's shares that are traded on the Borsa İstanbul are in the hands of institutional investors.

The share price of Erdemir, which opened at TL 3.04 on the first trading day of 2016, closed the year at TL 5.14. While the BIST 100 index ended the year with a 9% gain, Erdemir shares, which were positively affected by the financial and operational achievements and the high dividend payment, enjoyed a 69% gain.

According to the Borsa İstanbul data, Erdemir achieved the highest increase in market value with a TL 7,350 million increase. Erdemir's outperformance of the index was the leading factor in increasing shareholder satisfaction and loyalty.

KEY FINANCIAL INDICATORS

	Currency	2012	2013	2014	2015	2016
Net Sales Revenue	(TL million)	9,570	9,781	11,484	11,915	11,636
	(US$ million)	5,340	5,142	5,252	4,382	3,855
Net Operating Profit	(TL million)	756	1,538	2,094	1,591	2,103
	(US$ million)	422	808	958	585	697
EBITDA	(TL million)	1,083	1,878	2,484	2,094	2,701
	(US$ million)	604	987	1,136	770	895
Net Profit	(TL million)	452	920	1,601	1,126	1,516
	(US$ million)	252	484	732	414	502
Current Assets	(TL million)	5,854	6,008	7,372	8,000	11,063
	(US$ million)	3,284	2,815	3,179	2,751	3,144
Fixed Assets	(TL million)	7,287	8,026	8,562	10,635	12,588
	(US$ million)	4,088	3,761	3,692	3,657	3,577
Total Assets	(TL million)	13,141	14,034	15,934	18,634	23,651
	(US$ million)	7,372	6,576	6,871	6,409	6,721
Short Term/ Current Liabilities	(TL million)	2,818	2,475	3,105	2,615	4,227
	(US$ million)	1,581	1,160	1,339	900	1,201
Long Term Liabilities	(TL million)	2,908	2,852	2,518	3,481	3,765
	(US$ million)	1,631	1,336	1,086	1,197	1,070
Shareholders' Equity	(TL million)	7,205	8,467	10,003	12,180	15,208
	(US$ million)	4,042	3,967	4,314	4,189	4,321
Market Capitalization (Year-End)	(TL million)	7,571	9,030	15,610	10,640	17,990
	(US$ million)	4,247	4,231	6,732	3,659	5,112

Note: The functional currencies of Erdemir and its subsidiaries, Ersem and İsdemir, were changed to US$ with effect from July 1, 2013.

ERDEMİR GROUP CONTINUES ITS WORK UNWAVERINGLY WITH THE AIM OF RAISING THE ADDED VALUE THAT IT CREATES FOR TURKEY TO EVER HIGHER LEVELS.

US$ 6.7
BILLION

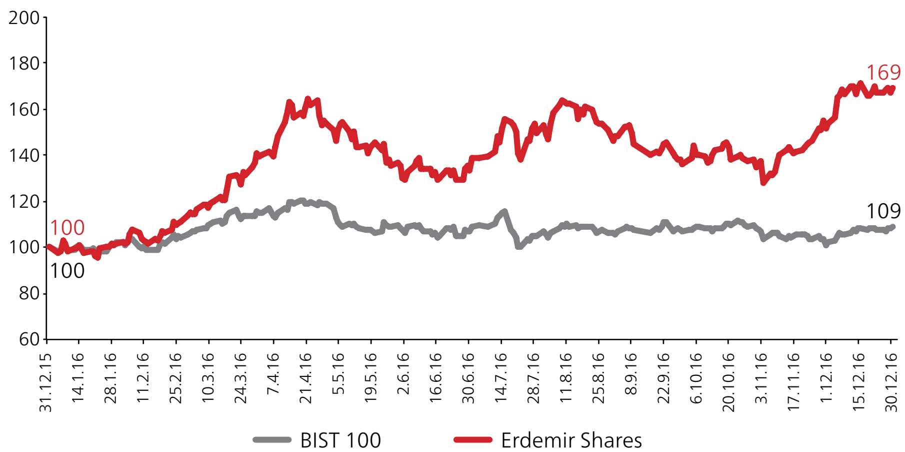
THE ASSET VOLUME OF THE ERDEMİR GROUP AMOUNTED TO US$ 6.7 BILLION (TL 23.7 BILLION) AS OF THE END OF 2016.

AS ONE OF TURKEY'S BROADEST PUBLICLY TRADED COMPANIES, ERDEMİR ACHIEVED THE HIGHEST INCREASE IN MARKET VALUE IN 2016 ON BORSA İSTANBUL.

ERDEMİR TICKER SYMBOLS

Borsa İstanbul: **EREGL**
Bloomberg: **EREGL TI**
Reuters: **EREGL.IS**

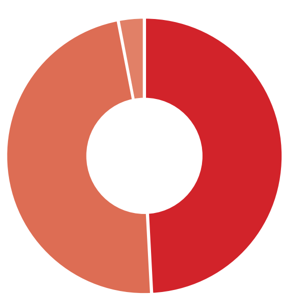
ERDEMİR (EREGL) vs. BIST 100 (31.12.2015=100)



69%
ERDEMİR SHARES ENJOYED A 69% GAIN AS OF 2016 YEAR-END.

In 2016, Erdemir was once again included in the BIST Sustainability Index which is consisting of companies traded on the stock exchange and with high corporate sustainability performance.

SHAREHOLDER STRUCTURE



ATAER Holding A.Ş. 49.29%
Free Float 47.63%
Erdemir's Portfolio 3.08%

ERDEMİR GROUP - MILESTONES

1960s

1960
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (Erdemir) established in 1960, pursuant to a special item of legislation for its establishment.

1961
Excavation and construction work started for the Erdemir plant.

1965
Erdemir started production on 15 May with an unprocessed steel capacity of 500 thousand tons.

1970s

1972
Erdemir's crude steel capacity was raised to 800 thousand tons with intermediate extension investments.

1978
Erdemir's crude steel capacity was raised to 1.5 million tons following 1st stage expansion investments.

1980s

1983
Crude steel capacity increased to 1.7 million tons following 2nd stage expansion investments.

1986
Erdemir shares commenced trading on the stock exchange with the opening of the İstanbul Stock Exchange.

1987
Crude steel capacity was raised to 2 million tons after the completion of additional investments.

1990s

1996
KAM I and KAM II projects were completed, taking Erdemir's crude steel capacity to 3 million tons.

1997
The 2nd Rolling Mill facilities entered operation. New Harbor, Turkey's biggest port on the Black Sea coast, entered operation.

1999
Erdemir's tin and chrome coating facility was brought into service. (Capacity: 250 thousand tons/year)

2000s

2000
Flat steel production exceeded 3 million tons.

2001
Erdemir Mühendislik, Yönetim ve Danışmanlık Hizmetleri A.Ş. was established.

Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. entered operation with an annual capacity of 150 thousand tons/year in Gebze.

Erdemir broke an export record, selling 1.1 million tons of steel products.

2002
İsdemir was acquired.

The LBE steel plant, with an annual capacity of 108 thousand tons, was acquired in Romania.

2004
Divriği-Hekimhan Madenleri San. ve Tic. A.Ş. was acquired and its title changed to Erdemir Madencilik San. ve Tic. A.Ş.

Erdemir achieved the Competency Level in Excellence in the European Quality Award and won the National Quality Award in the Large Scale Companies category.

REACHING THE POSITION OF A GLOBAL SCALE, STRONG BRAND BY DISPLAYING SUSTAINABLE CHANGE AND DEVELOPMENT THROUGH THE YEARS, THE ERDEMİR GROUP ALSO MAINTAINS ITS TITLE OF TURKEY'S SOLE INTEGRATED FLAT STEEL PRODUCER.

ERDEMİR GROUP IS FOCUSED ON EXTENDING ITS VALUE-ADDED PRODUCT RANGE, INCREASING QUALITY AND EFFICIENCY IN PRODUCTION, CREATING MORE VALUE WITH ITS COMPETITIVE ADVANTAGE ACHIEVED.

2005
The tender process regarding the privatization of Erdemir was initiated on May 30, 2005.

2006
Privatization process for Erdemir was completed when publicly owned shares were transferred to OYAK Group on February 27, 2006.

Erdemir was ranked first in the Management Category in the EU Environment Awards, Turkey Program.

The first slab was produced within the scope of modernization and transformation investments in İsdemir.

2008
Erdemir started operations of the no. 1 "Ayşe" New Blast Furnace, which was solely the work of Erdemir engineers and workers right from the project phase through to its construction and commissioning.

İsdemir produced its first flat hot rolled steel coil at its Hot Rolling Mill with an annual capacity of 3.5 million tons, established within the scope of modernization and transformation investments.

2010s

2011
İsdemir's 4th blast furnace was commissioned.

Ermaden, Ekinbaşı plant started operations.

2012
New steel service center entered operation in the Ersem, Ereğli facilities.

Erdemir's Environment Management Process - Environment Performance Index and Sustainability Activities were chosen as one of the best practices in "The Election of Best Practices in the field of Sustainable Development and Green Economy in Turkey competition" carried out within the scope of Support Project to prepare Turkey for the 2012 UN Sustainable Development Conference (Rio+20). Erdemir's environmental practices were among the best practices to represent our country in Rio. These activities were represented in the Rio+20 UN Sustainable Development Conference carried out in Rio de Janeiro in Brazil between June 20-22, 2012.

2013
Erdemir's Head Office relocated to İstanbul.

2014
Erdemir Asia Pacific Pte. Ltd. was established to carry out the procurement, marketing and sales activities in the Asia Pacific region, as a 100% Erdemir participation.

Erdemir gave the sector its Turkey's first steel R&D center to be approved by the Republic of Turkey Ministry of Science, Industry and Technology.

Erdemir 2020 vision was determined.

2015
Erdemir Group celebrated its 50th anniversary.

Ersem's Manisa facilities were brought into service.

İsdemir broke a record in liquid steel production, exceeding 5 million tons of production in Turkey.

2016
İsdemir began to be traded on the Borsa İstanbul.

The İsdemir Linde Gaz Partnership Incorporation was established in a 50% - 50% partnership with the German Linde Group in order to support İsdemir's industrial gas production.

İsdemir broke a record in liquid iron production, exceeding 5 million tons of production in Turkey.

TOWARDS FUTURE WITH STEEL

We know a strong and sustainable future can only be achieved by walking hand in hand.

MESSAGE FROM THE CHAIRMAN OF THE BOARD

While our sales revenue stood at US$ 3.9 billion in 2016, we exported 1.1 million tons of finished products and increased the share of exports in our total sales to 12.4%.

Ömer M. Baktır
Chairman of the Board of Directors and Managing Director

Dear Stakeholders,

As Turkey's first and largest integrated flat steel producer and one of the world's top steel producers, we continue to work with all our strength to ensure our leading and exemplary position remains sustainable. In this respect, we rounded off 2016 by further advancing our continuous successful performance by managing the changes and fluctuations in the global steel industry.

The year 2016 was marked by high volatility and low predictability in the global steel industry. From the perspective of the steel industry, we consider these developments to mark the beginning of a change in the global outlook and the trends that were shaped after the 2008 economic crisis.

Global crude steel production stood at 1.63 billion tons in 2016, an increase of 0.8% compared to 2015. Despite a slight increase in capacity utilization ratios on a global scale, the 69% ratio remains below the sustainable level of 75%. We anticipate that the modest improvement in global economic growth expected will give rise to stronger rate of recovery in 2017,

THE YEAR 2016 WAS MARKED BY HIGH VOLATILITY AND LOW PREDICTABILITY IN THE GLOBAL STEEL INDUSTRY.

especially with the measures taken aimed at reducing excess supply in the steel industry in China.

We are undergoing a process in which the ways in which we do business differ, where risks as well as new opportunities emerge simultaneously. In this process, while the world economy presses ahead in its quest for equilibrium, our country continues to progress on its strong foundations with determination.

Turkey increased its crude steel production by 5.3% YoY in 2016 to 33 million tons, lifting our country to 8th place in the world rankings again. The year 2016 also marked a milestone for Turkey in terms of steel exports, with flat steel exports of 3.1 million tons, marking a strong 21% increase. Despite the fall in global demand, Turkey also repeated its success in long product exports, exporting 10 million tons of products.

A successful operational and financial performance in line with our targets

Erdemir Group is proud to have transformed Turkish steel into a global brand and we achieved a 3% increase in our liquid steel production to 9.4 million tons in 2016. We therefore increased our efficiency by using our capacities in steel production effectively and reached a capacity utilization rate far exceeding the world steel industry avarage. While our sales revenue stood at US$ 3.9 billion in 2016, we exported 1.1 million tons of finished products and increased the share of exports in our total sales to 12.4%.

We crowned our achievements in the operational field with our financial performance in 2016. Erdemir Group's asset size amounted to US$ 6.7 billion at the end of the year. The net period profit of our Group, which achieved a global competitive edge, stood at US$ 502 million in 2016 with a net profit margin of 13%. Our EBITDA rose 16% YoY to reach US$ 895 million, representing an EBITDA margin of 23.2% in 2016.

Continued success in generating value for our shareholders

Erdemir achieved the strongest rise of any company on the Borsa İstanbul in 2016, starting the year 2016 in 15th place on the list of the most valuable companies and completing it in 9th place with a market value of TL 17,990 million.

Another important development of 2016 was that İsdemir began to be traded on the Pre-Market Trading Platform of the Borsa İstanbul with the ISDMR ticker.

We will step up our pace of growth with the restructuring of the OYAK Mining and Metallurgical Group.

Erdemir Group became a founding pillar of Turkish industry and has achieved great success in the half-century that has passed since its foundation. Erdemir has accelerated its breakthroughs since 2006, when it was taken over by our main shareholder, OYAK and has continued its progress on a global scale.

We are experiencing the excitement of entering a new growth period. We have transferred our operations specific to iron and steel to a wider and more integrated scope and are organizing our activities under the roof of the OYAK Mining and Metallurgical Group.

ERDEMIR ACHIEVED THE STRONGEST RISE OF ANY COMPANY ON THE BORSA İSTANBUL IN 2016.

MESSAGE FROM THE CHAIRMAN OF THE BOARD

OUR GOAL IS TO CONTINUOUSLY INCREASE THE VALUE WE ADD TO SOCIETY AND THE ENVIRONMENT, AS WELL AS THE ECONOMIC VALUE WE CREATE.

In this context, we aim to raise the value we offer to our valuable stakeholders by entering new markets with customized products and solutions, with leaner and agile processes and with state of the art technology.

We are working to widen our contribution to society.

Erdemir Group continues to be one of the most important sources of value in Turkey with its existing and new investments, the employment that it creates and the social projects that it carries out.

Our goal is to continuously increase the value we add to society and the environment, as well as the economic value we create. In this framework, we implemented long term projects in three different areas.

We aim to make Erdemir Group one of the most successful companies in the field of occupational safety in Turkey with "Behavioral Focused Safety Management", which we adopted in the field of occupational health and safety for our employees, who are the greatest architects of our success.

We implemented the "Revitalizing the production of Ottoman Strawberry and its Trade" project in Ereğli, which hosts us, with the aim of contributing to the lands where we produce and earn in relation to the environment and biodiversity.

We aim to support artists of the future with the "Steel and Life Sculpture Competition and Exhibition" project, in which undergraduate and graduate students in the sculpture departments of universities in Turkey are able to participate in the meeting point between steel and art. We also aimed to emphasize the many different roles of steel in our daily lives.

Leadership and responsibility

After half a century of operation, the Erdemir Group will continue to ascend rapidly up the rungs of global leadership. Within this scope, I would like to express my honor and delight at taking over the duties of Chairman of Erdemir's Board of Directors and taking the baton as chairman of the OYAK Mining and Metallurgical Group.

For us leadership is to be taken as an example with the practices carried out, where we are recognized as an honest and prudent business partner and as an employer which values society and people, in short, to be a good corporate citizen.

Our production scale, our human resources, the knowledge and skills that we have built over half a century and which we continuously improve on and our stakeholder relations are the most important elements that make us strong in the journey of global leadership.

Our goal is to work harder in 2017 and beyond to ensure that the value we generate for you, our valuable stakeholders and our country is sustainable by ascending ever upward on a global scale.

On behalf of myself and the Board of Directors, I would like to extend my deepest thanks and respects to all our stakeholders who have always contributed to our Group.

Ömer M. Baktır
Chairman of the Board of Directors and Managing Director

BOARD OF DIRECTORS

Ömer M. Baktır
Chairman of the Board of Directors and Managing Director
(Representative of OYTAŞ İç ve Dış Ticaret A.Ş.)

Ertuğrul Aydın
Vice Chairman of the Board of Directors
(Representative of OYKA Kağıt Ambalaj Sanayii ve Tic. A.Ş.)

H. Abdullah Kaya
Member of the Board of Directors
(Representative of Privatization Administration of Turkey)

Fatma Canlı
Member of the Board of Directors
(Representative of OYAK Pazarlama Hizmet ve Turizm A.Ş.)

Güliz Kaya
Member of the Board of Directors
(Representative OYAK Denizcilik ve Liman İşletmeleri A.Ş.)

Ahmet Türker Anayurt
Member of the Board of Directors
(Representative of OMSAN Lojistik A.Ş.)

Emin Hakan Eminsoy
Independent Member of the Board of Directors

Hakkı Cemal Ererdi
Independent Member of the Board of Directors

Yunus Arıncı
Independent Member of the Board of Directors

SENIOR MANAGEMENT

Sedat Orhan
General Manager of Erdemir

Oya Şehirlioğlu
Chief Legal Officer

İ. Kürşad Korkmaz
Chief Purchasing Officer

Eric Vitse
Chief Technology Officer

Özgür Özel
Chief Strategy Officer

Banu Kalay Erton
Chief Corporate Affairs Officer

Ömer M. Baktır
Chairman of the Board of Directors and Managing Director
(Representative of OYTAŞ İç ve Dış Ticaret A.Ş.)

Berk Hacıgüzeller
Chief Financial Management and Financial Affairs Officer

Toker Özcan
General Manager of İsdemir

Başak Turgut
Chief Marketing and Sales Officer

Can Örüng
Chief Enterprise Architect & Human Resources Officer, Chief Information Technology Officer (Acting)

TOWARDS FUTURE WITH STEEL

As one of Turkey's largest industrial companies, we are focused on 100% customer satisfaction with our quality and value added products, as guided by OYAK, our main shareholder.

THE ERDEMİR GROUP

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. (ERDEMİR)

Erdemir, Turkey's largest integrated flat steel producer, entered operation in 1965. Through its investments which continue to this day, the company has increased its crude steel capacity from the 500 thousand tons at the time of its establishment to almost 4 million tons today with a final product capacity of 5 million tons.

Erdemir produces hot rolled steel, cold rolled steel, tin, chrome and zinc coated flat steel products and steel plates at international quality standards in its plants established in Karadeniz Ereğli. The company's products are used as a basic input in many sectors including the automotive sector, the white goods sector, energy, construction, piping, general machinery and manufacturing, household appliances, heat and pressure vessel equipment, shipbuilding, heavy industry and packaging.

İSKENDERUN DEMİR VE ÇELİK A.Ş. (İSDEMİR)

İsdemir was established on 3 October 1970 in the Payas (Yakacık) region, 17 km from İskenderun. İsdemir is Turkey's largest integrated iron and steel factory based on its long product production capacity and was the third to be established. It was transferred to Erdemir in 2002 on the condition that İsdemir would initiate production of flat products.

İsdemir, the only integrated plant producing flat and long products in Turkey, now commands an annual capacity of approximately 5.8 million tons of liquid steel, 3.5 million tons of flat products, 0.6 million tons of wire rod and 2.5 million tons of billet.

Erdemir Group steadily increases its contribution to the Turkish economy with its 7 companies.

1965

ERDEMİR, TURKEY'S LARGEST INTEGRATED FLAT STEEL PRODUCER, ENTERED OPERATION IN 1965.

ERDEMİR ÇELİK SERVİS MERKEZİ SAN. VE TİC. A.Ş. (ERSEM)

Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. (Ersem) was established in October 2001 and began operating in Gebze in 2002 with an annual capacity of 150 thousand tons of cold slitting line and 100 thousand tons of cold cut-to-length line. The company offers steel service center services to companies operating in various branches of the industry such as general machinery and manufacturing, heat industry, electric electronics as well as automotive and white goods sectors.

Ersem quickly responds to customers' instant requests, dispatches products of the desired quality and size, on time and at the demanded location, manages stocks, responds to expectations such as production in narrow tolerances and delivery in small batches. Ersem, Turkey's largest steel service center with a total of slitting and length cutting capacity of 1,950,000 tons, has four production plants in Gebze, Karadeniz Ereğli, İskenderun and Manisa.

1970

İSDEMİR IS TURKEY'S LARGEST INTEGRATED IRON AND STEEL FACTORY BASED ON ITS ESTABLISHMENT DATE.

ERDEMİR MADENCİLİK SAN. VE TİC. A.Ş. (ERDEMİR MADEN)

Founded in the province of Divriği in Sivas, Erdemir Maden joined Erdemir in 2004. Erdemir Maden meets 15% of Turkey's iron ore needs with 9 iron ore fields and one manganese field which it owns and performs 37% of iron ore production.

Erdemir Maden, which is our country's only pellet plant that responds to the needs of iron and steel industry, has a pellet capacity of 1.5 million tons and lump ore production capacity of 750 thousand tons. Erdemir Maden produces hematite fragment and fine ore as well as pellet.

ERDEMİR ASIA PACIFIC PTE. LTD.

The company was founded in Singapore as a 100% Erdemir subsidiary and has been carrying out Erdemir's commercial activities in the Far East since its establishment in 2014.

ERDEMİR MÜHENDİSLİK YÖNETİM VE DANIŞMANLIK HİZMETLERİ A.Ş.

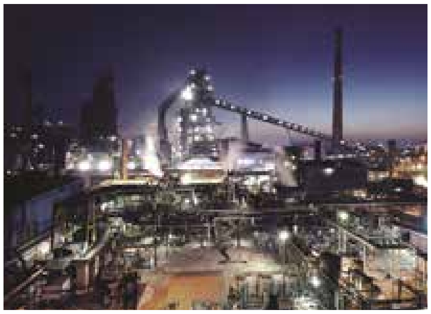
Erdemir Mühendislik offers Erdemir and companies in the Erdemir Group a wide range of engineering and project management services ranging from planning to implementation in their investments to ensure that the companies achieve their profitability, product diversity, efficiency and quality objectives.

ERDEMİR ROMANIA S.R.L.

Erdemir Romania, which was founded in the city of Targoviste in Romania, joined the Erdemir Group in 2002. Erdemir Romania produces electrical steel (silicon flat steel), which is a key input in the electric motors, transformers and generators. Erdemir Romania is in an important position in Europe in terms of electrical steel production, with 10% of its protection used in the Romanian domestic market, with the remaining 90% exported to various countries, mainly in Europe.

DEVELOPMENTS IN 2016

IN 2016, ERDEMİR WAS ONCE AGAIN INCLUDED IN THE BIST SUSTAINABILITY INDEX WITH ITS HIGH CORPORATE SUSTAINABILITY PERFORMANCE.



Erdemir: The highest increase in value on the Borsa İstanbul (BIST)
Erdemir achieved a remarkable achievement in 2016, by raising its rank from the 15th most valuable company on the Borsa İstanbul at the end of 2015 with a market value of TL 10,640 million to 9th at the end of 2016 with a market value of TL 17,990 million. Erdemir achieved the highest increase in value of any listed company in 2016.

Erdemir's successful corporate governance reaffirmed.
Erdemir's score rose from 8.83 to 9.02 in 2016 in the Corporate Governance Compliance Rating Report, where the first application was submitted in 2015 and compliance with Corporate Governance Principles is evaluated. This successful result once again proved that Erdemir is a transparent, fair, responsible and accountable institution.

The Corporate Governance Compliance Rating Note was given as a result of examining 408 criteria prepared by Kobirate Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. for The First Group Companies of BIST under the main headings of shareholders, public disclosure and transparency, stakeholders and the board of directors.

Erdemir's score of 9.02 demonstrates a significant degree of compliance with the Corporate Governance Principles as set by the Capital Markets Board (CMB), as well as the fact that the risks that may arise have been identified and are under control. Erdemir, which is among the First Group Companies of BIST was also entitled to be included in the BIST Corporate Governance Index in 2016.

Erdemir's inclusion in the BIST Sustainability Index again this year serves as another indicator of its success.
Erdemir was also included in the BIST Sustainability Index in 2016. The index includes companies traded on the stock exchange and with high corporate sustainability performance.

The companies in the BIST Sustainability Index, which aim to increase the understanding, knowledge and practices of sustainability in Turkey, are determined after being assessed by the criteria of environment, biodiversity, climate change, human rights, board structure, efforts to countering bribery, occupational health and safety.

Erdemir's Corporate Governance Compliance Rating score rose to 9.02 in 2016.

4.93%

4.93% OF İSDEMİR'S CAPITAL STARTED TO BE TRADED ON THE PRE-MARKET TRADING PLATFORM OF THE BORSA İSTANBUL.

ESTABLISHED UNDER İSDEMİR AND LINDE GROUP PARTNERSHIP, İSDEMİR LINDE GAZ ORTAKLIĞI A.Ş. ENTERED OPERATION IN DECEMBER 2016.

As a result of the evaluation carried out for volunteer companies of the BIST 100 companies in addition to the BIST 50 companies, 43 companies took place in the Index in the period November 2016 to October 2017.

İsdemir began to be traded on the Borsa İstanbul.
İsdemir, which has more than 500 shareholders, became a publicly traded company in accordance with the Capital Markets Law No. 6362 and became subject to Capital Markets legislation. Work towards İsdemir shares to be traded on the BIST Free Trade Platform began with the decision taken by the Board of Directors on 12 January 2015. The necessary work was carried out with the CMB, Central Registry Agency and Borsa İstanbul.

Once the registration procedures had been largely completed, shares in İskenderun Demir ve Çelik A.Ş. started to be traded on the Pre-Market Trading Platform of the Borsa İstanbul with the "ISDMR" ticker on 28 March 2016. Shares with a nominal value of TL 143,022 which are qualified to be traded on the stock exchange, are 4.93% of İsdemir's capital and owned by shareholders other than the main shareholder.

Environmental loan to Erdemir and İsdemir
The European Bank for Reconstruction and Development (EBRD) provided EUR 75 million in loans to Erdemir and İsdemir. This loan, which financed a comprehensive investment program that will assist in the efficient use of resources in the production processes of Erdemir and İsdemir, was used to invest in the Top Pressure Recovery Turbines in blast furnaces.

Technological investment from İsdemir and Linde Group
İsdemir agreed with Linde Gas Turkey, which is Turkey affiliate of Linde AG, to establish a partnership that would contribute towards achieving İsdemir's objective of meeting the additional industrial gas needs and reduce the costs of the existing industrial gas system. Following the completion of the partnership negotiations initiated by the letter of intent signed in January 2016, the Joint Venture and Shareholders Agreement was signed between the parties on 7 November 2016 with the aim of establishing a new industrial gas company under a 50%-50% partnership.

During the process, the procedures for the establishment and registration of the İsdemir Linde Gas Partnership Incorporated Company (İsdemir Linde Gaz Ortaklığı Anonim Şirketi) were completed. The company, which entered operation in December 2016, will undertake the investment of a new industrial gas production plant. This state-of-the-art plant, whose design and construction work will be carried out by the Linde Engineering unit, will enter operation in 2017. The plant will increase İsdemir's oxygen production capacity by 14% and its nitrogen production capacity by 45%.

DEVELOPMENTS IN 2016

İSDEMİR AND ERSEM WERE AWARDED SECOND PRIZE AND THIRD PRIZE, RESPECTIVELY, IN "STARS OF STEEL EXPORTS AWARDS" ORGANIZED IN 2016 ACCORDING TO THEIR SUCCESSFUL PERFORMANCE ACHIEVED IN EXPORTS.

ISO 500
ERDEMİR GROUP COMPANIES INCLUDED IN TURKEY'S TOP 500 INDUSTRIAL ESTABLISHMENTS.

Erdemir Group companies included in the ISO 500 ranking.
In the survey of Turkey's Top 500 Industrial Establishments conducted by the Istanbul Chamber of Industry (ISO) ever year, Erdemir was ranked 7th, İsdemir was ranked 9th, Ersem was ranked 89th and Erdemir Maden was ranked 303rd based on 2015 figures.

İsdemir and Ersem among the "Export stars"
The Association of Steel Exporters (ÇİB) organized the "Stars of Steel Exports Awards" to honor and promote the achievements of companies that work tirelessly to help the Turkish steel industry grow and develop. In the 2016 ceremony, a total of 48 awards were handed out to 39 companies that had achieved the highest exports in all products in 16 different product categories. A total of 154 certificates were awarded to the top 10 companies in each category. The Erdemir Steel Service Center was awarded third prize in the category of "cold/coated flat exports" and İsdemir was awarded second prize in the "hot flat exports" category.

İsdemir exceeded 5 million tons of liquid crude iron production.
İsdemir exceeded 5 million tons of liquid crude iron production in 2016.

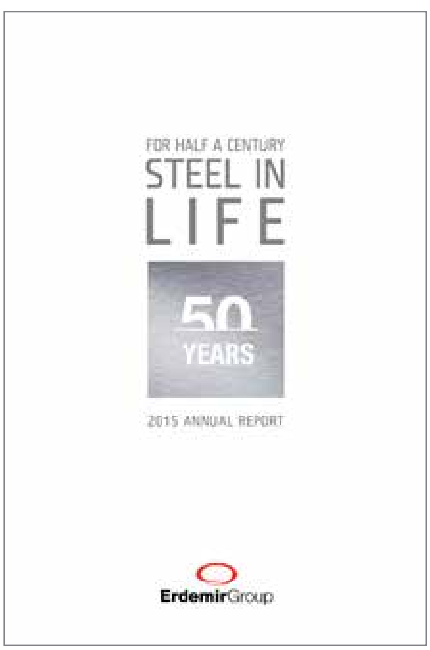
No. 2 Blast Furnace Reline completed in İsdemir.
The relining work of the No. 2 Blast Furnace "Ayfer" in İsdemir was completed and the annual production capacity was increased from 700 thousand tons to 1,247,000 tons.

"Golden Gloves" award for Erdemir
The Turkish Metal Industries Union (MESS) organized the "Golden Gloves and Gold Proposal OHS Competition" for the second time in 2016 with the aim of spreading the culture of occupational safety. The good practice carried out by the employees of Erdemir Assistant Operators Directorate received a prize in the MESS Gold Proposal contest.

An award to Erdemir from its customers
Always aiming to meet the expectations and needs of its customers to the highest level, while striving to be closer to its customers, Erdemir received awards from Tofaş, OYAK Renault and Thermo Dynamic companies.

"Energy Efficiency in the Industry" award to İsdemir
Within the scope of the "Projects for Increasing Energy Efficiency in the Industry" (SEVAP) contest organized by the Republic of Turkey Ministry of Energy and Natural Resources for the 17th time in 2016, İsdemir won first prize in the SEVAP-3 category with its project to generate electricity from the Top Pressure Turbine in Blast Furnaces No. 3 and 4.

A raft of awards for Erdemir Group's 50th anniversary Annual Report
Erdemir Group 2015 Annual Report, themed as "For Half a Century Steel in Life", received awards in five separate categories at the LACP Vision Awards, which has been held annually since 2001 and is considered the most prestigious award for annual reports. The report was ranked 51st in the list of the world's top 100 reports with the theme of "For Half a Century Steel in Life". It ranked 25th among the top 50 annual reports in Europe, Middle East and Africa (EMEA) Region and was selected as the most improved report in the EMEA Region. The report was also ranked as one of the top 25 Turkish annual reports.



The report was later awarded the Metal Branch Bronze Award in the "Non-Traditional Annual Reports" category in the International ARC Awards, which have been held by US based MerComm since 1987 and the Metal Branch Gold Award in the "Printing and Production" category.

Erdemir Group 2015 Annual Report also received the Bronze Stevie Award in the "Best Annual Report" category in "The Stevie Awards". The report received the Gold Award in the branches of design practice and design concept in the mining and metal category in the International Annual Report Design Awards (IADA) organized in the UK.

Certification efforts were completed in Erdemir companies.
Erdemir and İsdemir completed ISO 27001 Information Security Management System implementation and certification works.

Award to Erdemir from SAP
Within the scope of the "SAP Turkey Quality Awards" handed out to draw attention to differentiating information technology projects and successful technology applications, Erdemir's BO-Dashboard project won the "Silver Winner" award in the "Fast Delivery" category in the competition held in 2016.

Erdemir continues to create added value for the country's economy.
Erdemir listed 14th in the ranking of Corporate Tax for 2015 taxation period across Turkey and was ranked first in Zonguldak. Erdemir Maden also listed 29th for the same ranking in Ankara.

ERDEMİR GROUP'S 2015 ANNUAL REPORT RECEIVED AWARDS IN FIVE SEPARATE CATEGORIES AT THE LACP VISION AWARDS.

ISO 27001
ERDEMİR AND İSDEMİR COMPLETED ISO 27001 INFORMATION SECURITY MANAGEMENT SYSTEM IMPLEMENTATION AND CERTIFICATION WORKS.

THE ECONOMIC AND SECTORAL ENVIRONMENT

OPTIMISM SURROUNDING ECONOMIC GROWTH IN THE USA BEGAN TO LEAD TO INCREASED ECONOMIC CONFIDENCE ALL OVER THE WORLD IN 2016.

THE WORLD ECONOMY

The year 2016, was a year in which signs of recovery were seen, but also one marked by rapid fluctuations in prices and market expectations and low predictability.

The main dynamics of the year 2016 were the recovery in developed economies, a rise in commodity prices that went beyond the expectations at the beginning of the year, the start of the global rise in interest rates and inflation, the increase in protectionist tendencies and the reduced growth in global trade volume.

The IMF left its forecasts unchanged for 2016 and 2017 global growth, which were declared in the World Economic Outlook Report in October 2016. It reiterated its forecasts as 3.1% growth for 2016 and 3.4% for 2017. The World Bank declared its global economic growth projection as 2.3% for 2016 in its report updated in January and stated its growth forecasts as 2.7% for 2017 and 2.9% for 2018.

Starting from the second half of 2016, leading indicators began to improve in many parts of the world following the stimulatory measures taken by their countries.

Progress was seen in many indicators in the USA in 2016, signaling that the USA economy was on the road to recovery. Optimism surrounding economic growth in the USA began to lead to increased economic confidence all over the world.

China, the world's second largest economy, demonstrated a better than expected performance in 2016. Although China's rate of growth slowed when compared to its peak, it still stood at 6.5% in 2016, meeting the official target and the same level of growth is expected in 2017. There was an increase in trade activity in the second half of 2016 and PMI data, pointing out the positive expectations in manufacturing industry, exceeded 50 in the second half of the year with the trend continuing to increase. The producer price index moved into positive territory in the last quarter of 2016 for the first time since 2012. New investments in fixed assets in China demonstrated their highest rate growth for 6 years and the housing price index continued to increase, pointing to the recovery in the Chinese economy. The gentler than expected slowdown in China's economic growth has relieved pressure on the world economy.

Starting from the second half of 2016, leading indicators began to improve in many parts of the world following the stimulatory measures taken by their countries.

2.3%

THE WORLD BANK DECLARED ITS GLOBAL ECONOMIC GROWTH PROJECTION AS 2.3% FOR 2016.

THE POSITIVE EFFECTS OF THE MEASURES TAKEN IN THE LAST MONTH OF 2016 TO STRENGTHEN TURKEY'S ECONOMY ARE EXPECTED TO BE SEEN IN 2017.

The Eurozone is expected to continue to post low levels of growth. The growth expectations stated in the report published by the EU Commission in November stood at 1.8% for 2016 and 1.6% for 2017. However, the Eurozone has not yet overcome the problems that stemmed from the global financial crisis in the Eurozone. While inflation in Eurozone countries is well below the 2% target, demand for credit and investments remain feeble.

Concerns will center on the Brexit process, the expectation of an increase in support for anti-EU parties in the elections in Germany and France in 2017, the fallout of austerity policies and the refugee crisis in the coming period. On the other hand, supportive fiscal policies including stimulatory measures and programs are expected to keep the risks under control. The growth in emerging market economies is also likely to support exports of goods and services in Europe. While domestic demand forms the basis for economic growth, the improvements in private consumption and employment will continue to be main growth drivers.

THE TURKISH ECONOMY

The Turkish economy was affected by developments in the country and its region in 2016, as well as the volatility experienced in global markets.

The year 2016, was a year marked by many unexpected developments took place in different areas within a single year. The difficulties encountered in the country and the developments in global markets left its mark on Turkey's economic performance, with an economy that had started 2016 in strong form going on to contract in the third quarter. According to the calculation method which the Turkish Statistical Institute changed in order to comply with the new version of the European System of Accounts (ESA), Turkey's economy grew by 4.5% in the first two quarters of 2016, but shrank by 1.8% in the third quarter.

Based on the recently announced World Bank projections, Turkey is expected to have posted 2.7% growth in 2016 with the support of a recovery in net exports in 2017. According to the IMF report, Turkey is set to post 3.3% growth in 2017 after growing by 2.9% in 2016. The IMF also set out growth forecasts of 3.9% for 2019 and 4.0% for 2020. The IMF delegation projects that growth in Turkey will be balanced at around 3.5% in the medium term within the framework of these projections.

In the Medium Term Plan, GDP growth is projected at 4.4% for 2017 and expected to reach 5% in 2018 and 2019 with a growth strategy based on productivity growth, supported by production-oriented investments, financed mostly by domestic savings.

The positive effects of the measures taken in the last month of 2016 to strengthen our country's economy are expected to be seen in 2017. In this context, measures such as expanding credit volume for the private sector, increasing the contribution rate to investment expenditures for manufacturing, extending credit support to SMEs, savings measures in the public sector, increased support for exports by boosting Eximbank capital and the tax cuts implemented at the beginning of 2017 are important factors that will support the economy.

THE ECONOMIC AND SECTORAL ENVIRONMENT

GLOBAL STEEL CONSUMPTION, WHICH WAS EXPECTED TO SHRINK IN 2016, STOOD AT 1.5 BILLION TONS WITH THE HELP OF THE RECOVERY IN MANUFACTURING INDUSTRY AND ECONOMIC CONFIDENCE.

THE GLOBAL STEEL INDUSTRY

Global crude steel production stood at 1.63 billion tons in 2016, marking an increase of 0.8% YoY. Despite a slight increase in the global capacity utilization rate when compared to the previous year to 69%, it remained well below the sustainable level of 75%. Global steel consumption, which was expected to shrink in 2016, stood at 1.5 billion tons, similar to its 2015 level with the help of the recovery in manufacturing industry and economic confidence.

Despite efforts to restrict capacity in China, where production was not expected to increase at the beginning of the year, there was a 1.2% increase in production in China to 808 million tons. The measures taken related to capacity management in China, which realized its target closing down 45 million tons of capacity, only adversely affected small producers, while production increases of large producers led to total steel production to rise above the previous year. With the impact of the performance in the second half of 2016, consumption of steel in China reached 670 million tons, also similar to its 2015 level, with exports of 109 million tons. With the impact of increased protectionism in the world and strong domestic demand, China's steel exports fell by 3%.

The biggest increase was realized in India, with a 7.4% increase. India continues to grow in the steel industry by increasing its consumption, together with the increase in production. The stagnation experienced in the Japanese and South Korean economies had a negative impact on steel consumption and production in these countries remained close to 2015 levels. Thus, the Asia Region produced 69% of the total crude steel, with an increase of 1.6%.

The EU's crude steel production declined by 2.3% in 2016 compared to the previous year, despite the recovery in the region's economy. Apparent steel consumption remains on its post-crisis plateau. In 2016, annual steel consumption was supported by the recovery in non-construction sectors, especially the automotive sector.

Russia's exports, which maintained its production level despite the contraction in consumption, continued to increase.

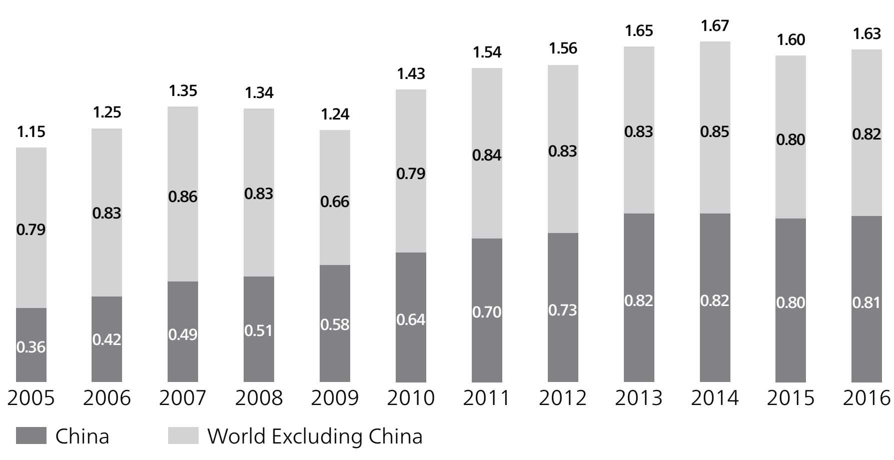
The world's capacity surplus of 700 million tons is expected to continue, as steps to reduce capacity were not taken to an adequate extent in 2016. This surplus of capacity led to a glut of low priced exports, led by countries which are in a situation of having to export to sustain their production. These low priced exports fundamentally threatened the steel industries of some countries, which are now taking steps to restrict imports altogether, instead of merely preventing unfair competition.

Countries such as China, Russia, Brazil and South Korea have been shut out from many markets due to increasing protectionist measures. The protectionist measures implemented by the EU and USA, in particular, have given rise to a new structure for the steel industry formed by regional market and price dynamics.

CRUDE STEEL PRODUCTION RANKING IN THE WORLD (million tons)

First 10 Countries	2015	2016	Change (%)
1) China	799	808	1.2
2) Japan	105	105	-0.3
3) India	89	96	7.4
4) USA	79	79	-0.3
5) Russia	71	71	-0.1
6) South Korea	70	69	-1.6
7) Germany	43	42	-1.4
8) Turkey	32	33	5.3
9) Brazil	33	30	-9.3
10) Ukraine	23	24	5.2
Other	272	272	-0.1
World	**1,615**	**1,629**	**0.8**

WORLD CRUDE STEEL PRODUCTION (billion tons)



THE TURKISH STEEL INDUSTRY

Turkey's crude steel production stood at 33 million tons in 2016, marking an increase of 5.3% YoY. This increase in crude steel production brought Turkey back to 8th place in the world rankings.

The Turkish steel industry, which reached a record-high 36.9 million tons of finished steel production in 2015, maintained this level in 2016 as well.

After growing by 12% in 2015, Turkey's steel consumption increased by 6% in the first half of 2016. Turkey's steel consumption, which has a strong connection with the manufacturing and construction industries in particular, declined due to a weakening of economic indicators in the second half of the year. By the end of the year, Turkey's steel consumption had declined by 1% YoY to 34 million tons in total, including 17.5 million tons of long steel and 16.5 million tons of flat steel.

Turkey's finished steel product imports amounted to approximately 15 million tons, similar to their 2015 level. Imports of slab, which increased in 2015, stood at 1.6 million tons, a decrease of 46% due to the increase in production from arc furnace plants in 2016.

The year 2016, was a strong year for Turkey's steel exports. Flat steel exports increased by 21% YoY to 3.1 million tons. Despite the decline in demand in our country and in the world, Turkey's long steel product exports maintained their 2015 level to exceed 10 million tons.

EXPECTATIONS FOR 2017

Global steel consumption is expected to grow to 1.6 billion tons in 2017.

Signs of economic recovery are expected to form the backdrop of a rebound in steel demand. Industry-backed policies implemented in the USA positively are supporting commodity prices and a revival in domestic demand is strengthening economic confidence and activity throughout the world. The expected growth in the construction sector in 2017, after a sluggish year in 2016 and the expectation of higher automotive production will support steel consumption. A robust performance from Russia, which broke out of economic stagnation due to the rise in prices of Brent petrol and other commodities and from Brazil, also shaped the revival in steel demand. Since the second half of the year in particular, recovering industrial production in the USA, EU and China have all been offering positive signals regarding global steel demand.

Similarly, thanks to the supportive monetary policies in China, the end of the decline in producer prices due to the revival in the construction industry and manufacturing industry should pave the way for a more positive outlook in 2017 positive. In addition to these, new promises given about revitalizing infrastructure spending are raising hopes for the future.

It is anticipated that the demand for commodities will remain robust until 2020, given the fixed asset investments in the construction, real estate and public-private sector joint projects in China.

5.3% INCREASE IN CRUDE STEEL PRODUCTION BROUGHT TURKEY BACK TO 8TH PLACE IN THE WORLD RANKINGS.

There are still elements of uncertainty that could put pressure on global steel demand in 2017, such as low fixed capital investment spending, weak global economic growth and trade growth, slowing growth in emerging economies, especially China, geopolitical risks, the Brexit process and elections in Europe, which could all be seen as risks.

Global steel consumption is expected to increase to 1.6 billion tons in 2017.

The trend towards protectionism, which has reached unseen levels, together with the global supply surplus that has affected the sector in the last 2 years, will continue this year.

As we enter 2017, steel consumption is expected to increase, even if only moderately in Turkey, hand-in-hand with the growth in manufacturing industry which is expected on the back of the measures taken to revive the economy. Furthermore, steel exports are expected to increase due to the recovery in global markets.

TOWARDS FUTURE WITH STEEL

In our 51st year, we will reinforce our position of being a trusted and reputable business and solution partner with our visionary management understanding, strong financial structure and competent human resources.


S106

THE YEAR 2016 IN SUMMARY

3%

Erdemir and İsdemir produced 9.2 million tons of crude steel, marking an increase of 3% compared to the previous year.

STRATEGIES, PRODUCTION, SALES

WITH ITS FEATURES SUCH AS TEAMWORK, EFFECTIVE LEADERSHIP AND AGILITY, ERDEMİR GROUP DETERMINES ITS OBJECTIVES BY ANTICIPATING THE DIFFICULTIES OF THE CHANGING DYNAMIC ENVIRONMENT AND FOCUSES ON THE AREAS THAT WILL PROVIDE A COMPETITIVE ADVANTAGE.

Erdemir Group aims to be a prestigious, preferred and exemplary institution in its sector by successfully applying strategies that it determined in all of its areas of focus including production, sales, R&D and market value.

Aligning the Corporate Performance Management's goals with operations and ensuring the strategy is measurable and manageable lies at the heart of Erdemir Group's strategic planning approach. A roadmap was formed in this direction, setting strategic priorities and areas to be focused on and long-term strategies and short-term operations were interconnected and embodied.

This plan also includes activities aimed at closing the gap between what Erdemir Group would have to do to achieve its vision and what the Erdemir Group can do to achieve its vision. At the same time, success criteria within the action plans describe an integrated process that extends from vision to individual performance, as the success criteria cascade down to employees' score cards.

With its features such as teamwork, effective leadership and agility, Erdemir Group determines its objectives by anticipating the difficulties of the changing dynamic environment and focuses on the areas that will provide a competitive advantage. With this plan, where these areas are set out in detail, the Group continues to advance on a global scale by taking confident steps to step up its reputation in the eyes of all stakeholders and to serve as an example in every area.

While Erdemir Group increased its production and efficiency in 2016, it maintained a rapid pace in its modernization and improvement activities.

The Erdemir Group companies, which carry out all their activities in line with the principles of low cost, high efficiency and high quality production, increased their production and efficiency as well as rapidly continuing their modernization and improvement activities in 2016.

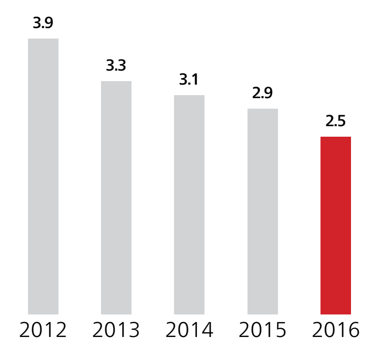
Erdemir and İsdemir simultaneously launched Total Productive Maintenance (TPM) activities in the pilot regions in September 2016 in order to contribute to the competitive strength, profitability and the development of production quality. This project represents a new step in the continuous improvement activities carried out with the objective of "zero accident, zero defect and zero break down".

Erdemir Group, which single-handedly produced 28% of Turkey's crude steel in 2016, produced 9.2 million tons of crude steel, marking an increase of 3% compared to the previous year.

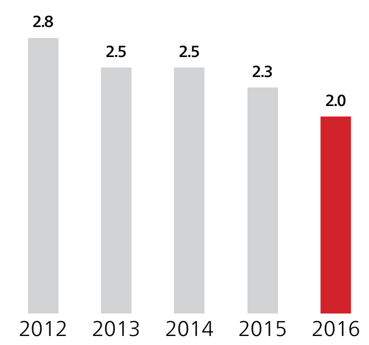
Erdemir and İsdemir operated at a capacity utilization rate of 97% in 2016, with 2.46 man-hours of labor spent for each ton of final products in Erdemir and 1.96 man hours of labor for each ton of production in İsdemir.

ERDEMİR AND İSDEMİR SIMULTANEOUSLY LAUNCHED TOTAL PRODUCTIVE MAINTENANCE (TPM) ACTIVITIES.

ERDEMİR FINISHED PRODUCTS WORKFORCE PRODUCTIVITY (Man hours/Ton)



İSDEMİR FINISHED PRODUCTS WORKFORCE PRODUCTIVITY (Man hours/Ton)



STRATEGIES, PRODUCTION, SALES

ERDEMİR GROUP MAINTAINED A RAPID PACE IN ITS MODERNIZATION AND IMPROVEMENT ACTIVITIES IN 2016.

7.1

THE GROUP TOTAL FINISHED FLAT STEEL PRODUCT PRODUCTION STOOD AT 7.1 MILLION TONS.

PRODUCTION BY YEAR (thousand tons)

PRODUCTION	2012	2013	2014	2015	2016
Hot Metal	**7,172**	**7,603**	**7,695**	**8,077**	**8,369**
Ereğli	2,934	3,412	3,413	3,438	3,295
İskenderun	4,238	4,191	4,282	4,639	5,074
Liquid Steel	**8,042**	**8,447**	**8,693**	**9,122**	**9,373**
Ereğli	3,328	3,865	3,846	3,894	3,707
İskenderun	4,714	4,582	4,847	5,228	5,666
Crude Steel	**7,867**	**8,268**	**8,493**	**8,930**	**9,185**
Ereğli (Slab)	3,236	3,761	3,732	3,779	3,601
İskenderun (Slab)	3,093	3,103	3,631	3,570	4,004
İskenderun (Billet)	1,538	1,403	1,130	1,581	1,580
Flat Steel	**5,983**	**6,427**	**6,954**	**7,400**	**7,071**
Ereğli Tin Plate	237	257	255	235	249
Ereğli Galvanized	305	303	305	319	324
Ereğli Cold Rolled	1,056	1,284	1,186	1,266	1,208
Ereğli Hot Rolled	1,785	1,812	2,020	2,206	2,125
Ereğli Plate	248	253	348	334	292
İskenderun Hot Rolled	2,352	2,518	2,840	3,040	2,873
Long Steel	**1,519**	**1,356**	**1,153**	**1,563**	**1,572**
Billet	945	775	589	1,022	987
Wire Rod	574	581	564	541	585
Iron Ore	**2,832**	**2,646**	**2,666**	**2,422**	**2,106**
Pellet	1,543	1,480	1,550	1,547	1,565
Other	1,289	1,166	1,116	875	541

FLAT STEEL PRODUCTION

Erdemir produced 2.4 million tons of hot rolled products and 1.8 million tons of cold rolled products in 2016, while İsdemir produced 2.9 million tons of hot rolled products. The Group total finished flat steel product production stood at 7.1 million tons. Erdemir Romania produced 65 thousand tons of silicon flat steel, including contract manufacturing.

LONG STEEL PRODUCTION

Erdemir Group produced 1.6 million tons of finished long product in 2016, including 987 thousand tons of billet and 585 thousand tons of wire rod.

IRON ORE PRODUCTION

In 2016, Erdemir Maden produced 1.6 million tons of pellet while total production of other products (lump ore, fine ore, pellet cake and powder for cement) stood at 541 thousand tons.

STEEL SERVICE CENTER SERVICE

The Steel Service Centers achieved sales of approximately 1.1 million tons in 2016, of which 421 thousand tons were sales of unprocessed and 644 thousand tons were for processed products.

Handling services for 23.7 million tons provided at Erdemir Group ports.
A total of 23.7 million tons of handling services were performed at the Erdemir and İsdemir ports in 2016, including 1.5 million tons of handling to third parties. The port recorded revenue of US$ 13 million in the 2016 full year.

Of the 9.9 million tons of handling services carried out at the Erdemir Port, 0.8 million tons were provided to third parties. A total of US$ 7.3 million was earned from these services.

A total of US$ 5.7 million in handling revenues were earned from handling services offered at the İsdemir Port, which amounted to a total of 13.8 million tons, including 0.7 million tons of third party services.

Erdemir Group, which is focused on lasting achievements by setting itself apart in Turkish industry, is steadily increasing the quality of its service orientated towards customer expectations.

Erdemir Group remains a solution partner for its customers.
Erdemir Group continues to proactively work to provide timely and effective solutions which meet the needs of its customers. Erdemir, which sets itself apart with the projects it develops jointly with its customers and process improvement works, has expanded its product range continuously with the new product grades that it has developed, while strengthening the customer oriented approach aimed at meeting the needs of steel users around the world.

Erdemir Group carries out bulk production in addition to meeting the needs of its customers for their end use. It becomes part of the customer's supply chain by providing services as well as providing products by the means of stock keeping, production at narrow tolerances and door delivery dispatch services. With its marketing and sales organization structured by sector, it continues to provide the most accurate and fastest solutions to meet the needs and expectations of Turkish industry and global steel users with its customer focused sales policies, its supply of quality products, and its pre-sales and after-sales services.

Erdemir Group, which commands a strong position both in our country and among the world's leading steel companies, closely follows developments in the global steel market and strengthens its customer relations with its current sales strategies, which are compatible with market dynamics.

Erdemir Group achieved its sales targets in 2016, at a time when the market was dominated by uncertainties.
Erdemir Group achieved its targets with superior product quality, customer oriented management and a high level of service in addition to effective management in sales and marketing activities in 2016, a time of low predictability in domestic and foreign markets and increased pressure from imports.

Erdemir Group continued to increase the share of high value added products in total shipments and sold 8.8 million tons of finished steel products in 2016. Total sales revenue stood at US$ 3.9 billion.

ERDEMİR GROUP ACHIEVED ITS TARGETS WITH SUPERIOR PRODUCT QUALITY, CUSTOMER ORIENTED MANAGEMENT AND A HIGH LEVEL OF SERVICE IN ADDITION TO EFFECTIVE MANAGEMENT IN SALES AND MARKETING ACTIVITIES IN 2016.

STRATEGIES, PRODUCTION, SALES

ERDEMİR GROUP CONTINUES TO BE A RELIABLE STEEL SUPPLIER FOR ITS DOMESTIC AND INTERNATIONAL CUSTOMERS.

1.1

IN 2016, ERDEMİR GROUP EXPORTED A TOTAL OF 1.1 MILLION TONS OF FINAL PRODUCTS.

Erdemir Group's exports of finished products increased by 28% YoY, despite slowing world trade and rising protectionist measures.

Erdemir Group continues to be a reliable steel supplier for domestic and international customers with its superior products and service quality, marketing-sales oriented management and its range of products, which it develops every year.

In 2016, Erdemir Group exported a total of 1.1 million tons of final products, including 890 thousand tons of flat products and 197 thousand tons of long products, which were shipped to 42 countries in a wide geographical region extending from South America to the Far East. The Group's flat steel exports increased by 29% YoY in 2016 while exports of long products increased by 22% YoY. Exports accounted for 12.4% of total sales.

Erdemir Group remains one of our country's largest exporters, taking on a proactive role not only in domestic markets but also in foreign markets.

Meeting customer expectations as soon as possible

By carrying Erdemir Group to a position of being more than a steel producer, Ersem transforms it into a solution partner that provides a wide range of effective services to its customers. Ersem stands out as Turkey's highest capacity steel service center with its new and modern lines.

Ersem has the competency to produce in small volumes and different varieties at precise tolerances for customers of every scale at its plants in the Gebze, Ereğli, İskenderun and Manisa settlements, where the industry is concentrated. With its expertise in just-in time delivery and supply chain management services, Ersem enables end users to benefit from economies of scale by saving resources such as plant, machinery, time and labor.

Demonstrating tremendous success in meeting customers' needs for processed materials, Ersem achieved sales of 1.06 million tons in 2016 with an increase of 11% YoY, while processed product sales increased by 27% to 644 thousand tons.

SALES (thousand tons)	2012	2013	2014	2015	2016
Flat Finished Product	**5,980**	**6,338**	**6,933**	**7,229**	**7,163**
Ereğli Tin Plate	253	255	258	244	248
Ereğli Galvanized	155	126	79	63	47
Ereğli Cold Rolled	1,009	1,070	974	926	936
Ereğli Hot Rolled	1,623	1,669	1,736	1,884	1,757
Ereğli Plate	234	222	333	311	267
İskenderun Hot Rolled	2,309	2,432	2,846	2,841	2,843
Ersem Sales	**397**	**564**	**707**	**960**	**1,065**
Ersem Galvanized	126	169	221	263	272
Ersem Cold Rolled	145	211	256	348	357
Ersem Hot Rolled	126	184	230	349	436
Long Finished Product	**1,468**	**1,346**	**1,163**	**1,552**	**1,587**
Billet	913	754	625	998	999
Wire-Rod	555	592	538	554	588
Iron Ore	**2,895**	**2,399**	**2,853**	**2,285**	**2,174**
Pellet	1,556	1,463	1,538	1,532	1,547
Other	1,339	936	1,315	753	627

ERDEMİR GROUP ACHIEVED ITS SALES TARGETS IN 2016 AND TOTAL SALES REVENUE STOOD AT US$ 3.9 BILLION.

DOMESTIC FLAT STEEL PRODUCT SALES

Sector	Sales Amount	Distribution (%)
Pipe Profile and Re-Rolling	2.9 million tons	46
Distribution Channels	1.1 million tons	18
Automotive	703 thousand tons	11
Projected Works	406 thousand tons	6
Manufacturing and Heavy Industry	552 thousand tons	9
White Goods and Household Appliances	355 thousand tons	6
Packaging Steel	231 thousand tons	4

28%

ERDEMİR GROUP'S FINISHED PRODUCTS EXPORTS INCREASED BY 28%.

DOMESTIC LONG PRODUCT SALES

Sector	Sales Amount	Distribution (%)
Rebar Producers	706 thousand tons	51
Profile Producers	214 thousand tons	15
High Carbon Qualities	151 thousand tons	11
Commercial Qualities	261 thousand tons	19
Special Qualities	21 thousand tons	1
Other	38 thousand tons	3

INFORMATION TECHNOLOGIES

A CORPORATE RESOURCE PLANNING SYSTEM WILL BE ESTABLISHED WHICH WILL ALLOW ERDEMİR AND THE GROUP COMPANIES TO WORK AS CONSOLIDATED ON A SINGLE IT STRUCTURE.

Erdemir Group carries out its activities in the field of information technologies in line with its strategic objectives. Within the framework of the Master Plan, which was prepared by taking into account technological developments and legal obligations and whose basic principles were determined with a 5-year road map in order to achieve the digital transformation, Erdemir Group continued to work on information technologies ("IT") in 2016.

The procurement process of the "Demir Adam" project, which is one of the most important projects in the digital transformation pathway and which aims to manage sales, production and shipping information through an integrated platform to be transformed into value, was completed in 2016. Within the scope of the ongoing project, a corporate resource planning system will be established which will allow Erdemir and the Group companies to work as consolidated on a single IT structure.

In 2016, the main IT activities carried out in Erdemir Group were as follows:

- Corporate resource planning and other IT systems such as the active directory structure at Erdemir Mühendislik were rearranged and put into service.
- The budget implementation platform was upgraded and moved into a structure in which it is able to rapidly process and provide instant data. The financial statements included in this structure could also be accessed from mobile media, subject to the limits set out by the regulatory authority.
- The authorization structure on corporate resource planning software, which covers the finance, procurement and human resources processes, was moved to a platform that can be tracked and reported.
- The ISO 27001 Information Security Management System, established in Erdemir and İsdemir to increase information security, audited and certified by authorized auditors. Training sessions were provided to raise awareness on information security. Penetration and vulnerability tests were performed to determine the current situation and corrections were made according to the findings. In addition, work was carried out to protect the Company against cyber-attacks in accordance with information received from public institutions and organizations.
- A comprehensive study was launched to bring data centers compliant with world standards. Emergency drills were held to improve preparation for any disruptions that could be experienced in practice.
- The IT infrastructure of manufacturing systems were virtualized and moved to data centers and services started to be offered in an environment that conforms to IT standards.
- "On-Site Support Services", which resolve employees' IT problems, were expanded.
- Information systems have been begun to be revised depending on the automation projects in the new galvanizing line, which is being established, the blast furnaces and the steel production plants.
- Work to extend the wireless network was carried out to provide flexible working environments. Voice and video tools were rolled out to facilitate communication.
- System implementation requests received from the business units, which provide energy, time and labor savings as well as increased efficiency and easy monitoring, were responded to.
- Software, infrastructure installation, improvements, operation, maintenance and support activities were successfully carried out in order to provide existing services safely and without interruption on a 24/7 basis.

With the aim of maintaining its digital transformation process, the Erdemir Group continues its activities in the field of IT with a structure that is integrated, flexible and responsive to all needs in a fast manner and where information is converted into value.

24/7

IT ACTIVITIES WERE CARRIED OUT IN ORDER TO PROVIDE EXISTING SERVICES SAFELY AND WITHOUT INTERRUPTION ON A 24/7 BASIS.

PROCUREMENT AND SUPPLY

A stuttering increase in iron ore and scrap prices

After having declined in 2015 due to the adverse effects of macroeconomic troubles in China, declining infrastructure investments and the slowdown in the construction sector; raw material prices entered an upward trend again in 2016.

The adoption of measures by China to increase consumption in the short and medium term stimulated an increase in demand in the domestic market; restrictions on production aimed at reducing air pollution and increased protectionist measures in export markets were the most important reasons for the increase in prices of final products and the accompanying raw material prices.

Within this scope, a stuttering increase was seen in prices of iron ore and scrap, which are Erdemir's main iron-based raw material inputs.

The change in China's policy and the resultant decline in domestic coking coal production were important factors behind the rapid rise in prices of coking coal, which is Erdemir's other main raw material. Other reductions in the international supply further helped drive prices higher.

Optimizing purchases from domestic resources

The freight market, which plateaued in response to the supply-demand balance in the first three quarters of 2016, rose in the last quarter, both seasonally and amid increasing demand for raw materials.

Domestic natural gas prices were cut by 10% in the last quarter of the year, while electricity prices remained unchanged.

Purchases from domestic resources, which offer an important advantage in terms of supply security in times of volatile market conditions, were optimized. The e-procurement system was used extensively in the procurement of auxiliary materials and all resources were evaluated.

In line with the sustainable procurement strategy, Erdemir and its companies continued the activities of developing domestic and international procurement resources and creating alternatives in all procurement items. In raw material purchases, it was worked to create a flexible portfolio in order to ensure supply continuity and in a manner to turn the changing price dynamics to the advantage. The possibilities of procurement from different geographical regions were investigated.

With the optimization models, purchasing scenarios for the raw materials required for production were set out to ensure the lowest cost and highest efficiency. Thanks to the follow-up of stock targets and raw material position, the Company optimized the movements in raw material prices arising from any volatility in the market.

IN LINE WITH THE SUSTAINABLE PROCUREMENT STRATEGY, ERDEMİR AND ITS COMPANIES CONTINUED THE ACTIVITIES OF DEVELOPING DOMESTIC AND INTERNATIONAL PROCUREMENT RESOURCES AND CREATING ALTERNATIVES IN ALL PROCUREMENT ITEMS.

PURCHASES FROM DOMESTIC RESOURCES WERE OPTIMIZED IN 2016.

R&D

THE R&D CENTER PAVED THE WAY FOR THE ADDITION OF HIGH VALUE ADDED STEEL GRADES TO ERDEMİR'S PRODUCT RANGE THROUGH THE SUCCESSFUL WORK IT CARRIED OUT.

24
ERDEMİR R&D CENTER SUCCESSFULLY COMPLETED 24 PROJECTS IN TOTAL.

Erdemir R&D Center continues to work as an organization producing value for Turkey, with the aim of being "Advanced Steel Research Center".

Another successful period of operation for the Erdemir R&D Center
The Erdemir R&D Center, a first in the Turkish steel industry, obtained approval from the Republic of Turkey Ministry of Science, Industry and Technology on 26 August 2014. It continued work on projects and investments towards its goal of becoming the "Advanced Steel Research Center" in 2016, which was its 2nd period of operation.

The Erdemir R&D Center consists of for main groups; Raw Materials and Iron Production, Steel Production and Casting Technologies, Hot Rolled Products and Process and Cold Rolled Products and Process. It successfully completed 24 projects in total. The R&D Center paved the way for the addition of high value added steel grades to Erdemir's product range through the successful work it carried out in line with the feedback received from customers and strategic objectives.

Work was successfully carried out on treating waste generated during the production process, in what is one of the biggest areas of improvement in the iron and steel industry. Improvements made in the production processes provided cost advantages, allowing more competitive products were offered to the market.

Activities to construct studies through "the simulators/pilot plants" continued in 2016 with the purpose of carrying out all studies in the R&D Center freely, in high numbers and with repetitions, independent of the constraints at the production facilities and without creating large-scale trial costs.

Procurement for the experimental sinter simulator, vacuum induction furnace, hot and cold rolling simulator, hot-dip and coating simulator is ongoing. There are plans to move the Erdemir R&D Center to a new location approximately of 20 acres in 2017, where all the facilities will be gathered together.

The technical equipment of Erdemir R&D Center was expanded further with the addition of a pilot pyrolysis plant to the existing infrastructure in 2016. By supplying additional equipment and test apparatus to the devices in the metal forming laboratory, new capabilities such as identification of earing, hole expanding and surface friction properties of products were attained.

The training of employees, especially in the analyst status, was focused on the Erdemir R&D Center.
The Erdemir R&D Center is focused on identifying current technological trends with a particular focus on the training of analysts. In 2016, twelve training sessions were held in different technical subjects specific to employees' needs. Employees were encouraged to continue their doctoral and postgraduate studies. The R&D Center completed the year 2016 with a total of 48 personnel including one doctoral graduate, nine doctoral students, 13 graduates of postgraduate students, five students of postgraduate studies, 13 graduates and 7 associate/high school graduates. In 2016, the employees participated in activities organized in the national/international arena related to the iron and steel sector, nine of which were held abroad, with a total of 22 papers/posters.

Within the scope of the Patent Registration Procedure published in 2015, five preliminary research reports were prepared regarding group employees' invention proposals and the evaluation process for three proposals has been completed with the decision of two patents and one utility model applications in 2016. In addition; the application submitted on 8 December 2014 to Turkish Patent and Trademark Office, was awarded a utility model certificate for the invention.

Three of the four projects for which applications were submitted within the scope of the TÜBİTAK (The Scientific and Technological Research Council of Turkey)/TEYDEB (Technology and Innovation Funding Programs Directorate) 1501 Program were found to be eligible for support. The evaluation process for the other project is ongoing.

In the new version of the Autoform software, which is primarily used by main automotive companies and supply industry companies in sheet metal forming simulation studies, material data cards for Erdemir automotive steel grades were prepared, enabling the Company to work with other steel producers. This work paved the way for Erdemir to realize an important first among Turkish steel producers. Thanks to the Company's metal forming equipment/software infrastructure and know-how, technical support was provided for customers in the automotive and white goods sectors by carrying out solution focused analysis on their sites.

New products take the number of grades to 447 for flat products and 268 for long products.
With joint efforts of the R&D and Quality Technology units, in 2016, ten grades of hot steel, three grades of cold products, 3 grades of galvanized products and one grade of tin were offered for sale; and three 3 grades of hot products, one grade of cold product, one grade of galvanized product were completed and prepared for sale. Work on the development of five new grades is ongoing.

As a result of these studies, the number of flat steel grades offered for sale amounted to 447, with 11 grades whose controlled production subject to negotiation. The number of long product grades stood at 268.

Erdemir laboratories successfully completed ISO IEC 17025 audit.
The laboratories of the Erdemir Quality Technology Directorate successfully completed the accreditation surveillance audit carried out within the scope of the TS EN ISO / IEC 17025 standard. During the audit process, the ASTM D 2013/2013M "Sample Preparation for Coal Analyses" method was audited and included in the scope of accreditation.

Innovation Management System being established.
Aiming to place innovation at the heart of the institutional culture, Erdemir formed a project team based on the TS CEN/TS 16555 Innovation Management System standard in 2016 in order to establish an innovation management system in the companies within it. The project plan was put into effect and for the current situation analysis, an innovation workshop was organized in the facilities in İstanbul, Karadeniz Ereğli and İskenderun and action planning was carried out.

Continued research and development activities at Erdemir Maden
Erdemir Maden continued its geological, geophysical (magnetic + gravity) and research and development activities, as well as drilling to increase iron ore reserves in 2016. A total of 18,051.5 meters of drilling were conducted in 110 different locations in the company's sites in Divriği. A total of 1,306 meters of ore were cut including 258 meters of magnetite and 1,048 meters of hematite ore. As a result of these activities, 351,250 tons of magnetite in the B Head region and 3,028,771 tons of hematite iron ore in the C Placer region were identified.

THE NUMBER OF FLAT STEEL GRADES OFFERED FOR SALE BY ERDEMİR GROUP AMOUNTED TO 447, WHILE THE NUMBER OF LONG PRODUCT GRADES STOOD AT 268.

As a result of the 3,194 meters of drilling conducted in 2016, reserve development studies are continuing on site in the Ekinbaşı region, where a total of 132 meters of magnetite ore was cut.

In the Denizli Tavas Manganese area, 86 meters of manganese ore was cut by drilling 2,888 meters in 21 different locations. The reserve evaluation studies conducted confirmed the presence of 734,596 tons of manganese ore reserves in the mineralization zone B.

TOWARDS FUTURE WITH STEEL

By contributing to our country's economic development, we help reduce the current deficit, increase the welfare of our people and support employment.

INVESTMENTS

IN ERDEMİR AND İSDEMİR, SEVEN NEW INVESTMENT PROJECTS WERE LAUNCHED IN 2016. FOUR OF THE 36 INVESTMENT ONGOING PROJECTS TOGETHER WITH THESE NEW PROJECTS WERE COMPLETED WITHIN THE YEAR.

$1,450\ M^3$

THE VOLUME OF THE NO. 2 BLAST FURNACE OF İSDEMİR WAS INCREASED TO $1,450\ M^3$.

In 2016, Erdemir Group continued its investment activities in its modern facilities, which produce competitive products.

Erdemir Mühendislik continued to serve the Erdemir Group with the strategic objectives of providing solutions which have the lowest total cost, support efficiency and which are innovative in all projects. In Erdemir and İsdemir, seven new investment projects were launched in 2016. Four of the 36 investment ongoing projects together with these new projects were completed within the year.

COMPLETED INVESTMENTS

Erdemir Normalizing Furnace Modernization
Normalizing Furnace Modernization, which was launched in order to produce normalized plate for wind power plants, to increase market share of plate products and to save energy, was completed and the plant was commissioned.

İsdemir No. 2 Blast Furnace Reline and Stove Modernization
The No. 2 Blast Furnace investment was aimed at the more efficient and effective use of the plant, where the stoves of the body and chamber refractories had completed their life cycle. The volume of the furnace was increased to 1,450 m^3. The project, which reflects the synergy between Erdemir and the companies within the Group, was carried out jointly by the İsdemir, Erdemir and Erdemir Mühendislik teams.

İsdemir Hot Rolling Mill Harmonic Filter Compensation System
The Hot Rolling Mill Harmonic Filter Compensation System, which was carried out to increase energy quality and prevent any failures that may occur in the lines, was commissioned in the second half of 2016.

TRT Project for İsdemir No. 3 and No. 4 Blast Furnaces
The TRT-3 and TRT-4 facilities were commissioned in the second half of 2016 for the purpose of generating electricity by utilizing pressure energy without consuming additional fuel after cleaning and cooling the gas obtained as a by-product of the process in the No. 3 and No. 4 blast furnaces at İsdemir.

Erdemir Maden Cürek Underground Operation Investment
Cürek Underground Operation was identified as a result of drillings carried out in 2014 and preparation work was initiated with the mine entering operation on 10 July 2015. A new investment in the mine was completed and commissioned in August 2016. A total of 105,264 tons has already been mined and a total of 3,158,000 tons of magnetite ore will be produced in the area.

FIELD APPLICATIONS AND ONGOING PROJECTS

Erdemir No. 2 Continuous Galvanizing Line
Field activities started for the state-of-the-art No. 2 Continuous Galvanizing Line project, which is aimed at quality customized production, particularly for the automotive industry. Erdemir aims to increase the annual galvanized production capacity to 680 thousand tons by establishing the No. 2 Continuous Galvanizing Line, which has an annual capacity of 350 thousand tons.

Erdemir Top Pressure Recovery Turbines (TRT) Project
The Top Pressure Recovery Turbines Project, which will enable blast furnace gas to be cleaned and cooled to generate electricity, has reached the commissioning stage.

Erdemir No. 4 Stove Construction Project for No. 1 Blast Furnace
Building and assembly work is continuing as part of the project to construct a new stove to prevent loss of production in Erdemir's No. 1 Blast Furnace.

Erdemir and İsdemir Environmental Investment Projects
48 of the 73 environmental investment projects carried out in both facilities have been completed.

Modernization of the Electrical Station (Electrical Arc Laddle Furnace) - Dedusting & Water Cooling Systems at İsdemir
Detailed engineering and field studies are ongoing in the project which aims to increase the capacity of the dust collecting and water cooling system of the secondary metallurgy electric pot station in the steel mill by combining the chemical heating station (IR-UT) with the dust collecting unit.

İsdemir 8th Air Separation Plant
The decision was taken to establish the 8th Air Separation Plant in order to save fuel by providing more oxygen injecting capability to the blast furnaces and to achieve lower operating costs than in the No. 1-5 air separation plants. Fieldwork in this vein is ongoing in the project and a contract for the establishment of the Joint Venture Co. was signed.

İsdemir Hot Slab Marking Machine Installation
Installation work will begin for the project which was designed with the aims of preventing quality deficiencies arising from unidentified slabs while improving energy efficiency, saving time and resources and reducing OHS risks. The manufacturing process of the slab marking machine was completed and installation work will begin.
Field studies are continuing for the Raw Material Stocking and Blending Fields, environmental investments, the Modernization of Converter Slag Holder System and the Conversion of BOF (Basic Oxygen Furnace) Melting Pot Station into Pot Heating in Erdemir, while field studies continue for the first phase design work of the South Port Project in İsdemir.

PROJECTS FOR WHICH THE PURCHASING PROCESS IS ONGOING

Erdemir New No. 4 Coke Oven Battery
The project, being developed in Erdemir, involves disabling the Erdemir No. 1 and 2 Coke Oven Batteries, which are about to complete their economic and environmental life span and manufacturing a new battery. The project also includes the modernization of by-product facilities that serve all of the batteries and the renewal of the battery cars of the existing No. 3 Coke Oven Battery. Specification revisions were completed to raise the annual capacity to 550 thousand tons, while purchasing work continues.

Erdemir No. 2 Cold Rolling Mill Continuous Pickling Tandem Line (CPL-TCM) Capacity Improvement and Strip Width Enlargement Project
In order to increase the use of equity in the new No. 2 Continuous Galvanizing Line project and to ensure full use of the annealing and tempering capacities of the No. 1 Cold Rolling Mill, the main facility contract work is continuing on the project to increase the width limits and plant capacity in the No. 2 Cold Rolling Mill Continuous Pickling Tandem Line.

48 OF THE 73 ENVIRONMENTAL INVESTMENT PROJECTS CARRIED OUT IN ERDEMİR AND İSDEMİR HAVE BEEN COMPLETED.

Erdemir 60 MW Turbo Generator and No. 6 Steam Boiler
Work on the EIA (environmental impact assessment) document was completed in this project, which is aimed at making maximum use of the blast furnace gas and increasing efficiency in steam production. Purchasing activities for the main plant contract and work on the preparation of project technical and commercial specifications within the scope of 60 MW Turbo Generator Purchase is continuing for the project.

Erdemir R&D Center and Simulation Center Project
Work is ongoing to establish the Erdemir R&D Simulation Center in order to develop new product and production technologies, increase product quality and standards, increase efficiency, reduce costs, save energy and maintain R&D activities more effectively and centrally. The R&D Simulation Center Project envisages the establishment of two laboratories; Raw Material R&D Simulation and Product Development R&D Simulation. These are planned to be completed by the end of 2017.

INVESTMENTS

WORK IS ONGOING AT İSDEMİR HOT ROLLING MILL IMPROVEMENT INVESTMENTS AIMING TO REACH WIDER PRODUCT RANGE AND SAVINGS IN PRODUCTION COSTS.

DECISION WAS TAKEN FOR ERDEMİR NO. 2 HOT ROLLING MILL QUALITY AND SUSTAINABILITY INVESTMENTS.

İsdemir Hot Rolling Mill Improvement Investments
After the investment aimed at reaching wider markets on the back of a wider product range and savings in production costs, it will be possible to produce thick products at API (the American Petroleum Institute) steel grades and up to 25.4 mm in thickness and to save the alloying elements in the production of existing grades.

In addition to these investments, work on the Renovation of No. 2 Picking Line Welding Machine Edge Cutting and Scrap Chopping Unit, Surface Inspection Systems, Steel Production Facilities Level 1-2 Modernization Completion, Energy Distribution System Additional Investments projects is continuing in Erdemir, while 3rd Coke Oven Battery Modernization studies are continuing in İsdemir.

PROJECTS FOR WHICH AN INVESTMENT DECISION WAS TAKEN IN 2016

Erdemir Steelworks Converters Modernization
The project aims to replace the converter body, trunnion, suspension and drive groups in order to avoid possible problems in the converters. The project aims to prevent time lost in production by providing an increase of productivity, paving the way for an approximately 10 thousand tons of additional slab production per annum after the investment.

Erdemir No. 2 Hot Rolling Mill Quality and Sustainability Investments and Level 2 Modernization
The Hot Rolling Mill Quality and Sustainability investments will ensure that spare parts are available for the stripe rolling 3K + 5K engines and MG-Set equipment, while also preventing break down status risk costs. The renewal of the Level 2 automation system within this scope aims to update the model structure, which is the main factor in the formation of product characteristics, while improving the ease of intervention in the software programs used and ensuring the system is used more effectively in improving the process conditions.

İsdemir Vacuum Degassing Plant
The RH Type Vacuum Degassing Plant at İsdemir will be able to decrease carbon levels, reduce process time and limit production losses thanks to the free board in pots. Once complete, İsdemir will be able to produce steels with very low carbon levels for the automotive and white goods markets.

In addition to these investments, decisions were taken to begin work on a roller roughening bench, dynamic UPS systems and distribution panels at Erdemir and the modernization of the Slab Casting Mold Level Control System and the combination of stock warehouses in on a single location at İsdemir.

INVESTMENT PROJECTS		2016		2017		2018		2019		2020		2021	
Name	**Company**	1.H	2.H	1.H	2.H	1.H	2.H	1.H	2.H	1.H	2.H	1.H	2.H
A- COMPLETED INVESTMENTS													
MODERNIZATION OF NORMALIZING FURNACE	ERDEMİR	■											
NO. 2 BLAST FURNACE RELINE AND STOVE MODERNIZATION	İSDEMİR	■											
HOT ROLLING MILL HARMONIC FILTER / COMPENSATION SYSTEM	İSDEMİR		■										
NO. 3 AND 4 BLAST FURNACE TRT PLANTS PROJECT	İSDEMİR		■										
B- ONGOING INVESTMENTS													
BLAST FURNACES TOP PRESSURE RECOVERY TURBINES (TRT) PROJECT	ERDEMİR			■									
REWAMP OF BOF LADLE TREATMENT STATION INTO LADLE FURNACE	ERDEMİR			■									
SURFACE INSPECTION SYSTEMS (1ST AND 2ND PHASE)	ERDEMİR			■			■						
CONSTRUCTION OF NO. 4 STOVE FOR NO. 1 BLAST FURNACE	ERDEMİR				■								
MODERNIZATION OF CONVERTER SLAG STOPPER SYSTEM	ERDEMİR				■								
DYNAMIC UPS SYSTEMS WITH DIESEL ENGINE GENERATOR AND DYNAMIC UPS DISTRIBUTION PANELS	ERDEMİR				■	■							
ERDEMİR GROUP R&D INVESTMENTS	ERDEMİR					■							
MODERNIZATION OF RAW MATERIAL STORAGE AND BLENDING YARDS	ERDEMİR					■							
NO. 2 CONTINUOUS GALVANIZING LINE (WIDE PRODUCT)	ERDEMİR					■							
NO. 2 PICKLING LINE WELDING MACHINE AND SIDE TRIMMER MODERNIZATION PROJECT	ERDEMİR					■							
NEW CENTRAL BATHS AND DINING HALL BUILDINGS	ERDEMİR					■							
60 MW NEW TURBO GENERATOR AND NO. 6 STEAM BOILER	ERDEMİR						■		■				
CONTINUOUS PICKLING LINE AND TANDEM COLD MILL (CPL&TCM) CAPACITY IMPROVEMENT AND STRIP WIDTH ENLARGEMENT PROJECT	ERDEMİR						■						
NEW EDT MACHINE	ERDEMİR						■						
COMPLETION OF MODERNIZATION OF LEVELS 1 AND 2 OF THE STEEL PRODUCTION FACILITIES	ERDEMİR						■						
ADDITIONAL INVESTMENTS IN ENERGY DISTRIBUTION SYSTEMS	ERDEMİR						■						
NO. 2 HOT ROLLING MILL QUALITY AND SUSTAINABILITY INVESTMENTS AND LEVEL 2 MODERNIZATION	ERDEMİR							■					
RECONSTRUCTION OF GÜLÜÇ GATE REGION AS TRANSPORTATION GATE	ERDEMİR							■					
ERDEMIR COKE OVEN BATTERY NO. 4 AND MODERNIZATION OF THE BY-PRODUCT PLAN	ERDEMİR									■			
ERDEMİR ENVIRONMENTAL INVESTMENTS	ERDEMİR										■		
ERDEMİR ADDITIONAL ENVIRONMENTAL PACKAGE-1	ERDEMİR										■		
MODERNIZATION OF STEELWORKS CONVERTERS	ERDEMİR												■
NEW ENVIRONMENTAL PACKAGE	İSDEMİR			■									
SOUTH PORT	İSDEMİR			■									
HOT SLAB MARKING MACHINE INSTALLATION	İSDEMİR			■									
ELECTRICAL STATION(ELECTRICAL ARC LADDLE FURNACE) - DEDUSTING & Water COOLING SYSTEMS MODERNIZATION	İSDEMİR			■									
NO. 8 AIR SEPARATION PLANT	İSDEMİR				■								
COMBINATION OF STOCK WAREHOUSES IN ON A SINGLE LOCATION	İSDEMİR				■								
MODERNIZATION OF THE SLAB CASTING MOLD LEVEL CONTROL SYSTEM	İSDEMİR					■							
HOT ROLLING MILL IMPROVEMENT INVESTMENTS	İSDEMİR						■						
MODERNIZATION OF NO. 3. COKE OVEN BATTERY	İSDEMİR									■			
VACUUM DEGASSING PLANT	İSDEMİR										■		

MANAGEMENT SYSTEMS

ERDEMİR GROUP COMPANIES COMPLETED THE RENEWAL AND SURVEILLANCE AUDITS FOR MANAGEMENT SYSTEMS IN 2016.

BY METICULOUSLY IMPLEMENTING MANAGEMENT SYSTEMS, ALL PROCESSES ARE PROVIDED WITH MORE EFFECTIVE, FLAWLESS AND LESS COSTLY FUNCTIONING.

Erdemir Group applies globally recognized management system standards.
Erdemir Group applies management systems for the adoption of quality culture by employees, the production of products that consistently meet customer expectations, the enhancement of customer satisfaction and the thorough analysis of the needs and expectations of stakeholders. By meticulously implementing and constantly improving these internationally accepted management systems, all processes are provided with more effective, flawless and less costly functioning.

Erdemir Group companies completed the renewal and surveillance audits for Management Systems in 2016.
In Erdemir and İsdemir, documentation and implementation activities are continuing according to new revisions of ISO 9001: 2015 Quality, ISO 14001: 2015 Environment, IATF 16949: 2016 Quality Management Systems for Automotive Sector. The certifications are aimed to be completed in 2017.

In addition, in 2016, Erdemir Group began to work on the establishment of a systematic for effective management of the risks, which are within the framework of management standards and the risks in other areas which companies may be exposed to, from a common platform.

ERDEMİR GROUP - MANAGEMENT SYSTEM CERTIFICATIONS

Management System	Erdemir	İsdemir	Ersem	Erdemir Romania	Erdemir Maden
ISO 9001 Quality	✓	✓	✓	✓	
ISO 14001 Environment	✓	✓		✓	
OHSAS 18001 Occupational Health and Safety	✓	✓		✓	✓
ISO 50001 Energy	✓	✓		✓	
ISO/TS 16949 Quality for Automotive Sector	✓	✓	✓		
ISO/IEC 27001 Information Security	✓	✓	✓		

SUSTAINABILITY
SUSTAINABILITY APPROACH

Steel is a 100% recyclable material.
The steel industry is one of the sectors where energy and water are heavily used and is at the forefront of the market dynamics for a sustainable low carbon economy or cyclical economy. Steel, one of the indispensables of modern life, also has a critical place in terms of economic growth. This property of the steel as a 100% recyclable and endlessly reusable material also helps sustainability as well as reducing the need for natural resources.

Its versatility that consists of basic factors such as reuse and production, repair and material recycling give steel an indispensable property also in renewable energy production. By-products and wastes from steel production can be effectively used as alternative raw materials by other sectors.

Erdemir Group believes that sustainable future is only possible with sustainable steel.
Erdemir Group, the largest steel supplier in the Turkish industry, adopts the understanding of OYAK, which is the main shareholder, as "more value with less resources" in the field of sustainability. Believing that sustainable future will only be possible with sustainable steel, Erdemir Group integrates this approach into all its activities. The company continues to produce by considering the needs of present and future generations in every area from meeting stakeholder expectations to protecting the environment, from production of economic value to social development.

The key principles of the present status of the sustainability journey that Erdemir Group launched with the aim of full compliance with legislation, effective management of energy, water and carbon are long-term strong financial performance, technological innovation for efficiency.

In our world where the need for steel steadily increases, Erdemir Group determined its 2020 vision on the basis that environmental, social and financial capital work within the framework of a sustainable business model, the expectations of community are met at the highest level and the culture of innovation.

As a result of the Group's successful performance in management of sustainability, Erdemir was one of only a few companies to be included in the Borsa İstanbul Sustainability Index in 2016, as it was in 2015.

Erdemir completed the Life Cycle Assessment study, which it initiated to establish its environmental footprint. The study assessed the environmental impacts by examining by-products of the production process, natural resources used during the production process and emissions of waste, water and air by analyzing data.

Within the scope of the work carried out with the ITU (Istanbul Technical University) and TSE (Turkish Standards Institute) in the scope of increasing the recycling of waste, which are the basis of the cyclical economy, it was determined that the steel mill slag was suitable for the standard of Aggregates for unbound and hydraulically bound materials for use in civil engineering work and road construction. Efforts were taken to ensure that it would be used as an alternative raw material in the cement sector.

ERDEMİR GROUP DETERMINED ITS 2020 VISION ON THE BASIS THAT ENVIRONMENTAL, SOCIAL AND FINANCIAL CAPITAL WORK WITHIN THE FRAMEWORK OF A SUSTAINABLE BUSINESS MODEL, THE EXPECTATIONS OF COMMUNITY ARE MET AT THE HIGHEST LEVEL AND THE CULTURE OF INNOVATION.

ERDEMİR GROUP BELIEVES THAT SUSTAINABLE FUTURE IS ONLY POSSIBLE WITH SUSTAINABLE STEEL.

OCCUPATIONAL HEALTH AND SAFETY

ERDEMİR GROUP IMPLEMENTS THE NECESSARY PHYSICAL ARRANGEMENTS AND IMPROVEMENTS IN WORKING ENVIRONMENTS IN ORDER TO REACH THE TARGETS STATED IN ITS OHS POLICY.

148,417

IN ERDEMİR, EMPLOYEES RECEIVED A TOTAL OF 148,417 MAN*HOURS OF OHS TRAINING IN 2016.

Erdemir Group companies integrate Occupational Health and Safety (OHS) management into all of their processes and are aware that a high OHS performance results in successful business results, with a belief that accident free production is possible. They demonstrate their objectives in this field with the OHS policy.

The Erdemir Group's OHS policy can be summed up as follows;

- To produce "Accident free Steel" by applying risk management,
- To safeguard the health of employees by making working environments safe,
- To ensure that employees take a stake in the sustainable "safety culture".

Erdemir Group implements the necessary physical arrangements and improvements in working environments in order to reach the targets stated in this policy. It provides personal protective equipment for its employees in accordance with the work that they carry out and supports them with systematic training in the field of OHS.

Erdemir, İsdemir, Erdemir Maden and Erdemir Romania fulfil the requirements of the TS-OHSAS 18001 Occupational Health and Safety Management System. They provide continuity and development of the system with the work they carry out and continue to document the achievements with audits conducted annually.

"I am Producing Safely" project launched for the safety culture.

Erdemir and İsdemir initiated the "I am Producing Safely" project with to raise awareness of the need to create a safety culture for accident free steel production and for the adoption of this culture by all employees. This project, which is focused on behavioral change, aims to assess the practices in the field of OHS in a holistic manner and to maximize employees' personal safety awareness and self-control.

OHS training continuing without interruption

Erdemir Group attaches great importance to OHS training for the creation and maintenance of a safety culture. It organizes different training sessions on risk for its own employees and the employees of its subcontractors, with the courses tailored to the characteristics of their work.

In 2016, in Erdemir, employees received a total of 148,417 man*hours of OHS training; subcontractor employees were provided with 4,789 man*hours of OHS training. In İsdemir, the employees were provided with 95,724 man*hours of OHS training; subcontractor employees received 34,013 man*hours of OHS training. A

OHS Training	Number of Attendant	Man-Hours	Ratio in Total Training (%)	Average OHS Training Hour per Employee
Erdemir	5,640	148,417	47	18.62
İsdemir	12,976	95,724	51	18.75
Erdemir Maden	265	6,237	43	23.54
Ersem	128	1,194	18	3.87
Erdemir Romania	263	4,348	39.85	17
Erdemir Mühendislik	236	1,886	17.9	8

total of 16 hours of OHS training were organized at Erdemir Maden with 84 employees provided with certified training on working at height and 24 employees provided with certified training on scaffolding installation and dismantling.

Erdemir and its companies within continuously improve their OHS performance.
In 2016, İsdemir achieved the best values of the last 15 years in terms of general accidents, accident frequency-weight ratios, total lost work days and accident numbers. In İsdemir, the frequency of accidents stood at 2.81 in 2016. Erdemir Maden, which started the year with a zero accident target, reached this goal and completed 2016 with zero accidents.

Erdemir Group companies closely monitor and improve their OHS performance through practices such as the OHS board, committee and subcommittee meetings which are carried out systematically with a wide participation, announced and unannounced safety walkabouts, near-miss applications and accident root cause analysis.

In 2016, 138 announced and 89 unannounced safety walkabouts were carried out in Erdemir. At İsdemir, 27 announced safety walkabouts were carried out. By evaluating the potential hazards and risks identified during the safety tours, a total of 3,916 environmental improvements were made in Erdemir. In İsdemir, 8,302 items were identified with improvement work carried out. Physical nonconformities identified by the hazard and near-miss incidents recorded by employees at Erdemir Maden were eliminated. In 2016, the audits in accordance with the 5S system in 582 areas in İsdemir's plants, offices and open areas of the units continued in order to ensure order in the work places by increasing the participation and motivation of employees with occupational safety. Improvements continued to be carried out by following up in line with the 5S system.

Erdemir Group uses accident notifications and near-miss practices which aim to identify situations which while not having any effect on employees, may cause injuries and damage in the event of repetition, as an effective tool to prevent accidents.

In 2016, in Erdemir, improvements were carried out following 2,104 hazard and 130 near-miss reports. In İsdemir, 89% of the issues identified for improvement were resolved, by working on 20,943 near-miss events during the year.

The "Ten Squared" projects, which started to be implemented in İsdemir in 2015 together with AKUT (Search and Rescue Association), Social Accountability International (SAI), which is the founder of the SA 8000 Social Compliance Standard and the Rapid Results Institute were successfully completed with the established teams within 100 days in 2016.

Emergency Management
In line with the Regulation on the Prevention of Major Industrial Accidents and Mitigation of Impacts, Erdemir and İsdemir delivered the Safety Report (The SEVESO Directive) to the Republic of Turkey Ministry of Labor and Social Security on 29 June 2016. The Company continues to work on the preparation of internal Emergency Plans.

As part of SEVESO activities and as stipulated by the Regulation on the Protection of Employees from the

ERDEMİR GROUP COMPANIES CLOSELY MONITOR AND IMPROVE THEIR OHS PERFORMANCE THROUGH VARIOUS PRACTICES.

560

IN 2016, 560 EMERGENCY TEAM MEMBERS RECEIVED RENEWAL TRAINING AT İSDEMİR.

OCCUPATIONAL HEALTH AND SAFETY

ERDEMİR GROUP PROVIDES ITS EMPLOYEES WITH PERSONAL PROTECTIVE EQUIPMENT THAT ARE SUITABLE FOR WORKING CONDITIONS AND WHICH MEET WORLD STANDARDS.

94

FIVE OF THE 94 GOOD PRACTICES IDENTIFIED IN ERDEMİR WERE SHARED WITH THE WORLDSTEEL.

Hazards of Explosive Gasses and the Regulation on the Equipment and Protective Systems Intended for Use In Potentially Explosive Gasses, Erdemir and İsdemir prepared explosion protection documents in the areas where there was a risk of explosion, areas where an explosion risk was classified, the anti-explosion characteristics of the equipment used in these areas and their compliance with area classifications were reported.

The training and cooperation protocol was signed between Erdemir and ÇASGEM (Directorate of Labor and Social Security Training and Research Centre), which is a training and research unit affiliated to the Republic of Turkey Ministry of Labor and Social Security, in May 2016. Within the scope of this protocol, the Report on Prevention of Large Industrial Accident in the Acid Regeneration Process of the Directorate of No. 2 Cold Rolling Mill was prepared.

In 2016, emergency training, plans and equipment were reviewed at İsdemir. Within the scope of I-ADYS, one general drill and 84 in-unit drills were carried out with the participation of 57 emergency managers, 475 incident scene managers and the employees working in emergency response teams from the units. In addition, 560 emergency team members received renewal training in the Emergency Training Centre.

Information Sharing
Erdemir and İsdemir are members of the Safety and Health Committee of the World Steel Association (worldsteel). In 2016, safety tours were organized in line with the criteria determined by the Association under the headings of moving equipment, falling from heights, falling objects, working in gaseous areas and cranes, areas which stand out with the highest incidence of deaths from work accidents in the steel industry. Improvement plans for the identified areas were drafted. In addition, five of the 94 good practices identified in Erdemir were shared with the worldsteel.

Erdemir attended the 8th International Occupational Health and Safety Conference organized by the Republic of Turkey Ministry of Labor and Social Security between 8 to 11 May 2016, with 3 oral presentations and 6 poster presentations to represent Erdemir.

Personal Protective Equipment
In 2016, Erdemir Group continued to work in the direction of identifying materials that are suitable for working conditions and which meet world standards, monitoring the materials during use and undertaking necessary improvements.

OHS award for Erdemir
Erdemir was handed an award in the "Gold Proposal OHS Competition" organized by the Turkish Metal Industries Union (MESS) for the second time in 2016 with the aim of spreading the culture of occupational safety. The good practices carried out by the employees of the Erdemir Assistant Operators Directorate were recognized with a prize in the MESS Gold Proposal competition.

HUMAN RESOURCES

Erdemir Group believes that its employees are its most important source of value and adopts the culture of "being us" as the basis of its human resources culture. It provides its employees with a healthy, safe and comfortable working environment to establish and maintain this culture and implements human resources practices that will increase the satisfaction and loyalty of its employees, support their professional and personal development and provide equality of opportunity in career, training and development. As those employees who produce information, are open to development, are responsible, generate solutions, are innovative and have an aptitude for team work progress towards common objectives as a part of a large family, this family is constantly developing and enriching itself with the new employees who join the organization.

As of the end of 2016, the Erdemir Group employed 12,277 people.

High Performance Culture
Erdemir Group always aims to achieve better and recognizes that strengthening its high performance culture is one of its priority strategies. It establishes an open and clear link between corporate culture, strategies and objectives for all employees. It works for employees to be motivated towards the right direction, to maximize their potential and to operate feedback mechanisms effectively by implementing improvements.

Erdemir Group applies performance management to all employees in order to determine individual objectives that are consistent with the objectives of the organization, to measure employees' contributions to plan their development by demonstrating their needs.

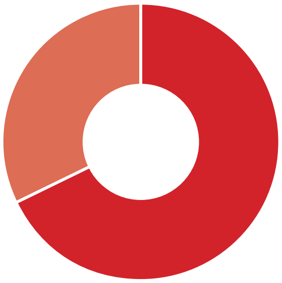
Addressing all human resources processes with a holistic approach, Erdemir Group defines the talent management processes in line with their strategies in view of the Group's objectives and supports the development of their employees with the competency model developed. In order to retain new and existing employees and reveal employees' potential, in addition to classroom training programs some practices such as mentoring and experiential learning are also implemented.

Erdemir Group Academy
Erdemir Group offers training and development opportunities to its employees throughout their working lives, starting from the first day they join the Group. The Erdemir Group Academy, which was restructured as a corporate university in 2015 in order to develop human resources that would give life to steel, continued its activities in 2016. Customized training and development programs are being carried out in the Group Academy by taking into account the positions, competencies and departments of the employees.

Erdemir Group, which also implemented an internal mentoring program to support the development of its employees and to transfer its leadership culture to new and potential leaders, has 71 mentors and 62 mentees. Also, within the scope of "Manager's First 90 Days of Mentorship", mentoring support is provided to those in management positions or higher and those who have been promoted or newly joined the Group, with the aim of accelerating their adaptation to the organization and their new roles.

ERDEMİR GROUP EMPLOYEES HAVE AN APTITUDE FOR TEAM WORK PROGRESS TOWARDS COMMON OBJECTIVES AS A PART OF A LARGE FAMILY AND THIS FAMILY IS CONSTANTLY DEVELOPING AND ENRICHING ITSELF WITH THE NEW EMPLOYEES WHO JOIN THE ORGANIZATION.

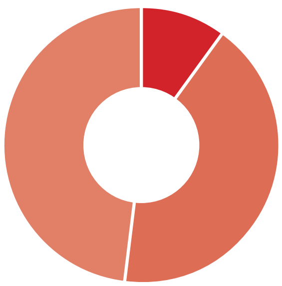
NUMBER OF EMPLOYEES



Blue-Collar 8,281 68%
White-Collar 3,979 32%
Contracted 17 0%

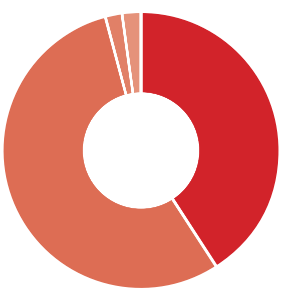
HUMAN RESOURCES

BREAKDOWN BY AGE



18-30 Years 1,189 10%
31-40 Years 5,132 42%
41-55 Years 5,879 48%
56 Years and Over 77 0%

EMPLOYEE TENURE



0-10 Years 5,025 41%
11-20 Years 6,741 55%
21-25 Years 199 2%
26 and Over 312 2%

Believing that one of the key components of being a high performance team is effective leadership, Erdemir Group established the Leadership Faculty in 2015 in order to create a culture of co-management and to raise leaders who will carry the organization into the future. During the Leadership Faculty in 2016, developmental programs which would complement each other on the basis of levels with the curriculum logic were offered. A developmental follow-up process was followed, which is structured with a grading system and graduation requirements. In 2016, 488 executives from the Group joined the program and the first phase of the faculty was completed. Executives who participated in the program developed their leadership competencies with different methods such as the 360 degree evaluation, one-to-one coaching, follow-up activities, learning from each other and classroom training.

In addition to the Leadership Faculty, the Erdemir Group Academy began to implement Technical Faculties in 2016 by prioritizing the needs focused on corporate strategies. In 2016, 82 people were included in the development process at the Marketing and Sales Faculty in what was a first step in this context.

The Erdemir Group Academy began to support individual development through the university collaboration during 2016 by offering discounts to employees for post graduate and certificate programs.

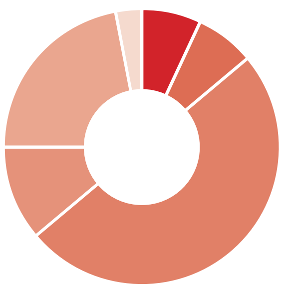
In 2016, the Group Academy, which manages training needs and activities for Erdemir Group under one roof to serve corporate strategies and objectives also designed training programs aimed at customers under six training headings to share the knowledge and experience of Erdemir Group with its customers. The 2017 training plans were set out in line with the training participation requests received from the customers.

Participation in congresses, summits, conferences and seminars
Erdemir Group provides its employees with the opportunity to participate in domestic and international conferences, congresses and summits to enable them to keep up with current trends and innovations in the sector and to give employees a platform to transfer their knowledge and experience. In this context, a total of 443 employees attended congresses, summits, conferences and seminars during 2016. Nine oral and poster presentations on Occupational Health and Safety were presented during 2016. İsdemir employees also presented 15 oral and poster presentations in four different congresses.

OCCUPATIONAL, TECHNICAL, OBLIGATORY TRAININGS/PERSONAL DEVELOPMENT AND EXECUTIVE TRAININGS

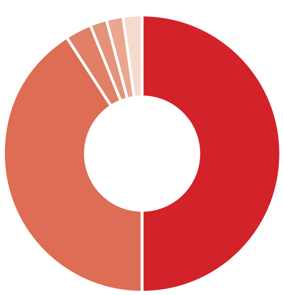
Company	Participants	Hours
Erdemir	35,673	223,057
İsdemir	23,690	187,712
Ersem	301	6,626
Erdemir Mühendislik	628	10,553
Erdemir Maden	1,802	14,459
Erdemir Romania	2,356	6,571

EDUCATION LEVEL



- **Primary School and Below 862** 7%
- **Elementary School 914** 7%
- **High School and Equivalent 6,116** 50%
- **Vocational School 1,296** 11%
- **Undergraduate 2,744** 22%
- **Master/Ph.D. 345** 3%

BREAKDOWN BY COMPANY



- **Erdemir 6,170** 50%
- **İsdemir 5,028** 41%
- **Ersem 308** 3%
- **Erdemir Mühendislik 239** 2%
- **Erdemir Maden 265** 2%
- **Erdemir Romania 263** 2%
- **Singapore Office 4** 0%

In-House Training System
A total of 3,158 Erdemir employees and 3,355 İsdemir employees took part in the In-House Training System, which is a dynamic training model which enables the continuous improvement of work styles by sharing knowledge and experience.

Internship programs
In 2016, Erdemir Group continued to offer internship opportunities within the quotas determined. Erdemir conducted its 2016 internship program with the brands of Iron Class, Steel Class and Ore Class with an approach oriented to man power needs. The Iron Class Program offered 182 vocational high school students on-the-job in-skill internships. The Steel and Ore Class Programs offered internships to 137 students from the Faculties and Vocational Higher Education Schools in the summer term. In the Ore Internship program, students work on project designs which they develop with the support of an employee from the organization who is assigned to each student and participate in the development programs prepared for them. This program, which is implemented with the aim of demonstrating students' potential and for them to be productive during their internship period, is organized for undergraduate students.

At the end of the internship, an assessment is performed by the intern evaluation team with the evaluation matrix and through exams and projects.

185 vocational high school students received skills training at İsdemir, while 65 vocational higher education school students and 348 university students were provided with summer internships. Eleven graduate engineers/specialist interns were provided with internships. Ersem offered internships to 11 vocational high school students and 5 university students while Erdemir Maden offered internships to 16 vocational high school students and 7 university students.

Facilities for employees
Erdemir Group offers its employees and their families a number of facilities, such as lodging, cultural centers, associations and social clubs, stadia, sports centers, tennis courts, beaches and swimming pools in Ereğli and İskenderun to support their loyalty, enrich their social lives and increase their communication with each other. Through its health centers, the Group provides preventive medicine, periodic examinations, preventive measures against occupational accidents and occupational diseases, emergency intervention and first aid services

ERDEMİR GROUP IMPLEMENTED AN INTERNAL MENTORING PROGRAM TO SUPPORT THE DEVELOPMENT OF ITS EMPLOYEES AND TO TRANSFER ITS LEADERSHIP CULTURE TO NEW AND POTENTIAL LEADERS.

HUMAN RESOURCES

THE PARTICIPATION AND CONTRIBUTIONS OF ERDEMİR GROUP EMPLOYEES PAVE THE WAY FOR A PROCESS OF CONTINUOUSLY IMPROVEMENT.

US$ 9
MILLION

IN 2016, ERDEMİR ACHIEVED US$ 9 MILLION IN ANNUAL SAVINGS FROM PROPOSALS SUBMITTED THROUGH THE PROPOSAL SYSTEMS.

to its employees. It applies private health insurance service and individual pension system to employee groups. It supports the employees with paid leave who continue to study in post graduate program. It serves food and transportation for its employees.

Continuous improvement achieved through active employee participation.
The participation and contributions of Erdemir Group employees pave the way for a process of continuously improvement. The input of employees through their know-how, experience, new ideas, teamwork and suggestion systems is transformed into value through the operational excellence projects carried out with statistical data analysis and by constructing experimental designs. Through these systems and projects, employees are able to achieve improvements and cost savings in the fields of occupational health and safety, environmental protection, customer satisfaction, quality and operational activities.

OPEX Projects implemented to reduce production cost, extend the lifespan of equipment, save energy, optimize use of raw materials and develop product quality also continued in 2016. The OPEX projects completed in 2016 are expected to yield US$ 1.12 million in annual savings for Erdemir and US$ 3.5 million in annual savings for İsdemir.

Training programs in Statistical Data Analysis Training (SDA) supported by the Minitab® program, Design of Experiments Training (DOE), Statistical Modeling Training for Executives (SMTE) and Measurement Systems Analysis (MSA) were provided at Erdemir and İsdemir, spreading operational excellence projects. A total of 42 employees received such training in Erdemir and 73 in İsdemir during 2016.

Within the scope of the proposal systems, employees at Erdemir and İsdemir shared their ideas for improvements in a wide range of areas, ranging from occupational health and safety to environmental performance, customer satisfaction, facilitating business processes and energy savings. In 2016, Erdemir achieved US$ 9 million in annual savings from proposals submitted through the proposal systems and whose earnings can be calculated.

Of the total 61,218 proposals, 21,155 were applied in İsdemir. The number of implemented proposals increased by 82% when compared to the previous year, with 12.18 proposals per person. İsdemir achieved US$ 729 thousand in savings during 2016 from those proposals submitted through the proposal systems and whose yields can be calculated.

A total of 213 improvement teams were established in 2016 within the scope of the team work in Erdemir (ERİT) program and 118 teams completed their work and shared their results.

Founded within the Erdemir Workshops and Maintenance Directorate, the Coil Winding Improvement Team provided a presentation in the 17th Quality Circles sharing conference of the Quality Association of Turkey (KALDER). The Safe Ramp Improvement Team was deemed worthy of the Golden Glove Award by the MESS.

In İsdemir, 278 of 1,102 kaizen, which was established in 2016, were completed. This achieved annual savings of US$ 12.2 million.

THE ENVIRONMENT AND ENERGY

ENVIRONMENT

Erdemir Group aims to leave a habitable world for future generations by continuously improving its environmental performance.

In this vein, Erdemir Group carries out work that focuses on the effective and efficient use of all resources, while maximizing recycling and contributing to the awareness and development of its stakeholders by encouraging multifaceted communication.

Erdemir completed the Life Cycle Assessment work that was launched in order to determine its environmental footprint. It assesses the environmental impact by examining the by-products, wastes, water and air emissions that occur during the production process together with the natural resources used in the production process.

Erdemir, İsdemir and Erdemir Romania implement the ISO 14001 Environmental Management System and ensure the continuation of the certification with the audits carried out every year.

Erdemir Group Environmental Policy

- To carry out technical, economic and commercial evaluations and apply technologies that ensure the lowest environmental waste emissions and to protect our natural resources with the effective and efficient use of raw materials,
- To monitor, assess and continuously improve the environmental impact of our processes in order to continuously improve our environmental performance,
- To reduce waste at its source, improve and encourage recycling, to collect and dispose of waste,
- To inform and to raise awareness among all of our social stakeholders, including our employees, customers, suppliers and the society and the state in which we live, about Erdemir's environmental viewpoint, practices and outcomes that it achieves and to establish an open communication.

Fulfilling legal requirements on the environment
Erdemir Group also performed activities to fulfil the requirements of legal regulations on the environment in 2016.

Within the scope of Turkey's Greenhouse Gas Emission Inventory limits, Erdemir's Greenhouse Gas Monitoring Plan was submitted to the Republic of Turkey Ministry of Environment and Urbanization in January 2016 and was approved by the Ministry.

Annual Validity Test (AVT) and Quality Assurance System (QAS2) measurements were carried out in the stacks connected to Continuous Emission Measurement Systems at Erdemir, İsdemir and Erdemir Maden. Within the scope of Industrial Air Pollution Control Regulation, emission measurements, which are required to be carried out by accredited laboratories every 2 years, were carried out in the 53 stacks at Erdemir and the results were reported. Meanwhile, within the scope of environmental permit confirmation measurements, emission measurements were made in 101 stacks and across the plant area in İsdemir and the reports were completed.

In Erdemir, new Continuous Wastewater Monitoring System (CWMS) were installed at the No. 1 and 2 Blast Furnace Cooling Water, Power Plant Cooling Water outlets. Comparison tests were carried out with

ERDEMİR GROUP CARRIES OUT WORK THAT FOCUSES ON THE EFFECTIVE AND EFFICIENT USE OF ALL RESOURCES, WHILE MAXIMIZING RECYCLING AND CONTRIBUTING TO THE AWARENESS AND DEVELOPMENT OF ITS STAKEHOLDERS BY ENCOURAGING MULTIFACETED COMMUNICATION.

THE ENVIRONMENT AND ENERGY

ERDEMIR'S GREENHOUSE GAS MONITORING PLAN WAS SUBMITTED TO THE REPUBLIC OF TURKEY MINISTRY OF ENVIRONMENT AND URBANIZATION IN JANUARY 2016 AND WAS APPROVED BY THE MINISTRY.

THE ENVIRONMENTAL IMPACT ASSESSMENT IS CARRIED OUT FOR ALL NEW INVESTMENTS OF THE ERDEMİR GROUP AND IN RENOVATION WORK OF EXISTING PLANTS.

the accredited laboratory in accordance with the Ministry's communiqué. After the Company had submitted the system approval file to the Republic of Turkey Ministry of Environment and Urbanization in June 2016, system approval was granted in August through the compliance audit with the communiqué, which was carried out under the supervision of the Ministry and the Provincial Directorate. Data for the suspended solids, chemical oxygen demand, conductivity, flow rate, temperature, dissolved oxygen, pH, which are all measured in the CWMSs, started to be monitored online through a connection with the Ministry data network.

CWMS integrated comparison tests, which are required to be carried out every 3 months, were realized in İsdemir during 2016 under the supervision of the Hatay Provincial Environment Directorate. In order to monitor the temperature of the cooling water which is discharged from the İsdemir Power Plant and discharged to the sea, the continuous measurement system was established at 7 points and the results began to be sent to the CWMS of the Ministry, in accordance with the principles set out in the Communiqué on Continuous Wastewater Monitoring Systems.

In Erdemir, in accordance with the Regulation on Safety Data Sheets for Hazardous Substances and Mixtures, safety data sheets were prepared for tar, benzole, ammonium sulphate, liquid oxygen, liquid nitrogen and liquid argon.

In accordance with the same regulation, the safety data sheets prepared in İsdemir include liquid oxygen, liquid nitrogen, liquid argon, tar, benzole, ammonium sulphate, blast furnace granulated slag, coke gas, blast furnace gas and steel mill gas.

Within the scope of the European Agreement concerning the International Carriage of Dangerous Goods by Road (ADR) and Regulation on the Transportation of Dangerous Goods by Road and compliance activities, three people in Erdemir and five people in İsdemir successfully passed the examination organized by the Republic of Turkey Ministry of Transport, Maritime Affairs and Communications and were then eligible to serve as a Dangerous Goods Safety Advisor.

Erdemir, which stores waste transformers with Polyclorlubiphenyl (PCB) in suitable areas, was included in the project that is carried out in cooperation with the Republic of Turkey Ministry of Environment and Urbanization, the United Nations Development Program (UNDP) and the United Nations Industrial Development Organization (UNIDO). Within the scope of the project carried out 2017, 34 transformers belonging to Erdemir and two transformers and 329 capacitors belonging to İsdemir will be disposed abroad.

All new investments assessed for their environmental impact

The environmental impact assessment is carried out for all new investments of the Group and in renovation work of existing plants. In this vein, in 2016, positive decision for the EIA for the 6th Steam Boiler project and "Environmental Impact Assessment is not Required" decision were issued for the No. 4 Coke Battery and By-Product Plant Capacity Increase project.

Waste disposed of in a manner to minimize the environmental impact. Erdemir Group reduces waste at its source, improves recycling and collects and disposes of waste in a manner to minimize the environmental impact in accordance with legislation.

In 2016, Erdemir continued to work on making use of steel mill slag which is released during the production process. A study was conducted in cooperation with Istanbul Technical University, the Turkish Steel Manufacturers Association, the General Directorate of Highways and sector organizations in order to enable the use of steel mill slag in road construction.

Following tests and examinations, the slag was found to meet TS EN 13242+A1 standards for aggregates for unbound and hydraulically bound materials for use in civil engineering work and road construction. When evaluated within the limits specified in the Technical Specifications of the Highways, the slag was found to be appropriate for use in all kinds of fillings in a manner that would not affect water resources, such as bituminous binder layers, unbound granular layers and in applications where the water/slag ratio is very high. In addition, the application submitted by the Ünye Cement Company to use steel mill slag as an alternative raw material was found approved by the Republic of Turkey Ministry of Environment and Urbanization on the condition that emission limit values were provided.

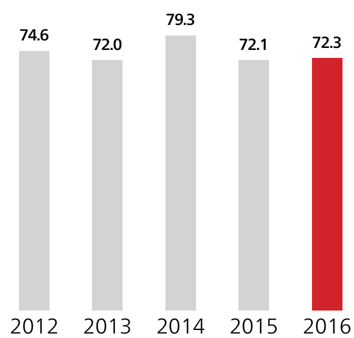
Within the scope of the waste management activities carried out in 2016, Erdemir prepared the Port Waste Management Plan and referred it to the Republic of Turkey Ministry of Environment and Urban Planning. The necessary data entries to the Ministry's Environmental Information Waste Management System were carried out.

19,659

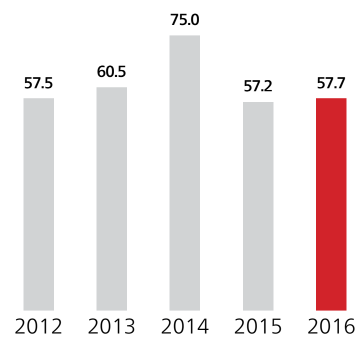
DURING THE YEAR ERDEMİR, İSDEMİR AND ERDEMİR MADEN PLANTED A TOTAL OF 19,659 TREES.

ENVIRONMENTAL AWARENESS ACTIVITIES, CARRIED OUT TO ENSURE THAT ERDEMİR'S ENVIRONMENTAL APPROACH IS ADOPTED BY ALL EMPLOYEES AND TO FULFIL LEGAL REQUIREMENTS, CONTINUED IN 2016.

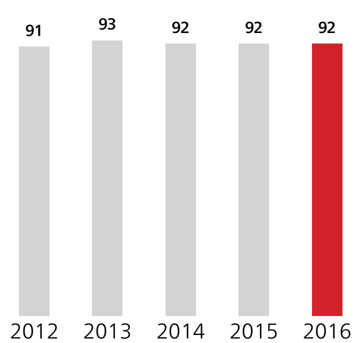
ERDEMİR SOLID WASTE RECOVERY RATE (%)



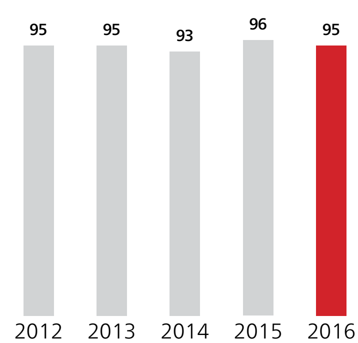
İSDEMİR SOLID WASTE RECOVERY RATE (%)



RATE OF RECIRCULATED WATER USE AT ERDEMİR (%)



RATE OF RECIRCULATED WATER USE AT İSDEMİR (%)



THE ENVIRONMENT AND ENERGY

ERDEMİR GROUP COMPANIES ARE AMONG THOSE WHO HAVE ACHIEVED SUCCESSFUL RESULTS IN SPECIFIC ENERGY CONSUMPTION THAT IS A SIGNIFICANT PERFORMANCE INDICATOR IN THE IRON AND STEEL INDUSTRY.

TS ISO 50001
ERDEMİR, İSDEMİR AND ERDEMIR ROMANIA IMPLEMENT THE TS ISO 50001 ENERGY MANAGEMENT SYSTEM.

Erdemir Maden also revised the Waste Management Plan, which is prepared every 3 years and it was submitted to the Provincial Directorate of Environment and Urbanism. The results of the regular analysis of the waste water produced in the plant were shared online. The waste water treatment plant was also commissioned for waste water produced from the underground operations.

Reforestation work carried out to protect green areas
Erdemir Group continued its work to protect green areas and increase the presence of trees in the regions where it operates in 2016. During the year Erdemir, İsdemir and Erdemir Maden planted a total of 19,659 trees.

Effective environmental awareness activities have been carried out.
Environmental awareness activities, carried out to ensure that Erdemir's environmental approach is adopted by all employees and to fulfil legal requirements, continued in 2016.

Within this scope, a total of 775 employees were provided with full day environmental awareness training on issues such as major industrial accidents, global warming, waste management, the importance of recycling and Erdemir Environmental Management System. A total of 55 newly recruited employees and 697 sub-contractor employees were provided with ISO 14001 Environmental Management System and environmental awareness training.

In İsdemir, sharing meetings were held to discuss environmental activities with participation of white and blue collar personnel in the main operation units.

As part of activities aimed at presenting its knowledge to stakeholders, Erdemir organized environmental awareness training sessions on the importance of recycling and the effects of waste on nature to a total of 262 students in the Gazi Primary School, the Nurdan and Ahmet Orhan Oğuz Primary School and the Erdemir Children's Home.

Entering agreements to support environmental protection efforts
Within the scope of the "Project for Determining Cleaner Production Possibilities and Applicability in the Industry" (SANTEM) carried out by İsdemir, TÜBITAK and the Republic of Turkey Ministry of Environment and Urbanization, a pilot facility was selected to investigate opportunities for clean production in the steel industry. Together with the TÜBİTAK team, a study was carried out on how existing best techniques in iron and steel production processes could be applied in the İsdemir site.

The Turkish Statistical Institute (TUSI) calculates the greenhouse gas emissions of iron and steel annually and presents its reports to the Secretariat of the United Nations Framework Convention on Climate Change (UNFCCC). In order to improve the method of calculating greenhouse gas emissions included in the said reports, studies were carried out in İsdemir within the framework of the TASK GHG Project (Technical Assistance Project for Supporting the Mechanism of Monitoring Greenhouse Gas Emissions of Turkey), which is carried out in partnership with the European Union and the Republic of Turkey Ministry of Environment and Urbanization and site visits were carried out.

ENERGY

For Erdemir Group, which operates in a sector heavily reliant on energy, energy efficiency is of tremendous importance when it comes to improving environmental performance and cost control.

Erdemir Group aims to apply technological innovations that enhance energy efficiency, maximize utilization of by-product gases released and waste heat and which minimize energy losses with systematic measurements and monitoring. For the Erdemir Group, which operates in a sector heavily reliant on energy, energy efficiency is of paramount importance when it comes to improving the environmental performance and cost control. Effective energy management supports environmental performance and also brings a competitive advantage.

Conducting systematic studies on energy efficiency in Erdemir Group
Group companies are among those who have achieved successful results in specific energy consumption that is a significant performance indicator in the iron and steel industry. In order to achieve this, by-product fuels that are released during the production process are being used at the maximum level, thus, energy losses are being avoided.

Erdemir, İsdemir and Erdemir Romania, which have the capacity to generate almost all of the electricity they use, implement the TS ISO 50001 Energy Management System.

Erdemir has achieved 44% energy savings in the consumption of specific energy since 1982 when Erdemir began systematic studies on energy efficiency and İsdemir has achieved 40% energy savings since 2001. İsdemir won first prize in the "Projects to Increase Energy Efficiency in Industry" (SEVAP-3) category in the "Energy Efficiency in the Industry Project Competition" held in 2016 and organized by the Republic of Turkey Ministry of Energy and Natural Resources, with its project to generate electricity with the Top Pressure Turbine in Blast Furnaces No. 3 and 4.

Energy Recovery Projects
Implementing a sustainable energy policy, in 2014 Erdemir completed a significant portion of its energy recovery projects to maximize the use of waste heat as part of energy saving investments. The Installation of Additional Combustion System at Waste Heat Boiler of the Cogeneration Power Plants, OG Fan Capacity Increase, the No. 3 Slab Oven Modernization and Cooling System (ECS) Improvement investments were all successfully implemented. The savings brought by these investments were clearly observed in 2015 and 2016.

The installation of LED bulbs, purchased in line with the Economic Analysis Report, in the Motor Rooms of the No. 1 Hot Rolling Mill and the No. 2 Hot Rolling Mill Slab / Stock Area were completed in Erdemir in 2016. The LED conversion project in the No. 2 Hot Rolling Mill Line and No. 1 Blast Furnace has approached completion.

The Erdemir Power Plant Fuel Optimization Project was completed and maximum efficiency was reached by optimizing the fuels used in the steam boilers. The No. 1 Blast Furnace Top Pressure Recovery Turbine was commissioned in February 2017. The No. 2 Blast Furnace Top Pressure Recovery Turbine is planned to enter operation in March 2017.

Feasibility studies were completed in the projects for the purchase of new steam boiler and new 60 MW extraction steam turbine generator (to take the place of the No. 1-2 and 3 Turbo Generators).

TRAINING PROGRAMS ON ENERGY SAVING, EFFICIENCY AND COST MANAGEMENT FOR EMPLOYEES AT ERDEMİR AND İSDEMİR CONTINUED IN 2016 AS WELL.

At İsdemir, Blast Furnace Top Pressure Recovery Turbines were commissioned in 2016.

The following improvement activities were also carried out with the aim of achieving energy efficiency in 2016.
- Increasing the converter gas gain,
- No. 5 Steam Boiler FD Fan Variable Speed Drive Application,
- Maintenance of the Large Transformer,
- Lighting Improvements,
- Modernization of the No. 2 Blast Furnace Gas Cleaning Unit,
- Mersin Stream Pumping Station Energy Saving,
- Renewal of the No. 4 Blast Furnace Primer Tower Fans.

Training programs on energy saving, efficiency and cost management for employees at Erdemir and İsdemir, who see people as the most decisive factor in the success of their work in the field of effective use of resources and energy efficiency continued in 2016 as well. This training was provided to 74 blue-collar employees in Erdemir in 2016, bringing the number of personnel to have received the training programs since 2007 to 4,573.

CORPORATE SOCIAL RESPONSIBILITY

ERDEMİR GROUP CREATES STRATEGIES WHICH CONTRIBUTE TO THE DEVELOPMENT OF SOCIETY AND TO SHARE THE ADDED VALUE THAT THE GROUP PRODUCES WITH SOCIETY.

Since its inception, the Erdemir Group has been committed to promptly fulfilling its responsibilities to stakeholders, establishing constructive relations with society and supporting social development through voluntary contribution activities.

Aiming to make its contribution to society sustainable

Creating strategies which contribute to the development of society and to share the added value the Group produces with society; Erdemir Group determined three main areas for corporate social responsibility activities in the workshops that it carried out in May 2015.

- Occupational Health and Safety
- Biodiversity
- Art

The Occupational Health and Safety - the "Producing Safely" Project

Field work for the "Producing Safely" project, which focuses on behavioral changes in the field of Occupational Health and Safety and which aims to bring the experience gained to external stakeholders, started in Erdemir and İsdemir in 2016.

Work was carried out for the behavior-oriented safety management in order to bring the level of Occupational Health and Safety in Erdemir and İsdemir to the 3rd phase in accordance with the Bradley Curve developed by Dupont. In this context, the basic concepts of behavior-oriented occupational health and safety were explained to those responsible for the production process. This understanding is planned to be spread to all employees in 2017 and then in later years to a broader stakeholder group extending to suppliers, contractors and to the families and children of the employees.

Biodiversity - Ottoman Strawberry Cultivation

Erdemir initiated a new project in order to increase the cultivation of the "Ottoman Strawberry" fruit, which is identified with the region in Karadeniz Ereğli, where the Erdemir facilities are located, but whose production was wound down in recent years. The project was also intended to contribute to the environment and biodiversity and create new business lines.

Within the scope of the project, as a result of the work carried out jointly with the District Directorate of National Education, the District Directorate of Agriculture and the Association of Spread of the Ottoman Strawberry, a plot of land found to be suitable for the cultivation of the Ottoman strawberry was provided and the cultivation of the plants was started. The cultivation of strawberry is planned for the allocated land and people of the region will be educated about the cultivation of the Ottoman strawberry.

Art-Steel and Life Sculpture Competition

Erdemir Group will hold its 4th Steel Sculpture Competition, which has the theme of Steel and Life, in 2017. This competition aims to emphasize the indispensable place of steel in human life through art and contribute to the education of art in our country.

Erdemir Group companies continued to support the regions where they operate.
Erdemir Group companies continued their social contribution activities throughout the country in 2016, especially in their regions of operation.

Within this scope;
- Heating and electricity needs of some educational institutions near the operation sites continued to be met.
- The Group met the sheet metal materials required by various education institutions in Turkey for various undergraduate and graduate studies. The group provided a number of services such as maintenance, repairs, materials, cleaning and lunch to education institutions in Karadeniz Ereğli, İskenderun and Divriği.
- The Group provided financial support for building renovation and landscaping at the Erdemir Adıyaman Vocational and Technical Anatolian High School, where Erdemir undertook the construction of the building.
- Food aid continued to be provided to families in need during Ramadan.
- Financial support was provided to aid campaigns organized to provide housing to the families of fallen soldiers in Karadeniz Ereğli.
- A cash donation was made to the TEIAS engineer who was injured in a terror incident in İskenderun, to meet his cost of the treatment and food aid was provided to the families of fallen soldiers in the Hatay region.
- Ten battery-operated wheelchairs were delivered to the Karadeniz Ereğli Association for the Physically Disabled to be distributed to families in need.
- Within the scope of Step by Step, that is a collective charity contest, Erdemir donated to those associations for which members of the Running Club run to raise funds for. Erdemir donated to Turkish Spinal Cord Injury Association (TOFD), Turkey Alzheimer's Association, the Seed Autism Foundation, the Search and Rescue Association (AKUT), the Mother and Child Education Foundation (AÇEV), Turkey Foundation for Children in Need of Protection (KORUNCUK), the Educational Volunteers Foundation of Turkey (TEGV) and the Tuvana Foundation For Educating Children (TOÇEV). Erdemir also provided a cash donation to the Clean Seas Association (TURMEPA), of which it is member.
- Erdemir, İsdemir and Ersem, who supported the ADMOG Project (Don't throw it away. Donate it. Help vocational schools get stronger), organized by the Association of Automotive Parts and Components Manufacturers (TAYSAD), provided measurement equipment to be delivered to schools.
- Erdemir repeated its children's theatre event which became a regular activity for the 23rd April National Sovereignty and Children's Day, in 2016. The "Water Drop" play, which drew attention to the importance of water, one of the most important natural resources, was shown to about 800 children free of charge.

ERDEMİR GROUP COMPANIES CONTINUED THEIR SOCIAL CONTRIBUTION ACTIVITIES THROUGHOUT THE COUNTRY IN 2016, ESPECIALLY IN THEIR REGIONS OF OPERATION.

TOWARDS FUTURE WITH STEEL

By striving for a sustainable future, by producing with respect to the environment, by contributing to the development of society with the awareness of social responsibility, with our sustainability and social responsibility projects, we bring light on the future with our determination...

CORPORATE GOVERNANCE
INFORMATION ON MEMBERS OF THE BOARD OF DIRECTORS

Members of the Board of Directors of Ereğli Demir ve Çelik Fabrikaları T.A.Ş.		
OYTAŞ İÇ VE DIŞ TİCARET A.Ş. (Representative: Ömer Muzaffer Baktır)	Chairman of the Board of Directors - Managing Director	Elected on September 20, 2012 as Independent Member of the Board of Directors of Erdemir, Ali Pandır resigned from his position as Independent Member of the Board of Directors as of November 14, 2013. Elected as a Member of the Board of Directors on May 27, 2013 and reelected as Member of the Board of Directors at the Ordinary General Assembly Meeting held on March 31, 2014 and appointed as Chairman of the Board of Directors and Managing Director, Ali Pandır had served as real person representative of OYTAŞ İç ve Dış Ticaret A.Ş. beginning from November 15, 2013. Ali Pandır has resigned from his duty on January 6, 2017 and Ömer Muzaffer Baktır is assigned as Chairman of the Board of Directors and Managing Director serving as real person representative of OYTAŞ İç ve Dış Ticaret A.Ş. effective from January 16, 2017.
OYKA KAĞIT AMBALAJ SANAYİİ VE TİCARET A.Ş. (Representative: Ertuğrul Aydın)	Deputy Chairman of the Board of Directors	Elected as Member of the Board of Directors of Erdemir on March 31, 2008, Ertuğrul Aydın resigned from his position as Member of the Board of Directors as of September 12, 2012. He was elected as Member of the Board of Directors on the same date; and reelected as Member of the Board of Directors at the Ordinary General Assembly Meeting held on March 31, 2014 and assigned as Deputy Chairman on April 1, 2016. Since that date, Ertuğrul Aydın has been serving as the real person representative of OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş.
REPUBLIC OF TURKEY PRIME MINISTRY PRIVATIZATION ADMINISTRATION (Represented by: H. Abdullah Kaya)	Member of the Board of Directors	Ali Kaban, who was appointed to the vacant position of real person representative of Privatization Administration of Turkey on March 6, 2014, was reelected as Member of the Board of Directors at the Ordinary General Assembly Meeting held on March 31, 2014 and served as the real person representative of the Privatization Administration of Turkey until the end of his duty on March 31, 2016. On April 1, 2016 H. Abdullah Kaya has been assigned as the real person representative of the Privatization Administration of Turkey.
OYAK PAZARLAMA HİZMET VE TURİZM A.Ş. (Representative: Fatma Canlı)	Member of the Board of Directors	Elected as Member of the Board of Directors of Erdemir on March 9, 2010, Fatma Canlı resigned from her position as Member of the Board of Directors as of September 13, 2012 and was elected as Member of the Board of Directors on the same date; and reelected as Member of the Board of Directors at the Ordinary General Assembly Meeting held on March 31, 2014. Since that date, Fatma Canlı has been serving as the real person representative of OYAK Pazarlama Hizmet ve Turizm A.Ş.
OYAK DENİZCİLİK VE LİMAN İŞLETMELERİ A.Ş. (Representative: Güliz Kaya)	Member of the Board of Directors	(The trade name of OYAK Girişim Danışmanlığı A.Ş. has been changed as OYAK Denizcilik ve Liman İşletmeleri A.Ş. in the Trade Registry Gazette dated October 31, 2016.) Elected as Member of the Board of Directors of Erdemir on September 30, 2009, Nihat Karadağ resigned from his position as Member of the Board of Directors as of September 12, 2012. He was elected as Member of the Board of Directors and appointed as Vice Chairman of the Board of Directors on the same date; and reelected as Member of the Board of Directors at the Ordinary General Assembly Meeting held on March 31, 2014 and appointed as Vice Chairman of the Board of Directors. Nihat Karadağ had served as the real person representative of OYAK Girişim Danışmanlığı A.Ş. until the end of his duty on March 31, 2016 and replaced by Dursun Özer Özdinç whose duty has ended on May 7, 2016. Assigned on June 16, 2016, Güliz Kaya has been serving as the representative of OYAK Denizcilik ve Liman İşletmeleri A.Ş. since that date.

OMSAN LOJİSTİK A.Ş. (Representative: Ahmet Türker Anayurt)	Member of the Board of Directors	Elected as Member of the Board of Directors of Erdemir on February 27, 2006, Dinç Kızıldemir resigned from his position as Member of the Board of Directors as of September 11, 2012. He was elected as Member of the Board of Directors and appointed as Member of the Board of Directors on the same date; and reelected as Member of the Board of Directors at the Ordinary General Assembly Meeting held on March 31, 2014 and appointed as Member of the Board of Directors. Dinç Kızıldemir had served as the real person representative of OMSAN Lojistik A.Ş. until the end of his duty on March 31, 2016. Ahmet Türker Anayurt has been serving as the real person representative of OMSAN Lojistik A.Ş. since April 1, 2016.
Emin Hakan Eminsoy	Independent Member of the Board of Directors	Emin Hakan Eminsoy was appointed as Independent Member of the Board of Directors on March 4, 2014. Mr. Eminsoy who was reelected as Independent Member of the Board of Directors at the Ordinary General Assembly Meetings held on March 31, 2015 and March 31, 2016, is currently holding his position.
Hakkı Cemal Ererdi	Independent Member of the Board of Directors	Hakkı Cemal Ererdi who was appointed as Independent Member of the Board of Directors on March 31, 2015 and who has been reelected for the same duty on March 31, 2016, both at the Ordinary General Assembly Meetings, is currently holding his position.
Yunus Arıncı	Independent Member of the Board of Directors	The duty of Ali Tuğrul Alpacar, who was elected as Independent Member of the Board of Directors on March 31, 2015, has been terminated as of March 31, 2016. Yunus Arıncı has been elected for this vacant position at the Ordinary General Assembly Meeting held on March 31, 2016 and is currently holding his position.

Erdemir Group General Managers		
Sedat Orhan	General Manager of Ereğli Demir ve Çelik Fabrikaları T.A.Ş.	Sedat Orhan has been serving as the General Manager of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. since August 16, 2013.
Toker Özcan	General Manager of İskenderun Demir ve Çelik A.Ş.	Recep Özhan, who was appointed as Acting General Manager of İskenderun Demir ve Çelik A.Ş. on July 2, 2012 and who has been serving as the General Manager since November 21, 2012 has been passed away on July 8, 2016. Toker Özcan has been assigned to this vacant position on January 16, 2017 and has been serving as General Manager since then.
Burak Büyükfırat	Acting General Manager of Erdemir Mühendislik, Yönetim ve Danışmanlık Hizmetleri A.Ş.	Burak Büyükfırat has been serving as Acting General Manager since February 2, 2015.
Başak Turgut	Acting General Manager of Erdemir Çelik Servis Merkezi Sanayi ve Ticaret A.Ş.	Başak Turgut has been serving as Acting General Manager since July 1, 2015.
Halil Melih Türkeş	General Manager of Erdemir Romania S.R.L.	Halil Melih Türkeş has been serving as General Manager since January 13, 2015.
Halil Yıldırım	General Manager of Erdemir Madencilik Sanayi ve Ticaret A.Ş.	Halil Yıldırım has been serving as General Manager of Erdemir Madencilik Sanayi ve Ticaret A.Ş. since September 2, 2013.
Sukhjeet Sekhon	General Manager of Erdemir Asia Pacific PTE. LTD.	Sukhjeet Sekhon has been serving as General Manager of Erdemir Asia Pacific PTE. LTD. since July 1, 2014.
Bora Uluğ	General Manager of İsdemir Linde Gaz Ortaklığı A.Ş.	Bora Uluğ has been serving as General Manager of İsdemir Linde Gaz Ortaklığı A.Ş. since December 15, 2016.

INFORMATION ON MEMBERS OF THE BOARD OF DIRECTORS

Erdemir Group Coordinators		
Emre Berk Hacıgüzeller	Chief Financial Management and Financial Affairs Officer	Bülent Beydüz, who had been serving as Erdemir Group's Chief Financial Affairs Officer since April 11, 2011, has resigned from his duty in this position as of February 20, 2017 and the name of the department has been changed as Financial Management and Financial Affairs Coordinatorship on February 21, 2017. Since that date, Emre Berk Hacıgüzeller has been serving as Chief Financial Management and Financial Affairs Officer.
Başak Turgut	Chief Marketing and Sales Officer	Başak Turgut who was appointed as Acting Chief Marketing and Sales Officer on February 1, 2013, has been serving as Chief Marketing and Sales Officer of Erdemir Group since June 10, 2013.
Vacant	Chief Production Officer	Oğuz Nuri Özgen, who has been serving as Erdemir Group's Chief Production Officer since July 2, 2012 has resigned from his duty in this position as of January 18, 2017.
İsmail Kürşad Korkmaz	Chief Purchasing Officer	Şevkinaz Alemdar, who was appointed as Acting Chief Purchasing Officer on May 18, 2013 and who has been serving as Chief Purchasing Officer of Erdemir Group since November 7, 2013 has resigned from her duty in this position as of February 20, 2017. İsmail Kürşad Korkmaz has been assigned to this position on February 21, 2017.
Eric Andre Cornil Vitse	Chief Technology Officer	Eric Andre Cornil Vitse has been serving as Erdemir Group's Chief Technology Officer since October 14, 2015.
Naci Özgür Özel	Chief Strategy Officer	Naci Özgür Özel has been serving as Erdemir Group's Chief Strategy Officer since May 29, 2014.
Banu Kalay Erton	Chief Corporate Affairs Officer	Banu Kalay Erton has been serving as Erdemir Group's Chief Corporate Affairs Officer since June 13, 2014.
Can Örüng	Chief Information Technology Officer (Acting)	Ahmet Tunç Noyan, who has been serving as Erdemir Group's Chief Information Technology Officer since July 1, 2014 has resigned from his duty as of February 20, 2017. Can Örüng has been assigned to this position on February 21, 2017 as Acting Chief Information Technology Officer.
Oya Şehirlioğlu	Chief Legal Officer	Oya Şehirlioğlu has been serving as Erdemir Group's Chief Legal Officer since January 14, 2015.
Can Örüng	Chief Enterprise Architect & Human Resources Officer	The name of Erdemir Group's Human Resources department has been changed as Enterprise Architect & Human Resources Coordinatorship on February 7, 2017 and Can Örüng has been assigned to this vacant position on same date as Chief Enterprise Architect & Human Resources Officer.

Assistant General Managers of Ereğli Demir ve Çelik Fabrikaları T.A.Ş.		
Aylin Velioğlu Çelik	Human Resources Assistant General Manager	Kaan Böke who had been serving as Human Resources Assistant General Manager since April 2, 2012, has resigned from his duty in this position as of July 15, 2016. Aylin Velioğlu Çelik was appointed this position since August 15, 2016.
Esat Günday	Operations Assistant General Manager	Esat Günday, who was appointed as Operations Acting Assistant General Manager on July 13, 2006, has been serving as Operations Assistant General Manager since January 1, 2007.
Sami Nezih Tunalıtosunoğlu	Financial Affairs Assistant General Manager	Sami Nezih Tunalıtosunoğlu has been serving as Financial Affairs Assistant General Manager since April 11, 2011.

TOP MANAGEMENT OF EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş.

Sedat Orhan
General Manager

Aylin Velioğlu Çelik
Executive Vice President Human Resources

Esat Günday
Executive Vice President Operations

Sami Nezih Tunalıtosunoğlu
Executive Vice President Chief Financial Officer

OTHER COMPANIES GENERAL MANAGERS

İSKENDERUN DEMİR VE ÇELİK A.Ş.

Toker Özcan
General Manager

ERDEMİR MÜHENDİSLİK YÖNETİM VE DANIŞMANLIK HİZMETLERİ A.Ş.

Burak Büyükfırat
General Manager (Acting)

ERDEMİR ÇELİK SERVİS MERKEZİ SAN. VE TİC. A.Ş.

Başak Turgut
General Manager (Acting)

ERDEMİR ROMANIA S.R.L.

Halil Melih Türkeş
General Manager

ERDEMİR MADENCİLİK SAN. VE TİC. A.Ş.

Halil Yıldırım
General Manager

ERDEMİR ASIA PACIFIC PTE. LTD.

Sukhjeet Sekhon
General Manager

İSDEMİR LINDE GAZ ORTAKLIĞI A.Ş.

Bora Uluğ
General Manager

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

SECTION I - STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

Ereğli Demir ve Çelik Fabrikaları T.A.Ş., one of the public companies in Turkey with the broadest base, enjoys a leading position in its field in the Turkish industry, and is well aware of its responsibilities towards its stakeholders. Transparency, accountable management approach, compliance with ethical and legal codes is integral components of the corporate management. Erdemir has always fulfilled its responsibilities, arising from legislations, in an accurate and prompt manner.

Our Company has assigned Investor Relations Manager who has "Capital Market Activities Advanced Level License" and "Corporate Governance Rating Specialist License", also works as a full-time manager in the corporation and a member of Corporate Governance Committee in accordance with CMB's II-17.1 Communiqué on Corporate Governance. In addition, Company has appointed an employee who works in Investor Relations Department.

Within the year 2016, our Company has been continued its endeavors to ensure full compliance with the mandatory or optional regulations of the Corporate Governance Principles within the scope of Communiqué numbered II-17.1 "Corporate Governance" - the details of which are presented below. In 2016, the procedures for designating independent candidates and making public disclosures were completed and candidates were elected according to regulations. The established committees under the BoD functioned effectively during the year. The information that must accompany the disclosure document to be submitted to the General Assembly includes such standard documents as those indicating preferred shares, voting rights and organizational changes, as well as the CVs of BoD membership applicants and the reports and announcements that need to be prepared for related party transactions, all of which were provided to our investors three weeks prior to the General Assembly. In addition, the Company's website and annual report were reviewed and revisions required to comply with the principles were made. The policies formed under the scope of the Corporate Governance Principles and the working directives of the committees are published on our website.

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. believes in the importance of ensuring full compliance with the Principles of the Corporate Governance. However, a number of obstacles stand in the way of compliance. There are a number of difficulties in the national and international arena concerning compliance, failure to ensure an overlap with the market and the current structure of the Firm. These are the difficulties which have caused possible delays in practice for the operations within the firm and a number of arguments in Turkey. Thus, full compliance has not yet been achieved as to a number of non- mandatory principles. An array of efforts and undertakings towards the goal of ensuring full compliance promptly are in progress. This goal will have been achieved upon the completion of administrative, legal and technical infrastructure projects. The said goal also includes the monitoring of the recent developments including the Capital Markets Board, which are to be issued, concerning the limited number of principles that have not been put into practice. The Principles of the corporate governance in practice and those which have not yet been harmonized are presented below.

SECTION II – THE SHAREHOLDERS

2.1. Investor Relations Department

The relationships with our partners, corporate investors and analysts are carried out systematically in a fashion that supports Company value. In line with this very purpose, the Company organizes meetings with the domestic and the foreign investors and announces material disclosures to the public immediately. Additionally, the Company fulfills its responsibilities towards regulatory bodies such as the Borsa Istanbul and the Capital Markets Board, and provides prompt replies to the queries of the partners, the analysts and the portfolio managers. In 2016, Investor Relations Department answered per month around 300 questions received from shareholders, institutional investors and analysts of investment firms by phone and e-mail.

Inquiries made by our shareholders by telephone and e-mail within the year are responded to. Such inquiries are concerned with the legislation about non-registered shares, the general assembly and the dividend distribution. Depending on the nature and the content of the requested information in case of necessity, the query is shared with the independent auditors of the Company and the relevant responses are submitted to the enquirer.

The remarks concerning the financial statements and the footnotes as well as the material disclosures are announced to the investors of the Borsa Istanbul and to the public via Public Disclosure Platform. The financial statements, the footnotes and the material disclosures are also published on the Company website.

Investor Relations Department has been formed which reports directly to the Group Chief Corporate Affairs Officer Banu Kalay Erton. The relevant contact information is available in the annual report and on the Company website.

Investor Relations Department

Name	Title	Telephone	E-mail
İdil Önay Ergin	Manager	+90-216-578 81 49	ionay@erdemir.com.tr
Ahmet Görpeoğlu	Specialist	+90-216-578 80 97	agorpeoglu@erdemir.com.tr

İdil Önay Ergin who has "Capital Market Activities Advanced Level License" and "Corporate Governance Rating Specialist License" was employed in the corporation as a full-time manager and appointed as a member of Corporate Governance Committee in accordance with CMB's II-17.1 Communiqué on Corporate Governance.

Investor Relations Department prepares an activity report, at least annually, to the BoD. 2016 activity report presented in BoD meeting dated 07 February 2017.

The table below present's activities performed within 2016 so that investors could be informed in-depth concerning the operations of the Company:

The number of investors and analysts who have been contacted	365
The number of tele-conferences held regarding financials	4
The number of meetings held regarding financials	4

2.2. The Use of Shareholders' Rights to Obtain Information

Pursuant to the Public Disclosure Policy of our Company, all shareholders, potential investors and analysts shall be treated equally and fairly with regard to their right of the use of request and enquiry of information. It is also essential that our disclosures be passed onto everyone simultaneously with the same content. All information sharing is to be made in line with the content announced to the public earlier. Within the framework of the sharing of information, the shareholders and the market players are informed regarding all types of information along with material disclosures. The retrospective material disclosures are published on the Company website.

Loads of written and verbal requests for information from the shareholders are responded to promptly under the supervision of the Investor Relations Department and in line with the provisions of the Capital Markets Board Legislation. For the purpose of extending the shareholders' right to enquiry, any information that might harbour an impact on the shareholders' right of use under the principles of the Corporate Governance is updated and published on the website. The information on our website is published in Turkish and English, and duly allows fair use for both domestic and foreign shareholders.

The company's activities are audited by an Independent Auditor(s) appointed by the General Assembly, regularly and periodically. The independent auditing procedures for the year 2016 were carried out by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (i.e. A Member Firm of Ernst & Young Global Limited).

The request of shareholders allowing the appointment of a special auditor has not been drawn out as an individual right as per our Articles of Association. Accordingly, no request concerning the appointment of a special auditor, has been received by our Company yet.

2.3. The General Assembly Meetings

Ordinary General Assembly shall be held within three months from the end of the Company's activity period and at least once in a year, discussing and resolving upon the subjects of agenda. Extraordinary General Assembly shall be held whenever required by the Company's business in compliance with the provisions written in the law and Articles of Association.

The Ordinary General Assembly Meeting for the year 2015 was held on March 31, 2016 in İstanbul and 66.74% of the shares were represented in the General Assembly.

Invitations to the General Assembly Meetings are issued by the BoD in compliance with the Turkish Commercial Code (TCC), Capital Market Law and Company's Articles of Association. The public is informed immediately of the BoD's decision to hold the General Assembly Meeting through the Public Disclosure Platform and Electronic General Meeting System (e-GEM). It is also published in the Turkish Trade Registry Gazette and national newspapers. General Assembly announcements are made in a way

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that complies with legal regulations as well as made on our websites at www.erdemir.com.tr and www.erdemirgrubu.com.tr no later than 3 weeks prior to the General Assembly in order to reach the highest number of shareholders possible.

Prior to the General Assembly Meeting, the agenda items and related documents are announced to the public in compliance with all legal processes and regulations. Balance sheets, income statements and annual reports are prepared prior to the General Assembly Meetings and made available to shareholders within the period determined in the applicable regulation via the websites, at the Head Office of the Company in İstanbul and Karadeniz Ereğli plant a copy of the above documents are provided upon request. The General Assembly Meeting Minutes and information documents which Company is obliged to provide as per corporate governance principles, are made available for uninterrupted access to our shareholders on www.erdemir.com.tr and www.erdemirgrubu.com.tr.

Open ballot voting is used in the General Assembly for voting on agenda articles by raising hands or electronic voting. Chairman of the General Assembly Meeting is responsible from managing the meeting efficiently and providing usage of shareholders' rights.

The members of Board of Directors, officers responsible from preparing financials, auditors and people who are related with the agenda items take great care to attend the meetings.

There had been no shareholders intended to ask questions or raise their concerns out of the agenda at the Ordinary General Assembly Meeting. No shareholders submitted a written question to the Investor Relations Department on the basis of not having received an answer at the General Assembly Meeting.

During the Ordinary General Assembly Meeting held in 2016, the company did not receive any requests from shareholders for any additional items to be included on the agenda.

The minutes and the list of attendants of the General Assembly Meetings are disclosed to public via the Company's website, Public Disclosure Platform, Electronic General Meeting System (e-GEM) and published in the Turkish Trade Registry Gazette pursuant to the relevant regulations. Consequently, media members and other stakeholders cannot attend the general assembly meetings.

General Assembly meetings are held in Istanbul (Company Headquarters) and Electronic General Meeting System to facilitate attendance at meetings. Under conditions stipulated in the Articles of Association, meetings may be held in Ankara or Karadeniz Ereğli. The location of the General Assembly meeting is selected to enable easy access to all shareholders. Proxy forms were placed on our website and announced to shareholders in a newspaper for shareholders wishing to be represented through proxy at the meeting. Resolutions made by the Board of Directors for the convention of General Assembly Meeting are shared with the public via disclosures.

There has not been any transaction that required the approval of the majority of the independent board members for the Board of Directors to take a decision, and where the decision was left to be resolved by the General Assembly because this condition was not met.

A separate item on the General Assembly agenda regarding the donations and the aids offered in the period is included. Within the framework of the Company's Donations and Contribution Policy, the Shareholders were kept informed of the donations and contributions realized in 2014 and 2015, which amounted to 1,398,594 TRY and 815,461 TRY, respectively.

Shareholders who have a management control, members of the Board of Directors, managers with administrative responsibility and their spouses, relatives by blood or marriage up to second degree have not conducted a significant transaction with the company or subsidiaries thereof which may cause a conflict of interest, or/and conduct a transaction on behalf of themselves or a third party which is in the field of activity of the company or subsidiaries thereof, or become an unlimited shareholder to a corporation which operates in the same field of activity with the company or subsidiaries thereof. There were also no transactions conducted by persons who have the opportunity to access information of the company in a privileged way, on their behalf within the scope of the company's field of activity.

2.4. Voting Rights and Minority Rights

The shareholders or their proxies who present in the Ordinary and Extraordinary General Assembly meetings shall exercise their voting rights pro rata to the total nominal value of the shares. Each share has only one voting right. In the meetings of General Assembly, shareholders may cause to represent themselves through other shareholders or proxies assigned from outside of the Company. Proxies who are also company shareholders have the authority to cast the votes of shareholders to whom they represent, in addition to their own votes. The rights of voting by proxy are reserved within the Capital Markets Board regulations.

Shareholders may participate in General Assembly meetings via electronic environment pursuant to Article 1527 of Turkish Commercial Code. Company may setup an electronic general assembly system which will enable Shareholders to participate in the General Assembly meetings, to communicate their opinions, to furnish suggestions and to cast their votes or may purchase service of systems set up for such purposes pursuant to the provisions of Regulation on General Assembly meetings of Joint-Stock Companies to be held via Electronic Environment.

The capital is divided into shares Group A and Group B. 1 share of certificate, issued to the bearer amounting to 1 Kr is Group A and 349,999,999,999 share of certificates amounting to 3,499,999,999.99 Turkish Liras is Group B.

Resolutions regarding any amendment in the Articles of Association which are likely to affect, directly or indirectly, the obligations in the Share Sale Agreement in respect of investment and employment, and, the rights granted to the Group A shares in connection with those obligations as well as the amendments which are to affect the quorum for meeting and resolution of Board of Directors and the rights belonging to the Group A shares,

- Resolutions regarding closedown or sales of or an encumbrance upon the integrated steel production facilities and mining facilities owned by the Company and/or its subsidiaries or a resolution on reduction in capacity of such facilities,

- Resolutions regarding closedown, sales, demerger or merger or liquidation of the Company and / or its subsidiaries owning the integrated steel production facilities and mining facilities,

can be passed only through affirmative votes of the usufructuary in representation of Group A shares. Otherwise, the resolutions passed shall be invalid.

No cross shareholding relations exist in the capital of the Company. Minority shares are not represented in the management. Cumulative voting system is not mentioned in the Articles of Association. Even though minority rights are not determined less than one in twenty by the Articles of Association, in accordance with Article 38 of the Articles of Association, provisions of Turkish Commercial Code and Capital Market Law shall be applied to the issues that are not written in the Articles of Association in regard to minority rights.

2.5. Dividend Right

The Articles of Association do not grant any privileges regarding participation in the company's profits. Each share has an equal dividend right.

The dividend distribution policy, as disclosed to shareholders at the General Assembly, is in the activity report. In addition, the policy is posted on the Company website, along with a short history of dividend distribution and detailed information about capital accumulation.

The distribution of the company profit is stated, in compliance with the arrangements of the Capital Markets Board, following the Article 34 of the Articles of Association, titled "Determination and Allocation of the Profit".

Our Company's Dividend Distribution Policy is as follows:

"As a principle, Company implements the policy of distributing all of its distributable profit in cash within the provision of forecasted free cash flow generation by considering financial leverage ratios, investment/ financing needs and anticipation of the market under the scope of effective regulations and clauses of Company's Articles of Association. Dividend distribution policy is reviewed by the Board of Directors every year considering national and global economic conditions, Company's projects on agenda and funds.

Dividend is paid by fixed or variable installments in accordance with the legislation by giving authority to the Board of Directors at the General Assembly Meeting, where dividend distribution is decided, until 15 December of the relevant calendar year.

General Assembly is authorized for distribution of dividend advance in accordance with relevant legislations."

At March 31, 2016 dated Ordinary General Assembly, it has been decided to distribute TRY 1,050 million cash dividend based on 2015 financial results and as of May 25, 2016 dividend distribution has been started.

2.6. Transfer of Shares

There is no restriction regarding the transfer of our Company's shares in the Articles of Association, and the provisions of the Turkish Commercial Code shall be applicable on this matter.

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SECTION III – THE PUBLIC DISCLOSURE AND TRANSPARENCY

3.1. Corporate Website and Its Contents

Erdemir's corporate websites (www.erdemir.com.tr and www.erdemirgrubu.com.tr) is actively in use both in Turkish and English. The websites includes the following issues under the Investor Relations heading:

- Corporate Governance	- Summary Information for Investors
- Corporate Governance Principles Compliance Report	- Presentations
- Corporate Governance Compliance Rating Report	- Financial and Operational Highlights
- Board of Directors	- Profile
- Management	- Annual Reports
- Capital Structure	- Disclosures and Announcements
- Trade Registry Information	- General Assembly Announcement
- Articles of Association	- Minutes of General Assembly
- Information About the Share which has Usufructary Right	- General Assembly Meeting Information Document
- Safe Harbour Statement	- General Assembly List of Attendants
- Code of Ethics and Business Conduct	- The Proxy Statement
- Policies and Regulations	- Dividend Payments and Capital Increases
- Committees	- Credit Ratings
- Internal Directive on the Operation Principles and Procedures of the General Assembly	- Stock Price Information
- Independent Auditor	- Analyst Information
- Chairman's Message	- Frequently Asked Questions
- Interim Reports	- Contact Us
- Financial Statements	

Complete information required by the CMB Corporate Governance Principles is available on our company websites.

3.2. Annual Report

The Ereğli Demir ve Çelik Fabrikaları T.A.Ş. annual report is prepared in detail and according to CMB Corporate Governance Principles to ensure that complete and accurate information about the Company's operations reaches the public.

SECTION IV – STAKEHOLDERS

4.1. Informing Stakeholders

Stakeholders such as the company employees, the customers, the suppliers, the trade unions, the non-governmental organizations, the state and the prospective investors are provided, upon request, with written or verbal information on the issues concerning them besides the information included in the financial statements and the reports disclosed to the public as per the legislations of the Capital Markets Board.

The Company employees are informed regarding the company practices through e-mail, company's newspaper and intranet announcements.

The demands and expectations of our customers are received through customer visits, and activities for developing new qualities are carried out depending on the changing demands that may emerge in the market. The customer complaints are delved into in the field and the required corrective actions are taken accordingly.

After the market researches, offers are requested from suppliers for the procurement of the materials and services. Feedback is provided on demand basis after the evaluation of the relevant procurement departments.

Additionally, our Company exchanges ideas with the potential customers and suppliers during the exhibitions and fairs.

The recommendations and ideas of our employees are received through the Erdemir Recommendation System and the Performance Management System. The required upgrading and improvement actions are practiced accordingly.

The Company has set up a mechanism which allows the stakeholders to convey transactions against the company legislation and non-ethical behaviours to the Code of Ethics Advisors and/or the Ethics Committee. For this purpose, contact addresses are provided on the Company website under the heading of the Code of Ethics and Business Conduct.

4.2. Participation of Stakeholders in Management

No particular regulation exists for the stakeholders' participation in the management. However, our affiliates, employees and the other stakeholders are informed through meetings. All of the Board Members are elected by voting in General Assembly with the attendance of stakeholders.

4.3. Human Resources Policy

Operating in an industry where competitive market conditions prevail, Erdemir Group has established its human resources policies and practices on forming, improving and retaining qualified labour force equipped with skills of producing knowledge, identifying solutions to problems, taking initiative by assuming responsibility, being open to improvement and suitable for teamwork.

For this main objective, the Group is attentive to employing staff members who are appropriate for the Group's strategies and objectives. The Group also pays due notice to offering training opportunities to the current employees so that they can have the means of enriching their professional experience.

Erdemir Group effectively identifies the needs of its white and blue collar employees for training and improvement as well as the added-value they create through the Personal Performance Management System. Moreover, the Group carries out processes of assignments and appointments in a manner that would maximize business productivity in line with objective criteria.

Relations with unionized workforce are carried out through the representatives of the trade union. For white-collar employees, there is no extra trade union representative. However, the required divisions such as the Human Resources, the Training, the Administrative Affairs, the Occupational Health and Safety have been established within the Group in order to carry out relations with our employees. The Group did not receive any complaints from the employees in relation to any cases concerning discrimination in 2016 or the previous years.

The company has created written procedures and regulations regarding all human resources processes and all these documents are made available to all employees at an easily-accessible corporate portal. Furthermore, employees are also informed via e-mail.

4.4. Code of Ethics and Social Responsibility

The fundamental principles of the business conduct have been determined by the Code of Ethics and Business Conduct, which are disclosed to the public through the Company's websites (www.erdemir.com.tr and www.erdemirgrubu.com.tr). Code of Ethics and Business Conduct constitute the common values and creeds of our company along with the changes occurring in legal, societal and economic conditions.

Our Company fulfills its responsibilities towards the society. While creating value for the economy of the region and the country, the Group operates through its goods and services. Furthermore, Erdemir Group subsidiaries maintain their contributory activities for the societal development in a broad range, which is considered an integral part of the business processes.

For the Group, contributing to social issues voluntarily and effectively by coming up with solutions is a significant principle. Accordingly, the Group maintained its activities regarding social responsibility in cooperation with the local authorities and the non-governmental organizations in 2016. In order to provide a number of activities: improving the physical conditions and technical equipment of the health and education institutions, philanthropic undertakings, supporting arts and sports activities, supporting scientific studies of universities, offering opportunities of internship to the university and vocational school students can be listed all pursuant to the Group's adherence to the principle of social responsibility.

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SECTION V – BOARD OF DIRECTORS

5.1. Structure and Formation of Board of Directors

Within the scope of Articles of Association, Board of Directors consists of minimum 5 and maximum 9 members to be selected by the General Assembly of Shareholders under the provisions of Turkish Commercial Code and Capital Markets Board Law. Members of Board of Directors are appointed for three years and the independent members are appointed for 1 year; the members with expired tenure may be re-elected.

9 members, 3 of whom would be independent members, were elected at the Ordinary General Assembly Meeting dated March 31, 2016. Our Chairman was appointed as the Managing Director. Although there is no executive board in the Company, OYTAŞ İç ve Dış Ticaret A.Ş. (Represented by: Ömer Muzaffer Baktır) serves as the Managing Director. Sedat Orhan was appointed as General Manager of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. in 16.08.2013. Our General Manager's résumé was published on our Company websites.

The procedure to be followed to assemble the Board of Directors, the quorum for the meeting and the resolution, voting, as well as duties, rights and authorities of Board of Directors are subject to provisions of Turkish Commercial Code and related legislation.

Board of Directors	Title	Effective from
OYTAŞ İç ve Dış Ticaret A.Ş. (Represented by: Ömer Muzaffer BAKTIR)	Chairman – Executive Director	27.05.2013 (*)
OYKA Kağıt Ambalaj Sanayii ve Tic. A.Ş. (Represented by: Ertuğrul AYDIN)	Deputy Chairman	12.09.2012 (*)
Republic of Turkey Prime Ministry Privatization Administration (Represented by: H. Abdullah KAYA)	Board Member	20.09.2012 (*)
OYAK Pazarlama Hizmet ve Turizm A.Ş. (Represented by: Fatma CANLI)	Board Member	13.09.2012 (*)
OYAK Denizcilik ve Liman İşletmeleri A.Ş. (Represented by: Güliz KAYA)	Board Member	12.09.2012 (*)
OMSAN Lojistik A.Ş. (Represented by: Ahmet Türker ANAYURT)	Board Member	11.09.2012 (*)
Emin Hakan EMİNSOY	Independent Board Member	04.03.2014
Hakkı Cemal ERERDİ	Independent Board Member	31.03.2015
Yunus ARINCI	Independent Board Member	31.03.2016

(*) Legal entity's duty starting dates were considered.

Three applications to our Company were evaluated in 2016 for Independent Board Member position. In our Company tasks of Candidate Nomination Committee are carried out by Corporate Governance Committee. The Committee reports, prepared by the Committee on January 22, 2016 and March 30, 2016 pertaining to the candidacy of Mr Emin Hakan Eminsoy, Mr Hakkı Cemal Ererdi and Mr Yunus Arıncı as the independent board members were submitted to the Board of Directors on January 26, 2016 and March 31, 2016. Due to being a member of the Group 1 within the scope of Corporate Governance Principles, the application was submitted to the Capital Markets Board in line with the required process pertaining to the independent board members. No opposing or dissenting view was received for this. The independence declarations of the Independent Board Members are included in the appendix of the Board of Directors' Activity Report. In 2016, no situation has occurred for violation of the independency.

It has been decided to be registered and to be announced of the assignments of Dursun Özer Özdinç as the representative of OYAK Girişim Danışmanlığı A.Ş. due the end of Nihat Karadağ's duty; H.Abdullah Kaya as the representative of Republic of Turkey Prime Ministry Privatization Administration due to the end of Ali Kaban's duty and Ahmet Türker Anayurt as the representative of OMSAN Lojistik A.Ş. due to the end of Dinç Kızıldemir's duty in the Trade Registry Gazette by the resolution of Board of Directors, dated 1 April 2016 and numbered 9408.

OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş (Represented by Ertuğrul Aydın) has been elected as Deputy Chairman by the resolution of Board of Directors, dated 1 April 2016 and numbered 9409.

It has been decided to be registered and to be announced of the assignments of Güliz Kaya as the representative of OYAK Girişim Danışmanlığı A.Ş. due the end of Dursun Özer Özdinç's duty in the Trade Registry Gazette by the resolution of Board of Directors, dated 16 June 2016 and numbered 9417.

It has been decided to be registered and to be announced that the trade name of OYAK Girişim Danışmanlığı A.Ş. has been changed as OYAK Denizcilik ve Liman İşletmeleri A.Ş. in the Trade Registry Gazette by the resolution of Board of Directors, dated 8 November 2016 and numbered 9435.

It has been decided to be registered and to be announced of the assignment of Ömer Muzaffer Baktır as the representative of Chairman and Executive Director OYTAŞ İç ve Dış Ticaret A.Ş. as of 16 January 2017 due the end of Ali Aydın Pandır's duty on 6 January 2017 in the Trade Registry Gazette by the resolution of Board of Directors, dated 05 January 2017 and numbered 9442.

The members of the Board of Directors are not prevented from assuming other duties outside the company. The Board Members' résumés and duties outside of the Company, are published on the Company website, under the scope of the Corporate Governance Principles No: 1.3.1. The positions held outside of the Company by the Board Members can be found in the appendix of the Board of Directors' Annual Report.

Except the Independent Board Members, Board of Directors consists of legal persons and Company has two woman members who are the proxy of a legal person.

In every General Assembly, it is consented to give the authority to have titles out of the Company according to article 395 and 396 of Turkish Commercial Code (TCC) to the Members of the Board.

5.2. Principles of Activity of the Board of Directors

The Board of Directors meets at the Company headquarters or at a different location, determined by the Board, at least six times a year or as often as business requires. The Board of Directors elects a chairman among its members during the first meeting of the year. In the absence of the chairman, a deputy chairman is also elected by the Board of Directors to act on behalf of the chairman. The procedure applied for assembling the Board of Directors, the quorum for the meeting, the resolution and voting as well as the task, rights and powers of the Board of Directors are subject to the Turkish Commercial Code and the provisions of relevant legislation. The decisions of the Board of Directors are written down on the decision book and signed by the Chairman and the members. Reserving the Article 22 of the Articles of Association, the rights and powers assigned to the Group A, the Board of Directors can delegate all or a number of the representative and administrative powers of the Company to one member of the Board of Directors or to several managing directors, other than the independent board members.

No resolution can be passed by Board of Directors on the issues mentioned in articles 22 and 37 of the present Articles of Association without the affirmative vote of the member of Board of Directors as the usufructuary to represent the Group A shares.

The requests of the members of the Board and the managers are taken into consideration concerning the items on agenda, whereas the meeting agenda of the Board of Directors is formed by the Chairman of the Board. 7 meetings were held by the Board of Directors in 2016. The attendance rate was 95% for these meetings. The date for the following Board meeting is set based on the requirement of the company and on the requests arising from the members. The members are invited to the meeting via e-mail messages. The secretariat, set up in accordance with the Corporate Governance Principles under the body of the Board of Directors, informs the Board members on the meeting agenda and forwards them the relevant documents on the agenda. Neither the Chairman nor the members of the Board have a weighted voting right. All members, including the Chairman, have equal voting rights. Dissenting opinions and votes, disclosed at Board of Directors' meetings, are written down in the minutes.

It shall be observed the Corporate Management Principles, the implementation of which is made obligatory by Capital Markets Board. The transactions made and the resolutions passed without observing the obligatory principles are held invalid and deemed contrary to the articles of association.

With regard to the implementation of the Corporate Management Principles, the regulations of Capital Market Board on corporate management are observed in the transactions deemed to have an important nature and any related party transactions of the company, which are of important nature as well as the transactions for giving security and establishing pledge and mortgage in favor of third persons.

There was no dissenting vote related with the Board Members' different opinions in the relevant period.

The questions, addressed by a Board Member during the meeting are written on the decision record upon the relevant Board Member request.

Board members have not been granted weighted voting rights and/or negative vetoing rights.

The amount of the insurance, which covers personal responsibilities of Board Members arising from the legal obligations, is USD 75 million. The insurance compensates for the legal expense and indemnity.

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5.3. Number, Structure and Independence of the Committees Established Under the Board of Directors

The Audit Committee, The Early Detection of Risk Committee and The Corporate Governance Committee were set up so that the Board of Directors is able to perform their tasks and responsibilities more effectively. By considering the structure of the Board of Directors, the fulfilling of the power, the duty and the responsibility foreseen for The Candidate Nomination Committee and the Remuneration Committee was delegated to and passed onto the Corporate Governance Committee upon the Board of Directors' decision Numbered 9148, dated June 29, 2012. The frequency of gathering for the committees, their activities and procedures to be followed while carrying out the activities are stated in the regulations published on our website. The decisions made as a result of work carried out independently by the committees are submitted to the Board of Directors as proposals and the ultimate decision is reached conclusively by the Board of Directors.

Our Company has ensured the structuring of the management within the framework of the Communiqué regarding the Corporate Governance Principles. One member is assigned for more than one committee due to the condition that requires the Auditing Committee to be made up of completely independent board members and the chairmen of the other committees to be comprised of the independent board members.

Audit Committee

Name-Surname	Title	Relation with the Company	Details
Hakkı Cemal Ererdi	Chairman	Board Member	Independent / Not Executive
Emin Hakan Eminsoy	Member	Board Member	Independent / Not Executive

Frequency of Meetings: Once every three months and at least four times a year.

Early Detection of Risk Committee

Name-Surname	Title	Relation with the Company	Details
Emin Hakan Eminsoy	Chairman	Board Member	Independent / Not Executive
Hakkı Cemal Ererdi	Member	Board Member	Independent / Not Executive

Frequency of Meetings: Once every two months and at least six times a year.

Corporate Governance Committee

Name-Surname	Title	Relation with the Company	Details
Yunus Arıncı	Chairman	Board Member	Independent / Not Executive
Hakkı Cemal Ererdi	Member	Board Member	Independent / Not Executive
İdil Önay Ergin	Member	Investor Relations Manager	Non-independent / Not Executive

Frequency of Meetings: Once every three months and at least four times a year.

5.4. Risk Management and Internal Control Mechanism

Under the body of the Board of Directors, The Early Detection of Risk Committee was set up and the working directives of the Committee were published on the company websites.

Risks are monitored and managed in compliance with the regulation and procedures related with management of the market and customer risks which are directed towards measuring the risks Erdemir Group is exposed to and developing hedging methods to keep these risks within risk tolerances.

Almost all of our receivables are guaranteed with the Direct Debit System, the Credited Direct Collection System and the Trade Credit Insurance. Risk positions of our customers are monitored regularly and when exceeding the limits, a margin call is issued.

Duration is calculated based on the credit portfolio and cash flow projections in order to manage interest rate risks Erdemir Group is exposed to and the amount of gain / loss, which may arise possible interest rate changes, is measured using a sensitivity analysis.

Additionally, the ratio of total amount of loans with a floating interest rate to whole credit portfolio of the Group is monitored and actions are taken to keep this ratio within a defined limit. Derivative instruments are assessed and analyzed in detail. According to firm and market situation, convenient transactions are executed within certain limits.

Similarly, with regards to liquidity risk management, credit usage and paybacks and cash flow projections are monitored and necessary actions are taken.

The feasibility reports, including all types of technical and financial evaluations, related to all planned investments in the Erdemir Group's mid/long term strategic road map are prepared by the System Development Department of the relevant Group Companies and are submitted to Business Development Directorate. The Business Development Department examines the feasibility reports from their consistency and accuracy perspectives, then prepares the financial evaluation reports by analyzing "Internal Rate of Return, Net Present Value, Return on Investment period and ratio, then submits these reports to the Group Financial Affairs Coordinator. No planned investments can be submitted to the Board of Directors without the approval of the Group Financial Affairs Coordinator.

Internal Audit Department is in charge of evaluating and improving the effectiveness of risk management, control and governance processes of Erdemir Group companies and it reports directly to the Chairman and Executive Director of the Board. In accordance with Capital Markets Board regulations, the effectiveness of internal control system is evaluated by the Board of Directors at least once in a year. In this context, Internal Audit Department reports to the Audit Committee, which comprises of independent board members, about internal audit activities regularly.

5.5. Strategic Targets of the Company

Company's vision, medium and long term targets and strategies are determined within the scope of Company's Strategic Planning Process. In accordance with Company's strategic approach, next year's targets and activities are detailed and set Company's budget within the context of budget process. Annual budgets are approved by the Board of Directors and monitored during the year.

Targets in Company's budget, which is approved by the Board of Directors, are deployed towards individual targets by all the units utilizing by functional business plans in corporate performance management.

Company's current situation is reviewed and Company's activities are compared with the previous period and budget targets in the regular meetings of Board of Directors.

5.6. Financial Rights

All types of rights, benefits and fees vested upon the board members and executives with administrative responsibilities, and the criteria deemed to determine such rights, benefits and fees as well as the compensation basics are published under the Compensation Policy heading of our Company websites. The Board Members are paid in accordance with the decision of General Assembly which is also disclosed to the public through the general assembly minutes published on the Company websites. The fees remitted to the executives with administrative responsibilities are determined by the Board of Directors. The payments effected to the executives are disclosed to the public and included in our Annual Report.

According to the decisions made by the General Assembly Meeting held on March 31, 2016, the Board Members elected in representation of the B Group shares shall not be paid. The Board Members elected in representation of the A Group Shares shall be paid 2,360 TRY per month (at the beginning of the relevant month, paid in advance, net) and the Independent Board Members shall be paid 6,000 TRY per month (at the beginning of the relevant month, paid in advance, net).

At the determination of the monetary rights of the Board members, a rewarding that is based on performance and showing the performance of the Company is not applied. No loans were offered to either a board member or an executive within the period. No loan utilization was granted directly or through a third party. Furthermore, no collaterals such as bails were offered in favour.

BOARD OF DIRECTORS COMMITTEE OPERATING PRINCIPLES AND AN ASSESSMENT OF SUCH COMMITTEES' EFFECTIVENESS

Under the Company's Board of Directors resolution 9411 dated April 1, 2016, and pursuant to the provisions of Capital Markets Board Corporate Governance Communiqué 11-17.1, it was resolved:

- To appoint Independent Board Members Hakkı Cemal Ererdi and Emin Hakan Eminsoy to serve as the Audit Committee and Hakkı Cemal Ererdi to be the committee's chairman;
- To appoint Independent Board Members Yunus Arıncı and Hakkı Cemal Ererdi and Investor Relations Manager İdil Önay Ergin to serve as the Corporate Governance Committee and Yunus Arıncı to be committee's chairman;
- To appoint Independent Board Members Emin Hakan Eminsoy and Hakkı Cemal Ererdi to serve as the Early Detection of Risk Committee and Emin Hakan Eminsoy to be the committee's chairman.

Taking the structure of the Company's Board of Directors into account, the Board decided under resolution 9148 dated June 29, 2012 to delegate the authorities, duties, and responsibilities of both a Nomination Committee and a Remuneration Committee to the Corporate Governance Committee instead.

Committees' meeting schedules and their activities, and operational procedures are specified in sets of regulations that are published on our corporate websites www.erdemirgrubu.com.tr and www.erdemir.com.tr. The decisions that such committees take are of an advisory nature and they are submitted as such to the Board of Directors, which has the final say.

During 2016, the Board of Directors' committees fulfilled their duties and responsibilities as required by corporate governance principles and their own regulations and they convened in accordance with their annual meeting schedules as indicated below.

- The Audit Committee convened four times: February 12, 2016, April 21, 2016, August 9, 2016, and October 18, 2016.
- The Corporate Governance Committee convened five times: February 15, 2016, June 21, 2016, August 10, 2016, October 20, 2016, and November 30, 2016.
- Early Detection of Risk Committee convened six times: February 15, 2016, March 8, 2016, April 22, 2016, June 21, 2016, August 9, 2016, and October 31, 2016.

Reports containing information about these committees' activities and the results of the committees' meetings were submitted to the Board of Directors.

As part of their areas of responsibility;

- The Audit Committee oversaw the operation and effectiveness of the Company's accounting system, public disclosure of financial information, independent auditing, and internal control and internal auditing system.

- The Corporate Governance Committee's activities consisted of:

    - Contributing to the determination and implementation processes of the Company's corporate governance principles and making solution-oriented suggestions to the Board of Directors on such matters; ascertaining whether or not corporate governance principles are being complied with at the Company and, if they are not, identifying both the reasons for and any conflicts of interest that may arise on account of such less than full compliance; making recommendations to the Board of Directors on ways to improve corporate governance practices.

    - Overseeing the activities of the Investor Relations Department.

    - Working on a transparent system for identifying, evaluating, and training candidates for seats on the Board of Directors and for executives with administrative responsibilities identifying policies and strategies for such a system.

    - Regularly assessing the structure and effectiveness of the Board of Directors; making recommendations to the Board of Directors concerning possible changes in such matters.

    - Determining and overseeing approaches, principles, and practices applicable to performance evaluations and career-planning processes of Board Members and managers under executive responsibilities.

    - Making suggestions pertaining to principles governing the remuneration of Board Members and managers under executive responsibilities taking the Company's long-term objectives into account.

- Early Detection of Risk Committee's activities consisted, as required by laws and regulations, of identifying risks with the potential to threaten the Company's existence, development, and/or continuity, ensuring that due precautions are taken with respect to risks that are identified and dealing with risk management issues.

INTERNAL AUDIT SYSTEM

The effectiveness of the risk management, control and governance processes in Erdemir Group companies is assessed through audits conducted by Internal Audit Department which reports directly to the Group's Chairman & Managing Director. The Audit Committee, which consists of independent board members, is informed about the audit activities and effectiveness of the internal control system at least once in a year and upon request.

Process audits of Erdemir Group are conducted with risk-based and value added approach as well as in accordance with the international internal audit professional practice standards. The audit program is performed based on the annual calendar approved by the Chairman and the Executive Director of the Board. During the audit activities, internal control environment of a process is evaluated with a systematic approach and mitigating controls are suggested when necessary. Action plans determined by the management are followed up and reported regularly.

Internal audit function is in charge of coordination of improving and sustaining the ethics and compliance system as well. Investigation activities are carried out by the Internal Audit Directorate with regards to conformity of Erdemir Group Code of Ethics and Business Conduct. There are written and verbal communication channels (e-mail, mail and ethics hotline) shareholders may directly get information from and/or report possible violations. Ethics Committee is the top governance body responsible for resolving incompliances with regards to Erdemir Group Code of Ethics and Business Conduct and applying sanctions when needed.

OTHER ISSUES

- Necessary arrangements are made in "Code of Ethics and Business Conduct" document in order to prevent conflicts of interest between the Company, its employees and institutions that provide services to the Company. The prevention of potential conflicts of interest between the Company and institutions providing investment advisory and rating services is assured through signed contracts. During 2016, no conflicts of interest occurred with these institutions.

- Our Company's future expectations and targets are disclosed to the public and actual developments are quarterly announced. These disclosures are available in our web sites www.erdemir.com.tr and www.erdemirgrubu.com.tr. There is no guidance that the Company unreached within the operating period.

- In 2016, our Company had no significant buying or selling activity of assets, except those indicated on note 12 of consolidated financial statements for the year ended 31 December 2016.

AFFILIATED COMPANY REPORT

"During 2016, our Company was not–at the instigation either of its majority shareholder, the Turkish Armed Forces Pension Fund (OYAK), or of any OYAK affiliate–a party to any legal transaction that would have benefited either OYAK or an OYAK affiliate; neither did our Company take or avoid taking any action on the grounds that doing so would have been beneficial either to OYAK or to an OYAK affiliate. All of the business dealings between our Company and our majority shareholder and our majority shareholder's affiliates during 2016 took place under conditions that were consistent with market (i.e. arms-length) conditions.

Within the frame of CMB's II-17.1 Corporate Governance Communiqué, common and continuous commercial transactions executed between our company and our subsidiary İskenderun Demir ve Çelik A.Ş. exceed 10% of the total cost of sales and common and continuous commercial transactions executed between our company and our subsidiary Erdemir Çelik Servis Merkezi Sanayi ve Ticaret A.Ş. exceed 10% of the total sales revenue in 2016 and it is expected that these transactions will continue under the determined circumstances in 2017. Relevant transactions are consistent with the previous years and reasonable when compared to the market conditions."

STATEMENT OF RESPONSIBILITY

STATEMENT OF RESPONSIBILITY PURSUANT TO THE ARTICLE 9 OF THE SECOND SECTION OF THE CAPITAL MARKETS BOARD'S COMMUNIQUÉ ON PRINCIPLES OF FINANCIAL REPORTING IN CAPITAL MARKETS

BOARD OF DIRECTORS' RESOLUTION ON THE APPROVAL OF FINANCIAL STATEMENTS AND ANNUAL REPORT

RESOLUTION DATE: 07.02.2017

RESOLUTION NUMBER: 9447

About 01.01.2016 - 31.12.2016 period

We have reviewed Ereğli Demir ve Çelik Fabrikaları T.A.Ş. consolidated financial statements and annual report for the period between 01.01.2016-31.12.2016.

We hereby declare that:

Based on the information we possess within the scope of our duties and responsibilities in the Company;

- The consolidated financial statements and the annual report do not contain any incorrect statement or any omission of material facts that may result in misleading conclusion as of the date of the issuance,
- The consolidated financial statements prepared in accordance with the financial reporting standards in effect provide an accurate view of the assets, liabilities, financial position and profit (loss) of the Company,
- The annual report provides an accurate view of the development and performance of the business and the consolidated financial position of the Company along with the principal risks and uncertainties the Company is exposed to.

Sincerely,

Bülent Beydüz Erdemir Group's Chief Financial Affairs Officer	Emin Hakan Eminsoy Member of the Audit Committee	Hakkı Cemal Ererdi Chairman of the Audit Committee

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016 AND INDEPENDENT AUDITOR'S REPORT

(Convenience Translation of Consolidated Financial Statements Originally Issued in Turkish - See Note 34)

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

(Convenience translation of a report and consolidated financial statements originally issued in Turkish)

EY
Building a better working world

Güney Bağımsız Denetim ve SMMM A.Ş.
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Mersis No: 0-4350-3032-6000017

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

Report on Financial Statements

We have audited the accompanying consolidated financial statement of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (the Company) and its subsidiaries (together will be referred to as "the Group'') which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and explanatory notes.

Management's Responsibility for the Financial Statements

Group's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Turkish Accounting Standards and for such internal controls as management determines is necessary to enable the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to error and/or fraud.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our audit was conducted in accordance with Standards on Auditing as issued by the Capital Markets Board of Turkey and Auditing Standards which are part of the Turkish Auditing Standards issued by Public Oversight Accounting and Auditing Standards Authority of Turkey. Those standards require that ethical requirements are complied with and that the independent audit is planned and performed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Independent audit involves performing independent audit procedures to obtain independent audit evidence about the amounts and disclosures in the financial statements. The independent audit procedures selected depend on our professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error and/or fraud. In making those risk assessments; the Company's internal control system is taken into consideration. Our purpose, however, is not to express an opinion on the effectiveness of internal control system, but to design independent audit procedures that are appropriate for the circumstances in order to identify the relation between the financial statements prepared by the Group and its internal control system. Our independent audit includes also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company's management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained during our independent audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its subsidiaries as at 31 December 2016 and their financial performance and cash flows for the year then ended in accordance with the Turkish Accounting Standards.

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(Convenience translation of a report and consolidated financial statements originally issued in Turkish)

Building a better working world

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Emphasis of Matter

Without qualifying our opinion we draw attention to the matter in Note 17 to the accompanying consolidated financial statements. The court cases related to Capital Market Board's ("CMB") claim that the Company had prepared its 31 December 2005 financial statements in accordance with International Financial Reporting Standards instead of Communiqué Serial XI, No:25 on "Accounting Standards in Capital Markets" without taking the permission of the CMB in prior years were concluded against the Company at Council of State and such conclusions declared to the Company via notifications sent in July 2012. On 1 August 2012, the Company applied to the Administrative Court to remove the conflicting decisions of this court; but the Administrative Court decided to reject the application by the notification made on 17 February 2014. However, lawsuit filed by the Privatization Administration ("PA") of The Turkish Republic is at the stage of appeal at the Supreme Court and is pending as of the date of our report.

Reports on Other Responsibilities Arising From Regulatory Requirements

1) Auditors' report on Risk Management System and Committee in accordance with subparagraph 4, Article 398 of Turkish Commercial Code no. 6102 ("TCC") is prepared to be submitted to the Board of Directors of the Company on 7 February 2017.
2) In accordance with subparagraph 4, Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January – 31 December 2016 and financial statements are not in compliance with the code and provisions of the Company's articles of association in relation to financial reporting.
3) In accordance with subparagraph 4, Article 402 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Metin Canoğulları, SMMM
Engagement Partner

7 February 2017
İstanbul, Turkey

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira ("TRY Thousand") unless otherwise indicated.)
(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 34)

ASSETS	Note	(Audited) Current Period 31 December 2016 USD'000	(Audited) Current Period 31 December 2016 TRY'000	(Audited) Previous Period 31 December 2015 USD'000	(Audited) Previous Period 31 December 2015 TRY'000
Current Assets		**3.143.675**	**11.063.224**	**2.751.401**	**7.999.975**
Cash and Cash Equivalents	4	1.303.396	4.586.911	1.009.321	2.934.703
Financial Derivative Instruments	6	18.274	64.310	15.286	44.445
Trade Receivables	8	573.114	2.016.901	561.504	1.632.629
Due From Related Parties	*30*	*15.594*	*54.877*	*14.834*	*43.130*
Other Trade Receivables	*8*	*557.520*	*1.962.024*	*546.670*	*1.589.499*
Other Receivables	9	535	1.883	712	2.069
Inventories	10	1.209.095	4.255.047	1.113.595	3.237.890
Prepaid Expenses	11	12.080	42.513	18.143	52.754
Other Current Assets	19	27.181	95.659	32.840	95.485
Non Current Assets		**3.576.965**	**12.588.053**	**3.657.490**	**10.634.515**
Other Receivables	9	3.918	13.787	5.183	15.069
Financial Investments	5	35	122	27	79
Financial Derivative Instruments	6	1.692	5.955	14.639	42.564
Investment Properties	12	26.961	94.882	24.670	71.731
Property, Plant and Equipment	13	3.453.050	12.151.972	3.530.218	10.264.461
Intangible Assets	14	58.388	205.479	59.453	172.865
Prepaid Expenses	11	20.106	70.757	15.112	43.939
Deferred Tax Assets	28	9.730	34.243	8.188	23.807
Other Non Current Assets	19	3.085	10.856	-	-
TOTAL ASSETS		**6.720.640**	**23.651.277**	**6.408.891**	**18.634.490**

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

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira ("TRY Thousand") unless otherwise indicated.)
(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 34)

LIABILITIES	**Note**	**(Audited) Current Period 31 December 2016 USD'000**	**(Audited) Current Period 31 December 2016 TRY'000**	**(Audited) Previous Period 31 December 2015 USD'000**	**(Audited) Previous Period 31 December 2015 TRY'000**
Current Liabilities		**1.201.046**	**4.226.720**	**899.513**	**2.615.423**
Short Term Borrowings	7	357.464	1.257.986	8.353	24.286
Short Term Portion of Long Term Borrowings	7	296.649	1.043.968	360.179	1.047.256
Financial Derivative Instruments	6	5.438	19.137	6.705	19.495
Trade Payables	8	260.024	915.076	200.235	582.203
Due to Related Parties	*30*	*9.948*	*35.008*	*9.159*	*26.630*
Other Trade Payables	*8*	*250.076*	*880.068*	*191.076*	*555.573*
Other Payables	9	11.970	42.126	11.583	33.680
Deferred Revenue	20	30.221	106.353	32.115	93.377
Current Tax Liabilities	28	129.468	455.624	74.896	217.769
Short Term Provisions	17	41.369	145.586	150.298	437.007
Payables for Employee Benefits	16	47.944	168.724	41.168	119.700
Other Current Liabilities	19	20.499	72.140	13.981	40.650
Non Current Liabilities		**1.069.709**	**3.764.524**	**1.197.164**	**3.480.875**
Long Term Borrowings	7	459.631	1.617.534	654.960	1.904.361
Financial Derivative Instruments	6	585	2.060	7.345	21.355
Provisions for Employee Benefits	16	161.235	567.419	173.997	505.915
Deferred Tax Liabilities	28	448.122	1.577.032	360.711	1.048.802
Other Non Current Liabilities	19	136	479	151	442
EQUITY		**4.449.885**	**15.660.033**	**4.312.214**	**12.538.192**
Equity Attributable to Equity Holders of the Parent		**4.321.343**	**15.207.669**	**4.189.170**	**12.180.429**
Share Capital	21	1.818.371	3.500.000	1.818.371	3.500.000
Inflation Adjustment to Capital	21	81.366	156.613	81.366	156.613
Treasury Shares (-)	21	(60.387)	(116.232)	(60.387)	(116.232)
Share Issue Premium (Discounts)	21	55.303	106.447	55.303	106.447
Other Comprehensive Income/Expense Not to be Reclassified to Profit/(Loss)		(37.151)	(72.090)	(36.155)	(80.580)
Revaluation Reserve of Tangible Assets		*10.757*	*29.437*	*12.623*	*27.215*
Actuarial (Loss)/Gain funds		*(47.908)*	*(101.527)*	*(48.778)*	*(107.795)*
Other Comprehensive Income/Expense to be Reclassified to Profit/(Loss)		(41.532)	6.530.218	(31.483)	4.010.257
Cash Flow Hedging Gain (Loss)		*2.277*	*8.013*	*(754)*	*(2.192)*
Foreign Currency Translation Reserves		*(43.809)*	*6.522.205*	*(30.729)*	*4.012.449*
Restricted Reserves Assorted from Profit	21	516.714	1.166.197	441.058	950.831
Retained Earnings	21	1.486.278	2.420.078	1.506.960	2.527.180
Net Profit for the Period		502.381	1.516.438	414.137	1.125.913
Non-Controlling Interests		**128.542**	**452.364**	**123.044**	**357.763**
TOTAL LIABILITIES AND EQUITY		**6.720.640**	**23.651.277**	**6.408.891**	**18.634.490**

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

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

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

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira ("TRY Thousand") unless otherwise indicated.)
(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 34)

	Note	(Audited) Current Period 1 January - 31 December 2016 USD'000	(Audited) Current Period 1 January - 31 December 2016 TRY'000	(Audited) Previous Period 1 January - 31 December 2015 USD'000	(Audited) Previous Period 1 January - 31 December 2015 TRY'000
Revenue	22	3.855.062	11.636.504	4.382.455	11.914.581
Cost of Sales	22	(3.036.715)	(9.166.325)	(3.624.633)	(9.854.290)
GROSS PROFIT		**818.347**	**2.470.179**	**757.822**	**2.060.291**
Marketing Expenses	23	(46.783)	(141.215)	(48.186)	(131.002)
General Administrative Expenses	23	(95.503)	(288.275)	(104.733)	(284.738)
Research and Development Expenses	23	(3.673)	(11.088)	(3.399)	(9.240)
Other Operating Income	25	73.982	223.314	101.301	275.408
Other Operating Expenses	25	(49.775)	(150.244)	(117.672)	(319.916)
OPERATING PROFIT		**696.595**	**2.102.671**	**585.133**	**1.590.803**
Finance Income	26	118.126	356.562	155.113	421.707
Finance Expense	27	(87.232)	(187.805)	(81.595)	(191.144)
PROFIT BEFORE TAX		**727.489**	**2.271.428**	**658.651**	**1.821.366**
Tax (Expense) Income	28	(206.800)	(699.726)	(231.127)	(659.057)
Current Corporate Tax Expense (Income)		(150.794)	(530.673)	(162.473)	(472.407)
Deferred Tax (Expense) Income		(56.006)	(169.053)	(68.654)	(186.650)
NET PROFIT FOR THE PERIOD		**520.689**	**1.571.702**	**427.524**	**1.162.309**
Non-Controlling Interests		18.308	55.264	13.387	36.396
Equity Holders of the Parent		502.381	1.516.438	414.137	1.125.913
EARNINGS PER SHARE	29		0,4333		0,3217
(TRY 1 Nominal value per share)					

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

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira ("TRY Thousand") unless otherwise indicated.)
(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 34)

	Note	(Audited) Current Period 1 January - 31 December 2016 USD'000	(Audited) Current Period 1 January - 31 December 2016 TRY'000	(Audited) Previous Period 1 January - 31 December 2015 USD'000	(Audited) Previous Period 1 January - 31 December 2015 TRY'000
PROFIT (LOSS) FOR THE PERIOD		**520.689**	**1.571.702**	**427.524**	**1.162.309**
OTHER COMPREHENSIVE INCOME					
Not to be reclassified subsequently to profit or loss					
Increase (Decrease) in Revaluation Reserve of Tangible Assets		(1.781)	2.521	2.219	3.064
Actuarial Gain (Loss) of Defined Benefit Plans		1.136	8.006	7.970	22.930
Tax Effect of Actuarial Gain (Loss) of Defined Benefit Plans	28	(227)	(1.601)	(1.594)	(4.586)
To be reclassified subsequently to profit or loss					
Gain (Loss) in Cash Flow Hedging Reserves		3.811	13.040	(4.905)	(12.078)
Tax Effect of Gain (Loss) in Cash Flow Hedging Reserves	28	(762)	(2.608)	981	2.416
Foreign Currency Translation Gain (Loss)		(14.998)	2.580.095	(26.345)	2.462.935
OTHER COMPREHENSIVE INCOME		**(12.821)**	**2.599.453**	**(21.674)**	**2.474.681**
TOTAL COMPREHENSIVE INCOME (LOSS)		**507.868**	**4.171.155**	**405.850**	**3.636.990**
Distribution of Total Comprehensive Income					
Non-controlling Interests		16.533	126.266	10.662	102.999
Equity Holders of the Parent		491.335	4.044.889	395.188	3.533.991

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

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

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

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 34)

						Other comprehensive income (expense) not to be reclassified subsequently to profit or loss	
(Audited)	**Note**	**Share Capital**	**Inflation Adjustment to Capital**	**Treasury Shares (-)**	**Share Issue Premium/ Discounts**	**Revaluation Reserve of Tangible Assets**	**Actuarial Gain/(Loss) Funds**
1 January 2016		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**27.215**	**(107.795)**
Net profit for the period		-	-	-	-	-	-
Other comprehensive income/(loss)		-	-	-	-	2.222	6.268
Total comprehensive income/ (loss)		-	-	-	-	2.222	6.268
Dividends (*)		-	-	-	-	-	-
Transfers	21	-	-	-	-	-	-
31 December 2016	21	**3.500.000**	**156.613**	**(116.232)**	**106.447**	**29.437**	**(101.527)**
(Audited)							
1 January 2015		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**24.151**	**(125.714)**
Net profit for the period		-	-	-	-	-	-
Other comprehensive income/(loss)		-	-	-	-	3.064	17.919
Total comprehensive income/ (loss)		-	-	-	-	3.064	17.919
Dividends (*)		-	-	-	-	-	-
Transfers	21	-	-	-	-	-	-
31 December 2015	21	**3.500.000**	**156.613**	**(116.232)**	**106.447**	**27.215**	**(107.795)**

(*) In 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 was completed at 25 May 2016. The Group paid TRY 31.266 thousand of the accrued TRY 31.665 thousand dividend to non-controlling interests on İsdemir 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 consolidated financial statements.

Other comprehensive income (expense) to be reclassified subsequently to profit or loss			Retained Earnings				
Cash Flow Hedging Gain/(Loss)	Foreign Currency Translation Reserves	Restricted Reserves Assorted from Profit	Retained Earnings	Net Profit For The Period	Equity Attributable to the Parent	Non-controlling Interests	Total Shareholders' Equity
(2.192)	**4.012.449**	**950.831**	**2.527.180**	**1.125.913**	**12.180.429**	**357.763**	**12.538.192**
-	-	-	-	1.516.438	**1.516.438**	55.264	**1.571.702**
10.205	2.509.756	-	-	-	**2.528.451**	71.002	**2.599.453**
10.205	2.509.756	-	-	1.516.438	**4.044.889**	126.266	**4.171.155**
-	-	-	(1.017.649)	-	**(1.017.649)**	(31.665)	**(1.049.314)**
-	-	215.366	910.547	(1.125.913)	**-**	-	**-**
8.013	**6.522.205**	**1.166.197**	**2.420.078**	**1.516.438**	**15.207.669**	**452.364**	**15.660.033**
7.160	**1.616.002**	**617.355**	**2.616.106**	**1.601.415**	**10.003.303**	**307.004**	**10.310.307**
-	-	-	-	1.125.913	**1.125.913**	36.396	**1.162.309**
(9.352)	2.396.447	-	-	-	**2.408.078**	66.603	**2.474.681**
(9.352)	2.396.447	-	-	1.125.913	**3.533.991**	102.999	**3.636.990**
-	-	-	(1.356.865)	-	**(1.356.865)**	(52.240)	**(1.409.105)**
-	-	333.476	1.267.939	(1.601.415)	**-**	-	-
(2.192)	**4.012.449**	**950.831**	**2.527.180**	**1.125.913**	**12.180.429**	**357.763**	**12.538.192**

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira ("TRY Thousand") unless otherwise indicated.)
(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 34)

	Note	(Audited) Current Period 1 January- 31 December 2016 USD'000	(Audited) Current Period 1 January- 31 December 2016 TRY'000	(Audited) Previous Period 1 January- 31 December 2015 USD'000	(Audited) Previous Period 1 January- 31 December 2015 TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES		**757.107**	**2.346.153**	**1.319.464**	**3.712.336**
Profit (Loss) for The Period		**520.689**	**1.571.702**	**427.524**	**1.162.309**
Adjustments to Reconcile Profit (Loss)		**469.040**	**1.491.299**	**561.901**	**1.558.339**
Adjustments for Depreciation and Amortisation Expenses	22/24	217.916	657.779	206.511	561.442
Adjustments for Impairment Loss (Reversal of Impairment Loss)		15.579	47.023	15.139	41.159
Adjustments for Provision (Reversal of Provision) for Receivables	8/9	*1.224*	*3.694*	*4.540*	*12.343*
Adjustments for Provision (Reversal of Provision) for Inventories	10	*1.415*	*4.271*	*9.871*	*26.836*
Adjustment for Provision (Reversal of Provision) for Property, Plant and Equipment	13	*12.940*	*39.058*	*728*	*1.980*
Adjustments for Provisions		28.610	86.362	98.922	268.943
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	16	*34.791*	*105.018*	*30.954*	*84.156*
Adjustments for Provision (Reversal of Provision) for Pending Claims and/or Lawsuits	17	*(6.181)*	*(18.656)*	*67.968*	*184.787*
Adjustments for Interest (Income) and Expenses		(6.560)	(19.802)	17.263	46.934
Adjustments for Interest Income	26	*(40.959)*	*(123.634)*	*(31.734)*	*(86.276)*
Adjustments for Interest Expense	27	*34.636*	*104.548*	*45.077*	*122.551*
Unearned Financial Income from Credit Sales		*(237)*	*(716)*	*3.920*	*10.659*
Adjustments for Unrealised Foreign Exchange Differences		(6.610)	(19.951)	(3.483)	(9.468)
Adjustments for Fair Value (Gains) Losses		12.333	37.228	12.274	33.369
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments	27	*12.333*	*37.228*	*12.274*	*33.369*
Adjustments for Tax (Income) Expenses	28	206.800	699.726	231.127	659.057
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		972	2.934	(15.852)	(43.097)
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment	25	*972*	*2.934*	*982*	*2.670*
Adjustments for Losses (Gains) on Disposal of Investment Properties	25	-	-	*(16.834)*	*(45.767)*
Changes in Working Capital		**(24.579)**	**(86.499)**	**493.020**	**1.434.787**
Adjustments for Decrease (Increase) in Trade Receivables		(10.252)	(36.076)	191.911	559.282
Decrease (Increase) in Trade Receivables from Related Parties		*(3.338)*	*(11.747)*	*(2.312)*	*(6.721)*
Decrease (Increase) in Trade Receivables from Third Parties		*(6.914)*	*(24.329)*	*194.223*	*566.003*
Adjustments for Decrease (Increase) in Other Receivables Related from Operations		4.589	16.148	9.535	27.723
Decrease (Increase) in Other Receivables from Operations from Third Parties		*4.589*	*16.148*	*9.535*	*27.723*
Decrease (Increase) in Derivative Financial Instruments		9.959	35.048	9.883	28.736
Adjustments for Decrease (Increase) in Inventories		(96.267)	(338.784)	285.351	829.687
Decrease (Increase) in Prepaid Expenses		12.231	43.044	3.389	9.853
Adjustments for Increase (Decrease) in Trade Payables		59.789	210.409	20.159	58.614
Increase (Decrease) in Trade Payable to Related Parties		*2.381*	*8.378*	*2.855*	*8.301*
Increase (Decrease) in Trade Payable to Third Parties		*57.408*	*202.031*	*17.304*	*50.313*
Adjustments for Increase (Decrease) in Other Payables Related from Operations		7.163	25.208	(3.789)	(11.017)
Increase (Decrease) in Other Payables to Third Parties Related from Operations		*7.163*	*25.208*	*(3.789)*	*(11.017)*
Increase (Decrease) in Derivative Liabilities		(16.340)	(57.505)	(16.267)	(47.298)
Adjustments for Other Increase (Decrease) in Working Capital		4.549	16.009	(7.152)	(20.793)
Decrease (Increase) in Other Assets Related from Operations		*(49)*	*(174)*	*(1.355)*	*(3.939)*
Increase (Decrease) in Other Payables Related from Operations		*4.598*	*16.183*	*(5.797)*	*(16.854)*
Cash Flows Provided by Operating Activities		**965.150**	**2.976.502**	**1.482.445**	**4.155.435**
Payments Related to Provisions for Employee Termination Benefits	16	(12.158)	(36.701)	(15.968)	(43.413)
Payments Related to Other Provisions	17	(99.663)	(300.830)	(5.642)	(15.340)
Income Taxes Refund (Paid)	28	(96.222)	(292.818)	(141.371)	(384.346)
CASH FLOWS FROM INVESTING ACTIVITIES		**(168.362)**	**(512.479)**	**(186.782)**	**(508.802)**
Cash Outflows Arising From Purchase of Shares or Capital Increase of Associates and/or Joint Ventures		(8)	(29)	-	-
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		2.460	7.427	4.895	13.308
Cash Inflow from Sales of Property, Plant and Equipment	13/14/25	*2.460*	*7.427*	*4.895*	*13.308*
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(162.275)	(489.827)	(205.018)	(557.382)
Cash Outflow from Purchase of Property, Plant and Equipment	13	*(158.746)*	*(479.175)*	*(197.741)*	*(537.599)*
Cash Outflow from Purchase of Intangible Assets	14	*(3.529)*	*(10.652)*	*(7.277)*	*(19.783)*
Cash Inflow from Sales of Investment Property	12	-	-	14.967	40.000
Cash Advances and Debts Given		(8.539)	(30.050)	(1.626)	(4.728)
Other Cash Advances and Debts Given		*(8.539)*	*(30.050)*	*(1.626)*	*(4.728)*
CASH FLOWS FROM FINANCING ACTIVITIES		**(267.466)**	**(691.791)**	**(996.175)**	**(2.735.857)**
Cash Inflow from Borrowings		848.157	2.984.835	1.238.628	3.601.435
Cash Inflow from Loans		*848.157*	*2.984.835*	*1.238.628*	*3.601.435*
Cash Outflow from Repayments of Borrowings		(754.354)	(2.654.378)	(1.686.488)	(4.903.604)
Cash Outflow from Loan Repayments		*(754.354)*	*(2.654.378)*	*(1.686.488)*	*(4.903.604)*
Dividends Paid		(369.979)	(1.048.544)	(539.702)	(1.408.700)
Interest Paid		(32.249)	(97.344)	(42.520)	(116.301)
Interest Received		40.959	123.640	33.907	91.313
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		**321.279**	**1.141.883**	**136.507**	**467.677**
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(27.204)	510.325	(70.224)	280.216
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**294.075**	**1.652.208**	**66.283**	**747.893**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	1.009.321	2.934.703	943.038	2.186.810
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	**1.303.396**	**4.586.911**	**1.009.321**	**2.934.703**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira ("TRY Thousand") unless otherwise indicated.)
(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 34)

NOTE 1- GROUP'S ORGANIZATION AND NATURE OF OPERATIONS

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

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

Ordu Yardımlaşma Kurumu (OYAK/Armed Forces Pension Fund) was incorporated on 1 March 1961 under the Act No. 205 as a private entity under its own law subject to Turkish civil and commercial codes and autonomous in financial and administrative matters. OYAK, being an "aid and retirement fund" for Turkish Armed Forces' members, provides various services and benefits within the framework of social security concept anticipated by Turkish Constitution. OYAK has 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 Group was incorporated in Turkey as a joint stock company in 1960. The principal activities of the Company are production of iron and steel rolled products, alloyed and non-alloyed iron, steel and pig iron castings, cast and pressed products, coke and their by-products.

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

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

Name of the Company	Country of Operation	Operation	2016 Share %	2015 Share %
İskenderun Demir ve Çelik A.Ş.	Turkey	Integrated Steel Production	95,07	95,07
Erdemir Madencilik San. ve Tic. A.Ş.	Turkey	Iron Ore and Pellet	90,00	90,00
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Turkey	Steel Service Center	100	100
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100	100
Erdemir Romania S.R.L.	Romania	Silicon Steel Production	100	100
Erdemir Asia Pacific Private Limited	Singapore	Trading	100	100

As of 18 November 2016, İsdemir Linde Gas Partnership A.Ş. has been established through 50%-50% partnership with the German Linde Group in order to supply the additional industrial gases required for our subsidiary İsdemir's production and to reduce the costs with an effective and efficient management. Isdemir Linde Gaz Ortaklığı A.Ş, which will be recognised by using the equity pick-up method is not included in the consolidation as of the reporting period, by reason of not functioning yet, and that the financial statements are not affected significantly (Note 5).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira ("TRY Thousand") unless otherwise indicated.)
(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 34)

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

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

	Paid Hourly Personnel	Paid Monthly Personnel	31 December 2016 Personnel
Ereğli Demir ve Çelik Fab. T.A.Ş.	4.424	1.746	6.170
İskenderun Demir ve Çelik A.Ş.	3.286	1.742	5.028
Erdemir Madencilik San. ve Tic. A.Ş.	139	126	265
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	219	89	308
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	239	239
Erdemir Romania S.R.L.	213	50	263
Erdemir Asia Pacific Private Limited	-	4	4
	8.281	3.996	12.277

	Paid Hourly Personnel	Paid Monthly Personnel	31 December 205 Personnel
Ereğli Demir ve Çelik Fab. T.A.Ş.	4.530	1.797	6.327
İskenderun Demir ve Çelik A.Ş.	3.446	1.816	5.262
Erdemir Madencilik San. ve Tic. A.Ş.	128	127	255
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	215	87	302
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	240	240
Erdemir Romania S.R.L.	218	50	268
Erdemir Asia Pacific Private Limited	-	5	5
	8.537	4.122	12.659

NOTE 2- BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

The Company and all its subsidiaries in Turkey maintain their legal books of account and prepare their statutory financial statements ("Statutory Financial Statements") in accordance with accounting principles issued by the Turkish Commercial Code ("TCC") and tax legislation.

The Group's consolidated financial statements and disclosures have been prepared in accordance with the communiqué numbered II-14,1 "Communiqué on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") announced by the Capital Markets Board ("CMB") (hereinafter will be referred to as "the CMB Accounting Standards") on 13 June 2013 which is published on Official Gazette numbered 28676.

The financial statements are prepared on cost basis, except the derivative financial instruments and tangible assets used for silicon steel and iron ore carried on fair value.

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

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

2.1 Basis of Presentation (cont'd)

Functional and Reporting Presentation Currency

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

Functional currency for the subsidiaries abroad

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

Presentation currency translation

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

a) The assets and liabilities on financial position as of 31 December 2016 are translated from USD Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 3,5192=US $ 1 and TRY 3,7099=EUR 1 on the balance sheet date (31 December 2015: TRY 2,9076= US $ 1, TRY 3,1776=EUR 1).

b) For the year ended 31 December 2016, income statements are translated from the 12 months average TRY 3,0185 = US $ 1 and TRY 3,3377=EUR 1 rates of 2016 January - December period (31 December 2015: TRY 2,7187 = US $ 1 TRY 3,0181 = 1 EUR).

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

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

USD amounts presented in the financial statements

The figures in USD amounts presented in the accompanying consolidated financial statements comprising the statements of financial position as of 31 December 2016 and 31 December 2015, consolidated statement of income and other comprehensive income, and consolidated statement of cash flows for the year ended 31 December 2016 represent the consolidated financial statements within the frame of functional currency change that the Company has made, which is effective as of July 1, 2013, prepared in accordance with the TAS 21- Effects of Changes in Foreign Exchange Rates.

Going concern

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira ("TRY Thousand") unless otherwise indicated.)
(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 34)

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

2.1 Basis of Presentation (cont'd)

Approval of the consolidated financial statements

The consolidated financial statements have been approved and authorized to be published on 7 February 2017 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

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

The Group's consolidated financial statements are presented in comparison with the previous period in order to allow for the determination of the financial position and performance trends. The comparative information is reclassified when necessary in order to be aligned with the current period consolidated financial statements.

2.3 Consolidation Principles

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

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

Subsidiaries are consolidated from the date on which the control is transferred to the Group and are no longer consolidated from the date that the control ceases.

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

The table below sets out all Subsidiaries included in the scope of consolidation and discloses their direct and indirect ownership, which are identical to their economic interests, as of 31 December 2016 and 31 December 2015 (%) and their functional currencies:

	31 December 2016			31 December 2015		
	Functional Currency	Ownership Interest	Effective Shareholding	Functional Currency	Ownership Interest	Effective Shareholding
İsdemir	US Dollars	95,07	95,07	US Dollars	95,07	95,07
Ersem	US Dollars	100,00	100,00	US Dollars	100,00	100,00
Ermaden	Turkish Lira	90,00	90,00	Turkish Lira	90,00	90,00
Erdemir Mühendislik	Turkish Lira	100,00	100,00	Turkish Lira	100,00	100,00
Erdemir Romania S.R.L.	Euro	100,00	100,00	Euro	100,00	100,00
Erdemir Asia Pacific	US Dollars	100,00	100,00	US Dollars	100,00	100,00

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira ("TRY Thousand") unless otherwise indicated.)
(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 34)

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

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

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

Presentation, considering with the TAS taxonomy published on 6 June 2016 by POA, reclassifications of financial position are as follows:

Account	(Previously Reported) 31 December 2015	(Restated) 31 December 2015	(Difference) 31 December 2015
Property, Plant and Equipment [1]	10.234.969	10.264.461	29.492
Intangible Assets [1]	202.357	172.865	(29.492)
			-

[1] Exploration costs and other assets with specific useful life amounting to TRY 29.492 thousand that was reported under "Intangible Assets", is reclassified under "Property, Plant and Equipment" in consolidated financial statements as of 31 December 2015.

Reclassifications of income statement are as follows**:**

Account	(Previously Reported) 1 January - 31 December 2015	(Restated) 1 January - 31 December 2015	(Difference) 1 January - 31 December 2015
Financial Expense [1]	(576.343)	(191.144)	385.199
Deferred Tax (Expense) Income [1]	198.549	(186.650)	(385.199)
			-

[1] Foreign exchange loss from deferred tax base amounting to TRY 385.199 thousand which were reported under "Finance Expense" was reclassified to "Deferred Tax (Expense) Income" on the consolidated statement of income for the year ended 31 December 2015.

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

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

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

The Group calculates depreciation for the fixed assets by taking into account their production amounts on the basis of cash flow unit set by independent expert valuation firm and useful lives that are stated in Note 2.8.3 and 2.8.4 (Note 13, Note 14).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira ("TRY Thousand") unless otherwise indicated.)
(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 34)

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

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

2.5.2 Deferred tax

The Group recognizes deferred tax on the temporary timing differences between the carrying amounts of assets and liabilities in the financial statements prepared in accordance with TFRS and statutory financial statements which is used in the computation of taxable profit. The related differences are generally due to the timing difference of the tax base of some income and expense items between statutory and TFRS financial statements. The Group has deferred tax assets resulting from tax loss carry-forwards and deductible temporary differences, which could reduce taxable income in the future periods. All or partial amounts of the realizable deferred tax assets are estimated in current circumstances. The main factors which are considered include future earnings potential; cumulative fiscal losses in recent years; history of loss carry-forwards and other tax assets expiring, the carry-forward period associated with the deferred tax assets, future reversals of existing taxable temporary differences that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset (Note 28).

2.5.3 Fair values of derivative financial instruments

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

2.5.4 Provision for doubtful receivables

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

2.5.5 Provision for inventories

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

2.5.6 Provisions for employee benefits

Actuarial Assumptions about discount rates, inflation rates, future salary increases and employee turnover rates are made to calculate Group's provision for employee benefits. The details related with the defined benefit plans are stated in Note 16.

2.5.7 Provision for lawsuits

Provision for lawsuits is evaluated by the Group based on opinions of Group Legal Counsel and legal consultants. The Group determines the amount of provisions based on best estimates. As of Reporting date, provision for lawsuits is stated in Note 17.

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

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

2.5.8 Provision for termination fee of long term contract

The Group has initiated termination process of long-term service agreement, which is signed on 11 August 2008 to transport of overseas iron ore supplies with capesize vessels for 2008-2022 period, in the last quarter of 2015. The Group Management has concluded that there is a constructive obligation because of the Management's decision and supplier's intention towards termination process related to the contract as of 31 December 2015 and possibility of cash outflow is more likely than not. The parties reached a certain agreement on 24 February 2016 on termination of the aforementioned agreement with USD 75.000 thousand termination fee and signing of a new freight contract linked with market prices. Therefore, it is considered that subsequent agreement on termination cost, is an adjusting event after the balance sheet date since it lets the measurability of constructive obligation in a trustable manner. As a result, USD 75.000 thousand provision for termination fee of long term contract is recognized as of 31 December 2015 (Note 17 and 25).

2.5.9 Impairments on Assets

The Group, performs impairment tests for assets that are subject to depreciation and amortization in case of being not possible to prevent recovery of the assets at each reporting period. Assets are grouped at the lowest levels which there are separately identifiable cash flows for evaluation of impairment (cash generating units). As a result of the impairment tests performed by the Group, no additional impairment is estimated in the accompanying financial statements except provision for impairment of non financial assets amounting to TRY 39.058 thousand (Note 13).

2.6 Offsetting

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

2.7 Adoption of New and Revised Financial Reporting Standards

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2016 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of 1 January 2016. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

The new standards, amendments and interpretations which are effective as at 1 January 2016 are as follows:

- TFRS 11 Acquisition of an Interest in a Joint Operation (Amendment)

  TFRS 11 is amended to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in TFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in TFRS 3 and other TFRSs except for those principles that conflict with the guidance in this TFRS. In addition, the acquirer shall disclose the information required by TFRS 3 and other TFRSs for business combinations. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

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

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

The new standards, amendments and interpretations which are effective as at 1 January 2016 are as follows: (cont'd):

- TAS 16 and TAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to TAS 16 and TAS 38)

  The amendments to TAS 16 and TAS 38, have prohibited the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for intangible assets. The amendments did not have an impact on the financial position or performance of the Group.

- TAS 16 Property, Plant and Equipment and TAS 41 Agriculture - Bearer Plants (Amendment)

  TAS 16 is amended to provide guidance that bearer plants, such as grape vines, rubber trees and oil palms should be accounted for in the same way as property, plant and equipment in TAS 16. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates. Because their operation is similar to that of manufacturing, either the cost model or revaluation model should be applied. The produce growing on bearer plants will remain within the scope of TAS 41, measured at fair value less costs to sell. The amendment did not have an impact on the financial position or performance of the Group.

- TAS 27 Equity Method in Separate Financial Statements (Amendments to TAS 27)

  Public Oversight Accounting and Auditing Standards Authority (POA) of Turkey issued an amendment to TAS 27 to restore the option to use the equity method to account for investments in subsidiaries and associates in an entity's separate financial statements. Therefore, an entity must account for these investments either:

  - At cost
  - In accordance with IFRS 9, Or
  - Using the equity method defined in TAS 28

  The entity must apply the same accounting for each category of investments. The amendment is not applicable for the Group and did not have an impact on the financial position or performance of the Group.

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

  Amendments issued to TFRS 10 and TAS 28, to address the acknowledged inconsistency between the requirements in TFRS 10 and TAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in TFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors' interests in that former subsidiary. The amendment did not have an impact on the financial position or performance of the Group.

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

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

The new standards, amendments and interpretations which are effective as at 1 January 2016 are as follows: (cont'd):

- TFRS 10, TFRS 12 and TAS 28: Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 and IAS 28)

  In February 2015, Amendments issued to TFRS 10, TFRS 12 and TAS 28, to address the following issues that have arisen in applying the investment entities exception under TFRS 10 Consolidated Financial Statements; i) the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value, ii) only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value, iii) the amendments to TAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendment did not have an impact on the financial position or performance of the Group.

- TAS 1: Disclosure Initiative (Amendments to TAS 1)

  The amendments issued to TAS 1. Those amendments include narrow-focus improvements in the following five areas: Materiality, Disaggregation and subtotals, Notes structure, Disclosure of accounting policies, Presentation of items of other comprehensive income (OCI) arising from equity accounted investments. The amendment did not have an impact on the financial position or performance of the Group.

Annual Improvements to TFRSs - 2012-2014 Cycle

POA issued, Annual Improvements to TFRSs 2012-2014 Cycle. 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 - 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 - clarifies that the assessment of servicing contracts that includes a fee for the continuing involvement of financial assets in accordance with IFRS 7; the offsetting disclosure requirements do not apply to condensed interim financial statements,
- IAS 19 Employee Benefits - 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 -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.

  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 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.

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

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

Annual Improvements to TFRSs - 2012-2014 Cycle (cont'd)

- TFRS 15 Revenue from Contracts with Customers

  In September 2016, POA issued TFRS 15 Revenue from Contracts with Customers. The new standard issued includes the clarifying amendments to IFRS 15 made by IASB in April 2016. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). TFRS 15 effective date is January 1, 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

- TFRS 9 Financial Instruments

  In January 2017, POA issued the final version of TFRS 9 Financial Instruments. The final version of TFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. TFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, TFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. TFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted by applying all requirements of the standard.

  Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard. The Group has performed a high-level impact assessment of TFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional supportable information being made available to the Group in the future. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

  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.

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

  In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted.

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

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

Annual Improvements - 2010-2012 Cycle

- IFRS 13 Fair Value Measurement

  As clarified in the Basis for Conclusions short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment is effective immediately.

Annual Improvements - 2011-2013 Cycle

- IFRS 16 Leases

  The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

- IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)

  The IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are to be retrospectively applied for annual periods beginning on or after January 1, 2017 with earlier application permitted. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If the Group applies this relief, it shall disclose that fact. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

- IAS 7 Statement of Cash Flows (Amendments)

  The IASB issued amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. These amendments are to be applied for annual periods beginning on or after January 1, 2017 with earlier application permitted. When the Group first applies those amendments, it is not required to provide comparative information for preceding periods. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

- IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)

  The IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions.

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

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

Annual Improvements - 2011-2013 Cycle (cont'd)

- IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments) (cont'd)

  The amendments, provide requirements on the accounting for:

  a) The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments,
  b) Share-based payment transactions with a net settlement feature for withholding tax obligations, and
  c) A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

  These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

- IFRS 4 Insurance Contracts (Amendments)

  In September 2016, the IASB issued amendments to IFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will:

  a) Give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 Financial instruments is applied before the new insurance contracts Standard is issued; and
  b) Give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 Financial instruments until 2021. The entities that defer the application of IFRS 9 Financial instruments will continue to apply the existing financial instruments Standard—IAS 39.

  These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

- IAS 40 Investment Property: Transfers of Investment Property (Amendments)

  The IASB issued amendments to IAS 40 'Investment Property '. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration

  The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

  The Interpretation states that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. An entity is not required to apply this Interpretation to income taxes; or insurance contracts (including reinsurance contracts) it issues or reinsurance contracts that it holds.

  The interpretation is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted.

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

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

Annual Improvements to IFRSs - 2014-2016 Cycle

The IASB issued Annual Improvements to IFRS Standards 2014-2016 Cycle, amending the following standards:

- IFRS 1 First-time Adoption of International Financial Reporting Standards: This amendment deletes the short-term exemptions about some IFRS 7 disclosures, IAS 19 transition provisions and IFRS 10 Investment Entities. These amendments are to be applied for annual periods beginning on or after 1 January 2018.
- IFRS 12 Disclosure of Interests in Other Entities: This amendment clarifies that an entity is not required to disclose summarised financial information for interests in subsidiaries, associates or joint ventures that is classified, or included in a disposal group that is classified, as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. These amendments are to be applied for annual periods beginning on or after 1 January 2017.
- IAS 28 Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying IFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

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

2.8 Valuation Principles Applied/Significant Accounting Policies

Valuation principles and accounting policies used in the preparation of the consolidated financial statements are as follows:

2.8.1 Revenue recognition

Revenue is measured at the fair value of the received or receivable amount. The estimated customer returns, rebates, and other similar allowances are deducted from this amount.

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- The Group transfers the significant risks and benefits of the ownership of the goods to the buyer;
- The Group retains neither a continuing managerial involvement usually associated with ownership nor effective control over the goods sold;
- The amount of revenue is measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred due to the transaction are measured reliably.

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

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

2.8.1 Revenue recognition (cont'd)

Dividend and interest income

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Group's interest income from time deposits is recognized in financial income. Group's interest income from sales with maturities is recognized in other operating income.

Rental income

Rental income from investment properties is recognized on a straight-line basis over the term of the relevant lease and recognised under other operating income.

2.8.2 Inventories

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

2.8.3 Property, plant and equipment

Property, plant and equipment purchased before 30 June 2013 are disclosed in the financial statements at their indexed historical cost for inflation effects as at 30 June 2013, on the other hand the purchases made in 30 June 2013 and in later periods are presented at their historical cost, less depreciation and impairment loss. Except for land and construction in progress, other tangible assets are depreciated according to straight-line basis or units of production method basis using the expected useful lives and production amounts of the assets.

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

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

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

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

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

2.8.3 Property, plant and equipment (cont'd)

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

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

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

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

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

2.8.4 Intangible assets

Intangible assets purchased before 30 June 2013 are recognized at their acquisition cost indexed for inflation effects as at 30 June 2013, on the other hand the purchases made in and after 30 June 2013 are recognized at acquisition cost less any amortization and impairment loss. Intangible assets are amortized principally on a straight-line basis over their estimated useful lives and production amounts. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, and any changes in the estimate are accounted for on a prospective basis.

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

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

2.8.4 Intangible assets (cont'd)

The amortization rates of the intangible assets are stated below:

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

2.8.5 Investment properties

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

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

2.8.6 Impairment of assets

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

2.8.7 Borrowing costs

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

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

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

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

2.8.8 Financial instruments

Financial assets and financial liabilities are recognized in the Group's consolidated balance sheet when the Group becomes a legal party for the contractual provisions of the financial instrument.

Financial assets

Financial assets, are initially measured at fair value, less transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale financial assets' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest rate method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the ratio exactly discounts the estimated future cash receipts through the expected life of the financial asset to the net present value of the financial asset or in a shorter period where appropriate.

Incomes related to the debt instruments that are held to maturity and are available for sale, and financial assets that are classified as loans and receivables are calculated according to the effective interest rate method.

Available for sale financial assets

Some of the shares and long term marketable securities held by the Group are classified as available for sale and recognized at their fair values.

The financial assets, which are not priced in an active market and the fair value cannot be recognized accurately, are recognized at cost less accumulated impairments.

Gains and losses arising from changes in fair value are recognized directly in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognized directly in the consolidated income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in the consolidated income statement for the period.

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

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

2.8.8 Financial instruments (cont'd)

Financial assets (cont'd)

Available for sale financial assets (cont'd)

Some of the shares and long term marketable securities held by the Group are classified as available for sale and recognized at their fair values.

Receivables

Trade receivables and other receivables are initially recognized at their fair value. Subsequently, receivables are measured at amortized cost using the effective interest method.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For receivables, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated income statement under general administrative expenses.

With the exception of available for sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available for sale equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in the consolidated statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three-months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value.

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

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

2.8.8 Financial instruments (cont'd)

Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Other financial liabilities

Other financial liabilities are initially accounted at fair value, net of transaction costs.

Subsequently other financial liabilities are accounted at amortized cost using the effective interest method, with interest expense recognized on an effective interest rate basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating the interest expense to the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount.

Derivative financial instruments and hedge accounting

Derivatives are initially recognized at cost of acquisition and are subsequently accounted to their fair value at the end of each reporting period. The method of recognizing the result of gain or loss is dependent on the nature of the item being hedged.

On the date a derivative contract is entered into, the Group designates certain derivatives as either a hedge of the fair value of a recognized asset or liability (fair value hedge) or a hedge from changes that could affect the statement of income due to a specific risk in cash flow of a forecasted transaction (cash flow hedge). Fair value of the Group's interest swap contracts is determined by valuation methods depending on analyzable market data.

Changes in the fair value of the derivatives that are designated and qualified as cash flow hedges and that are highly effective, are recognized in equity as hedging reserve. Where the forecasted transaction or firm commitment results in the recognition of an asset or a liability, the gains and losses previously booked under equity are transferred from equity and included in the initial measurement of the cost of acquisition of the asset or liability. Otherwise, amounts booked under equity are transferred to the consolidated statement of income and classified as revenue or expense in the period in which the hedged item affects the statement of income.

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

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

2.8.8 Financial instruments (cont'd)

Derivative financial instruments and hedge accounting (cont'd)

When the hedging instrument expires, is sold, or when a hedge no longer meets the criteria for hedge than hedge accounting is terminated. Any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the committed or forecasted transaction ultimately is recognized in the statement of income. However, if the hedged transaction is not realized, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss of the current period.

The Group measures the derivative financial instruments held for fair value hedge purpose with their fair values and recognizes them in the consolidated income statement under financial income/(expense).

2.8.9 The effects of foreign exchange rate changes

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

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

2.8.10 Earnings per share

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

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

2.8.11 Subsequent events

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

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

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

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

2.8.12 Provisions, contingent liabilities and contingent assets

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

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

2.8.13 Related parties

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

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

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

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

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

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

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

2.8.13 Related parties (cont'd)

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

2.8.14 Taxation and deferred income taxes

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

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

Current tax

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

Deferred tax

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

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

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

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

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

2.8.14 Taxation and deferred income taxes (cont'd)

Deferred tax (cont'd)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

Current and deferred tax for the period

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

2.8.15 Employee benefits

According to the Turkish and Romanian law and union agreements, employee termination payments are made to employees in the case of retiring or involuntarily leaving. Such payments are considered as a part of defined retirement benefit plan in accordance with IAS19 (revised) "Employee Benefits" ("IAS 19").

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

The Group makes certain assumptions about discount rates, inflation rates, future salary increases and employee turnover rates in calculation of provisions for employee benefits. The present value of employee benefits is calculated by an independent actuary and some changes are done in accounting assumptions used in calculations. The impact of the changes in assumptions is recognized in the statement of income. The details related with the defined benefit plans are stated in Note 16.

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

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

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

2.8.15 Employee benefits (cont'd)

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

2.8.16 Government grants and incentives

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

2.8.17 Statement of cash flows

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

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

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

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

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

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

2.8.18 Share capital and dividends

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

2.8.19 Erdemir repurchased shares (Treasury shares)

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

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NOTE 3- SEGMENTAL REPORTING

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

NOTE 4- CASH AND CASH EQUIVALENTS

The detail of cash and cash equivalents as of 31 December 2016 and 31 December 2015 is as follows:

	31 December 2016	**31 December 2015**
Cash	41	28
Banks - demand deposits	75.433	45.482
Banks - time deposits	4.511.437	2.889.193
	4.586.911	2.934.703
Time deposit interest accruals (-)	(9.206)	(4.005)
Cash and cash equivalents excluding interest accruals	4.577.705	2.930.698

The breakdown of demand deposits is presented below:

	31 December 2016	**31 December 2015**
US Dollars	50.185	16.775
TRY	9.857	19.328
EURO	9.315	8.775
Romanian Lei	4.915	493
GB Pound	972	15
Japanese Yen	42	4
Other	147	92
	75.433	45.482

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

The breakdown of time deposits is presented below:

	31 December 2016	31 December 2015
US Dollars	4.441.259	2.866.533
TRY	45.026	9.504
EURO	24.988	13.016
Romanian Lei	164	140
	4.511.437	2.889.193

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

NOTE 5- FINANCIAL INVESTMENTS

Long term financial investments:

	31 December 2016	31 December 2015
Available for sale financial assets	122	79
	122	79

As of 31 December 2016 and 31 December 2015, ratios and amounts of subsidiaries of İskenderun Demir ve Çelik A.Ş. which is a subsidiary of the Company are as followings:

Company	Ratio %	31 December 2016	Ratio %	31 December 2015
Financial investments without an active market				
Teknopark Hatay A.Ş.	5	95	5	79
Joint venture				
İsdemir Linde Gaz Ortaklığı A.Ş. (*)	50	27	50	-
		122		79

(*) Since the impact of financial statements of İsdemir Linde Gaz Ortaklığı A.Ş., which has an assets of TRY 605 thousand and is not active as of the reporting period is immaterial on the consolidated financial statements therefore not consolidated and valued at cost.

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NOTE 6- FINANCIAL DERIVATIVE INSTRUMENTS

The detail of financial derivative instruments as of 31 December 2016 and 31 December 2015 is as follows:

	31 December 2016		31 December 2015	
	Asset	**Liability**	**Asset**	**Liability**
Fair value hedging derivative financial assets				
Forward contracts for fair value hedges of currency risk of sales	14.825	-	9.122	85
Option contracts	-	-	1.709	-
Cross currency swap contracts	22.640	133	52.913	14.015
Interest rate swap contracts	4.240	-	-	-
Basis swap contracts	-	2.060	-	-
	41.705	2.193	63.744	14.100
Cash flow hedging derivative financial assets				
Forward contracts for cash flow hedges of currency risk of sales	17.354	444	12.571	640
Cross currency swap contracts for cash flow hedges of currency risk of borrowings	9.243	18.389	10.182	24.555
Interest rate swap contracts for cash flow hedges of interest rate risk of borrowings	244	171	72	703
Commodity swap contracts for cash flow hedges of price fluctuations of raw material purchases	1.719	-	440	852
	28.560	19.004	23.265	26.750
	70.265	21.197	87.009	40.850

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NOTE 6- FINANCIAL DERIVATIVE INSTRUMENTS (cont'd)

Derivative instruments for fair value hedge

As of 31 December 2016 and 31 December 2015, the details of forward, option and cross currency swap transactions for fair value hedge are as follows:

		Assets		Liabilities	
31 December 2016		**Nominal value**	**Fair Value**	**Nominal value**	**Fair Value**
Forward contracts for fair value hedges of currency risk of sales					
Buy USD/Sell EUR	Less than 3 months	281.792	14.825	-	-
		281.792	14.825	-	-
Interest rate swap contracts					
USD floating interest collection/ Fixed interest payment	Between 1 - 5 years	193.556	4.240	-	-
		193.556	4.240	-	-
Basis interest swap contracts					
USD basis floating interest collection/Basis floating interest payment	Between 1 - 5 years	-	-	526.845	2.060
		-	-	526.845	2.060
Cross currency, interest rate swap contracts					
EUR Collection/TRY Payment	Between 6 - 12 months	51.616	22.640	51.616	133
		51.616	22.640	51.616	133
		526.964	41.705	578.461	2.193

		Assets		Liabilities	
31 December 2015		**Nominal value**	**Fair Value**	**Nominal value**	**Fair Value**
Forward contracts for fair value hedges of currency risk of sales					
Buy USD/Sell EUR	Less than 3 months	141.485	8.571	17.848	85
Buy USD/Sell EUR	Between 3 - 6 months	14.154	551	-	-
		155.639	9.122	17.848	85
Option contracts					
Buy USD/Sell EUR	Less than 3 months	11.187	1.709	-	-
		11.187	1.709	-	-
Cross currency/interest rates swap contracts					
USD Collection/TRY Payment	Between 6 - 12 months	44.841	22.386	44.841	13.946
AVRO Collection/TRY Payment	More than 12 months	88.421	30.527	88.421	69
		133.262	52.913	133.262	14.015
		300.088	63.744	151.110	14.100

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NOTE 6- FINANCIAL DERIVATIVE INSTRUMENTS (cont'd)

Derivative instruments for cash flow hedge

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

Buy USD - Sell EUR forward contracts measured at fair value through other comprehensive income are designated as hedging instruments in cash flow hedges of forecast sales in EUR. These forecast transactions are highly probable and their maturities vary between January 2017 and March 2018.

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

In respect of these contracts which has a nominal value of TRY 353.686 thousand for the purpose of hedging cash flow risk, with related deferred tax effect TRY 16.910 thousand was included in other comprehensive income (31 December 2015: TRY 11.931 thousand).

In the current period, TRY 25.238 thousand resulting from the sales related forward contracts was accounted under the revenue account of the profit or loss table (31 December 2015: TRY 50.635).

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

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

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

In respect of these contracts which has a nominal value of TRY 148.718 thousand, for the purpose of hedging cash flow risk, with related deferred tax effect TRY (9.073) thousand was included in other comprehensive income (31 December 2015: TRY (15.004) thousand).

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

The Group purchases iron ore on an ongoing basis as its operating activities. The Group has concluded iron ore swap contracts in order to be protected from price risk of iron ore which shall be supplied in future and shall be used in the production of related sales in line with its contracted sales. Group's iron ore forward contracts measured at fair value through other comprehensive income match iron ore price risk associated with future long term sales contracts. These sales are highly probable and terms and conditions of iron ore forward contracts match sales terms. As a result, no hedge ineffectiveness arises requiring recognition through profit or loss.

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NOTE 6- FINANCIAL DERIVATIVE INSTRUMENTS (cont'd)

Derivative instruments for cash flow hedge (cont'd)

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

The maturities of these 15 thousand tons of iron ore contracts which has a nominal value of TRY 1.966 thousand, vary until January 2017 and fair value with related deferred tax effect, TRY 1.719 thousand was included in other comprehensive income (31 December 2015: TRY (412) thousand).

As of 31 December 2016, TRY 2.728 thousand realised reclassification from other comprehensive income to cost of inventories during the year (31 December 2015: TRY 2.493 thousand).

NOTE 7- BORROWINGS

Breakdown of borrowings is as follows:

	31 December 2016	31 December 2015
Short term borrowings	1.257.986	24.286
Current portion of long term borrowings	1.043.968	1.047.256
Total short term borrowings	2.301.954	1.071.542
Long term borrowings	1.617.534	1.904.361
Total long term borrowings	1.617.534	1.904.361
	3.919.488	2.975.903

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

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

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NOTE 7- BORROWINGS (cont'd)

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 (%)	Short Term Portion	Long Term Portion	31 December 2015
No interest	TRY	-	24.286	-	24.286
Fixed	TRY	9,26	170.482	12.865	183.347
Fixed	US Dollars	3,99	22.925	52.523	75.448
Fixed	EURO	3,27	2.422	46.725	49.147
Floating	US Dollars	Libor+2,03	717.249	1.619.418	2.336.667
Floating	EURO	Euribor+0,5	103.824	143.919	247.743
Floating	Japanese Yen	JPY Libor+0,22	30.354	28.911	59.265
			1.071.542	1.904.361	2.975.903

Tithe breakdown of the loan repayments with respect to their maturities as follows:

	31 December 2016	31 December 2015
Within 1 year	2.301.954	1.071.542
Between 1-2 years	585.316	921.923
Between 2-3 years	480.309	488.184
Between 3-4 years	332.078	328.902
Between 4-5 years	102.893	163.914
Five years or more	116.938	1.438
	3.919.488	2.975.903

NOTE 8- TRADE RECEIVABLES AND PAYABLES

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

	31 December 2016	31 December 2015
Short term trade receivables		
Trade receivables	2.056.215	1.670.078
Due from related parties (Note 30)	54.877	43.130
Discount on receivables (-)	(3.709)	(2.586)
Provision for doubtful trade receivables (-)	(90.482)	(77.993)
	2.016.901	1.632.629

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NOTE 8- TRADE RECEIVABLES AND PAYABLES (cont'd)

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

	1 January - 31 December 2016	1 January - 31 December 2015
Opening balance	77.993	62.107
Provision for the period	1.417	8.210
Doubtful receivables collected (-)	-	(126)
Provision released (-)	(610)	(1.303)
Translation difference	11.682	9.105
Closing balance	90.482	77.993

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

As the Group provides services and products to a large number of customers, collection risk is widely distributed amongst these customers and there is no significant credit risk exposure. Therefore, the Group does not provide for any further provision beyond the doubtful receivables provisions that the Group has already provided for in the consolidated financial statements.

As of the balance sheet date, there is no significant amount of overdue receivables within the trade receivables.

Other explanatory notes related to the credit risk of the Group are disclosed in Note 31.

The Group provides provision according to the balances of all unsecured receivables under legal follow up.

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

Short term trade payables	31 December 2016	31 December 2015
Trade payables	882.527	557.016
Due to related parties (Note 30)	35.008	26.630
Discount on trade payables (-)	(4.159)	(3.086)
Expense accruals	1.700	1.643
	915.076	582.203

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NOTE 9- OTHER RECEIVABLES AND PAYABLES

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

Short term other receivables	31 December 2016	31 December 2015
Receivables from water system construction	1.592	1.763
Deposits and guarantees given	291	306
	1.883	2.069

Long term other receivables	31 December 2016	31 December 2015
Receivables from Privatization Authority	70.236	67.397
Receivables from water system construction	12.808	14.036
Deposits and guarantees given	979	1.033
Provision for receivables from Privatization Authority (-)	(70.236)	(67.397)
	13.787	15.069

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

	1 January - 31 December 2016	1 January - 31 December 2015
Opening balance	67.397	62.403
Provision for the period	2.887	5.436
Other doubtful receivables collected (-)	(227)	(482)
Translation difference	179	40
Closing balance	70.236	67.397

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

Short term other payables	31 December 2016	31 December 2015
Taxes payable	2.709	3.093
Employee's income tax payables	27.766	21.453
Deposits and guarantees received	9.539	7.394
Dividend payables to shareholders (*)	2.112	1.740
	42.126	33.680

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

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NOTE 10- INVENTORIES

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

	31 December 2016	31 December 2015
Raw materials	834.711	730.302
Work in progress	720.679	473.829
Finished goods	866.700	890.682
Spare parts	768.861	603.435
Goods in transit	983.678	409.524
Other inventories	289.205	298.551
Allowance for impairment on inventories (-)	(208.787)	(168.433)
	4.255.047	3.237.890

The movement of the allowance for impairment on inventories:

	1 January - 31 December 2016	1 January - 31 December 2015
Opening balance	168.433	111.752
Provision for the period	39.576	39.092
Provision released (-)	(35.305)	(12.256)
Translation difference	36.083	29.845
Closing balance	208.787	168.433

The Group has provided an allowance for the impairment on the inventories of finished goods, work in progress and raw materials within the scope of aging reports in the cases when their net realizable values are lower than their costs or for slow moving inventories. The provision released has been recognized under cost of sales (Note 22).

NOTE 11- PREPAID EXPENSES

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

	31 December 2016	31 December 2015
Insurance expenses	24.355	31.477
Order advances given	5.142	6.465
Prepaid utility allowance to employees	7.657	6.619
Other prepaid expenses	5.359	8.193
	42.513	52.754

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NOTE 11- PREPAID EXPENSES (cont'd)

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

	31 December 2016	31 December 2015
Order advances given	64.532	28.490
Insurance expenses	3.262	12.596
Other prepaid expenses	2.963	2.853
	70.757	43.939

NOTE 12- INVESTMENT PROPERTIES

Cost	1 January - 31 December 2016	1 January - 31 December 2015
As of 1 January	71.731	57.691
Transfers (*)	6.916	-
Disposals	-	(568)
Translation difference	16.235	14.608
As of 31 December	94.882	71.731
Book value	94.882	71.731

According to the recent valuation reports, the fair value of the Group's investment properties is TRY 484.801 thousand (31 December 2015: TRY 174.782 thousand). The fair values of the investment properties have been determined in reference to the valuations of independent valuation firms authorized by the CMB of Turkey. The valuations are undertaken predominantly by using the precedent values of similar properties as references under market approach.

(*) In accordance with the decision taken at the board meeting dated 18 April 2016 regarding evaluation of lands of Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. on Kırıkkale, relevant lands are reclassed to investment properties.

The Group's all investment properties consist of land parcels.

For the year ended 31 December 2016, the Group generated rent income amounting to TRY 419 thousand (31 December 2015: TRY 377 thousand) recognized under other operating income.

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NOTE 13- PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Machinery and equipment
Cost				
Opening balance as of 1 January	173.843	2.418.629	3.815.068	16.107.877
Transfers to investment properties (***)	(6.916)	-	-	-
Translation difference	32.861	510.388	805.422	3.453.408
Additions (*)	-	795	2.368	93.568
Transfers from CIP (**)	2.757	61.808	34.802	419.298
Disposals	-	(92)	-	(33.207)
Closing balance as of 31 December 2016	202.545	2.991.528	4.657.660	20.040.944
Accumulated Depreciation				
Opening balance as of 1 January	-	(1.718.537)	(2.650.501)	(9.107.231)
Translation difference	-	(365.284)	(569.690)	(1.973.701)
Charge for the period	-	(59.477)	(83.516)	(430.766)
Impairment (****)	-	-	(3.916)	(11.285)
Disposals	-	50	-	24.304
Closing balance as of 31 December 2016	-	(2.143.248)	(3.307.623)	(11.498.679)
Net book value as of 31 December 2015	173.843	700.092	1.164.567	7.000.646
Net book value as of 31 December 2016	202.545	848.280	1.350.037	8.542.265

(*) The amount of capitalized borrowing cost is TRY 2.028 thousand for the current period (31 December 2015: TRY 388 thousand).

(**) TRY 7.496 thousand is transferred to intangible assets (Note 14).

(***) In accordance with the decision taken at the board meeting dated 18 April 2016 regarding evaluation of lands of Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. on Kırıkkale, relevant lands are reclassed to investment properties.

(****) The Group review the recoverable amount of fixed asset which is not able to generate cash flows independently. As a result of the review;

i. For non used assets, an impairment loss of TRY 19.223 thousand is recognised that on income statement under other operating expenses (Note 25) (31 December 2015: TRY (1.980) thousand);

ii. The Group's assets in Romania are considered as a separate cash-generating unit, and having been subjected to an impairment test TRY 19.835 thousand impairment was calculated for this cash-generating unit with regard to the recoverable amount calculated depending on the cash flows based on a discount rate of 9,10%. TRY 4.877 thousand of the calculated impairment loss was recognised in the revaluation reserve for tangible fixed assets on the other comprehensive income statement, and TRY 14.958 thousand was recorded in the other operating expenses account on the income statement (Note 25).

As of 31 December 2016, the Group has no collaterals or pledges upon its tangible assets (31 December 2015: None).

Vehicles	Furniture and Fixtures	Other Property, Plant and Equipment	Construction in Progress (CIP)	Total
958.465	474.272	155.854	560.468	24.664.476
-	-	-	-	(6.916)
171.916	81.944	14.191	89.520	5.159.650
7.873	11.607	10.998	353.994	481.203
3.957	3.990	20.053	(554.161)	(7.496)
(1.748)	(2.258)	(835)	-	(38.140)
1.140.463	569.555	200.261	449.821	30.252.777
(562.416)	(241.276)	(95.383)	(24.671)	(14.400.015)
(91.899)	(34.322)	(7.114)	(8.744)	(3.050.754)
(30.636)	(20.796)	(14.507)	-	(639.698)
(811)	-	(1.617)	(21.429)	(39.058)
1.735	2.016	615	-	28.720
(684.027)	(294.378)	(118.006)	(54.844)	(18.100.805)
396.049	232.996	60.471	535.797	10.264.461
456.436	275.177	82.255	394.977	12.151.972

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

	Land	Land Improvements	Buildings	Machinery and equipment
Cost				
Opening balance as of 1 January	136.061	1.917.551	3.005.236	12.622.883
Translation difference	30.816	478.001	761.406	3.206.481
Additions	290	1.374	827	81.255
Transfers from CIP (*)	6.676	21.813	48.335	258.136
Disposals	-	(110)	(736)	(60.878)
Closing balance as of 31 December 2015	173.843	2.418.629	3.815.068	16.107.877
Accumulated Depreciation				
Opening balance as of 1 January	-	(1.331.471)	(2.052.408)	(6.995.000)
Translation difference	-	(336.009)	(523.730)	(1.784.145)
Charge for the period	-	(51.124)	(75.059)	(374.028)
Impairment	-	-	(17)	(1.963)
Disposals	-	67	713	47.905
Closing balance as of 31 December 2015	-	(1.718.537)	(2.650.501)	(9.107.231)
Net book value as of 31 December 2014	136.061	586.080	952.828	5.627.883
Net book value as of 31 December 2015	173.843	700.092	1.164.567	7.000.646

(*) TRY 4.074 thousand is transferred to intangible assets (Note 14).

Vehicles	Furniture and Fixtures	Other Property, Plant and Equipment	Construction in Progress (CIP)	Total
786.026	384.588	124.881	394.444	19.371.670
161.833	74.677	8.893	106.464	4.828.571
14.168	14.533	13.377	416.384	542.208
1.461	2.482	13.847	(356.824)	(4.074)
(5.023)	(2.008)	(5.144)	-	(73.899)
958.465	474.272	155.854	560.468	24.664.476
(459.676)	(197.737)	(83.129)	(19.676)	(11.139.097)
(80.044)	(27.913)	(5.021)	(4.995)	(2.761.857)
(27.694)	(17.343)	(9.754)	-	(555.002)
-	-	-	-	(1.980)
4.998	1.717	2.521	-	57.921
(562.416)	(241.276)	(95.383)	(24.671)	(14.400.015)
326.350	186.851	41.752	374.768	8.232.573
396.049	232.996	60.471	535.797	10.264.461

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

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

	31 December 2016	31 December 2015
Associated with cost of production	609.576	529.213
General administrative expenses	8.397	6.846
Marketing, sales and distribution expenses	20.416	18.142
Research and development expenses	1.309	801
	639.698	555.002

NOTE 14- INTANGIBLE ASSETS

	Rights	Other Intangible Assets	Total
Cost			
Opening balance as of 1 January	333.815	14.318	348.133
Translation difference	70.142	4.455	74.597
Additions	10.448	204	10.652
Transfers from CIP	5.968	1.528	7.496
Disposals	-	(941)	(941)
Net book value as of 31 December 2016	420.373	19.564	439.937
Accumulated amortization			
Opening balance as of 1 January	(163.510)	(11.758)	(175.268)
Translation difference	(34.932)	(4.269)	(39.201)
Charge for the period	(18.983)	(1.006)	(19.989)
Closing balance as of 31 December 2016	(217.425)	(17.033)	(234.458)
Net book value as of 31 December 2015	170.305	2.560	172.865
Net book value as of 31 December 2016	202.948	2.531	205.479

As of 31 December 2016, the Group has no collaterals or pledges upon its intangible assets (31 December 2015: None).

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NOTE 14- INTANGIBLE ASSETS (cont'd)

	Rights	Other Intangible Assets	Total
Cost			
Opening balance as of 1 January	252.514	9.717	262.231
Translation difference	62.283	3.983	66.266
Additions	14.944	618	15.562
Transfers from CIP	4.074	-	4.074
Closing balance as of 31 December 2015	333.815	14.318	348.133
Accumulated amortization			
Opening balance as of 1 January	(119.676)	(7.212)	(126.888)
Translation difference	(28.403)	(3.916)	(32.319)
Charge for the period	(15.431)	(630)	(16.061)
Closing balance as of 31 December 2015	(163.510)	(11.758)	(175.268)
Net book value as of 31 December 2014	132.838	2.505	135.343
Net book value as of 31 December 2015	170.305	2.560	172.865

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

	31 December 2016	31 December 2015
Associated with cost of production	12.815	12.150
General administrative expenses	6.469	3.363
Marketing, sales and distribution expenses	629	548
Research and development expenses	76	-
	19.989	16.061

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NOTE 15- GOVERNMENT GRANTS AND INCENTIVES

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

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

Research and development incentive premiums taken or certain to be taken amounts to TRY 801 thousand (31 December 2015: TRY 836 thousand) which are accounted under income statement for the year ended 31 December 2016.

NOTE 16- EMPLOYEE BENEFITS

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

	31 December 2016	31 December 2015
Due to personnel	109.062	93.459
Social security premiums payable	59.662	26.241
	168.724	119.700

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

	31 December 2016	31 December 2015
Provisions for employee termination benefits	448.932	404.699
Provisions for seniority incentive premium	38.884	28.289
Provision for unpaid vacations	79.603	72.927
	567.419	505.915

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

As of 31 December 2016, the amount payable consists of one month's salary limited to a maximum of TRY 4.297,21 (31 December 2015: TRY 3.828,37). As of 1 January 2017, the employee termination benefit has been updated to a maximum of TRY 4.426,16.

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

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NOTE 16- EMPLOYEE BENEFITS (cont'd)

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

	31 December 2016	31 December 2015
Discount rate	11,00%	10,70%
Inflation rate	7,80%	7,75%
Salary increase	real 1,5%	real 1,5%
Maximum liability increase	7,80%	7,75%

Discount rates are determined considering the expected duration of the retirement obligations and the currency in which the obligations will be paid. In calculations as of 31 December 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 December 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.

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

	1 January - 31 December 2016	1 January - 31 December 2015
Opening balance	404.699	393.478
Service cost	41.921	40.125
Interest cost	40.319	30.466
Actuarial loss/(gain)	(8.006)	(22.930)
Termination benefits paid	(30.965)	(36.709)
Translation difference	964	269
Closing balance	448.932	404.699

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NOTE 16- EMPLOYEE BENEFITS (cont'd)

The sensitivity analysis of the assumptions which was used for the calculation of provision for employment termination benefits as of 31 December 2016 as follows:

Sensitivity level

	Interest rate	
Rate	**1% increase**	**1% decrease**
Change in employee benefits liability	(37.577)	43.542
	Inflation rate	
Rate	**1% increase**	**1% decrease**
Change in employee benefits liability	44.489	(38.232)

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

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

	1 January - 31 December 2016	**1 January - 31 December 2015**
Opening balance	28.289	25.389
Service cost	4.315	3.970
Interest cost	3.069	2.229
Actuarial loss/(gain)	4.802	(1.743)
Termination benefits paid	(1.522)	(1.602)
Translation difference	(69)	46
Closing balance	38.884	28.289

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

	1 January - 31 December 2016	**1 January - 31 December 2015**
Opening balance	72.927	68.857
Provision for the period	60.847	54.151
Vacation paid during the period (-)	(4.214)	(5.102)
Provisions released (-)	(50.255)	(45.042)
Translation difference	298	63
Closing balance	79.603	72.927

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NOTE 17- PROVISIONS

The Group's short term provisions are as follows:

	31 December 2016	31 December 2015
Provision for lawsuits	105.448	88.280
Provision for termination fee of long term contract	-	218.070
Penalty prov. for employment shortage of disabled pers.	7.488	5.434
Provision for state right on mining activities	2.650	2.589
Provision for land occupation	16.602	122.634
Provision for the potential tax penalty	13.398	-
	145.586	437.007

The movement of the short term provisions is as follows:

	1 January 2016	Change for the period	Payments	Provision released	Translation difference	31 December 2016
Provision for lawsuits	88.280	32.203	(7.337)	(22.347)	14.649	105.448
Provision for termination fee of long term contract	218.070	-	(226.388)	-	8.318	-
Penalty prov. for employment shortage of disabled pers.	5.434	3.988	(630)	(1.379)	75	7.488
Provision for state right on mining activities	2.589	2.650	(2.589)	-	-	2.650
Provision for land occupation	122.634	17.069	(63.886)	(63.786)	4.571	16.602
Provision for the tax penalty	-	12.946	-	-	452	13.398
	437.007	68.856	(300.830)	(87.512)	28.065	145.586

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NOTE 17- PROVISIONS (cont'd)

	1 January 2015	Change for the period	Payments	Provision released	Translation difference	31 December 2015
Provision for lawsuits	102.234	32.865	(8.550)	(57.561)	19.292	88.280
Provision for termination fee of long term contract	-	203.903	-	-	14.167	218.070
Penalty prov. for employment shortage of disabled pers.	5.223	4.265	(3.192)	(1.032)	170	5.434
Provision for state right on mining activities	4.484	2.589	(3.598)	(886)	-	2.589
Provision for civil defence fund	10.099	-	-	(9.422)	(677)	-
Provision for land occupation	112.488	10.066	-	-	80	122.634
	234.528	253.688	(15.340)	(68.901)	33.032	437.007

Provision for lawsuits

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

	31 December 2016	31 December 2015
Lawsuits filed by the Group	526.308	474.468
Provision for lawsuits filed by the Group	64.076	54.849

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

	31 December 2016	31 December 2015
Lawsuits filed against the Group	348.856	293.156
Provision for lawsuits filed against the Group	105.448	210.914

The Company, prepared its consolidated financial statements as of 31 March 2005, 30 June 2005 and 30 September 2005 according to CMB's Communiqué Serial XI No 25 on "Accounting Standards to be implemented in Capital Markets" which is not in effect today, whereas its consolidated financial statements of 31 December 2005 was prepared according to International Financial Reporting Standards by virtue of the Article 726 and Temporary Article 1 of the aforementioned Communiqué, and CMB's letter no. SPK.017/83-3483 dated 7 March 2006, sent to the Group Management. The aforementioned Communiqué (Serial XI No. 25 on the "Accounting Standards to be implemented in Capital Markets"), and Communiqués inserting some provisions thereto together with the Communiqués amending it, became effective starting with the consolidated financial statements of the first interim period ending after 1 January 2005.

NOTE 17- PROVISIONS (cont'd)

Provision for lawsuits (cont'd)

CMB asked the Company to prepare its consolidated financial statements of 31 December 2005 all over again according to the same accounting standards set used during the period, to publish those statements, and to submit them to the General Assembly Approval as soon as possible, by stating on its decision no. 21/526 dated 5 May 2006 that the Company's changing the accounting standards set used during the term (Serial XI, No 25) at the end of the same term (IFRS) caused decrease amount of TRY 152.330 thousand on the period due to negative goodwill income.

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

CMB, prepared the Company's consolidated financial statements as of 31 December 2005, which had been prepared according to the IFRS, by adding the negative goodwill of TRY 152.330 thousand, that had previously been added to the accumulated earnings, to the profit of 2005 on its own motion and account, and published them on Istanbul Stock Exchange Bulletin on 15 August 2006; with the rationale that the Company had not fulfilled its due demand on grounds that "Article 726 and Temporary Provision 1 of CMB's Communiqué Serial XI, No. 25 authorize the use of IFRS on consolidated financial statements of 2005, although CMB had given the Company a 'permission' No. SPK.0.17/83-3483 of 7 March 2006, and the lawsuits regarding this issue are still pending". The Company challenged CMB's aforementioned decision by a separate lawsuit on 10 October 2006. 11th Administrative Court of Ankara rejected this case on 25 June 2007. The Company appealed this rejection 11 October 2007; 13th Chamber of the Council of State, accepted the appeal request and abolished the rejection judgment. CMB appealed the Chamber's decision on 6 September 2010. 13th Chamber of the Council of State accepted CMB's appeal and reverted its previous abolishment decision, and ratified 11th Administrative Court of Ankara's judgment by the majority of the votes on 30 May 2012 with its decision no. E. 2010/4405; K. 2012/1352. This decision was notified to the Company's lawyers on 20 July 2012.

Had the Company started to prepare its consolidated financial statements in accordance with IFRS after 31 December 2005, it would also have to present the comparative consolidated financial statements in accordance with IFRS based on "IFRS 1: First-time adoption of International Financial Reporting Standards" and the previously recognized negative goodwill would be transferred directly to retained earnings on 1 January 2005 instead of recognizing in the consolidated income statement in accordance with "IFRS 3: Business Combinations". Therefore, the net profit for the periods ended 31 December 2016 and 31 December 2015 will not be affected from the above mentioned disputes.

Company's Shareholders' General Assembly, which was held at 30 March 2006, decided dividend distribution according to the consolidated financial statements as of 31 December 2005, which was prepared according to IFRS. Privatization Administration, who has a usufruct right over 1 (one) equity share among the Company shares it transferred to Ataer Holding A.Ş., filed a lawsuit at 1 May 2006 the 3rd Commercial Court of Ankara against the aforementioned General Assembly decision, and claimed that, dividend distribution decision must be abolished and TRY 35.673 thousand allegedly unpaid dividend must be paid to itself (E. 2006/218). The Court rejected the case on 23 October 2008; Privatization Administration appealed this rejection on 7 January 2009. Court of Appeals' 11th Chamber reversed this rejection judgment on 30 November 2010; this time the Company appealed the Chamber's decision on 18 February 2011. However, the Chamber rejected the Company's appeal on 14 July 2011. The case file, sent back to 3rd Commercial Court of Ankara once again. The case was dismissed at the hearing held on 26 June 2015. The case is at the stage of appeal.

The Company, based on the above mentioned reasons, doesn't expect for the possible effects of changes in the net profit for the year ended 31 December 2005 due to the lawsuits mentioned above to have any impact in the accompanying consolidated financial statements as of 31 December 2016 and 31 December 2015.

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NOTE 17- PROVISIONS (cont'd)

Provision for lawsuits (cont'd)

Enerjia Metal Maden Sanayi ve Ticaret A.Ş. initiated a debt collection proceeding that might end with a bankruptcy judgment against the Company based on the Export Protocol No. 69187 of 2 July 2009 and "Additional Terms to the Erdemir-Enerjia Export Protocol No. 68197" drafted by and between Enerjia and the Company. However the process stopped upon the Company's objection to Enerjia's request, and that led Enerjia to file a lawsuit against the Company before the 7th Commercial Court of Ankara on 27 March 2010 claiming that the objection should be overruled and USD 68.312.520 should be paid to itself (E. 2010/259). The Court dismissed the case, in favor of the Company, on 23 June 2011.

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

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

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

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

It is learnt through a notified made to the Company on 31 October 2012 that Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.) filed an action for compensation at amount of USD 4.800 thousand together with accessory against the Company before Ankara 14th Commercial Court of First Instance. As a result of adjudication made; the court adjudged to dismiss the case on procedural grounds because of non-competence and to send the file to commissioned and competent Karadeniz Ereğli Commercial Court of First Instance in Duty when the judgment becomes definite and in case of request. The case still continues on file no. 2013/63 in Karadeniz Ereğli 2nd Civil Court of First Instance. Date of next hearing of the case is 13 April 2017.

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NOTE 17- PROVISIONS (cont'd)

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 started in 2014 and continued in 2015, 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 was completed equivalent to TRY 226.388 thousand (equivalent to USD 75.000 thousand).

Provision for state right on mining activities

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

Land occupation

There is a total of 1.976.359,17 square meters of land property within the Erdemir factory area of The Group consisting of 1.149.640,88 square meters of 6 title deeds being the property of the treasury and 826.718,29 square meters 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.

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NOTE 17- PROVISIONS (cont'd)

Land occupation (cont'd)

The company filed a case in Zonguldak Tax Court on the date 23 May 2012 on the grounds that it is against the law that the property tax value that had been determined by Karadeniz Ereğli 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 63.512 thousand (equivalent to USD 21.041 thousand) had been paid to Karadeniz Ereğli District Fiscal Office. TRY 61.981 thousand (equivalent to USD 21.132 thousand) provision for land occupation released under operating income (Note 25).

In current period, amounting to TRY 16.602 thousand land occupation provision recognised on balance sheet, considering property fair values presented land occupation notifications issued March 2016 and yearly probable increases.

Tax Penalty Provision

Tax audit was carried out by Tax Audit Board for one of the Group's subsidiaries, Erdemir Madencilik San. ve Tic. A.Ş. for the accounting period 2011-2014. As a result of the audit, tax and tax penalty assessments were made for the year 2011. With regard to all tax and tax penalties assessed, necessary applications were made in order to restructure them within the scope of Law No. 6736 on Restructuring of Public Debts, and, amounting to TRY 7.168 thousand provision was recognised in financial statements for the amount to be paid as estimated tax and default interest.

As a result of the comprehensive corporate tax audit carried out by the relevant tax administration for the period 2009-2014 for one of the Group's subsidiaries, Erdemir Romania SRL in Romania, a total payment of TRY 6.230 thousand (RON 7.579 thousand) was notified for all tax and tax penalties. Provision was recognised for the amount to be paid in the accompanying financial statements.

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NOTE 18- COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	31 December 2016	31 December 2015
Letters of guarantees received	1.797.646	1.514.383
	1.797.646	1.514.383

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

	31 December 2016	31 December 2015
A. Total CPM given for the Company's own legal entity	112.584	105.891
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	625.603	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	-	-
	738.187	892.997

As of 31 December 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 625.603 thousand has been given as collateral for financial liabilities explained in Note 7.

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

	31 December 2016	31 December 2015
US Dollars	472.815	514.969
TRY	109.989	140.257
EURO	135.753	206.288
Japanese Yen	19.630	31.483
	738.187	892.997

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NOTE 19- OTHER ASSETS AND LIABILITIES

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

Other current assets

	31 December 2016	31 December 2015
Other VAT receivable	68.156	51.684
Deferred VAT	8.815	33.417
Prepaid taxes and funds	2.013	1.575
Other current assets	16.675	8.809
	95.659	95.485

Other non-current assets

	31 December 2016	31 December 2015
Other VAT receivable	10.856	-
	10.856	-

Other current liabilities

	31 December 2016	31 December 2015
VAT payable	64.382	36.003
Other current liabilities	7.758	4.647
	72.140	40.650

Other non-current liabilities

	31 December 2016	31 December 2015
Other non-current liabilities	479	442
	479	442

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NOTE 20- DEFERRED REVENUE

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

	31 December 2016	31 December 2015
Advances received	99.215	87.937
Deferred income	7.138	5.440
	106.353	93.377

NOTE 21- EQUITY

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

Shareholders	(%)	31 December 2016	(%)	31 December 2015
Ataer Holding A.Ş.	49,29	1.724.982	49,29	1.724.982
Quoted in Stock Exchange	47,63	1.667.181	47,63	1.667.181
Erdemir's own shares	3,08	107.837	3,08	107.837
Historical capital	100,00	3.500.000	100,00	3.500.000
Effect of inflation		156.613		156.613
Restated capital		3.656.613		3.656.613
Treasury shares		(116.232)		(116.232)
		3.540.381		3.540.381

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

The issued capital of the Company in 2016 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.

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

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

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NOTE 21- EQUITY (cont'd)

Article IV-K of Articles of Association "According to Turkish Commercial Code Article 329, transactions of an entity's own shares" Erdemir, as of 31 December 2016, holds its own shares with a nominal value of TRY 107.837 thousand (31 December 2015: TRY 107.837 thousand). Erdemir's own shares have been reclassified with its inflation adjusted value in the consolidated balance sheet as a deduction under equity.

Other equity items	**31 December 2016**	**31 December 2015**
Share premium	106.447	106.447
Revaluation reserves of tangible assets	29.437	27.215
- Revaluation reserves of tangible assets	*29.437*	*27.215*
Cash Flow Hedging Reserves	8.013	(2.192)
Foreign currency translation reserves	6.522.205	4.012.449
Actuarial (loss)/gain fund	(101.527)	(107.795)
Restricted reserves assorted from profit	1.166.197	950.831
- Legal reserves	*1.166.197*	*950.831*
Retained earnings	2.420.078	2.527.180
- Extraordinary reserves	*727.814*	*781.469*
- Accumulated profit	*934.237*	*987.684*
- Statutory reserves	*758.027*	*758.027*
	10.150.850	7.514.135

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

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

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

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

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

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NOTE 21- EQUITY (cont'd)

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

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

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

Other sources which might be used in dividend distribution, except the net profit for the period, in statutory books of the Company are equal to TRY 375.632 thousand as of 31 December 2016 (31 December 2015: TRY 596.363 thousand).

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

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

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

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NOTE 21- EQUITY (cont'd)

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

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

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

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

NOTE 22- SALES AND COST OF SALES

	1 January - 31 December 2016	1 January - 31 December 2015
Sales Revenue		
Domestic sales	9.936.330	10.592.118
Export sales	1.552.114	1.159.922
Other revenues (*)	177.491	198.004
Sales returns (-)	(18.506)	(27.678)
Sales discounts (-)	(10.925)	(7.785)
	11.636.504	11.914.581
Cost of sales (-)	(9.166.325)	(9.854.290)
Gross profit	2.470.179	2.060.291

(*) The total amount of by product exports in other revenues is TRY 8.010 thousand (31 December 2015: TRY 23.409 thousand).

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

The breakdown of cost of sales for the periods 1 January - 31 December 2016 and 1 January - 31 December 2015 is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Raw material usage	(5.916.857)	(6.894.340)
Personnel costs	(1.299.385)	(1.212.635)
Energy costs	(744.573)	(698.858)
Depreciation and amortization expenses	(620.483)	(531.742)
Factory overheads	(335.818)	(290.866)
Other cost of goods sold	(52.864)	(65.500)
Non-operating costs (*)	(19.392)	(26.147)
Freight costs for sales delivered to customers	(145.532)	(87.211)
Inventory write-downs within the period (Note 10)	(39.576)	(39.092)
Reversal of inventory write-downs (Note 10)	35.305	12.256
Other	(27.150)	(20.155)
	(9.166.325)	(9.854.290)

(*) Due to the planned/unplanned halt production of plant of the Group's, operations were suspended temporarily in the current period. As a result of this, unallocated overheads, TRY (19.392) thousand, has been accounted directly under cost of sales (31 December 2015: TRY (26.147) thousand).

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

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

	1 January - 31 December 2016	1 January - 31 December 2015
Marketing, sales and distribution expenses (-)	(141.215)	(131.002)
General administrative expenses (-)	(288.275)	(284.738)
Research and development expenses (-)	(11.088)	(9.240)
	(440.578)	(424.980)

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NOTE 24- OPERATING EXPENSES ACCORDING TO THEIR NATURE

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

	1 January - 31 December 2016	**1 January - 31 December 2015**
Personnel expenses (-)	(75.697)	(71.000)
Depreciation and amortization (-)	(21.045)	(18.690)
Service expenses (-)	(44.473)	(41.312)
	(141.215)	(131.002)

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

	1 January - 31 December 2016	**1 January - 31 December 2015**
Personnel expenses (-)	(158.976)	(150.128)
Depreciation and amortization (-)	(14.866)	(10.209)
Service expenses (-)	(103.477)	(105.430)
Tax, duty and charges (-)	(7.262)	(7.237)
Provision for doubtful receivables (-)	(3.694)	(11.734)
	(288.275)	(284.738)

The breakdown of research and development expenses for the periods 1 January - 31 December 2016 and 1 January - 31 December 2015 is as follows:

	1 January - 31 December 2016	**1 January - 31 December 2015**
Personnel expenses (-)	(7.575)	(6.322)
Depreciation and amortization (-)	(1.385)	(801)
Other (-)	(2.128)	(2.117)
	(11.088)	(9.240)

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NOTE 25- OTHER OPERATING INCOME/(EXPENSES)

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

	1 January - 31 December 2016	1 January - 31 December 2015
Other operating income		
Provisions released for land occupation	63.786	-
Interest income from sales with maturities	60.210	64.821
Discount income	6.281	16.283
Provisions released	23.726	68.015
Service income	14.017	21.328
Maintenance repair and rent income	10.723	13.676
Warehouse income	4.548	4.191
Indemnity and penalty detention income	2.301	2.151
Insurance indemnity income	7.046	13.747
Gain on sale of tangible assets	683	989
Gain on sale of investment properties	-	45.767
Other income and gains	29.993	24.440
	223.314	275.408

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

	1 January - 31 December 2016	1 January - 31 December 2015
Other operating expenses (-)		
Provision expenses	(49.137)	(37.131)
Discount expenses	(6.852)	(22.961)
Provision for termination fee of long term contract (Note 17)	-	(203.903)
Lawsuit compensation expenses	(5.515)	(3.576)
Port facility pre-licence expenses	(5.399)	(7.235)
Donation expenses	(3.329)	(2.091)
Service expenses	(5.531)	(3.297)
Loss on disposal of tangible assets	(3.617)	(3.659)
Stock exchange registration expenses	(1.077)	(1.018)
Rent expenses	(1.516)	(1.803)
Penalty expenses	(2.741)	(2.764)
Impairment of property, plant and equipment (Note 13)	(34.181)	(1.980)
Other expenses and losses	(31.349)	(28.498)
	(150.244)	(319.916)

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NOTE 26- FINANCE INCOME

The breakdown of finance income for the periods 1 January - 31 December 2016 and 1 January - 31 December 2015 is as follows:

Financial incomes	1 January - 31 December 2016	1 January - 31 December 2015
Interest income on bank deposits	123.634	86.276
Foreign exchange gains (net)	232.928	335.431
	356.562	421.707

NOTE 27- FINANCE EXPENSES

The breakdown of finance expenses for the periods 1 January - 31 December 2016 and 1 January - 31 December 2015 is as follows:

Financial expenses (-)	1 January - 31 December 2016	1 January - 31 December 2015
Interest expenses on borrowings	(104.548)	(122.551)
Interest cost of employee benefits	(43.388)	(32.695)
Fair value differences of derivative financial instruments (net)	(37.228)	(33.369)
Other financial expenses	(2.641)	(2.529)
	(187.805)	(191.144)

During the period, the interest expenses of TRY 2.028 thousand have been capitalized as part of the Group's property, plant and equipment (31 December 2015: TRY 388 thousand).

NOTE 28- TAX ASSETS AND LIABILITIES

Corporate tax payable:	31 December 2016	31 December 2015
Current corporate tax provision	530.673	472.407
Prepaid taxes and funds (-)	(75.049)	(254.638)
	455.624	217.769

Taxation:	1 January - 31 December 2016	1 January - 31 December 2015
Current corporate tax expense	530.673	472.407
Deferred tax (income)/expense	169.053	186.650
	699.726	659.057

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

Corporate tax

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

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

The effective corporate tax rate in Turkey is 20%, 16% in Romania and 17% in Singapore as of 31 December 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 292.818 thousand (31 December 2015: TRY 384.346 thousand).

In Turkey, advance tax returns are filed on a quarterly basis. The temporary tax of 2016 has been calculated over the corporate earnings using the rate 20%, during the temporary taxation period. (31 December 2015: 20%).

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

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

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes on dividends distributed, except for the dividends distributed to fully fledged taxpayer companies receiving and declaring these dividends and to Turkish branches of foreign companies. The rate of income withholding tax applied to all companies in the period of 24 April 2003 - 22 July 2006 is 10%. This rate was changed to 15% as of 22 July 2006 by the decision of the Council of Ministers, numbered 2006/10731. Undistributed dividends incorporated in share capital are not subject to the income withholding taxes.

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

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

Investment allowance application

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

Regarding the cancellation decision taken by the Constitutional Court, an amendment was made in the 69th article in Income Tax Regulation using the regulation numbered 6009 and dated 23 July 2010. Consequently, in compliance with the cancellation decision of the Constitutional Court, the year limitation has been abolished and investment allowance has been limited to 25% of the profit. As limitation of investment allowance to 25% of the profit by regulation numbered 6009 is found to be contrary to law by the Constitutional Court, the Constitutional Court cancelled the regulation and stayed an execution. Corporate tax ratio of 30% in the previous regulation for the ones who benefit from investment allowance has been decreased to the effective corporate tax with the amendment made (31 December 2015: 20%).

Deferred tax

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

Tax rate used in the calculation of deferred tax assets and liabilities (excluding land) are 20% for the subsidiaries in Turkey, 17% for the subsidiary in Singapore and 16% for the subsidiary in Romania (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 28- TAX ASSETS AND LIABILITIES (cont'd)

	31 December 2016	31 December 2015
Deferred tax assets:		
Carry forward tax losses	2.017	2.316
Provisions for employee benefits	113.400	101.179
Investment incentive	7.760	10.532
Provision for lawsuits	21.089	42.183
Provision for termination fee of long term contract	-	43.614
Inventories	12.683	7.491
Provision for other doubtful receivables	14.047	13.479
Tangible and intangible assets	15.819	11.227
Other	40.313	29.857
	227.128	261.878
Deferred tax liabilities:		
Tangible and intangible assets	(1.667.791)	(1.250.788)
Fair values of the derivative financial instruments	(10.267)	(9.232)
Amortized cost adjustment on loans	(1.930)	(3.472)
Inventories	(80.088)	(17.625)
Other	(9.841)	(5.756)
	(1.769.917)	(1.286.873)
	(1.542.789)	(1.024.995)

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

Presentation of deferred tax assets/(liabilities):

	31 December 2016	31 December 2015
Deferred tax assets	34.243	23.807
Deferred tax (liabilities)	(1.577.032)	(1.048.802)
	(1.542.789)	(1.024.995)

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

Maturities of carry forward tax losses are as follows:

	Carry forward tax losses		Deferred tax assets	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
1 year	-	-	-	-
2 year	12.606	-	12.606	-
3 year	-	14.475	-	14.475
4 year	-	-	-	-
5 year	-	-	-	-
	12.606	14.475	12.606	14.475

	1 January - 31 December 2016	1 January - 31 December 2015
Opening balance	(1.024.995)	(626.229)
Deferred tax (expense)/income	(169.053)	(186.650)
The amount in comprehensive (expense)/income	(4.209)	(2.170)
Translation difference	(344.532)	(209.946)
Closing balance	(1.542.789)	(1.024.995)

Reconciliation of tax provision is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Profit before tax	2.271.428	1.821.366
Statutory tax rate	20%	20%
Calculated tax expense acc. to effective tax rate	454.286	364.273
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	2.890	2.777
- Effect of currency translation to non taxable assets	14.337	(7.906)
- Investment incentives	2.772	(10.532)
- Effect of non-taxable adjustments	1.064	2.583
- Effect of exchange difference arising from deferred tax bases	224.495	308.159
- Effect of the different tax rates due to foreign subsidiaries	(118)	(297)
Total tax exp. in reported in the consolidate stat. of income	699.726	659.057

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

As of 1 January - 31 December 2016 and 2015, the details of the tax gains/(losses) of the other comprehensive income/(expense) are as follows:

	1 January - 31 December 2016		
Other comprehensive income/(loss) in the current period	**Amount before tax**	**Tax income/ (expense)**	**Amount after tax**
Change in revaluation reserves of fixed assets	2.521	-	2.521
Change in actuarial (loss)/gain	8.006	(1.601)	6.405
Change in cash flow hedging reserves	13.040	(2.608)	10.432
Change in foreign currency translation reserves	2.580.095	-	2.580.095
	2.603.662	(4.209)	2.599.453

	1 January - 31 December 2015		
Other comprehensive income/(loss) in the current period	**Amount before tax**	**Tax income/ (expense)**	**Amount after tax**
Change in revaluation reserves of fixed assets	3.064	-	3.064
Change in actuarial (loss)/gain	22.930	(4.586)	18.344
Change in cash flow hedging reserves	(12.078)	2.416	(9.662)
Change in foreign currency translation reserves	2.462.935	-	2.462.935
	2.476.851	(2.170)	2.474.681

NOTE 29- EARNINGS P SHARE

	1 January - 31 December 2016	1 January- 31 December 2015
Number of shares outstanding	350.000.000.000	350.000.000.000
Net profit attributable to equity holders - TRY thousand	1.516.438	1.125.913
Profit per share with 1 TRY nominal value TRY %	0,4333/43,33%	0,3217/32,17%

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NOTE 30- RELATED PARTY DISCLOSURES

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

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

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

Due from related parties (short term)	**31 December 2016**	**31 December 2015**
Oyak Renault Otomobil Fab. A.Ş.[2]	40.722	30.868
Bolu Çimento Sanayi A.Ş.[1]	7.484	6.060
Adana Çimento Sanayi T.A.Ş. [1]	6.065	6.068
Other	606	134
	54.877	43.130

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

Due to related parties (short term)	**31 December 2016**	**31 December 2015**
Omsan Lojistik A.Ş.[1]	8.021	6.286
Omsan Denizcilik A.Ş.[1]	11.747	6.162
Oyak Pazarlama Hizmet ve Turizm A.Ş.[1]	8.045	8.954
Oyak Savunma ve Güvenlik Sistemleri A.Ş.[1]	3.865	3.542
Other	3.330	1.686
	35.008	26.630

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

[1] Subsidiaries of the parent company

[2] Joint venture

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NOTE 30- RELATED PARTY DISCLOSURES (cont'd)

Major sales to related parties	1 January - 31 December 2016	1 January - 31 December 2015
Oyak Renault Otomobil Fab. A.Ş.[2]	143.767	147.533
Adana Çimento Sanayi T.A.Ş.[1]	16.523	20.700
Bolu Çimento Sanayi A.Ş.[1]	14.337	18.973
Aslan Çimento A.Ş.[1]	1.635	1.209
Other	3.497	3.455
	179.759	191.870

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

Major purchases from related parties	1 January - 31 December 2016	1 January - 31 December 2015
Omsan Denizcilik A.Ş.[1]	91.641	66.838
Oyak Pazarlama Hizmet ve Turizm A.Ş.[1]	64.352	61.441
Omsan Lojistik A.Ş.[1]	64.534	41.235
Oyak Savunma ve Güvenlik Sistemleri A.Ş.[1]	31.846	31.701
Omsan Logistica SRL [1]	8.733	8.524
Other	16.060	12.836
	277.166	222.575

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

[1] Subsidiaries of the parent company
[2] 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 December 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 year ended 31 December 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 22.919 thousand (31 December 2015: TRY 22.083 thousand).

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NOTE 31- NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

Additional information about financial instruments

(a) Capital risk management

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

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

The capital structure of the Group consists of debt which includes the financial liabilities disclosed in Note 7, cash and cash equivalents and equity attributable to equity holders of the parent company, comprising issued capital, reserves and retained earnings as disclosed in Note 21.

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

As of 31 December 2016 and 31 December 2015 the net debt/equity ratio is as follows:

	Note	31 December 2016	31 December 2015
Total financial liabilities	7	3.919.488	2.975.903
Less: Cash and cash equivalents	4	4.586.911	2.934.703
Net debt		(667.423)	41.200
Total adjusted equity (*)		15.753.547	12.648.179
Total resources		15.086.124	12.689.379
Net debt/Total adjusted equity ratio		-4%	0%
Distribution of net debt/total adjusted equity		-4/104	0/100

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

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NOTE 31- NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(b) Significant accounting policies

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

(c) Financial risk management objectives

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

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

(d) Market risk

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

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

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

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NOTE 31- NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Credit risk management

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

Credit risk of financial instruments	Receivables					
	Trade Receivables		Other Receivables		Bank Deposits	Derivative financial instruments
31 December 2016	Related Party	Other Party	Related Party	Other Party		
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	54.877	1.962.024	-	15.670	4.586.870	70.265
- Secured part of the maximum credit risk exposure via collateral etc.	-	1.749.114	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	54.877	1.962.024	-	15.670	4.586.870	70.265
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	-	-	-	-	-
- secured part via collateral etc.	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	90.482	-	70.236	-	-
- Impairment (-)	-	(90.482)	-	(70.236)	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
- Not overdue (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-

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

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NOTE 31- NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Credit risk management (cont'd)

Credit risk of financial instruments	**Receivables**					
	Trade Receivables		**Other Receivables**		**Bank Deposits**	**Derivative financial instruments**
31 December 2015	**Related Party**	**Other Party**	**Related Party**	**Other Party**		
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	43.130	1.589.499	-	17.138	2.934.675	87.009
- Secured part of the maximum credit risk exposure via collateral etc.	-	1.443.837	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	43.130	1.589.499	-	17.138	2.934.675	87.009
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	-	-	-	-	-
- secured part via collateral etc.	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	77.993	-	67.397	-	-
- Impairment (-)	-	(77.993)	-	(67.397)	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
- Not overdue (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-

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

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NOTE 31- NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(f) Foreign currency risk management

As of 31 December 2016 and 31 December 2015, stated in Note 2.8.9 the foreign currency position of the Group in terms of original currency is calculated as it as follows:

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

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NOTE 31- NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

	31 December 2015			
	TRY (Total in reporting 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	-
4. Current assets (1+2+3)	**424.547**	**189.509**	**73.104**	**163**
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	55.422	41.946	3.227	133.765
8. Non-current assets (5+6+7)	**55.422**	**41.946**	**3.227**	**133.765**
9. Total assets (4+8)	**479.969**	**231.455**	**76.331**	**133.928**
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	-	-
13. Current liabilities (10+11+12)	**1.325.724**	**1.143.429**	**42.540**	**1.857.119**
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	-	-	-	-
17. Non-current liabilities (14+15+16)	**728.638**	**509.082**	**59.996**	**1.200.730**
18. Total liabilities (13+17)	**2.054.362**	**1.652.511**	**102.536**	**3.057.849**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	**(883.204)**	**(12.224)**	**(274.100)**	**-**
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	-
20. Net foreign currency asset/liability position (9-18+19)	**(2.457.597)**	**(1.433.280)**	**(300.305)**	**(2.923.921)**
21. Net foreign currency asset/liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**(1.553.980)**	**(1.385.450)**	**(29.973)**	**(3.057.686)**
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 31- NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

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

As of 31 December 2016 asset and liability balances are translated by using the following exchange rates: TRY 3,5192 = US $ 1, TRY 3,7099 = EUR 1 and TRY 0,0300= JPY 1 (31 December 2015: TRY 2,9076 = US $ 1, TRY 3,1776 = EUR 1 and TRY 0,0241= JPY 1).

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

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NOTE 31- NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2015	**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
TOTAL (4+8+12+16)	**(141.813)**	**141.813**

(g) Interest rate risk management

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

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

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

NOTE 31- NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

Interest rate sensitivity

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

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

Interest position table

	31 December 2016	31 December 2015
Floating interest rate financial instruments		
Financial liabilities	2.967.313	2.643.675

For the year round, if the US Dollars, EURO and Jap. Yen denominated interest rates increase/decrease by 100 base points in TRY, 50 base points in US Dollars and EURO and 25 base points in Jap.Yen respectively ceteris paribus, the profit before taxation and non-controlling interest after considering the effect of capitalization and hedging would be lower/higher TRY 5.244 thousand.

(h) Liquidity risk management

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

Liquidity risk tables

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

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

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

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NOTE 31- NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

(h) Liquidity risk management (cont’d)

31 December 2016

Contractual maturity analysis	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Borrowings from banks	3.919.488	4.064.600	779.344	1.578.405	1.585.540	121.311
Trade payables	915.076	919.235	919.235	-	-	-
Other financial liabilities (*)	219.928	219.928	219.928	-	-	-
Total liabilities	**5.054.492**	**5.203.763**	**1.918.507**	**1.578.405**	**1.585.540**	**121.311**
Derivative financial liabilities						
Derivative cash inflows	70.265	999.129	387.515	308.050	303.564	-
Derivative cash outflows	(21.197)	(1.236.315)	(365.707)	(323.544)	(547.064)	-
	49.068	**(237.186)**	**21.808**	**(15.494)**	**(243.500)**	**-**

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

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NOTE 31- NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(h) Liquidity risk management (cont'd)

31 December 2015

Contractual maturity analysis	**Book value**	**Total cash outflow per agreement (I+II+III+IV)**	**Less than 3 months (I)**	**3-12 months (II)**	**1-5 years (III)**	**More than 5 years (IV)**
Non derivative financial liabilities						
Borrowings from banks	2.975.903	3.123.556	110.099	1.017.556	1.994.004	1.897
Trade payables	582.203	585.289	585.289	-	-	-
Other financial liabilities (*)	190.530	190.530	190.530	-	-	-
Total liabilities	**3.748.636**	**3.899.375**	**885.918**	**1.017.556**	**1.994.004**	**1.897**
Derivative financial liabilities						
Derivative cash inflows	87.009	1.059.166	256.585	488.588	313.993	-
Derivative cash outflows	(40.850)	(1.005.664)	(248.513)	(478.460)	(278.691)	-
	46.159	**53.502**	**8.072**	**10.128**	**35.302**	**-**

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

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NOTE 32- FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES)

Additional information about financial instruments

Categories of the financial instruments and their fair values

31 December 2016	Cash and cash equivalent	Loans and receivables	Available for sale financial assets	Financial liabilities at amortized cost	Derivative financial instruments through other comprehensive income/loss	Derivative financial instruments through profit/loss	Carrying value	Note
Financial Assets								
Cash and cash equivalents	4.586.911	-	-	-	-	-	4.586.911	4
Trade receivables	-	2.016.901	-	-	-	-	2.016.901	8
Financial investments	-	-	122	-	-	-	122	5
Other financial assets	-	15.670	-	-	-	-	15.670	9
Derivative financial instruments	-	-	-	-	28.560	41.705	70.265	6
Financial Liabilities								
Financial liabilities	-	-	-	3.919.488	-	-	3.919.488	7
Trade payables	-	-	-	915.076	-	-	915.076	8
Other liabilities	-	-	-	219.928	-	-	219.928	9/16/19
Derivative financial instruments	-	-	-	-	19.004	2.193	21.197	6
31 December 2015								
Financial Assets								
Cash and cash equivalents	2.934.703	-	-	-	-	-	2.934.703	4
Trade receivables	-	1.632.629	-	-	-	-	1.632.629	8
Financial investments	-	-	79	-	-	-	79	5
Other financial assets	-	17.138	-	-	-	-	17.138	9
Derivative financial instruments	-	-	-	-	23.265	63.744	87.009	6
Financial Liabilities								
Financial liabilities	-	-	-	2.975.903	-	-	2.975.903	7
Trade payables	-	-	-	582.203	-	-	582.203	8
Other liabilities	-	-	-	190.530	-	-	190.530	9/16/19
Derivative financial instruments	-	-	-	-	26.750	14.100	40.850	6

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NOTE 32- FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (cont'd)

Additional information about financial instruments (cont'd)

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

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

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

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

Financial assets

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

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

Financial liabilities

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

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

Financial asset and liabilities at fair value		**Fair value level as of reporting date**		
	31 December 2016	**Level 1**	**Level 2**	**Level 3**
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	41.705	-	41.705	-
Derivative financial liabilities	(2.193)	-	(2.193)	-
			-	
Financial assets and liabilities at fair value through other comprehensive income/expense				
			-	
Derivative financial assets	28.560	-	28.560	-
Derivative financial liabilities	(19.004)	-	(19.004)	-
Total	49.068	-	49.068	-

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NOTE 32- FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (cont'd)

Additional information about financial instruments (cont'd)

Financial asset and liabilities at fair value		**Fair value level as of reporting date**		
	31 December 2015	**Level 1**	**Level 2**	**Level 3**
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	63.744	-	63.744	-
Derivative financial liabilities	(14.100)	-	(14.100)	-
			-	
Financial assets and liabilities at fair				
			-	
Derivative financial assets	23.265	-	23.265	-
Derivative financial liabilities	(26.750)	-	(26.750)	-
Total	46.159	-	46.159	-

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

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

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

NOTE 33- SUBSEQUENT EVENTS

None.

NOTE 34- OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION

Convenience translation to English:

As at December 31, 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 ("IFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting, certain reclassifications and also for certain disclosures requirement of the POA/CMB. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with IFRS.

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