THE FUTURE MADE OF STEEL

MINING METALLURGY
GROUP

2017 ANNUAL REPORT

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WE BELIEVE IN THE FUTURE MADE OF STEEL.

THE STEEL WE PRODUCE TOUCHES OUR LIVES WITH ITS TRANSFORMATION INTO NEW FORMS. WE USE IT TO SHORTEN DISTANCES. WE PLOUGH OUR FIELDS WITH IT. WE BUILD OUR CITIES WITH IT. WE BUILD OUR LIVES WITH IT. STEEL REMOVES BORDERS AND COVERS LONG DISTANCES WITH ITS DURABILITY, LONGEVITY AND FLEXIBILITY.

IT MAKES INNOVATIONS POSSIBLE BY FUSING TOGETHER WITH TECHNOLOGY.
IT TURNS OUR DREAMS INTO REALITY.

FOR HALF A CENTURY OUR PASSION, EXCITEMENT AND LOVE HAS NEVER CHANGED. STANDING SHOULDER TO SHOULDER, WE PROGRESS WITH HOPE AND TOGETHERNESS EACH NEW DAY. WE BUILD OUR FUTURE WITH STEEL WHICH IS KEY TO PROGRESS AND SUSTAINABLE DEVELOPMENT.

WE BELIEVE IN A FUTURE MADE OF STEEL.

CORPORATE PROFILE

Creating high added value for the Turkish economy
OYAK Mining Metallurgy Group is Turkey's largest integrated steel producer encompassing a total of eight companies. The foundations of the Group were laid with Erdemir, which started operations in 1965, with the Group playing a crucial role in the development of the country's industry and increase in employment over the course of more than 50 years. It has unwaveringly continued its investments, creating immense added value for the Turkish economy.

As one of the country's biggest employers with approximately 12,000 employees, OYAK Mining Metallurgy Group represents Turkey's global iron and steel power with its employees, customers, suppliers and shareholders.

Producing at international quality standards
OYAK Mining Metallurgy Group is the main supplier of the Turkish industry with cold and hot rolled, galvanized/galvanile, tin chrome coated flat steel, plate, pig iron, billet and coil products. Adding value to many sectors such as automotive, energy, construction, pipe, shipbuilding, home appliances, machinery, heat, heavy industry and packaging with its products and services, the Group spearheads Turkey's industrial development.

One of the companies within the Group, Erdemir, remains Turkey's first and largest integrated producer of flat steel. Other Group companies operating in Turkey include İsdemir, which produces flat and long steel, Erdemir Maden, which operates mine sites in Sivas and Malatya, Erdemir Engineering that provides engineering management services to Group companies, the Erdemir Steel Service Center that meets the sector's need for sized flat steel and the İsdemir-Linde Gaz Partnership, which produces industrial gas.

Erdemir Romania, which produces electrical steel in Romania, and Erdemir Asia Pacific Pte Ltd., which conducts the purchasing, marketing, sales and business development activities for the Group in the Asia-Pacific Region, successfully represents OYAK Mining Metallurgy Group abroad.

The group also has two ports that are the largest in their region, one of which operates in Ereğli and the other in İskenderun.

Europe's third largest steel producer
As one Turkey's largest industrial companies in terms of total assets, OYAK Mining Metallurgy Group ranked 3rd among producers in EU-28 member countries, and ranked 41st based on the world's 2016 crude steel production ranking.

Successfully representing our country in the "World's Best Steel Producers" list published by World Steel Dynamics, one of the world's most respected steel research companies, the Group was ranked 13th in this list according to the assessment carried out based on September 2017 data.

3RD PLACE

OYAK MINING METALLURGY GROUP RANKS 3RD AMONG THE PRODUCERS IN THE EU-28 MEMBER COUNTRIES.

Innovation focused "advanced steel research" center
OYAK Mining Metallurgy Group aims to expand its high added value product range required by the steel using sectors by implementing innovation focused strategic plans. Placing priority on research and development activities within the framework of this purpose, the Group aims to ensure that the Erdemir R&D Center, which is Turkey's first R&D Center to be approved by the Ministry of Science, Industry and Technology in the steel industry, is a center of "advanced steel research" in the long-term.

Towards a sustainable future
As the leader of the Turkish steel industry, OYAK Mining Metallurgy Group is one of the renowned and sought-after brands in the global markets with its transparent, competitive, fast, flexible, sincere and customer-focused service approach in addition to its product diversity and quality.

The Group is taking firm steps towards its goal of a sustainable future as an organization with a first class reputation and high brand value, which has a global perspective, shapes the needs of its customers, respects people and the environment and makes innovation as an integral part of its culture.

OYAK MINING METALLURGY GROUP COMPANIES ARE AMONG THE BEST KNOWN AND SOUGHT-AFTER BRANDS IN GLOBAL MARKETS.

KEY FINANCIAL INDICATORS

	Currency	2013	2014	2015	2016	2017
Net Sales Revenue	(TL million)	9,781	11,484	11,915	11,636	18,644
	(USD million)	5,142	5,252	4,382	3,855	5,115
Net Operating Profit	(TL million)	1,538	2,094	1,591	2,103	4,830
	(USD million)	808	958	585	697	1,325
EBITDA	(TL million)	1,878	2,484	2,094	2,701	5,453
	(USD million)	987	1,136	770	895	1,496
Net Profit	(TL million)	920	1,601	1,126	1,516	3,754
	(USD million)	484	732	414	502	1,030
Current Assets	(TL million)	6,008	7,372	8,000	11,063	14,842
	(USD million)	2,815	3,179	2,751	3,144	3,935
Fixed Assets	(TL million)	8,026	8,562	10,635	12,588	13,534
	(USD million)	3,761	3,692	3,657	3,577	3,588
Total Assets	(TL million)	14,034	15,934	18,634	23,651	28,376
	(USD million)	6,576	6,871	6,409	6,721	7,523
Short Term/ Current Liabilities	(TL million)	2,475	3,105	2,615	4,227	5,524
	(USD million)	1,160	1,339	900	1,201	1,465
Long Term Liabilities	(TL million)	2,852	2,518	3,481	3,765	3,623
	(USD million)	1,336	1,086	1,197	1,070	961
Shareholders' Equity	(TL million)	8,467	10,003	12,180	15,208	18,684
	(USD million)	3,967	4,314	4,189	4,321	4,954
Market Capitalization (Year-End)	(TL million)	9,030	15,610	10,640	17,990	35,070
	(USD million)	4,231	6,732	3,659	5,112	9,210

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

THE OPERATIONAL AND FINANCIAL RESULTS ACHIEVED BY OYAK MINING METALLURGY GROUP CONFIRM THE GROUP'S SUCCESS IN REACHING ALL OF THE MAIN GOALS THAT IT HAS SET FOR THE YEAR 2017.

$ 7.5 BILLION

OYAK MINING METALLURGY GROUP ROUNDED OFF 2017 WITH TOTAL ASSETS OF USD 7.5 BILLION AND A NET PROFIT OF USD 1,030 MILLION.

SHAREHOLDER STRUCTURE AND SHARE INFORMATION

Developments in the Erdemir and İsdemir Shares

Erdemir
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (Erdemir) shares have been traded on the stock exchange with the ticker symbol EREGL since the foundation of Borsa İstanbul in 1986. Erdemir is Turkey's one of the 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.

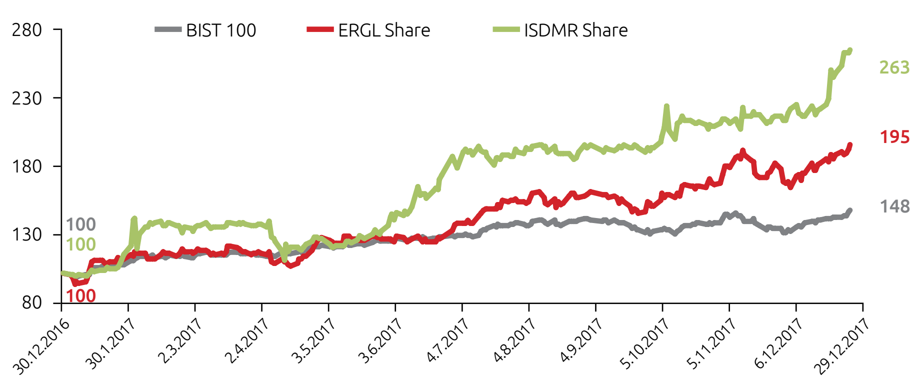
Erdemir shares opened at a price of TL 5.14 on the first trading day of 2017 and ended the year at a price of TL 10.02. When compared to the BIST 100 index and taking December 30, 2016 = 100 as a basis, the BIST 100 index increased by 48% by the end of 2017. Having been positively affected by the high dividend that it paid and the financial and operational achievements, the Erdemir shares earned by 95%.

Erdemir achieved the second highest increase in its market capitalization in 2017, at TL 17,080 million, according to figures provided by the Borsa İstanbul data.

İsdemir
Shares in İskenderun Demir ve Çelik A.Ş. (İsdemir), a Group company, have been trading on the Pre-Market Trading Platform of the Borsa İstanbul under the "ISDMR" ticker since March 28, 2016.

İsdemir shares started 2017 at an opening price of TL 2.01 on the first trading day of 2017, but ended the year at a price of TL 5.29, marking an increase of 163%. Having reached a market value of TL 9,512 million in 2017, İsdemir posted one of the highest increases in market capitalization on the BIST.

Erdemir vs. İsdemir vs. BIST 100 Index (30.12.2016=100)



Ticker Symbols

Erdemir	İsdemir
Borsa İstanbul: EREGL	Borsa İstanbul: ISDMR
Bloomberg: EREGL TI	Bloomberg: ISDMR TI
Reuters: EREGL.IS	Reuters: ISDMR.IS

Erdemir's Shareholder Structure

Shareholder	Share (TL thousand)	%
ATAER Holding A.Ş.	1,724,982	49.29
Free Float	1,667,181	47.63
Shares Held by Erdemir	107,837	3.08
Grand Total	3,500,000	100.00

İsdemir's Shareholder Structure

Shareholder	Share (TL thousand	%
Ereğli Demir ve Çelik Fabrikaları T.A.Ş.	2,756,978	95.07
Free Float	143,022	4.93
Grand Total	2,900,000	100.00

TL 17.08 BILLION

ERDEMİR ACHIEVED THE SECOND HIGHEST INCREASE IN MARKET CAPITALIZATION IN 2017, AT TL 17,080 MILLION ACCORDING TO FIGURE PROVIDED BY BORSA ISTANBUL.

MILESTONES

1960

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 May 15 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 producing silicon steel 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.

OYAK MINING METALLURGY GROUP HAS PLAYED A CRUCIAL ROLE IN THE DEVELOPMENT OF THE COUNTRY'S INDUSTRY AND INCREASE IN EMPLOYMENT OVER THE COURSE OF MORE THAN 50 YEARS. IT HAS UNWAVERINGLY CONTINUED ITS INVESTMENTS, CREATING HIGH ADDED VALUE FOR THE TURKISH ECONOMY.

2017

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.
- Erdemir Maden, Ekinbaşı plant started operations.
- Ersem's İskenderun facilities entered operation.

2012
- Ersem's Ereğli facilities entered operation.
- 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 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 Ortaklığı A.Ş. 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.

2017
- The structuring of OYAK Mining Metallurgy Group was carried out.

I AM FOUND IN THE THREE

THE FUTURE MADE OF STEEL

quarters of the world, discoveries are made with me, distances are covered with me and trade is strengthened with me.

MESSAGE FROM THE CHAIRMAN

OUR GROUP HAS CONTINUED ITS PROCESS OF MODERNIZATION AND IMPROVEMENT IN LINE WITH THE PRINCIPLE OF HIGH QUALITY PRODUCTION, AND CLOSED THE YEAR 2017 WITH A CLUTCH OF NEW RECORDS IN PRODUCTION AND SALES.

Dear stakeholders,

In 2017, OYAK Mining Metallurgy Group recorded its strongest ever performance.
OYAK Mining Metallurgy Group, which determined its 2017 strategy as “growth over our strong bases”, increased its production and efficiency, and achieved strong operational and financial results. To summarize, it continued to generate lasting value for Turkey’s economy and its stakeholders.

Our Group has continued its process of modernization and improvement in line with the principle of high quality production, and closed the year 2017 with a clutch of new records in production and sales.

Strong and broad-based growth in the global economy
In 2017, growth in the world economy reached its highest level since the global economic crisis. The recovery, which started in the second half of 2016, gathered pace in 2017, at last ushering in a return to strong and broad-based global growth.

In addition to the economic performance of the USA and China, which are the world’s largest consumers of commodities, the recovery in global industry raised commodity prices to record highs. The manufacturing industry Purchasing Managers Index (PMI), which is one of the most important parameters of steel consumption, reached historical highs both on a global and a regional level.

In 2017, our country, which had achieved an average annual growth rate of 6.7% during the 2010-2016 period, once again approached the levels of growth it was recording before the global crisis broke out. It is estimated that Turkey closed the year 2017 with economic growth of 7%.

Upward movement of steel prices is supported by increasing demand on a global scale.
Global crude steel production amounted to 1.7 billion tons in 2017, marking an increase of 5.3% YoY. The official capacity utilization rate exceeded 70%.

Turkey sets a new record in crude steel production in the same period. Strong domestic demand and buoyant export markets were the key forces driving production and consumption to exceed their previous year’s levels. Steel production increased by 13% YoY to reach 37 million tons, while steel consumption increased by 5.5% YoY to 36 million tons.

In our opinion, our industry will sustain its strong and vigorous performance in 2018, with production and consumption continuing to grow.

WHILE OUR GROUP’S MAIN BUSINESS THEME WAS “SUSTAINABLE PROFITABILITY” IN 2017, WE FOCUSED ON DEPLOYING OUR EXISTING CAPACITIES TO THE MAXIMUM.

MESSAGE FROM THE CHAIRMAN

OUR GROUP SINGLE-HANDEDLY ACCOUNTED FOR 25% OF ALL PRODUCTION IN TURKEY, PRODUCING 9.2 MILLION TONS OF CRUDE STEEL.

Rounding off a performance that reinforces shareholder and stakeholder value
While our Group's main business theme was "sustainable profitability" in 2017, we focused on deploying our existing capacities to the maximum.

We have determined reducing our costs as our primary goal, by using all our inputs efficiently.

While we have balanced our cost base by taking into account the world steel sector average and the optimal level, we have taken our determination in the field of efficiency to a level that supports our sustainability in every aspect. Our capacity utilization exceeded the global average.

Our group single-handedly accounted for 25% of all production in Turkey, producing 9.2 million tons of crude steel. OYAK Mining Metallurgy Group, which sold 8.96 million tons of finished products in the year, added 14 new product grades to its flat steel product range. Having increased the exports by 10% YoY, our Group exported 1.2 million tons of steel to 45 countries over a wide geographical area.

The capacity utilization rate of Erdemir and İsdemir, our group companies, stood at 97% in 2017. The labor time spent on the production of end products, which is considered to be another important indicator, stood at as 2.64 man hours per ton at Erdemir and 1.82 man hours per ton at İsdemir.

Our Group has transferred the success it has achieved in its operations to its financial performance and has continued to develop the value it has offered to its stakeholders, especially its shareholders and investors. Our Company had USD 7.5 billion of assets at the end of 2017, while we wrote USD 1,496 million of EBITDA during the year, marking an impressive 67% increase, with an EBITDA margin of 29.2%. Our net profit for the period stood at USD 1,030, with a net profit margin of 20.1%.

Our financial success was also reflected to our share price performance in 2017. According to figures provided by the Borsa İstanbul, Erdemir achieved the second highest increased in market capitalization, at TL 17,080 million. Erdemir shares posted a gain of 95%, vastly outperforming the BIST 100 index, which increased by 48%. Meanwhile, İsdemir achieved the success of being one of the BİST companies to post the highest increase in market capitalization.

I would like to express my gratitude for our operational and financial results, where we reached every major goal that we had set for 2017.

We continued to improve our product range.
To develop product diversity is a natural cycle and an indispensable goal at the same time for OYAK Mining Metallurgy Group. Our Group is focused on meeting customer expectations at the highest level with the product range that it continuously develops. It is also focused on improving its competitive position.

Within the scope of our targets of optimizing production and efficiency at İsdemir, the new Air Separation Plant, which we implemented under the Linde Gaz partnership, entered operation at the end of 2017. We consider this project, which increases the oxygen, nitrogen and argon production capacity on the İsdemir site, as an indirect step towards contributing to our product development efforts and, more importantly, to lowering our cost base.

The galvanizing line, installation work on which is currently ongoing, will produce some materials which are currently imported, in addition to producing wide galvanized materials which are required by the automotive industry.

Our Group has also started installation work of a heat treatment facility for the production of high added-value and abrasion resistant steels.

Full steam ahead in our R&D investments
We are an ambitious member of a global industry, in which new dynamics are emerging in each passing period, and competitive conditions are developing on the basis of many parameters.

For this reason, it is absolutely vital that we develop new products and production technologies that we raise our product quality and standards, that we increase efficiency, and that we are able to respond to our customers' product and service requirements.

In this great equation, we regard R&D activities as the driving force of our future and a fundamental competence.

In this respect, we continued our investment in developing the Erdemir R&D Simulation Center in 2017. The first phase of the Raw Material R&D Simulation and Product Development and the R&D Simulation laboratory project were successfully completed. Our R&D Center, which will continue to provide services with a stronger infrastructure in 2018, will provide a key contribution to our corporate competencies, our endurance and the value proposition that we offer to our customers.

Investing in people is the priority of OYAK Mining Metallurgy Group.
We regard our human resources as our most important asset and the architects of our future.

While focusing on the future, we are determined to develop our human resources and equip them with current competencies. In this respect, we attach great importance to our educational activities. We are moving forward with projects that represent the best practice in our sector, which we believe will gain recognition in academic literature. At the same time, we also aim to add surplus value to our Group through innovative management practices in the field of human resources.

With the Talent Management and Excellence Model, which we are in the process of spreading to the whole group, we are focused on exploring and promoting talent within our group.

WE REGARD R&D ACTIVITIES AS THE DRIVING FORCE OF OUR FUTURE AND A FUNDAMENTAL COMPETENCE.

MESSAGE FROM THE CHAIRMAN

OUR LONG-TERM STRATEGY ENVISAGES THAT WE WILL TAKE GROWTH STEPS TOWARDS DEVELOP OUR COMPETITIVE POWER IN ALL AREAS.

One of the matters that we attach great importance to in the field of human resources is occupational health and safety (OHS).
Our goal is to reach a “zero accidents” level in our group. Achieving the position of being a steel producer to have had no registered accidents for 365 days is our fundamental priority.

Targeting a decent working environment in all units of our Group, we accept occupational health and safety as a basis for business continuity and take important steps in the field of process safety.

We share our knowledge, experience and practices in the field of OHS systematically on the Group scale, and we constantly monitor our OHS performance metrics, conduct our audits periodically and take necessary actions proactively.

We take the OHS issue beyond being a managerial issue with our “I Produce Safely (Güvenli Üretiyorum)” project. We consider this to be a corporate social responsibility project that is unprecedented in any business in our country.

OYAK Mining Metallurgy Group will develop its long-term strategies in 2018.
Our long-term strategy envisages that we will take growth steps towards develop our competitive power in all areas.

Our group will continue to work towards the following goals to strengthen its long-term leadership:
- to increase its capacity by realizing new investments that will carry its leading and competitive position in global and national markets forward into the future.
- to develop qualified product diversification

Attaching priority to taking advantage of the potential offered by the markets with a proactive approach, and prioritizing organic growth in Turkey, our group works not only to improve its market share through capacity investments and new breakthroughs, but also to hit the ground running gains in a while range of areas such as efficiency, R&D and innovation, and the effective and accurate management of human resources.

We thank our stakeholders for their contributions.
Our Group aims to grow with great strides in 2018 and beyond, to reflect the opportunities offered by the global steel market to its performance with the right strategies, and to achieve growth which exceeds global steel sector averages.

I believe in my heart that the management teams of our companies, which have become distinguished with their proven success in team work, and our workforce of approximately 12,000 employees will ensure our Group reaches its growth targets easily under the guidance of our Board of Directors. On behalf of myself and my team, I would hereby like to extend my sincere gratitude to all of our stakeholders, especially our domestic and foreign customers, our shareholders and employees.

Süleyman Savaş Erdem
Chairman of the Board of Directors

BOARD OF DIRECTORS

Süleyman Savaş Erdem
Chairman of the Board of Directors
(REPRESENTATIVE OF OYTAŞ İÇ VE DIŞ TİCARET A.Ş.)

Toker Özcan
Deputy Chairman of the Board of Directors and Managing Director
(REPRESENTATIVE OF OYAK PAZARLAMA HİZMET VE TURİZM A.Ş.)

H. Abdullah Kaya
Member of the Board of Directors
(REPRESENTATIVE OF PRIVATIZATION ADMINISTRATION OF TURKEY)

Ertuğrul Aydın
Member of the Board of Directors
(REPRESENTATIVE OF OYKA KAĞIT AMBALAJ SANAYİİ VE TİC. A.Ş.)

Güliz Kaya
Member of the Board of Directors
(REPRESENTATIVE OYAK DENİZCİLİK VE LİMAN İŞLETMELERİ A.Ş.)

Ahmet Türker Anayurt
Member of the Board of Directors
(REPRESENTATIVE OF OMSAN LOJİSTİK A.Ş.)

Yunus Arıncı
Independent Member of the Board of Directors

Ali Fidan
Independent Member of the Board of Directors

Kurtuluş Bedri Varoğlu
Independent Member of the Board of Directors

SENIOR MANAGEMENT

Toker Özcan
Deputy Chairman of the Board of Directors and Managing Director of Erdemir, General Manager of İsdemir

Süleyman Savaş Erdem
Chairman of the Board of Directors

Sedat Orhan
Deputy Chairman of the Board of Director and Managing Director of İsdemir, General Manager of Erdemir

İ. Kürşad Korkmaz
Chief Purchasing Officer

Emrah Silav
Chief Financial Management and Financial Affairs Officer

Başak Turgut
Chief Marketing and Sales Officer

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

COMPANIES WITHIN OYAK MINING METALLURGY GROUP

WITH OUR HIGH
WE PROVIDE THE
MATERIALS FOR
OF INDUSTRIES.
8 COMPANIES

QUALITY STEEL, BASIC RAW A WIDE RANGE

CONSISTING OF 8 COMPANIES, OYAK MINING METALLURGY GROUP IS TURKEY'S LARGEST INTEGRATED STEEL PRODUCER.

COMPANIES WITHIN OYAK MINING METALLURGY GROUP

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (Erdemir)
Erdemir, Turkey's largest integrated flat steel producer, entered operation in 1965. Unwaveringly continuing its investments in line with the needs of the country's industry, the Company has reached a final product capacity of approximately 4 million tons of crude steel and approximately 5 million tons of final products.

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 industries including the automotive, the white goods, energy, construction, piping, general machinery and manufacturing, household appliances, heat and pressure vessel equipment, shipbuilding, heavy industry and packaging.

İskenderun Demir ve Çelik A.Ş. (İsdemir)
Founded in Hatay, part of the İskenderun region, in 1970, İsdemir is an integrated iron and steel plant with the highest liquid steel capacity in Turkey. 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 Çelik Servis Merkezi San. ve Tic. 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.

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.

ERDEMİR HAS A CRUDE STEEL CAPACITY OF APPROXIMATELY 4 MILLION TONS AND A FINAL PRODUCT CAPACITY OF APPROXIMATELY 5 MILLION TONS.

Erdemir Madencilik San. ve Tic. A.Ş. (Erdemir Maden)
Erdemir Maden, which began ore production in Divriği, in the Sivas region, in 1938 and has continued its operations as the Iron Mines Enterprise since 1940, joined Erdemir in 2004. Erdemir Maden meets 13% of Turkey's iron ore needs with 9 iron ore fields and one manganese field which it owns and performs 34% 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.

Erdemir Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş.
Erdemir Mühendislik offers the Group companies 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.

Erdemir Romania S.R.L.
Erdemir Romania, which was founded in the city of Targoviste in Romania, joined the 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.

Erdemir 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.

İsdemir Linde Gaz Ortaklığı A.Ş.
In line with İsdemir's goal of meeting the additional industrial gas needs and reducing the costs associated with the existing industrial gas system, the İsdemir Linde Gas Partnership Joint Stock Company was established in a 50% -50% partnership with Linde Gas Turkey. The company started operations in December 2016.

THE FUTURE MADE OF STEEL

I PERSONALIZE THE PEOPLE'S

NEED FOR TRANSPORTATION, AND I ADD STYLE AND COMFORT TO THEIR LIVES.

DEVELOPMENTS IN 2017

ERDEMİR AND ITS SUBSIDIARIES STARTED OPERATING UNDER THE ROOF OF OYAK MINING METALLURGY GROUP IN 2017.

FOCUSED ON FUTURE

OYAK Mining Metallurgy Group completes its structuring.
Erdemir and its subsidiaries started to operate under the roof of OYAK Mining Metallurgical Group as of 2017, following OYAK's decision to group its companies on a sector basis in order to increase managerial efficiency.

An impressive increase in Erdemir's market capitalization
Ereğli shares ended the year with a price of TL 10.02, 95% higher than the TL 5.14 price they opened the year at on the first trading day of 2017. When compared with the BIST 100 index, and taking December 30, 2016 = 100 as a basis, the BIST 100 index had risen by 48% by the end of 2017. Buoyed by the generous dividend that it distributed, as well as its financial and operational achievements, Erdemir shares provided a return of 95%.

According to Borsa İstanbul figures, Erdemir achieved the 2nd highest increase in market capitalization in 2017, at TL 17,080 million. In addition, Erdemir achieved a remarkable success by completing the year 2017 by ranking as the 4th largest company to be listed on the Borsa İstanbul, with a market capitalization of TL 35,070 million - up from 9th place at the beginning of 2017, when it had a market capitalization of TL 17,990 million. Erdemir shares provided

Erdemir embarks on a new investment
In 2017, Erdemir initiated work on a heat treatment facility for the production of high value-added steel not currently produced in Turkey. Having started efforts to establish the heat treatment facility, which is a first in Turkey's steel industry, Erdemir will add high-strength and abrasion-resistant steels to its product range once work on this investment is completed.

Four companies of OYAK Mining Metallurgy Group included in ISO 500 List.
İsdemir was ranked in 10th place, Erdemir in 11th place, Ersem in 86th place and Erdemir Mining in 320th place in the 2016 Survey of Turkey's Top 500 Companies conducted by the Istanbul Chamber of Industry.

Export awards for OYAK Mining Metallurgy Group.
In the ranking of the "Top 1,000 Export Leaders" report prepared on the basis of 2016 data by the Turkey Exporters Assembly, İsdemir was ranked 29th in the overall ranking and 6th in the sector ranking, while Erdemir was ranked 96th in the overall ranking and 11th in the sector rankings.

95%

BUOYED BY THE GENEROUS DIVIDEND THAT IT DISTRIBUTED, AS WELL AS ITS FINANCIAL AND OPERATIONAL ACHIEVEMENTS, AT THE END OF 2017, ERDEMİR SHARES PROVIDED A RETURN OF 95% WITH A PRICE OF TL 10.02.

DEVELOPMENTS IN 2017

92.2

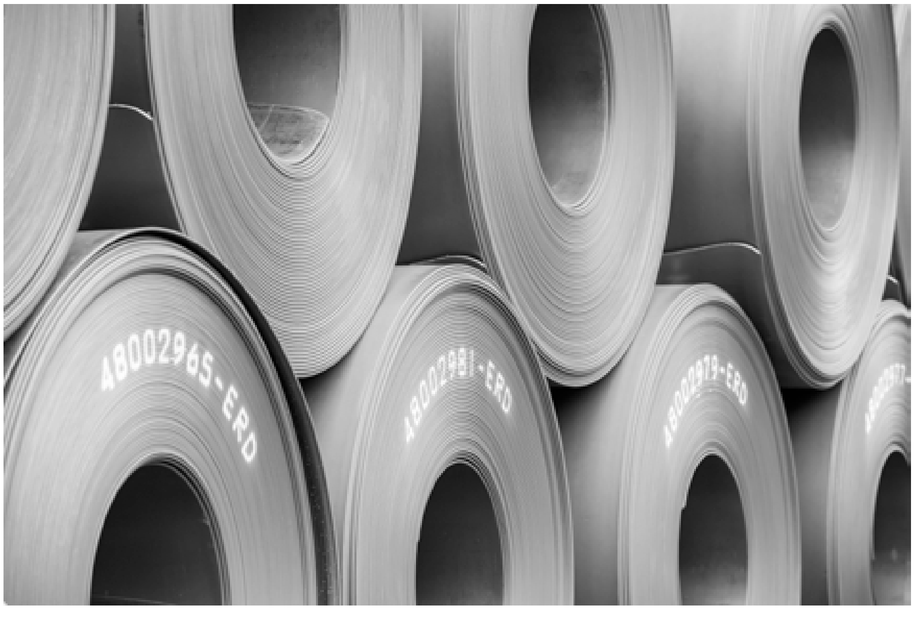
ERDEMİR CONTINUED TO RANK AMONG THE COMPANIES WITH THE HIGHEST CORPORATE GOVERNANCE RATING IN TURKEY WITH 92.2 RATING SHOWING AN INCREASE OF 2 PERCENTAGE POINTS.

In the "Stars of Steel Exports" award organized by the Steel Exporters Association (ÇİB), Erdemir was ranked 9th in the category of "Most Exports in All Products", 4th in the category of "Hot Flat Exports" and 3rd in the category of "Cold/Coated Flat Exports". İsdemir was ranked 6th in the category of "Most Exports in All Products", 8th in the category of "Construction Steel and Exports" and 2nd in the category of "Hot Flat Exports". Ersem was ranked 4th in the category of "Cold/Coated Flat Exports", while Erdemir was ranked 3rd and İsdemir ranked 5th in the category of "Biggest Increase in Exports on a Large Scale". Ersem was ranked 9th in the category of "Biggest Increase in Exports on a Medium Scale".

In 2017, Erdemir Romania received the award of "Excellence Award for being in the Top 3 in Exports in the Region in the Last 10 Years" given by the Chamber of Commerce in the state of Dambovita.

Rise in Erdemir's Corporate Governance Rating

Erdemir's Corporate Governance Rating rose from 90.2 to 92.2. Kobirate International Credit Rating and Corporate Governance Services Inc., which is authorized by the Capital Market Board (CMB) in Turkey, performs rating activities for companies included in the Corporate Governance Index of the Borsa İstanbul (BIST), and completed the Rating Report on the Compliance with the Principles of Corporate Governance for Erdemir. Erdemir continued to rank among the companies with the highest corporate governance rating in Turkey with an increase of 2 percentage points in its rating. In the report, it was stated that Erdemir had largely complied with the principles of Corporate Governance published by the Capital Markets Board (CMB), that the company enjoyed a high level of transparency through the public disclosure activities and that the rights of shareholders and stakeholders were overseen fairly. The report stated that the structure and working conditions of the Board of Directors was compatible with the corporate governance principles. It is also stated that Erdemir deserved to be included in the BIST Corporate Governance Index at the highest level.



Erdemir maintained its position in the Sustainability Index.
As in the previous year, Erdemir demonstrated success through its inclusion in the BIST Sustainability Index, in which the companies traded in the Borsa İstanbul with a high corporate sustainability performance are included. It maintained its position in the Index for the period from November 2017 to October 2018.

Erdemir was selected as the leader of the metal industry.
Erdemir was selected as the metal sector's leader in the Platinum Global Awards, which rewards Turkey's top 100 leading companies in international trade. In addition, Erdemir was ranked as the leader of the iron and steel industry in the survey of "Turkey's Most Admired Companies" conducted by the Capital Magazine. Moreover, Erdemir was ranked 2nd place in the "Most Profitable Companies" category in the "Turkey's Top 500 Private Companies" survey conducted by the Capital Magazine.

İsdemir joins the list of Fast Growing Companies.
İsdemir was ranked 6th among the companies recording growth in sales and income in real terms in the industry and service sector based on their 2016 balance sheets, in the "Fast Growing Companies" survey conducted by the Fortune Turkey.

EBRD awards OYAK Mining Metallurgy Group with the Sustainability Award.
OYAK Mining Metallurgy Group won the grand prize in the "Sustainable Energy" category in the 7th Sustainability Awards held by the European Bank for Reconstruction and Development (EBRD) with the TRT project, which will allow İsdemir to generate electric energy by using pressure energy.

Collective agreement signed at İsdemir.
The process that started with a constructive approach between İsdemir and the Hak-Is Confederation in August ended with a settlement, ensuring a continuation of good work relations. The 26th term collective labor agreement covering 3,107 staff was signed between the trade union and the employer.

Boğaziçi University students chose OYAK Mining Metallurgy Group.
OYAK Mining Metallurgy Group was awarded the "Industrial Company of the Year" award at the Management Study with Executives event held annually by the Engineering Society of the Boğaziçi University (ENSO). The event, which was held between December 14 and 16, was supported by the Group in the category of Gold Sponsor. In the event, also a case study was conducted in the session entitled "Future is Today".

OYAK Mining Metallurgy Group received the "Industrial Company of the Year" award within the scope of the Boğaziçi University Business World Awards, which was the result of the survey conducted by students on the last day of the 3-day event.

İSDEMİR WAS RANKED 6TH AMONG THE COMPANIES RECORDING GROWTH IN SALES AND INCOME IN REAL TERMS IN THE "FAST GROWING COMPANIES" SURVEY CONDUCTED BY THE FORTUNE TURKEY.

DEVELOPMENTS IN 2017

OYAK MINING METALLURGY GROUP PUBLISHED ITS 3RD SUSTAINABILITY REPORT, WHICH INCLUDES ERDEMİR AND İSDEMİR'S ACTIVITIES ON THE AXIS OF SUSTAINABILITY.

The 2016 Annual Report received a number of awards.
The Group's 2016 annual report was awarded by reputable organizations in this area.

- Gold prize in the metal category at the ARC Awards
- Gold prize in the metal category at the LACP Awards, 75th among the top 100 reports, 26th in the EMEA region
- Bronze prize in the chemistry, materials and building category at the Stevie Awards

3rd Sustainability report published.
OYAK Mining Metallurgy Group published its 3rd sustainability report, which includes Erdemir and İsdemir's 2016 performances on the axis of sustainability, and the developments within the year.

Excellence Model work started at İsdemir.
İsdemir started to implement the İsdemir Excellence Model (IEM) in July 2017. The IEM, which started operating with the slogan of "Maximizing Financial Value by Protecting People and the Environment", aims to be one step ahead of the competition by creating a corporate culture that always seeks the best with the participation of all employees and deploying İsdemir's expansive intellectual capital accumulated over many years. The İsdemir Excellence Model consists of nine function groups including Total Safe Production, Total Productive Production, Effective Cost Management, Effective Procurement Management, Human Resources, Efficient Energy Management, Investments, Stakeholders and Innovative Approaches.

New Air Separation Plant commissioned at İsdemir.
Work on the air separation plant at İsdemir Linde Gaz Ortaklığı A.Ş. was completed in December 2017, and the plant was commissioned in January 2018. The plant, which was built through the Build-Operate model, will increase the production capacity of oxygen, nitrogen and argon at the İsdemir site.

OYAK Mining Metallurgy Group keeps its finger on the pulse of the industry.
OYAK Mining Metallurgy Group continued to keep its finger on the pulse of the industry and its customers through a series of events it either participated in or hosted in 2017. The group attended the 13th International Defense Industry Fair, IDEF'17, which was held between May 9 and 12, 2017, where it met leading companies in the defense industry.

OYAK Mining Metallurgy Group became the main sponsor of the traditional "Conference on New Horizons in Steel Markets" hosted by Steel Orbis that provides information and e-commerce services to the steel industry. As one of the most comprehensive events of the Turkish steel industry, Erdemir provided its own assessments and expectations for the steel industry from its perspective at the conference, which brings together respected names and addresses every aspect of the market. The conference brought together about 500 participants from steel producers, rolling mills, trading companies, steel service centers, raw material suppliers, steel consuming sectors, finance, transportation, logistics and technology companies.

OYAK Mining Metallurgy Group also participated in the Structural Steel Days as a supporter, which was organized by the Turkish Structural Steel Association for the 18th time in 2017. The event provided a forum for all developments, new technologies and statistics to be shared with the participation of architects, engineers, steel manufacturers, investors, steel material suppliers, suppliers, academics, students, non-governmental organizations and public and private sector organizations.

Erdemir Romania, a group company, again participated in the CWIEME fair, which is the biggest fair for manufacturers of cold winding, electric motor and transformer manufacturing technologies in the world, in 2017.

Bringing OYAK Mining Metallurgy Group together with young people
The Group took part in a number of events in order to promote cooperation with universities and meet potential employees, including the ITU Career Summit, the Turkey Engineering Career Fair (TÜMKAF), the METU Career Fair and the Management Study with Executives, organized by the Engineering Society of the Boğaziçi University.

Participation in Quality Congress
OYAK Mining Metallurgy Group participated in the 26th Quality Congress, which was held under the theme of "Leadership for Transformation" and organized by The Turkey Quality Association as a session supporter. The Group conveyed the idea that the most valuable power of companies is employees through the session entitled "Employee Safety as the Main Actor of Sustainability", in which more than 400 participants took part.

IEM

IMPLEMENTED IN İSDEMİR WITH THE SLOGAN OF "MAXIMIZING FINANCIAL VALUE BY PROTECTING PEOPLE AND THE ENVIRONMENT" IN JULY 2017, THE İSDEMİR EXCELLENCE MODEL (IEM) CONSISTS OF NINE FUNCTION GROUPS.

ECONOMIC AND SECTORAL ENVIRONMENT

THE RECOVERY IN THE WORLD ECONOMY CONTINUED IN 2017 WITH INCREASING MOMENTUM AND THE ECONOMY ENTERED A PERIOD OF STRONG SIMULTANEOUS GROWTH PERIOD THAT SPREAD THROUGHOUT THE WORLD AFTER A LONG TIME.

STRONG GROWTH

The World Economy

Rates of economic growth in 2017 were higher than at any time since the global economic crisis.

The recovery in the world economy, which had begun in the second half of 2016, continued in 2017 with increasing momentum and the economy entered a period of strong simultaneous growth period that spread throughout the world after a long time. Growth forecasts were revised upwards during the year, and economic growth ended 2017 higher than at any time since the global economic crisis. Economic growth has exceeded expectations in many parts of the world, not just in certain countries.

The economic performance of the USA and China, which are the world's largest consumers of commodities, and the strengthening of manufacturing industry, especially in the European Union, brought commodity prices to record levels. The Purchasing Managers Index (PMI) in the manufacturing industry, a key indicator of steel consumption, reached historical highs both on a global and regional level.

The continuation of the Fed's interest rate hikes and the downsizing of the balance sheet, the continued monetary expansion policies in the USA and Japan and the growth in world trade, despite the new protectionist measures put in place, were among the other dynamics affecting the global economy in 2017. The economic performance in many regions of the world brought a striking impact to the markets.

The economic performance of China, the world's second largest economy, was more positive than expected in 2017. The Chinese economy, which displayed its lowest rate of growth for 26 years at 6.7% in 2016, rebounded in the first half of 2017 and demonstrated a more vigorous than expected performance with a growth rate of 6.9%. The dynamic course of global trade and domestic demand played a part in this growth.

The fact that the slowdown in China's economic growth proved to be a very soft landing came as a relief for the world economy. Thanks to the performance during the year, China's growth forecasts were revised upwards. The IMF forecasts that China, which is estimated to have closed 2017 with 6.8% growth, will grow by 6.5% in 2018.

Having left behind a tough decade marked by the impacts of the global crisis and the 2012-13 recession, European economies have been rapidly recovering on the back of growing business confidence. Over the past two years, growth in the region has been supported by an expansionary monetary policy which has gone some way towards reducing financial stress. After having maintained its policy interest rate at zero for a prolonged period, the European Central Bank confirmed that it would continue with its supportive monetary policy despite the economic recovery, reiterating its commitment to carry out asset purchases when necessary.

3.6%

AFTER POSTING 3.1% GROWTH IN 2016, THE WORLD ECONOMY IS ESTIMATED TO HAVE GROWN BY 3.6% IN 2017, WITH HIGHER RATES OF GROWTH FORECASTED IN THE MEDIUM TERM.

ECONOMIC AND SECTORAL ENVIRONMENT

A STRONG 3.7% RATE OF ECONOMIC GROWTH IS PROJECTED FOR 2018, WITH ECONOMIC GROWTH EXPECTED TO BE RELATIVELY BRISK DURING THE 2018-2020 PERIOD WHEN COMPARED TO THE 2008-2017 PERIOD.

While many European countries posted a recovery in 2017, the manufacturing industry PMI continued to increase during the year. The IMF estimates that the European economy posted growth of 2.4% in 2017 while forecasting 2.1% growth in 2018. Inflation, which has been following a low course, and the possibility of new referendums on the EU remain risk factors for 2018.

The 2018-2020 period is expected to be more positive in terms of economic growth than the period between 2008 and 2017.
The Fed's policy on raising interest rates and the growing pressure of these rate hikes on developing countries, the strength of the US dollar and the degree that growth strengthens in Europe will all have an important bearing on a world that has started 2018 with optimism regarding the economy.

The direction of the economy in 2018 will depend on changes in market dynamics with the impact of Brexit in Europe, the sustainability of the 6.5% trend rate of economic growth in China and increasing credit debt, and the effects of international trade agreements and developments in protectionist measures on global trade. The threat of emerging new geopolitical crises presents a risk for the global economy in 2018.

After posting 3.1% growth in 2016, the world economy is estimated to have grown by 3.6% in 2017, with higher rates of growth forecasted in the medium term; a strong 3.7% rate of economic growth is projected for 2018, with economic growth expected to be relatively brisk during the 2018-2020 period when compared to the 2008-2017 period, although not returning to the very high rates seen between 2002-2007.

The US economy is expected to maintain its strong growth performance with a 2.5% rate of growth projected, with the Fed is expected to continue raising interest rates. Expectations of a recovery in the labor market and an increase in incomes, as private consumption and investment expenditures continue to increase in the US economy, have been positively affecting growth. Even though employment is continuing to grow vigorously, inflation has been remaining below expectations.

The Turkish Economy

Turkey was ranked among the fastest growing economies in the aftermath of the global crisis.
In 2017, Turkey came close to repeating the high growth performance of the pre-crisis period, with the annual average rate of growth standing at 6.7% in the 2010-2016 period.

After having posted 3.2% growth in 2016, a year marked by unexpected developments, Turkey is estimated to have posted 7% growth in 2017. The economy, which has recovered rapidly since the last quarter of 2016 thanks to the measures taken, maintained its momentum in 2017. In terms of the expenditures, it displayed a relatively balanced performance based on private consumption as well as export and investment growth.

Financial measures such as credit expansion and tax cuts supported domestic demand and, accordingly, growth in the first half of 2017. The global economic performance positively affected Turkey's export-based manufacturing industry, while production and exports grew strongly.

The Medium Term Plan had targeted a GDP growth rate of 5.5% per annum for the years 2018 and 2020 in with a growth strategy based on productivity growth, supported by investments oriented for production, and financed mostly by domestic savings.

Turkey's flat steel consumption is growing along with the manufacturing industry.
The manufacturing industrial production index, which rose during 2017, is expected to maintain its strong pattern in 2018 against the backdrop of a bright outlook for global markets. The manufacturing industry PMI value, which remained above 50 throughout 2017, indicates a revival in the manufacturing industry. The PMI value, which reached 54.9 in December - its highest level of the year - supports expectations of a strengthening of demand in 2018.

The World Steel Sector

Steel prices supported by growing domestic demand, along with the rise in other commodity prices.
World crude steel production, which increased rapidly between 2000 and 2012, reached 1.7 billion tons in 2017 with more moderate growth since 2012. World crude steel production edged up by 1% in 2016, followed by a more vigorous 5.3% rate of growth in 2017. The official capacity utilization rate rose to over 70%.

The recovery observed in the global economy also became apparent in the steel industry. The increase in domestic demand also supported steel prices in conjunction with an upward movement in other commodity prices, while production increased in parallel with the increased demand.

7%

THE TURKISH ECONOMY, WHICH IS ESTIMATED TO HAVE POSTED 7% GROWTH IN 2017, CAME CLOSE TO REPEATING THE HIGH GROWTH PERFORMANCE OF THE PRE-CRISIS PERIOD.

ECONOMIC AND SECTORAL ENVIRONMENT

IN CHINA, WHICH REALIZES HALF OF GLOBAL STEEL PRODUCTION, CRUDE STEEL PRODUCTION AMOUNTED TO 832 MILLION TONS, INCREASING BY 5.7% YOY.

Raw steel capacity management has been one of the key dynamics affecting the global steel industry.
Continued capacity reduction efforts in China and increased production in many parts of the world on the back of the strong domestic demand pushed the global crude steel capacity utilization rate up to 72% - a level that is expected to increase in the coming years.

The management of raw steel capacity, which has received considerable attention since 2015, has been one of the key dynamics affecting the global steel industry. With the supply reform initiated in China and the closure of induction furnaces, it is planned that 280 million tons of capacity will be deactivated by the year 2020.

60% of the capacity that is planned to be closed down is comprised of integrated plants and the raw steel produced in electric arc furnaces. The remainder is made up of induction furnaces whose production is unrecorded. Since 2015, a total of 115 million tons of capacity has been deactivated. Chinese exports, which declined by 30% in 2017 due to sharper capacity cuts and falls in consumption than expected, are expected to follow a horizontal trend with limited changes over the next 3 years.

Half of global steel production was realized by China.
In 2017, Chinese crude steel production amounted to 832 million tons, increasing by 5.7% YoY. The capacity utilization rate of China's steel sector, which declined to 70% level in 2015 and precipitated a 40% slump in steel prices within the space of a year, rose to 80% in 2017. If the targets set out in the Chinese central government program are realized, the capacity utilization rate of the steelmakers in China is expected to increase further in 2020.

The realization of the planned targets in China, which realizes half of global steel production, will nudge the capacity utilization rate towards 90%. Another factor that limits production in China is the restrictions imposed due to environmental pollution. The effects of the restrictions, which started on November 15th and will continue until March 2018, are expected to lower crude steel production by around 50 million tons.

China's steel exports, which negatively affected the global steel market by exceeding 100 million tons in 2015 and 2016, declined by 30% YoY to 75 million tons in 2017 - a level that is anticipated to continue in 2018.

Efforts at consolidation in the industry, another development affecting the steel industry in China, are aimed at increasing the share of 10 largest steel producers from 34% to 60%. In this vein, Baowu, which was formed with the merger of Baosteel and Wuhan in China, became a steel giant boasting the second largest capacity in the world after Arcelor Mittal. Work on the merger is expected to continue in 2018.

In summary, in a period marked by restrictions on new investment in the Chinese steel industry, reductions in existing capacities, plans to increase the effectiveness of steel companies through consolidation as well as measures to keep supply and capacity under control through environmental measures and sectoral plans, the “Effective Capacity and Supply Control” application stands out. This period ensures that the outlook for the steel sector is stronger as we enter 2018.

A recovering global economy also sets the stage for growth in global steel consumption. After all regions of the world, apart from China, had observed a decline in steel consumption in 2015, steel consumption has returned to growth with increasing momentum in the last 2 years. Consumption is projected to grow by an average of 3% between 2018 and 2020. It is estimated that world steel consumption increased by 2.5% in 2017 on the on the back of rising consumption in China and other regions. In 2018, the global consumption is projected to increase by 1.6%, driven by consumption growth outside China.

World Crude Steel Production Country Ranking

	Countries	2017 (mt)	'17 Share	2016 (mt)	'16 Share	16-17 (%)
1	China	831.7	49.2%	786.9	49.0%	5.7%
2	Japan	104.7	6.2%	104.8	6.5%	-0.1%
3	India	101.4	6.0%	95.6	6.0%	6.1%
4	USA	81.6	4.8%	78.5	4.9%	3.9%
5	Russia	71.3	4.2%	70.5	4.4%	1.1%
6	South Korea	71.1	4.2%	68.6	4.3%	3.6%
7	Germany	43.6	2.6%	42.1	2.6%	3.6%
8	Turkey	37.5	2.2%	33.2	2.1%	13.0%
9	Brazil	34.4	2.0%	31.3	1.9%	9.9%
10	Ukraine	24	1.4%	24.2	1.5%	-0.8%
	Others	289.5	17.1%	270	16.8%	7.3%
	World	**1,691**		**1,606**		**5.3%**

Source: worldsteel

1.7 BILLION TONS

WORLD CRUDE STEEL PRODUCTION, WHICH INCREASED RAPIDLY BETWEEN 2000 AND 2012, REACHED 1.7 BILLION TONS IN 2017 SHOWING MORE MODERATE GROWTH SINCE 2012.

ECONOMIC AND SECTORAL ENVIRONMENT

37 MILLION TONS

IN 2017, TURKEY'S CRUDE STEEL PRODUCTION REACHED A RECORD, EXCEEDING 37 MILLION TONS WITH AN INCREASE OF 13% YOY, WHILE CONSUMPTION INCREASED BY 5.5% TO REACH 36 MILLION TONS.

The Turkish Steel Industry

A new record for crude steel production in Turkey in 2017, exceeding 37 million tons.
Buoyed by strong domestic demand and export markets, Turkey's steel production and consumption followed a course above the previous year. In 2017, Turkey's crude steel production reached a record, exceeding 37 million tons with an increase of 13% YoY. Consumption, meanwhile, increased by 5.5% to reach 36 million tons. The strength in the sector is expected to continue in 2018, with production on course to continue growing in parallel with consumption.

A strong outlook for the steel industry is going forward.
Demand for steel in Turkey's manufacturing industry, which works with high capacity utilization rates, increased on the back of a buoyant global economy. Steel consumption had surpassed its 2016 level as of September, with flat steel consumption rising by about 10% YoY as of the end of the year.

The construction industry, which had witnessed a contraction in the last period of 2016, recovered to its earlier levels in the second quarter of 2017, thus achieving an increase of nearly 5% in the use of long steel. Due to the strong global outlook, steel demand is expected to continue its upward trend in 2018.

Turkey remained a net importer of flat steel in 2017.
Turkey's imports of finished flat steel products amounted to 9 million tons in 2017, increasing by 4% YoY. Thus, Turkey remained a net importer in 2017, a situation that it has been in since 2015.

In addition, imports of slab steel grew by 53% YoY to exceed 2.4 million tons in 2017. In 2018, more than half of consumption is expected to be met by imports. On the other hand, imports of long finished steel products declined by 13% YoY to 1.4 million tons, while imports of billet products decreased by 47% YoY to 2.4 million tons. Turkey maintained its net exporter position in long steel products.

A series of new protectionist measures put into practice in 2017 and the revised tax rates in Turkey are among the factors that will shape imports in 2018. It is expected that the Section 232 investigation ongoing in the USA, which has an important bearing this context, will be completed in the first quarter of 2018. The effects of the fixed import duty levied on imports of hot rolled flat steel in four different countries in the EU in 2017 on the world steel trade will also be significant in 2018.

Expectations for 2018

The steel industry is expected to maintain its current position in 2018.
The global economy is expected to maintain its strong position during 2018, with demand for steel buoyant with the manufacturing industry increases its development, and consequently, the steel industry will continue to maintain its current position.

Infrastructure spending and the continuity of growth in China, with a 6.5% rate expected, the strong course of manufacturing industrial production in the EU and the revival of construction sector activity, an expected acceleration in infrastructure investment in the USA, expectations of a rise in the prices of oil and other commodities, and government policies supporting domestic demand in India will be factors supporting the steel industry in 2018.

China's exports, which were realized at just 75 million tons in the past year, are expected to continue at similar levels, with capacity reduction efforts set to continue with the strong outlook in domestic demand together with sustainable economic growth being maintained.

India, which increased its production by 6% YoY in 2017, will be the second largest steel producer in the world as it sustains its upward trend in 2018, with demand from for steel for use in the construction sector set to grow on the back of infrastructure investments in China and the USA, and strong outlook for manufacturing industries in developed countries setting the stage for an increase in demand for flat steel.

The steel trade between regions is on course to decline due to new protectionist measures, but intra-regional trade is set to grow while merger transactions, one of the new dynamics of the industry, will continue.

Crude steel production and the final product consumption expected to continue its growth in 2018.
The Turkish economy is set to post a rate of growth in excess of the global average in 2018, with the upward trend in steel consumption set to continue. The increase in crude steel production and final product consumption in the steel industry is expected to continue in Turkey in 2018 while imports in packaging steel and galvanized products will decrease with the commissioning of domestic capacity; however, total imports will be realized at levels similar to last year. Ukrainian and Russian producers are expected to maintain their import pressure on Turkey, due to the effects of protectionist measures put into practice in 2017, primarily in the EU.

THANKS TO A STRONG GLOBAL ECONOMY, THE INCREASE IN CRUDE STEEL PRODUCTION AND FINAL PRODUCT CONSUMPTION IN THE STEEL INDUSTRY IS EXPECTED TO CONTINUE IN TURKEY IN 2018.

I PASS ON THE ENERGY THAT

THE FUTURE
MADE OF STEEL

I TAKE FROM NATURE TO THE LIVES OF THE PEOPLE, I REPRESENT SUSTAINABILITY.

THE YEAR 2017 IN SUMMARY

OYAK MINING METALLURGY GROUP METICULOUSLY CONTINUED ITS OPERATIONS, MAINTENANCE AND MODERNIZATION ACTIVITIES IN ALL OF ITS UNITS, AND CONTINUED TO SUCCESSFULLY RAISE ITS COMPETITIVE POSITION TO HIGHER LEVELS IN 2017.

PRODUCTION RECORD

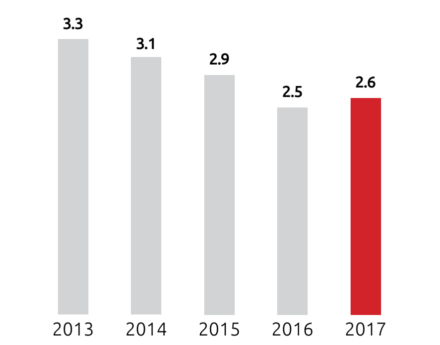
PRODUCTION AND SALES

OYAK Mining Metallurgy Group completed the year 2017 by breaking new production records.
OYAK Mining Metallurgy Group continued to increase its productivity and efficiency in 2017, reaching new records in terms of production by continuing its modernization and improvement activities which it has carried out in line with its quality production principle. Meticulously continuing its operations, maintenance and modernization activities at all of its units, OYAK Mining Metallurgy Group continued to successfully raise its competitive power to higher levels in 2017.

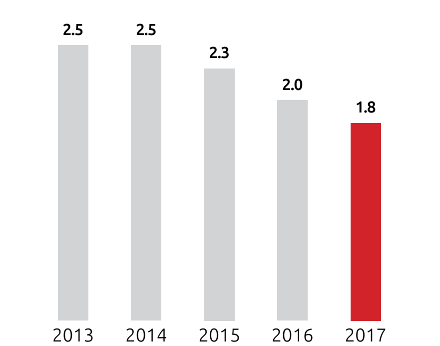
OYAK Mining Metallurgy Group's crude steel production stood at 9.2 million tons in 2017.
OYAK Metallurgy Group, which single-handedly produced 25% of Turkey's crude steel in 2017, produced 9.2 million tons of crude steel.

Erdemir and İsdemir operated at a capacity utilization rate of 97% in 2017, with 2.64 and 1.82 man-hours of labor spent for each ton of final products in Erdemir and İsdemir respectively.

Erdemir Finished Products Work Force Productivity
(man hours/ton)



İsdemir Finished Products Work Force Productivity
(man hours/ton)



PRODUCTION AND SALES

OYAK MINING METALLURGY GROUP PRODUCED 9.2 MILLION TONS OF CRUDE STEEL IN 2017, SINGLE-HANDEDLY MEETING 25% OF TURKEY'S CRUDE STEEL NEEDS.

Production by Year (thousand tons)

	2013	2014	2015	2016	2017
Hot Metal	**7,603**	**7,695**	**8,077**	**8,369**	**8,389**
Ereğli	3,412	3,413	3,438	3,295	3,270
İskenderun	4,191	4,282	4,639	5,074	5,119
Liquid Steel	**8,447**	**8,693**	**9,122**	**9,373**	**9,392**
Ereğli	3,865	3,846	3,894	3,707	3,672
İskenderun	4,582	4,847	5,228	5,666	5,720
Crude Steel	**8,268**	**8,493**	**8,930**	**9,185**	**9,203**
Ereğli (Slab)	3,761	3,732	3,779	3,601	3,565
İskenderun (Slab)	3,103	3,631	3,570	4,004	4,300
İskenderun (Billet)	1,403	1,130	1,581	1,580	1,338
Flat Steel	**6,427**	**6,954**	**7,400**	**7,071**	**7,713**
Ereğli (Tin Plate)	257	255	235	249	264
Ereğli (Galvanized)	303	305	319	324	329
Ereğli (Cold Rolled)	1,284	1,186	1,266	1,208	1,230
Ereğli (Hot Rolled)	1,812	2,020	2,206	2,125	2,293
Ereğli (Plate)	253	348	334	292	346
İskenderun (Hot Rolled)	2,518	2,840	3,040	2,873	3,127
İskenderun (Slab-Non-Group)	-	-	-	-	124
Long Steel	**1,356**	**1,153**	**1,563**	**1,572**	**1,328**
Billet	775	589	1,022	987	688
Wire Rod	581	564	541	585	640
Iron Ore	**2,646**	**2,666**	**2,422**	**2,106**	**1,996**
Pellet	1,480	1,550	1,547	1,565	1,501
Other	1,166	1,116	875	541	495

Flat Steel Production
Erdemir produced 2.6 million tons of hot rolled products, 1.8 million tons of cold rolled products and 4.5 million tons of flat products in 2017, while İsdemir produced 3.2 million tons of hot rolled products. The Group total finished flat steel product production stood at 7.7 million tons. Erdemir Romania produced 96 thousand tons of silicon flat steel in 2017.

Long Steel Production
OYAK Mining Metallurgy Group produced 1.3 million tons of finished long product in 2017, including 0.7 million tons of billet and 0.6 million tons of wire rod.

Iron Ore Production
In 2017, Erdemir Maden produced 1.5 million tons of pellet while total production including other products (lump ore, fine ore and pellet cake) stood at nearly 2 million tons.

Steel Service Center
The Steel Service Centers achieved sales of 1,169 thousand tons in 2017, of which 440 thousand tons were sales of unprocessed and 729 thousand tons were for processed products.

Handling services for 26.4 million tons were provided at OYAK Mining Metallurgy Group ports in 2017.
A total of 26.4 million tons of handling services were performed at the Erdemir and İsdemir ports in 2017, including nearly 3 million tons of handling to third parties. The port recorded revenue of nearly USD 19 million in the 2017 full year.

Of the 10.7 million tons of handling services carried out at the Erdemir Port, nearly 0.8 million tons were provided to third parties. The volume of handling in 2017 was the highest in the last 9 years. A total of USD 7,9 million was earned from these services.

A total of nearly USD 11 million in handling revenues were earned from handling services offered at the İsdemir Port, which amounted to a total of 15.7 million tons, including 2.1 million tons of third party services.

7.7 MILLION TONS

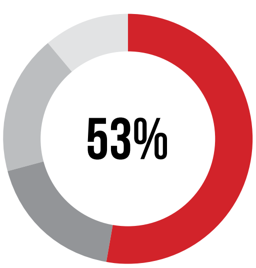
IN 2017, OYAK MINING METALLURGY GROUP REALIZED THE HIGHEST FINAL FLAT PRODUCT PRODUCTION IN ITS HISTORY, AT 7.7 MILLION TONS.

PRODUCTION AND SALES

8.96 MILLION TONS

OYAK MINING METALLURGY GROUP, WHICH SOLD 8.96 MILLION TONS OF FINAL PRODUCTS IN 2017, ADDED 14 NEW GRADES OF FLAT STEEL TO ITS PRODUCT RANGE.

Breakdown of Flat Steel Domestic Sales (%)



- Pipe Profile and Re-Rolling 53
- Distribution Channels 18
- General Manufacturing Industry 18
- Automotive 11

An expanded sales and product range in 2017
OYAK Mining Metallurgy Group continued to meet customer expectations at the highest level in 2017 with its customer focused approach, its product quality and its product range that it continuously develops.

Working to provide its customers with the most appropriate products in line with their needs, the Group has continued investment activities that will free Turkish industry of its import dependency. With the commissioning of the galvanizing line in 2018, the Group will be supporting this business segment by domestically producing many of the galvanized materials needed in the automotive industry, while at the same time the Group will be producing materials which had been imported, in Turkey.

In addition, in 2017, the Group also commenced work on establishing a heat treatment facility for the production of high added value and abrasion resistant steels.

OYAK Mining Metallurgy Group has continued to increase its sales volume by effectively managing its marketing, sales and distribution activities. The Group has remained an important link in customers' supply chains by delivering the desired amounts at the desired times, and by meeting the customers' demands for specifically sized products through four Steel Service Centers in Ereğli, Gebze, Manisa and Iskenderun.

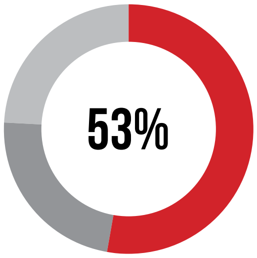
OYAK Mining Metallurgy Group, which sold 8.96 million tons of final products in 2017, added 14 new grades to the flat steels in its product range.

OYAK Mining Metallurgy Group's exports increased by 10% YoY in 2017 with 1.2 million tons of products exported to 45 countries over a wide geographical area extending from South America to the Middle East and North Africa.

Sales (thousand tons)	2013	2014	2015	2016	2017
Flat Finished Product	**6,338**	**6,933**	**7,229**	**7,163**	**7,594**
Ereğli (Tin Plate)	255	258	244	248	267
Ereğli (Galvanized)	126	79	63	47	63
Ereğli (Cold Rolled)	1,070	974	926	936	919
Ereğli (Hot Rolled)	1,669	1,736	1,884	1,757	1,802
Ereğli (Plate)	222	333	311	267	343
İskenderun (Hot Rolled)	2,432	2,846	2,841	2,843	2,908
İskenderun (Slab)	-	-	-	-	123
Ersem (Galvanized)	169	221	263	272	289
Ersem (Cold Rolled)	211	256	348	357	370
Ersem (Hot Rolled)	184	230	349	436	510
Long Finished Product	**1,346**	**1,163**	**1,552**	**1,587**	**1,364**
Billet	754	625	998	999	717
Wire-Rod	592	538	554	588	647
Iron Ore	**2,399**	**2,853**	**2,285**	**2,174**	**2,052**
Pellet	1,463	1,538	1,532	1,547	1,485
Other	936	1,315	753	627	567

OYAK MINING METALLURGY GROUP'S EXPORTS INCREASED BY 10% YOY IN 2017, WITH 1.2 MILLION TONS OF PRODUCTS EXPORTED TO 45 COUNTRIES.

Breakdown of Long Steel Domestic Sales (%)



- Construction Steel and Profile Manufacturers 53
- High Carbon and Special Qualities 24
- General Manufacturing Industry 23

SUPPLY AND PROCUREMENT

THE PURCHASING PROCESSES ARE AIMED AT PROCURING ALTERNATIVE PRODUCTS AND SERVICES IN A MANNER THAT CONTRIBUTES TO THE DEVELOPMENT OF GROUP COMPANIES, IN ADDITION TO MEETING THEIR NEEDS AND DEMANDS.

Purchasing activities are carried out in a manner that contributes to the development of the Group companies.
OYAK Mining Metallurgy Group's purchasing activities include supplying the most appropriate products and services to Group companies by maintaining stock levels that are manageable in different market conditions. The activities carried out in this vein are aimed at providing procurement security in addition to purchasing at the most reasonable price and quality. The purchasing processes are aimed at procuring alternative products and services in a manner that contributes to the development of the group companies, in addition to meeting their needs and demands.

The Purchasing Units act as a solid bridge between internal customers and suppliers, as purchasing activities require multifaceted and comprehensive planning. As production conditions are not always compatible with the supply and logistics conditions, the Procurement Units are not only closely concerned with commercial aspects, but also operational issues.

The markets for basic raw materials such as iron ore, coal and scrap followed a somewhat volatile course in 2017. Having achieved an optimal balance between long-term contracts and spot purchases in a manner that reduced the impact of these fluctuations to a minimum, the purchasing activities helped support the Group's competitive clout and profitability by creating business models appropriate for the prevailing market conditions.

Although a significant proportion of the raw materials required by OYAK Mining Metallurgy Group are procured from abroad, domestic suppliers are always given priority with the highest level of purchases possible conducted from domestic suppliers. A total of 3.6 million tons of iron ore, 50,000 tons of coal and 224,000 tons of scrap were procured from domestic sources in 2017. The development of domestic resources is one of the key sustainability strategies of OYAK Mining Metallurgy Group.

Purchasing makes up an important part of the value chain offered by OYAK Mining Metallurgy Group to its customers. A wide range of activities, extending from the supply of raw materials and auxiliary materials necessary for the production of steel which will meet the qualities and properties required by customers, to the provision of all the services necessary to deliver the products to the door of the customers are carried out.

R&D

The Erdemir R&D Center continues to operate successfully as the first R&D center in the sector to have been approved by the Ministry and was brought to the sector by OYAK Mining Metallurgy Group.

The Erdemir R&D Center successfully passed the audit carried out by the Ministry of Science, Industry and Technology where the 2nd activity period was evaluated. As the first R&D Center in the Turkish steel sector approved by the Ministry of Science, Industry and Technology on August 26, 2014, the Erdemir R&D Center successfully completed the ministry audit conducted for the 2nd activity period.

A total of 32 projects were completed in the R&D Center, which operates under four main groups; Raw Materials and Iron Production, Steel Production and Casting Technologies, Hot Product and Process and Cold Product and Process R&D. Work continued on 52 projects.

The R&D Center aims to meet customers' growing needs and expectations with innovative solutions. In line with this goal, work is carried out to produce competitive, high added value new products at reasonable costs, to search for alternative sources of raw materials, identify alternative materials and technologies that reduce costs and to promote the more efficient use of raw materials and energy resources.

In 2017, the R&D Center achieved improvements in its production processes, resulting in cost-cutting advantages which have paved the way for the introduction of more competitive products to the market. In addition, work has continued successfully on recovering waste released during the production process, which is one of the most important areas of improvement for the iron and steel industry.

32 PROJECTS

WORKING UNDER THE FOUR MAIN GROUPS, A TOTAL OF 32 PROJECTS WERE COMPLETED AT THE AT THE R&D CENTER AND WORK CONTINUES ON 52 PROJECTS.

R&D

IN 2017, SIGNIFICANT PROGRESS WAS ACHIEVED IN THE ESTABLISHMENT OF RAW MATERIAL AND PRODUCT DEVELOPMENT SIMULATION LABORATORIES.

Infrastructure work rapidly heading towards completion at the Erdemir R&D Center

All work at the R&D Center is intended to be carried out more rapidly and with numerous repetitions, independent of the constraints at the production facilities and with lower trial costs. In 2017, significant progress was achieved in the establishment of the Raw Material and Product Development Simulation Laboratories, which were developed in this context. A significant proportion of the 1st Phase construction work at the R&D Center, which will be moved from the plant site, was completed within the year. Construction work on the 2nd Phase is planned to be completed in the first quarter of 2018.

Installation and commissioning work for the experimental sinter simulator, vacuum induction furnaces and hot dip galvanizing simulator, whose procurement process have been completed, will be carried out in 2018. The tender and purchasing process of the hot and cold rolling simulator were also completed. The Erdemir R&D Center is planned to be completely moved to its new campus of approximately 30 acres, where all laboratories will be brought together, in 2018.

In line with our sustainable principles, Life Cycle Assessment (LCA) studies have been initiated in the Erdemir processes. In this context, targets will be set out to bring environmental performances to a higher level.

A pilot scale autoclave was installed and commissioned in the technical infrastructure of the Erdemir R&D Center in order to carry out the slag aging studies that will enable the use of steel mill slag on highways. Laboratory competence was improved to measure the expansion behavior of slag according to relevant standards.

On the other hand, by procuring additional equipment and test apparatus for the devices in the metal forming laboratory, new competencies were established such as the measurement of surface quality after painting, the measurement of oil film thickness of sheet surface and the measurement of earing properties of tinplate materials. In addition, new competencies were gained in advanced characterization techniques by carrying out studies in areas such as correlating the phase characterization and texture properties with the process parameters and final product properties through the electron diffraction method.

Seven training programs were given at Erdemir R&D Center on different technical subjects specific to the needs of the employees.

The Erdemir R&D Center attaches importance to training activities in order to ensure the continuous development of its employees in light of current technological developments. In 2017, seven training programs were given on various technical subjects specific to the needs of employees. Employees were encouraged to continue their doctoral and postgraduate education. The R&D Center completed the year 2017 with a total of 46 employees including one employee with a doctorate, 11 doctoral students, nine employees with a post graduate degree, six postgraduate students, 12 employees with a bachelor’s degree, one associate degree student and six employees with an associate degree or high school education.

R&D Center employees participated in mining and metallurgy sector in events organized in the national/international arena during 2017, with a total of 7 new declarations, three of which were abroad. The Erdemir R&D Center contributed to the promotion of the Group and accumulation of intellectual capital by participating in a number of events with a total of 45 declarations after approval by the Ministry. Fourteen of the declarations were given in international events.

Total of four registered patents/utility models in OYAK Mining Metallurgy Group

Two patents and three utility model applications were submitted in response to proposals for inventions from Group employees. Registration processes are continuing for a total of 11 applications, including 5 patents/utility models, for which applications were made. The Group currently has a total of four registered patents/utility models, including two patents and two utility models.

On the other hand, three projects were completed for which applications have been tabled since 2014 within the scope of the TÜBİTAK TEYDEB 1501 Industrial R&D Projects Support Program, were successfully completed. Activities continue on five projects for which a decision was taken to extend support.

THE ERDEMİR R&D CENTER ATTACHES IMPORTANCE TO TRAINING ACTIVITIES IN ORDER TO ENSURE CONTINUOUS DEVELOPMENT OF ITS EMPLOYEES IN LIGHT OF CURRENT TECHNOLOGICAL DEVELOPMENTS.

R&D

THE NUMBER OF FLAT STEEL GRADES PRODUCED BY OYAK MINING METALLURGY GROUP INCREASED TO 461 AND THE NUMBER OF LONG STEEL GRADES INCREASED TO 282.

New products developed to expand number of grades to 461 in flat products and 282 in long products.
Within the scope of the product development efforts carried out in conjunction with customers, intensive work has been carried out to develop and produce high value added products for a wide array of sectors including automotive and white goods. In these studies, priority is given to work that could lead to increases in efficiency and reduction in costs.

Within the scope of Wind Power projects, quality approval studies were carried out with some of the sector's leading companies in 2017. It became possible to produce products for domestic and international Wind Power projects.

We continued to carry out new quality development studies with the automotive sector in 2017. Within this scope, we continued our efforts to reduce the import dependency of domestic companies by developing new high strength grades specific to the sector.

Within the scope of existing and new product development studies conducted jointly by the R&D and Quality Technology departments, development work on 14 new steel grades was completed during the year, with nine hot rolled grades, three cold rolled grades, one galvanized grade and one tinplate grade offered for sale.

The number of flat steel products offered for sale by OYAK Mining Metallurgy Group amounted to 461. Studies have been continuing on the development of three grades for galvanized products and one grade for cold rolled products. With the 14 new grades offered for sale as long products, the total number of long product grades increased to 282.

Erdemir laboratories successfully complete TURKAK TS EN ISO/IEC 17025 audit.
The Erdemir Test Laboratories and the Erdemir Calibration Center successfully passed the accreditation surveillance audit conducted within the scope of the TS EN ISO/IEC 17025 standard, thus extending the validity of the certificate for another year. During the Test Laboratories audit period, the following procedures and their methods were audited; Determination of Total Silicon Content through the ISO 439 Steel and Iron-Gravimetric Method, Determination of Moisture, Ash, Volatile Substance and Fixed Carbon Content in Coal through the ASTM D 7582 Thermogravimetric Method (TGA) and Determination of Total Sulfur Content through the ASTM D 4239 High-Temperature Tube Furnace Combustion Method. All audits were included in the scope of accreditation.

Improvement in production efficiency at Erdemir Romania through R&D studies
As a result of studies carried out under the coordination of the Ereğli R&D Center, the carbon ratio in the input hot rolled coil for the production of electric steel was reduced considerably at Erdemir Romania in 2017, bringing a cost advantage by increasing the efficiency and production speed of the continuous annealing process at the Romania plant, which also led to an improvement in the product's magnetic and surface quality.

Erdemir Romania became the approved supplier of the world's largest manufacturer of generators and turbines in the USA with the introduction of high value added grades with low magnetic loss which were developed through the R&D studies. Other new grades that were developed were offered to the market, thus generating an increasing level of added value. Thanks to the new technology of the integrated annealing and coating line, the "self bonding" coating type has also become possible.

Lifetime of pelletizing plant at Erdemir Maden extended.
In 2017, in order to increase the reserves at the mine, Erdemir Maden drilled a total of 3,602 meters in its fields in Divriği and 982 meters of ore was cut. As a result of these exploration activities, an additional 3,640,000 tons of operable reserves were found at Erdemir Maden, thus extending the lifespan of the Divriği pelletizing plant to mid-2026. Erdemir Maden will continue drilling activities both in underground and in open fields in 2018 in order to extend the life of the plant.

A total of 1,186 meters of drilling was carried out at the Kayseri Şölener field, one of the Company's external fields, and 76 meters of iron ore was cut. Reserve evaluation studies conducted calculated 237,667 tons of hematite reserves were. Exploration activities conducted at the field will continue in 2018.

3,640,000 TONS

AS A RESULT OF THE ACTIVITIES TO INCREASE RESERVES AT ERDEMİR MADEN, AN ADDITIONAL 3,640,000 TONS OF OPERABLE RESERVES WERE FOUND AND THE PLANNED LIFETIME OF THE DİVRİĞİ PELLETIZING PLANT WAS THEREFORE EXTENDED TO MID-2026.

THE FUTURE MADE OF STEEL

I AM INDISPENSABLE FOR LONG-LASTING INFRASTRUCTURE, WHICH IS THE VITAL ELEMENT
FOR CITIES TRANSFORMED INTO A METROPOLIS.

INVESTMENTS

35 PROJECTS

WORK ON 35 INVESTMENT PROJECTS, SEVEN OF WHICH WERE LAUNCHED WITHIN THE YEAR, WERE CARRIED OUT AT ERDEMİR AND İSDEMİR. FIVE OF THESE WERE COMPLETED.

OYAK Mining Metallurgy Group continued its investment activities at its integrated iron and steel plants in 2017, continuing to produce competitive products.
Erdemir Engineering, which carries out the investment activities of the group companies, continued to offer efficiency enhancing and innovative solutions, for the lowest total cost of ownership to the Group in all projects. Work on 35 investment projects, seven of which were launched within the year, were carried out at Erdemir and İsdemir in 2017. Five of these projects were completed.

Completed Investments

Erdemir Top Pressure Recovery Turbines (TRT1 and TRT2)
The Top Pressure Recovery Turbines Project, that will involve the cleaning and cooling the use of blast furnace gas obtained as a by-product from the blast furnace processes so that it can be used to generate electricity, was commissioned.

Rewamp of Erdemir BOF Ladle Treatment Station into Ladle Furnace
The project aimed convert the plant into a pot furnace by adding a heating function to the Melting Pot Station situated next to the No1 Pot Station, which in its location in front of the 3rd and 4th Continuous Casting Facilities had created a bottleneck due to the processing times. The facility was commissioned at the end of 2017.

İsdemir South Port (Phase 1 - Breakwater Construction)
Construction work on the first phase carried out in the area to the south of the İsdemir Port and whose usage rights belong to İsdemir was completed in March 2017. In order to render the dock functions of the South Port functional, proposals were prepared for a change in the zoning plan change was prepared and submitted for approval by the Ministry of Environment and Urbanism, along with the Governorate's opinions of its suitability.

Establishment of İsdemir Hot Slab Marking Machine
The system, which was established for the purpose of increasing the quality, energy and labor productivity, was commissioned in the second half of 2017.

İsdemir 8th Air Separation Plant
In order to increase İsdemir's oxygen, nitrogen and argon production capacity and achieve fuel savings by allowing increased oxygen injections into the blast furnaces, the 8th Air Separation Plant, which was built under the İsdemir and Linde partnership, started its first production.

Projects Whose Field Applications Have Been Continuing

Erdemir No. 2 Continuous Galvanizing Line Project

Field activities have been continuing in the high-tech "No. 2 Continuous Galvanizing Line" project through which quality and special production will be realized, particularly in the automotive industry. The project aims to increase the total galvanized production capacity to 680,000 tons/year through the No. 2 Continuous Galvanizing Line.

Erdemir R&D and Simulation Center Project

Work has been carried out to establish the Erdemir R&D Simulation Center with the aim of developing new product and production technologies, increasing product quality and standards, raising efficiency, reducing costs, achieving energy savings and maintaining R&D activity in a more effective and centralized structure. The R&D Simulation Center project involves the installation of two laboratories -"Raw Material R&D Simulation" and "Product Development R&D Simulation". Contracts for all simulators that will be purchased for the laboratories were signed and Phase 1 of the construction work was completed. Phase 2 construction activities and equipment manufacturing and delivery operations have been continuing.

Erdemir and İsdemir Environmental Investment Projects

Work was completed on 53 of the 73 environmental investment projects carried out at Erdemir and İsdemir. Field activities have been continuing in 20 projects. There are a total of 38 projects at Erdemir, 19 of which have been completed, and 35 projects in total at İsdemir, 34 of which have been completed.

İsdemir Electrical Station (Electrical Arc Ladle Furnace) - Dedusting & Water Cooling Systems Modernization

Field activities and cold testing work has been continuing in the project which aims to increase the capacity of the dust collection and water cooling system at the secondary metallurgy electric pot station in the steel mill by combining the chemical heating station (IR-UT) with the dust collecting unit.

WORK WAS CARRIED OUT TO ESTABLISH THE ERDEMİR R&D SIMULATION CENTER IN ORDER TO MAINTAIN R&D ACTIVITIES IN A MORE EFFECTIVE AND CENTRALIZED STRUCTURE.

INVESTMENTS

FOLLOWING THE COMPLETION OF THE İSDEMİR VACUUM DEGASSING PLANT PROJECT, ULTRA-LOW CARBON STEELS FOR THE AUTOMOTIVE AND WHITE GOODS MARKETS WILL BE PRODUCED.

Other Projects Whose Field Applications Have Been Continuing

In 2017, field applications of the following projects continued at Erdemir.

- Modernization of the Raw Material Storage and Blending Fields
- No. 4 Stove Project for No. 1 Blast Furnace
- Construction of Gülüç Kapı Area as a Delivery Gate Project
- Modernization of Converter Slag Stopper System
- No. 2 Pickling Line Welding Machine and Side Trimmer Modernization Project
- Levels 1 and 2 of the modernization Completion Investment for Steel Production Facilities
- Product Range and Capacity Increase Project at No.2 Cold Rolling Mill Continuous Pickling Tandem Line (CPL-TCM)
- New Roll Texturing Machine Machine
- Surface Inspection Systems Project
- Energy Distribution Systems Additional Investments Project
- Dynamic UPS with Diesel Generator, Dynamic UPS Distribution Panels
- Various Fire Detection and Extinguishing Systems

Projects for Which the Purchasing Process Is Ongoing

Erdemir New No. 4 Coke Battery
The project involves the construction of a new battery at Erdemir and the modernization of the by-product facilities.

Erdemir 60 MW Turbo Generator and No. 6 Steam Boiler
The No. 6 Steam Boiler Project is aimed at the production of steam by maximizing use of the blast furnace gas and increasing its efficiency.

İsdemir Renovation of No. 3 Coke Battery
In view of the Group's need for coke, the Company aims to modernize İsdemir No. 3 Coke Battery, which is currently closed, to pave the way for a gross dry coke production capacity of 500,000 tons/year. The project also aims to achieve energy savings by increasing electricity generation through the use of leftover coke oven gas.

İsdemir Vacuum Degassing Plant
Vacuum degassing facilities in the secondary metallurgical facilities allow for the production of high quality clean steel with low hydrogen and low nitrogen use and an ultra-low carbon content. Within the scope of the project, the decision was taken to install an RH type vacuum degassing facility at İsdemir in view of its carbon removal capability, the duration of the process and freeboard-induced production losses in the pots. The project will pave the way for the production of very low carbon steels for the automotive and white goods sectors.

İsdemir Slab Casting Mould Level Control System Modernization
With the new electromagnetic mould level measurement and electric stopper system, it will be possible to carry out the transition into a more modern system, replacing the old system.

THE ERDEMİR HEAT TREATMENT FACILITY PROJECT PLANS TO ENSURE PRODUCT DIVERSITY.

Other Projects for Which Purchasing Activities Have Started and Are Ongoing

- Hot Rolling Mill Quality and Sustainability Investments and Level 2 Modernization at Erdemir's 2nd Hot Rolling Mill
- Collection of İsdemir Stock Warehouses at One Location

Investment Projects for Which the Decision Was Taken To Start Work In 2017

Erdemir Heat Treatment Facility
With the completion of the project, the production of abrasion resistant sheet and high strength sheet will be realized and product diversity will be ensured.

Erdemir New Wide Inspection and Sorting Line & Product Warehouses
The aim of this investment was to carry out inspection and sorting processes of production of steels over 1,550 mm at the No.2 Galvanizing Line, which will produce at the high surface quality required to serve the automotive sector. In addition, the investment is expected to meet the need for an additional warehouse due to increased production of galvanized products following the capacity expansion for galvanized product production.

İsdemir New Coke Gas Gasometer
As a result of the technical studies carried out on the existing gasometer, İsdemir plans to decommission the existing gasometer by building a "New Coke Gas Gasometer".

Mining Investments

Hasançelebi Iron Ore Enrichment and Pelletization Plant Project
In order to reduce the foreign dependence on imported pellet at the integrated iron and steel plants, a project was prepared to produce 1.054 billion tons of magnetite ore with an average grade of 19.49% Fe_3O_4 , located in the Hasançelebi village in Hekimhan, Malatya. The project for the establishment of the iron ore enrichment and pelletization plant, envisages an annual capacity of 3 million tons, a plant life of 64 years and total production of approximately 192 million tons of finished pellet targeted over its lifetime.

Within the scope of the project, all legal procedures were completed with regard to the EIA (Environmental Impact Assessment) Exemption, the EIA Positive Certificate, the Public Benefit Decision for the Non-Agricultural Use of the Land in the EIA Area, the permit for Opening a Business and Work, Electric Power Supply, Underground Water Use Permit, Pasture Allocation Amendment, Natural Gas Connection Contract were completed and legal permits were obtained during 2017. In addition, the strategic incentive certificate was received from the Undersecretariat for the Treasury on October 19, 2012. The application for the incentive certificate, whose five year period expired on October 19, 2017, was filed in October, and the duration of the document was extended until April 19, 2020. Expropriation studies for private land located in the project area are continuing.

INVESTMENTS

Investment Projects

		2017		2018		2019		2020		2021		2022	
Name	Company	H1	H2	H1	H2	H1	H2	H1	H2	H1	H2	H1	H2
A- COMPLETED INVESTMENTS													
BLAST FURNACES TOP PRESSURE RECOVERY TURBINES (TRT) PROJECT	ERDEMİR	■											
REWAMP OF BOF LADLE TREATMENT STATION INTO LADLE FURNACE	ERDEMİR		■										
SOUTH PORT 1ST PHASE (BREAKWATER CONSTRUCTION)	İSDEMİR	■											
HOT SLAB MARKING MACHINE INSTALLATION	İSDEMİR		■										
NO. 8 AIR SEPARATION PLANT	İSDEMİR			■									
B- ONGOING INVESTMENTS													
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				■								
NO. 2 CONTINUOUS GALVANIZING LINE (WIDE PRODUCT)	ERDEMİR				■								
NEW ROLL TEXTURING MACHINE	ERDEMİR				■								
NO. 2 PICKLING LINE WELDING MACHINE AND SIDE TRIMMER MODERNIZATION PROJECT	ERDEMİR				■								
SURFACE INSPECTION SYSTEMS (1ST AND 2ND PHASE)	ERDEMİR				■			■					
CONTINUOUS PICKLING LINE AND TANDEM COLD MILL (CPL&TCM) CAPACITY IMPROVEMENT AND STRIP WIDTH ENLARGEMENT PROJECT	ERDEMİR					■							
RECONSTRUCTION OF GÜLÜÇ GATE REGION AS TRANSPORTATION GATE	ERDEMİR						■						
ADDITIONAL INVESTMENTS IN ENERGY DISTRIBUTION SYSTEMS	ERDEMİR							■					
COMPLETION OF MODERNIZATION OF LEVELS 1 AND 2 OF THE STEEL PRODUCTION FACILITIES	ERDEMİR								■				
NO. 2 HOT ROLLING MILL QUALITY AND SUSTAINABILITY INVESTMENTS AND LEVEL 2 MODERNIZATION	ERDEMİR					■							
NEW SHORE PROTECTION CONSTRUCTION	ERDEMİR					■							
THERMOPROCESSING FACILITY	ERDEMİR							■					
MODERNIZATION OF RAW MATERIAL STORAGE AND BLENDING YARDS	ERDEMİR							■					
R&D INVESTMENTS	ERDEMİR						■						
60 MW NEW TURBO GENERATOR AND NO. 6 STEAM BOILER	ERDEMİR								■				
ERDEMİR COKE OVEN BATTERY NO. 4 AND MODERNIZATION OF THE BYPRODUCT PLAN	ERDEMİR									■			
ERDEMİR ENVIRONMENTAL INVESTMENTS	ERDEMİR								■				
ERDEMİR ADDITIONAL ENVIRONMENTAL PACKAGE-1	ERDEMİR								■				
VARIOUS FIRE DETECTION AND EXTINGUISHER SYSTEMS	ERDEMİR								■				
NEW WIDE INSPECTION AND SORTING BAND & PRODUCT WAREHOUSES	ERDEMİR						■						
ELECTRICAL STATION(ELECTRICAL ARC LADLE FURNACE) - DEDUSTING & WATER COOLING SYSTEMS MODERNIZATION	İSDEMİR			■									
NEW ENVIRONMENTAL PACKAGE	İSDEMİR				■								
MODERNIZATION OF THE SLAB CASTING MOLD LEVEL CONTROL SYSTEM	İSDEMİR				■								
COMBINATION OF STOCK WAREHOUSES IN ON A SINGLE LOCATION	İSDEMİR						■						
NEW COKE GAS GASOMETER	İSDEMİR							■					
MODERNIZATION OF NO. 3. COKE OVEN BATTERY	İSDEMİR								■				
SOUTH PORT 1ST PHASE (CONSTRUCTION WORKS)	İSDEMİR									■			
VACUUM DEGASSING PLANT	İSDEMİR											■	

Operational Lifespan of Divriği Pelletizing Plant Extended by Bringing Ore from Hasançelebi Field to Divriği

As part of the efforts to extend the life of the Divriği pelletizing plant, pellet production will be carried out by bringing the ore, located in Erdemir Maden's licensed field in Hasançelebi, to the Divriği plant. The grade of the ore will be increased to 45% Fe_3O_4in the crushing, screening and pre-enrichment plant by producing approximately 19,330,000 tons of ore with 33.61% Fe_3O_4 content from the high grade zone of the ore in Hasançelebi. A total of 13,500,000 tons of pre-concentrate will be produced. The produced ore will be transported to Divriği by railway and will be fed into the facilities. In addition to the reserves in the existing quarries, the plant life will be extended until the end of 2024 by supplementing the reserves with the Hasançelebi ore.

Within the scope of the investment,

- A crushing-sifting and enrichment facility and loading ramp from the station will be installed in Hasançelebi,
- The unloading station at the Divriği Demirdağ station and a conveyor belt system between the Demirdağ station and the blending facility will be installed.
- In addition to the facility installation, the capacity of the existing Derindere waste reservoir located in Divriği will be increased.

Within the scope of the work, which got underway in August 2017 and is planned to be commissioned by the end of May 2018, the company aims to bring ore to the Divriği facilities starting from June 2018.

A PROJECT WAS PREPARED FOR THE PRODUCTION OF 1.054 BILLION TONS OF MAGNETITE ORE IN A BID TO REDUCE FOREIGN DEPENDENCE ON PELLET IN THE INTEGRATED IRON AND STEEL PLANTS.

INFORMATION TECHNOLOGIES

ISO 27001

OYAK MINING METALLURGY GROUP CONTINUED WORK ON IMPROVING THE ISO 27001 INFORMATION SECURITY MANAGEMENT SYSTEM WITHIN THE SCOPE OF THE INFORMATION SECURITY WORK.

OYAK Mining and Metallurgy Group closely follows technological innovations in the ever developing digital world. The Group maintains its efforts to develop information technologies focused on responding quickly to the needs of this new world.

OYAK Mining and Metallurgy Group continued its extensive efforts in the field of information technologies ("IT") in 2017 in line with its strategic targets determined by taking into account technological developments and legal obligations.

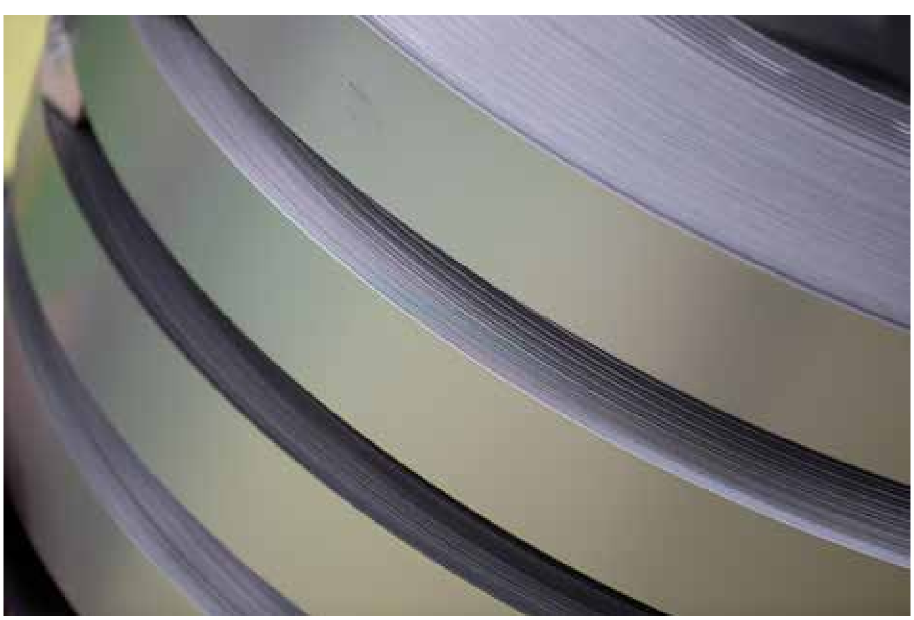
The following IT activities were carried out in 2017:

- The finance, procurement and human resources platforms were upgraded to current versions. Hardware infrastructures were built to a new clustered architecture. Capacity increases have been carried out.
- The maintenance and Workshop Management System renewal project started to manage maintenance and workshop activities effectively and efficiently, reducing maintenance and inventory costs, increasing the useful life of the facilities and contributing to occupational health and safety.
- Cold corridor, air conditioning, and chemical filtration devices were put into operation within the scope of revamping the data centers. In parallel with these studies, the process for the renewal of data centers has got underway. Disaster continuity plans were tested for any interruptions that may occur in the practice.
- Within the scope of Information Security Studies, improvements to the ISO 27001 Information Security Management System continued. The Cyber Incident Response Team (SOME) was formed. Penetration and vulnerability tests were conducted to determine the current situation, findings were resolved, and awareness training

sessions were held. Service agreements were entered into with telecom operators to tackle cyber-attacks. Network and security devices have been updated and new applications have been implemented.
- Necessary measures were taken by evaluating all cyber security warnings and recommendations sent by the USOM (National Computer Emergency Response Center) and EMRA (Energy Market Regulatory Authority).
- Within the scope of cyber security activities, a firewall has been positioned to control production automation systems and corporate resource planning and user networks. Work on the expansion continues.
- In order to serve production automation systems in a condition that meets IT standards, automation system servers were virtualized and moved to data centers.
- “Call Center” and “On-Site Support Services” were provided in an effort to resolve any IT related problems facing employees.
- Information systems studies were carried out in parallel with the automation projects in hot rolling mills, blast furnaces, steel production plants and the galvanizing line.
- In addition, the desk responded to system implementation requests received from business units which provide energy, time and labor savings as well as increased efficiency and easy monitoring. Software, infrastructure installation, improvements, operation, maintenance and support activities were carried out successfully in order to provide existing services safely and without interruption on a 24/7 basis.

OYAK Mining and Metallurgy Group plans to focus its efforts on expanding its digital thinking structure in all business areas with innovative applications and to develop information technologies to support all activities in the coming period.

GOING FORWARD, OYAK MINING METALLURGY GROUP PLANS TO PRIORITIZE WORK AIMED AT SPREADING THE DIGITAL MENTALITY IN ALL BUSINESS AREAS.



THE FUTURE MADE OF STEEL

I ADD WARMTH
TO PEOPLE'S LIVES,
BE IT AT THEIR HOME
OR WORKPLACE.

SUSTAINABILITY APPROACH

OYAK MINING METALLURGY GROUP AIMS TO BE ONE OF THE LEADING COMPANIES IN TODAY'S RAPIDLY CHANGING BUSINESS WORLD.

OYAK Mining Metallurgy Group is an upstanding corporate citizen with its corporate structure, sustainability approach and practices, original corporate culture and its responsible and accountable management approach that places importance on continuous improvement, innovation and open communication.

The economic patterns that directly affect levels of welfare are reshaped with rapid change. In a low-carbon economy based on clean energy, the transition from the linear economy model in the form of buy-produce-sell to cyclical economic models based on technological developments and innovative business lines has been very rapid.

Today, the business world creates sustainable business models that measure economic, environmental and social impacts and create value by encouraging innovation and which create a strong financial structure for all stakeholders.

Aiming to be one of the leading institutions within this framework of change, OYAK Mining Metallurgy Group structures its sustainability strategy on four basic principles:

- Integrating sustainability into all business processes, starting from procurement and including sales and after-sales services,
- Reducing its environmental footprint while producing value added products,
- Providing sustainable production conditions which consider raw material efficiency, and which aim to reduce emissions and prioritize occupational health and safety,
- Supporting continuous development by creating social value for all stakeholders.

In 2017, OYAK Mining Metallurgy Group redoubled its efforts towards meeting the Sustainability Targets which it determined in 2016, believing that it will maximize the value and extent of the impact it brings in terms of sustainability. The Group, which works to use energy, water and other natural resources more effectively and efficiently through the environmental sustainability activities it carries out in its facilities, continued its research and studies on projects that attach importance to minimizing carbon emissions and waste.

Working to reset its water footprint and reduce its discharge of wastewater
Although 95-98% of the water used in the steel industry is recovered, the reduction in water resources resulting from an increasing population and climate change have raised the importance of protecting the environmental capital, consisting of water, air and soil. Acting with this awareness, OYAK Mining Metallurgy Group has prepared action plans to neutralize its water footprint and reduce wastewater discharge.

In 2017, the Group continued work on its Life Cycle Analysis studies by detailing the studies which it has adopted to investigate the environmental impacts of the Group's products and processes, to establish a plan regarding climate change, and to ensure efficient use of natural resources.

In this process, in which efforts to tackle climate change have been gaining importance, compliance with a low carbon economy becomes vital, and with policies and plans that have new and global-scale impacts being implemented, OYAK Mining Metallurgy Group calculated its CO2 emissions and presented them to the Ministry again in 2017.

As a result of the Group's successful performance in sustainability management, Erdemir was once again included in the select list of companies listed on the sustainability index of the Borsa İstanbul in 2017. It has maintained its position on this platform, which allows for an independent evaluation of the approaches it has demonstrated regarding sustainability, activities it has carried out and the decisions it has taken.

AS A RESULT OF THE GROUP'S SUCCESSFUL PERFORMANCE IN SUSTAINABILITY MANAGEMENT, ERDEMİR WAS ONCE AGAIN INCLUDED IN THE SELECT LIST OF COMPANIES LISTED ON THE SUSTAINABILITY INDEX OF THE BORSA ISTANBUL.

HUMAN RESOURCES

11,975

PROVIDING EMPLOYMENT TO 11,975 PEOPLE AS OF THE END OF 2017, OYAK MINING METALLURGY GROUP IS ONE OF TURKEY'S BIGGEST EMPLOYERS.

Number of Employees

- Blue Collar 8,096 **67.6%**
- White Collar 3,872 **32.3%**
- Contracted 7 **0. 1%**

One of Turkey's biggest employers

OYAK Mining Metallurgy Group believes that competent human resources with a level of high loyalty are a vital element in achieving the vision of being the best in every field the company operates in. In line with this approach, the Group continued its work on hiring talented individuals, retaining them in the company and realizing development activities that will reveal employees' potential in 2017.

At the end of 2017, OYAK Mining Metallurgy Group provided employment to 11,975 people.

The Leadership Faculty programs, implemented with the goal of training the leaders who will carry the Group to the future, have been completed.

OYAK Mining Metallurgy Group completed its Leadership Faculty programs with the participation of 400 managers in 2017, with the goals of creating a common management culture by improving the managerial and leadership skills of its managers, making a difference in corporate performance and training the leaders who will carry the Group to the future. The Leadership Faculty is part of the Group Academy, which has provided its employees with opportunities for development in a corporate university structure since 2015.

The Leadership Faculty, which organizes a development campaign with the crediting system and graduation requirements, offers development programs built on top of each other on a level basis. It provides continuity of learning through different methods such as follow-up, monitoring, homework, projects, 180 degree evaluation and development coaching.

The Group Academy, which aims to structure the technical faculties as well as the Leadership Faculty, has completed the Marketing and Sales Faculties, which is the first technical faculty, with a total of 82 participants.

In order to share the knowledge and experience of OYAK Mining Metallurgy Group with its customers, customer training programs were carried out under the 6 training headings in cooperation with the Group Academy.

Continuing to provide a wide range of training activities for employees
OYAK Mining Metallurgy Group conducts training activities to support the personal and professional development of its employees, to provide continuous development opportunities in line with prevailing needs and to ensure that employees adopt the Group's common values. Also in 2017, the Group continued to provide training in many fields such as personal and professional development, management, management systems and occupational health and safety.

The "In-Unit Training System" is implemented at Erdemir and İsdemir, which allows continuous improvement in the way of doing business by sharing acquired knowledge and experience.

Vocational/Technical, Personal Development, Management and Compulsory Training

Company	Participant	Hours
Erdemir	41,539	303,715
İsdemir	42,211	237,841
Ersem	921	4,612
Erdemir Engineering	373	4,218
Erdemir Romania	260	4,628
Erdemir Maden	1,586	9,559

OYAK MINING METALLURGY GROUP CONDUCTS TRAINING ACTIVITIES IN ORDER TO INCREASE THE PERSONAL AND PROFESSIONAL DEVELOPMENT OF ITS EMPLOYEES.

Breakdown of Employees' Ages

- Between 41-55 6,155 **51.4%**
- Between 31-40 4,565 **38.1%**
- Between 18-30 1,197 **10.0%**
- 56 and Over 58 **0.5%**

HUMAN RESOURCES

IN ORDER TO ENSURE CONTINUOUS IMPROVEMENT, OYAK MINING METALLURGY GROUP OFFERS A VARIETY OF TOOLS WHICH WILL ENCOURAGE EMPLOYEES TO USE THEIR POTENTIAL AND CREATIVITY IN THEIR IMPROVEMENT EFFORTS.

Internship opportunities offered by OYAK Mining Metallurgy Group companies within quotas
Companies in OYAK Mining Metallurgy Group continued to offer internship opportunities to high school and university students within the quotas determined in 2017.

At Erdemir, 188 vocational high school students, 16 vocational college students and 118 university students were provided with internship opportunities. At İsdemir, 185 vocational high school students, 40 vocational college students and 151 university students were provided with summer internship opportunities. In addition, 15 university students in their final year were provided with long term internship opportunities. Erdemir Maden provided internship opportunities to 16 vocational high school students and 15 university students. Erdemir Engineering provided internship opportunities to one vocational high school student.

OYAK Mining Metallurgy Group companies have many opportunities to strengthen employee communication.
OYAK Mining Metallurgy Group serves employees and their families at various facilities located in Ereğli and Iskenderun such as housing, culture centers, stadiums, sports centers, tennis courts, beaches and swimming pools in order to increase the loyalty of their employees, enhance their social lives and increase their communication with each other. Through its health centers, it offers preventive medicine, periodic examinations, services for preventive measures against work accidents and occupational diseases, emergency response and first aid to its employees.

Employee Tenure

- 0-10 Years 4,866 **40.6%**
- 11-20 Years 6,616 **55.2%**
- 21-25 Years 260 **2.2%**
- 26 Years and Over 233 **1.9%**

Group employees were given the chance to share ideas for improvement that they observe in their work processes.
In order to ensure continuous improvement, OYAK Mining Metallurgy Group offers a variety of tools that encourage its employees to use their potential and creative ability in improvement efforts and allow transformation of the improvement efforts into a way of doing business with a questioning perspective. Group employees create value in many fields ranging from occupational health and safety to efficiency through the operational excellence projects implemented by means of teamwork, Kaizen, proposal systems, statistical data analysis and experimental design.

OPEX Projects, which are implemented in order to produce at lower cost, extend the life of equipment, promote energy savings, raw material optimization and improve product quality, continued in 2017.

Employees at Erdemir and İsdemir again shared their proposals for improvement in various areas ranging from occupational health and safety, environmental performance and customer satisfaction to facilitating business processes and energy savings within the scope of the proposal systems in 2017. At Erdemir, a total of 4,776 proposals including the proposals transferred from the previous year were implemented in 2017 when 4,357 proposals were offered. At İsdemir, 44,176 proposals were submitted and 13,703 proposals were implemented. A total of 149 team work exercises were carried out by 231 ERIT (Erdemir Improvement Teams) teams established at Erdemir and presented on various platforms. At İsdemir, 864 Kaizen teams were established in 2017, of which 520 were completed. In addition at İsdemir, 346 employees were trained on Kaizen in 2017.

4,776 PROPOSALS WERE IMPLEMENTED AT ERDEMİR AND 13,703 AT İSDEMİR.

Education Level

- High School and Equiv. 5,973 **49.9%**
- University 2,726 **22.8%**
- Vocational High School 1,240 **10.4%**
- Primary School 867 **7.2%**
- Primary School and Under 791 **6.6%**
- Ph.D./Doctorate 378 **3.2%**

OCCUPATIONAL HEALTH AND SAFETY

OHS

OYAK MINING METALLURGY GROUP AIMS TO ENSURE THAT THE WORK CARRIED OUT IN THE FIELD OF OHS IS ADDRESSED TOGETHER WITH EMPLOYEE INITIATIVE.

Aiming to promote a behavior based safety culture through OHS activities
OYAK Mining Metallurgy Group knows that the main factor ensuring sustainability is its employees, and it attaches priority to protecting their health and safety. The Group works intensively to bring into practice the concept of occupational health and safety developed with the participation of employees at all levels by fostering team spirit.

The Group strives to ensure that the work carried out in the field of OHS does not only remain at the managerial level, and that OHS related work is addressed together with employee initiative, thus widening the behavior-based safety culture.

"I Produce Safely"
OYAK Mining Metallurgy Group takes the issue of occupational health and safety to beyond a managerial focus and treats it as a corporate social responsibility project, an approach which is unprecedented in any business. The "I Produce Safely" project, which was developed for this purpose and implemented for the first time at the Group's Erdemir and İsdemir plants, was designed as a suite of applications that will allow employees to carry their occupational health and safety experiences to their lives and social environments.

In the project, occupational health and safety is primarily considered as human health and safety. Employees are encouraged to share their knowledge and competencies in this field with their all social environments, starting with their immediate surroundings.

In the "I Produce Safely" project launched in 2015, priority areas for both plants were identified and work groups were established. Within the scope of the project, interviews were carried out with focus groups and a detailed field survey was simultaneously conducted with the participation of 900 employees. In line with the results of the field survey and group work, the work that was carried out on projects that will be adopted by all employees and where employees will voluntarily spread the accident free approach to steel production has continued.

OHS policy
- 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".

Group companies renew certifications.
Erdemir, İsdemir, Erdemir Maden and Erdemir Romania, which fulfilled the requirements of the TS-OHSAS 18001 Occupational Health and Safety Management System, renewed their certifications and continued their development of the system in 2017.

İsdemir realized its best values in the last 16 years in 2017 with the lowestLost Time Injury Frequency Rates (LTIFRs), Lost Time Injury Severity Rates (LTISRs) and lowest total loss of work days and accidents, with an accident frequency rate of 0.99.

Various training programs organized on risk and OHS fields.
In order to create and maintain a culture of safety in all of its companies, OYAK Mining Metallurgy Group continues to offer a range of training programs to provide both their own employees and sub-contractor employees with training of different risks, in line with the characteristics of their work.

In 2017, at Erdemir, a total of 164,157 man hours of OHS training was provided to employees, with 10,332 man hours of OHS training to sub-contractor employees. At İsdemir, 145,775 man hours of OHS training was provided to employees and 29,914 man hours of OHS trainings were provided to employees of sub-contractors.

In 2017, an average of 16 hours of training was provided to each Erdemir Maden employee, including 8 hours on OHS and 8 hours on health.

Table of OHS Training

Company	Number of participants	Man-Hours	Proportion of Total Training (%)	Average OHS Training Hours per Employee
Erdemir	65,238	164,157	37	20.28
İsdemir	29,261	145,775	61	29.92
Erdemir Maden	267	5,757	60	21.56
Ersem	311	2,146	46	6.9
Erdemir Romanya	260	4,770	51	18
Erdemir Mühendislik	127	585	0.1	2.55

IN ORDER TO CREATE AND MAINTAIN A CULTURE OF SAFETY IN ALL OF ITS COMPANIES, OYAK MINING METALLURGY GROUP CONTINUES TO PROVIDE A RANGE OF TRAINING PROGRAMS DEALING WITH DIFFERENT RISKS.

OCCUPATIONAL HEALTH AND SAFETY

NECESSARY IMPROVEMENTS WERE CARRIED OUT BY EVALUATING THE POTENTIAL HAZARDS AND RISKS IDENTIFIED DURING THE SAFETY INSPECTIONS CARRIED OUT IN 2017.

OYAK Mining Metallurgy Group companies were systematically monitored for their OHS performances.
OYAK Mining Metallurgy Group companies are systematically monitored for their OHS performances through meetings of the OHS board, committee and sub-committee, informed and unannounced safety tours, accident near miss practices and accident root cause analysis. Measures are quickly taken and implemented to eliminate any identified infractions.

A total of 141 informed and 91 unannounced safety inspections were carried out at Erdemir in 2017. At İsdemir, 26 informed safety tours and 136 in-unit safety tours were carried out. Necessary improvements were carried out by evaluating the potential hazards and risks identified during the safety inspections.

The Group deploys near miss applications as an important tool in the prevention of accidents. These are intended to identify situations where employees have not been affected, but which could cause injury and damage in case of repetition.

In 2017, at Erdemir, improvements were carried out as a result of 2,278 danger and 92 near miss notifications. At İsdemir, 14,456 near miss notifications were worked on during the year and 96% of the items requiring improved were completed.

In order to provide order and discipline in the workplace by increasing employees' participation and motivation in the areas of work safety, the environment, efficiency and machine performance, the 15th period 5S Scoring audits was carried out on 526 sites at İsdemir. During the year 2017, a total of 11,326 to be improved were identified and monitored through the OHS Systematic (Safety Tours, reporting of nonconformities), Accident Reports, Drill, the OHS Board Meetings) were again systematically followed up.

At İsdemir, work accidents which occur at workplaces and can be taken as examples, along with near miss incidents, were included in the Accident Sharing Presentation. The Presentation was conveyed to 862 employees by drawing lessons from the same type of work accidents and near miss incidents to ensure that these accidents and incidents not to occur again.

At İsdemir, work started to be carried out on the "Programmed Inspection of Occupational Health and Safety in the Main Metal Industry" on February 14, 2017 by the Ankara Group Presidency of the Labor Inspection Board of the Ministry of Labor and Social Security, and the inspection was successfully completed on November 21, 2017.

Emergency Management

As required by the Regulation on the Protection of Employees from the Dangers of Explosive Atmospheres and the Regulation on Equipment and Protective Systems Used in Possible Explosive Atmospheres, which are part of the SEVESO activities, in 2017 Explosion Protection documents were renewed in the regions where there was deemed to be a risk of explosion at the Erdemir and İsdemir sites. In the renewed reports, regions with an explosion risk were classified according to their severity. The explosion-resistant properties of the equipment used in these regions and their conformity to the zone classifications were re-reported and improvement activities have been initiated for explosion-resistant equipment which was not compliant with the classifications

Within the scope of SEVESO, P & ID diagrams of pipelines in the units passing hazardous fluids were completed by the company under the mediation and coordination of Erdemir Engineering in 2017, to prepare P&ID (piping and instrumentation diagram) diagrams, which are an important input for the safety report, for facilities where the P&ID diagrams are out of date, or there are no diagrams at all. By using the P & ID drawings, which are to be completed in 2018, the Erdemir Safety Report will be updated in cooperation with the consultant company.

A protocol was signed between Erdemir and ÇASGEM, the education and research unit affiliated to the Ministry of Labor and Social Security, in 2016. Within the scope of the protocol, Bow-Tie Analysis, Failure Mode and Effect Analysis, Fault Tree Analysis, Event Tree Analysis, Preparing the Protection from Explosion Document and BEKRA (Major Industrial Accident) training programs were provided by ÇASGEM.

A total of 82 Emergency drills were held in Erdemir during 2017. In order to provide training for personnel who will be employed in emergency search and rescue operations, 19 employees were sent to the AFAD Sakarya Regional Directorate for training in accordance with the protocol made with AFAD (Disaster and Emergency Management Authority).

82

WITHIN THE SCOPE OF EMERGENCY MANAGEMENT, THAT IS PART OF THE SEVESO ACTIVITIES, 82 EMERGENCY DRILLS WERE CARRIED OUT AT ERDEMİR IN 2017.

OCCUPATIONAL HEALTH AND SAFETY

ERDEMİR AND İSDEMİR ALSO CONDUCTED SAFETY INSPECTIONS AND AUDITS IN 2017, IN LINE WITH THE CRITERIA DETERMINED BY THE WORLD STEEL ASSOCIATION, OF WHICH THEY ARE MEMBER.

Emergency Training programs, Plans and Equipment were reviewed at İsdemir in 2017. A total of 57 Emergency Managers, 475 Incident Scene Administrators and 620 employees from the units, who will take part in the Emergency Response teams, received training. The Emergency Awareness Training programs were completed for all employees. In addition, 28 successful employees received National Emergency Response training. Within the scope of Emergency Management System, one general drill and 74 in-unit drills were carried out at İsdemir.

Information Sharing

Erdemir and İsdemir carried out safety inspections and audits in 2017 in line with the criteria determined by the World Steel Association. Erdemir reported 239 non-conformities and 29 good practices through these activities. Examples of good practices were shared with the World Steel Association, while non-conformities were addressed with the improvement plans created. At İsdemir, the improvement plans related to 467 items, which were identified during the audits carried out, were implemented.

Within the framework of the Prevention of Major Industrial Accidents and Mitigating their Effects (SEVESO II Directive), the second of the “Process Safety Workshop” (Process Safety Workshop-2), organized by the World Steel Association, took place in Amsterdam Hampshire on 23-24 May 2017. During the workshop, information about Erdemir and İsdemir’s work and the applications with regard to Process Safety were shared.

Erdemir attended the “Workshop on Safe Work at Height”, held by the Ministry of Labor and Social Security, on December 12, 2017. In the workshop, information was provided about the work area and work platform set up at Erdemir to carry out the practical sections of the Safe Work at Height training programs, and the training that was provided. Information was also provided on the lifelines that ensure safe working at height, built on the chimney and crane routes.

İsdemir participated in the Ninth National Occupational Health and Safety Congress held in Adana between November 30 and December 2, 2017 with three oral and three poster presentations.

Personal Protective Equipment

OYAK Mining Metallurgy Group continued to provide world-class equipment for its employees, which is suitable for their working conditions, and to carry out improvements when necessary by constantly monitoring the performance of this equipment during use.

THE ENVIRONMENT AND ENERGY

The Environment

All processes at OYAK Mining Metallurgy Group are conducted in an integrated manner with the approach of protecting the environment.
In order to continuously improve environmental performance, Group companies carry out activities that are focused on the efficient use of all resources, ensuring recovery is at the highest level and effectively communicating activities in this vein to their stakeholders. Erdemir, İsdemir ve Erdemir Romania implement the ISO 14001 Environmental Management System and ensure the renewal of the certification through the audits carried out.

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.

Within the scope of the Life Cycle Assessment (LCA) study conducted by the World Steel Association (Worldsteel), Erdemir and İsdemir joined the project by defining the 2014 input and output values into the SoFi system. In 2017, Worldsteel published its global and regional steel life cycle inventory (LCI) data by completing the assessment process for 16 basic steel products. Erdemir and İsdemir joined this study together with more than 160 steel producers.

In 2017, a work team was formed with the participation of the R&D and Sustainability Directorships and the Environment Directorate within the scope of LCA work at Erdemir. In this context, the LCA was applied at the Sinter Plant in order to analyze the input and output data. Work has been initiated for the products for which the Environmental Product Declaration (EDP) document will be obtained.

ERDEMİR, İSDEMİR AND ERDEMİR ROMANIA IMPLEMENT THE ISO 14001 ENVIRONMENTAL MANAGEMENT SYSTEM AND ENSURE THE RENEWAL OF THE CERTIFICATIONS THROUGH THE AUDITS CARRIED OUT.

THE ENVIRONMENT AND ENERGY

OYAK MINING METALLURGY GROUP MONITORS, EVALUATES AND CONTINUOUSLY IMPROVES THE ENVIRONMENTAL IMPACT OF ITS PROCESSES IN ORDER TO IMPROVE ITS ENVIRONMENTAL PERFORMANCE.

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 the Group's environmental viewpoint, practices and outcomes that it achieves and to establish an open communication.

Meticulously fulfilling the requirements of the environmental regulations
In accordance with the Regulation on the Amendment of the Regulation on the Monitoring of Greenhouse Gas Emissions, the Greenhouse Gas Emission Reports of Erdemir and İsdemir for the years 2015-2016 were approved by the verifying organization and loaded into the Ministry system.

A report has been prepared by the Istanbul Technical University on the waters re-circulated as closed loop at Erdemir, entitled "The use of the wastewater, except domestic wastewater, originating from processes after treatment without discharging or using treated wastewater in the process". The Steel Mill Sludge

Dewatering Plant, consisting of three items of press equipment, was commissioned on 4 August, 2017 and performance tests were initiated. Sludge volumes were found to have been reduced. Dust emissions were minimized by commissioning the Scrap Preparation Dust Collection System. A total of 2,620 wooden pallets, which were released as a result of the use of refractory materials coming to the Refractory Directorate, were returned to the Kümaş Company, and thus, the recovery of wooden pallets was provided.

Erdemir Maden started the verification activities for the Greenhouse Gas Emission Report in 2017, in compliance with the Regulation on the Monitoring of Greenhouse Gas Emissions. Work has been continuing within the framework of the created business plan. Erdemir Maden also carried out the environmental checks of all the work sites in the construction sites of the subcontractors operating in Divriği in 2017. The shortcomings identified during the inspections carried out were forwarded to the subcontractor companies in writing.

At Erdemir, İsdemir and Erdemir Maden, under the Industrial Air Pollution Control Regulation, the Annual Validity Test (YGT) and Quality Assurance System (KGS2) measurements were carried out at the chimneys connected to the Continuous Emission Measurement Systems. Within the scope of environmental permit confirmation measurements, at Erdemir, emission measurements were carried out in 57 chimneys across the plant area, and reports were completed.

KGS3 panels were installed at İsdemir with the aim of effective use of time and workforce in the Third Level Quality Assurance System (KGS3) measurements, which must be carried out in accordance with the Communiqué on Continuous Emission Measurement Systems. KGS3 measurements have been started to be made remotely via certified calibration tubes and the Continuous Emission Measurement Systems software. KGS3 measurements were performed at least once a month.

The Continuous Wastewater Monitoring Systems integrated comparison tests, which should be performed every three months at Erdemir and İsdemir, were carried out with the Provincial Directorates of the Environment and Urbanization. In order to monitor the temperature of the cooling waters taken from the sea for use in the 1st and 2nd Blast Furnaces in the Power Plant at Erdemir, temperature sensors were installed at various distances in the north collector and the south collector at the water intake structure. All results are sent to the database at the Ministry of Environment and Urbanization.

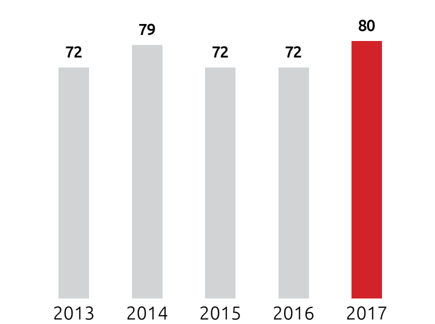
57

WITHIN THE SCOPE OF ENVIRONMENTAL PERMIT CONFIRMATION MEASUREMENTS, EMISSION MEASUREMENTS WERE CARRIED OUT IN 57 CHIMNEYS ACROSS THE PLANT AREA AT ERDEMİR, AND THE REPORTING WAS COMPLETED.

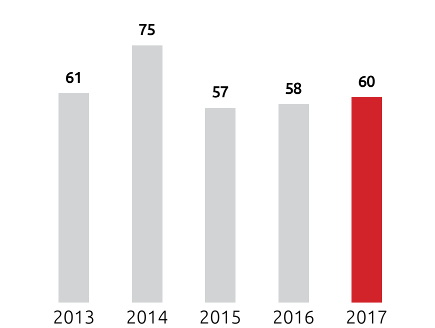
THE ENVIRONMENT AND ENERGY

OYAK MINING METALLURGY GROUP COMPANIES REDUCE WASTE AT THE SOURCE, AND COLLECT AND DISPOSE OF WASTE IN ACCORDANCE WITH LEGISLATION.

Erdemir Solid Waste Recovery Rate (%)



İsdemir Solid Waste Recovery Rate (%)



Safety data sheets prepared for steel mill slag at Erdemir.

In 2017, the Dangerous Goods Safety Advisor and Erdemir notified the Ministry of the Dangerous Goods Safety Advisor. Unit visits / audits were carried out and proactive measures were taken, and the suppliers were notified. Measures were taken to ensure that all hazardous materials entering the factory in bulk or packed form were received under the control of the front desk upon entering the site. In order to be able to carry out checks of vehicles carrying dangerous substances, work was conducted to allocate a separate space in the vehicle park. Checks were carried out on 2,000 vehicles carrying hazardous substances in 2017.

Completing the process of compliance to the ADR legislation (The European Agreement concerning the International Carriage of Dangerous Goods by Road) in 2016, at İsdemir, approximately 2,200 vehicles with ADR were subjected to the ADR controls at the facility entrance.

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).

OYAK Mining Metallurgy Group evaluates the current and potential environmental and social impacts of its investment projects.
At OYAK Mining Metallurgy Group, environmental impact assessment is carried out for all new investments and the renovation work of existing facilities. In this vein, the decision for the EIA not to be required was taken for two projects, and the out of scope decision was taken for four projects.

Waste reduced at source and properly disposed.
OYAK Mining Metallurgy Group companies reduce waste at its source, improve recycling and collect and dispose of waste in a manner to minimize the environmental impact in accordance with legislation.

The Erdemir Waste Management Plan for 2016 was prepared and approved by the Zonguldak Provincial Directorate of Environment and Urbanization. Work to make use of the steel mill slag that is a by-product of the production process continued during 2017.

On April 14, 2017, the TSE/Ankara Building Sector Directorate determined that the slag conformed to the following aggregate standards:

- TS EN 13242+A1 Aggregates for non-binding and hydraulic binder materials used in civil engineering work and road construction
- TS 706 EN 12620+A1/Concrete aggregates
- TS EN 13043/Aggregates for bituminous mixtures and surface treatments for roads, airfields and other trafficked areas.

At Erdemir Maden, the Waste Management Plan, which must be prepared every three years in accordance with the Waste Management Regulation, was revised and submitted to the Provincial Directorate of Environment and Urbanization. The Mining Waste Management Plan, which must be prepared under the Mining Waste Regulation, was submitted to the Ministry of Environment and Urbanization. Regular analysis was carried out for the wastewater generated at the plant and water samples were taken from drinking water and water for other uses and samples were sent for analysis, in accordance with the Regulation Concerning Water Intended for Human Consumption, and the water quality was checked. Within the scope of the Mining Waste Regulation that entered force, characterization and classification studies related to the regular storage of rough wastes generated as a result of the ore enrichment process were initiated with academics at Dokuz Eylül University, and the first stage was completed. The results of the first data obtained from the studies were positive.

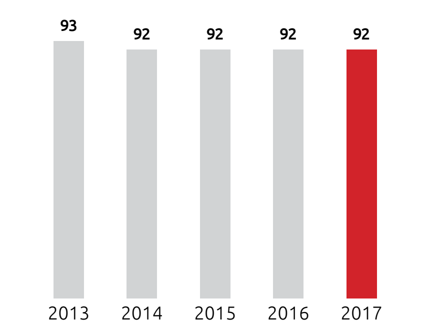
By-product documentation activities carried out at Erdemir

Iron Oxide: On January 19, 2017, the "TS EN ISO 1248 / AC Iron Oxide Pigments Properties and Test Methods" certificate of conformity was obtained from the TSE Chemical Sector Directorate in Ankara. The surveillance audit carried out on December 7, 2017 produced a successful result and the document was renewed.

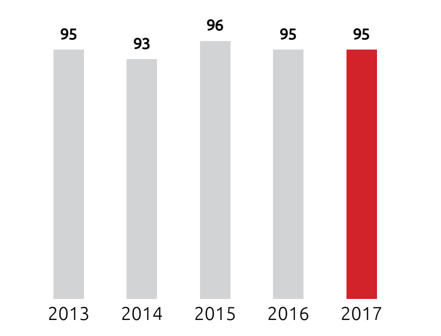
Tar: On December 7, 2017, the TSE Chemical Sector Directorate in Ankara conducted a surveillance audit for the TSE Conformity Certificate, resulting in a decision to renew the document.

THE TURKISH STANDARDS INSTITUTE (TSE) CONDUCTED A TRANSITION AUDIT OF THE ISO 14001 ENVIRONMENTAL MANAGEMENT SYSTEM VERSION 2015 AT ERDEMİR AND İSDEMİR.

Rate of Recirculated Water Use at Erdemir (%)



Rate of Recirculated Water Use at İsdemir (%)



THE ENVIRONMENT AND ENERGY

1,514

WITHIN THE SCOPE OF THE ACTIVITIES AIMED AT PROTECTING NATURAL ENVIRONMENTS AND EXPANDING AREAS OF WOODLAND, ERDEMİR, İSDEMİR AND ERDEMİR MADEN PLANTED A TOTAL OF 1,514 TREES.

At Erdemir and İsdemir, the Turkish Standards Institute (TSE) conducted a transition audit to the ISO 14001 Environmental Management System version in 2015. Erdemir and İsdemir were the first companies in the sector to have implemented the new version of the 14001 Environmental Management System.

As a result of directing the wastes that were in the minor waste field to recovery/recycling, gains of TL 2,360,000 were achieved at Erdemir and gains of TL 3,985,000 were achieved at İsdemir while also helping to protect natural resources.

OYAK Mining Metallurgy Group believes that protecting nature is as important as development.
Also in 2017, OYAK Mining Metallurgy Group continued its activities with the purpose of conserving natural areas and increasing the area of woodland in the regions where it operates. During the year, Erdemir, İsdemir and Erdemir Maden planted a total of 1,514 trees.

The Group also provided 11,800 trees to be planted for its employees in the Doğandere region of Çanakkale.

Working to raise awareness of environmental protection in society
Environmental awareness activities, carried out to ensure that Erdemir's environmental approach is adopted by all employees and to fulfill legal requirements, continued in 2017. At Erdemir, a total of 2,580 people, including employees, employees of sub-contractors and pupils in the surrounding schools and nurseries were provided with environmental-related training. These training programs were given to 150 employees and 200 children attending nursery and kindergarten at İsdemir.

Energy

Working to minimize energy losses with systematic measurement and monitoring
While OYAK Mining Metallurgy Group contributes to the protection of natural resources and the environment by working towards the effective use of energy, and it also achieves a competitive advantage. Group companies carry out work to implement technological innovations that increase energy efficiency, make the most of the by-product gases and waste heat released during the production process, and to minimize energy losses with systematic measurement and monitoring.

As a result of the systematic work taken towards energy efficiency, a level of energy savings has been achieved.
Erdemir and İsdemir, both Group companies, have achieved successful results in specific energy consumption, which is one of the important performance indicators in the iron and steel sector. 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.

Since 1982, when Erdemir started systematic studies on energy efficiency, it has achieved 45% savings in terms of specific energy consumption. İsdemir has achieved 40% in energy savings since 2001.

Energy Recovery Projects
At Erdemir, the Power Plant Optimization Project and the Blast Furnaces Top Pressure Recovery Turbines were commissioned in 2017. In addition to these investments, the savings obtained through previously completed projects - the Installation of an Additional Combustion System at the Waste Heat Boiler of the Cogeneration Power Plants, the OG Fan Capacity Increase, the No. 3 Slab Oven Modernization and Cooling System (ECS) Improvement - became clearly apparent in 2015, 2016 and 2017.

At Erdemir, the installation of LED bulbs, which were purchased in view of the recommendations contained in the Economic Analysis Report, in the 1st Hot Rolling Mill Engineer Rooms and the 2nd Hot Rolling Mill Slab / Stock Area was completed in 2016. Installation work on the 2nd Hot Rolling Mill Line and the 1st Blast Furnace LED conversion project was completed in 2017. For both projects, the Efficiency Increasing Project (EIP) support application was accepted and support payment was completed for the first project in 2017. The post-implementation report of the second project was submitted to the Directorate General of Renewable Energy.

Erdemir reached an agreement with the main contractor for the New Steam Boiler of the Power Plant on February 28, 2017. Negotiations have been continuing with the company for the completion of the contract. Technical Specifications were prepared for the purchase of the new 60 MW capacity extraction steam turbine generator to replace the No.1-2 and 3 Turbo generators.

ERDEMİR AND İSDEMİR, WHICH ARE GROUP COMPANIES, HAVE ACHIEVED SUCCESSFUL RESULTS IN SPECIFIC ENERGY CONSUMPTION, ONE OF THE IMPORTANT PERFORMANCE INDICATORS IN THE IRON AND STEEL SECTOR.

THE ENVIRONMENT AND ENERGY

4,647

A TOTAL OF 4,647 EMPLOYEES HAVE BEEN TRAINED IN ENERGY SAVING, EFFICIENCY AND COST MANAGEMENT AT ERDEMİR SINCE 2007.

At İsdemir, the following outstanding work was carried out in the area of energy efficiency in 2017;

- Boiler Feeding Water Pump Hydraulic Coupling Application at The Power Plant No. 6
- Power Plant Valve Jacket Application,
- No. 3 Steam Boiler FD Fan Variable Speed Drive Application
- Large Transformer Maintenance work
- Improvements made in the No. 9-18 ESP Pumps in Blast Furnaces,
- Electricity Saving in the Coil Rolling Mill High Carbon Production by Reducing Fan Values,
- Coil Rolling Mill Annealing Furnace Improvements and Reduction of Natural Gas Consumption by Warm Charging Application,
- LED Lighting Conversions

At İsdemir, the Efficiency Increasing Project (EIP) support application carried out in 2017 with LED Conversion Projects and the Variable Speed Drive Application in the 3rd Unit FD Air Fans were accepted. The evaluation process for the Efficiency Increasing Projects (EIP), for which applications were submitted in 2014 and 2015, was completed, and the support payment was realized in 2017.

Energy saving, efficiency and cost management training continued for Erdemir employees.

Training programs on energy saving, efficiency and cost management for employees at Erdemir, 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 2017 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 4,647. In 2017, a total of 40 employees received the 1-day Steam Systems Practical Training in 3 semesters. Participants practiced at the Kondenstop (Steam Trap) unit which was created to turn acquired theoretical knowledge into practice, after receiving theoretical training on the characteristics of steam, steam production, energy resources used for steam production, distribution lines, steam equipment and thermal insulation for energy recovery.

In addition, the 1-day Practical Training program on Combustion and Ignition Systems was given to 25 employees on two occasions. Participants were given basic knowledge about combustion, combustion types, industrial combustion systems, feasible and efficient improvements for energy saving. Energy Management System adaptation training was provided to newly recruited employees to raise their energy awareness.

At İsdemir, activities with regard to effective use of resources and evaluation of secondary energy items, awareness raising, loss and leak audits are carried out with a continuous improvement perspective. Within this scope, training is given in areas such as the Energy Management System and effective use of steam.

Participating in the "Energy Efficiency in the Industry" Project competition organized by the Ministry of Energy and Natural Resources in the category of the "Projects for Increasing Energy Efficiency in the Industry" (SEVAP-3) every year between 2002 and 2017, İsdemir was awarded first prize for its project of "Electricity Generation with the establishment of Top Pressure Turbine in the Blast Furnaces No. 3 and 4" in 2017. To date, İsdemir has won a total of six first, one second, one third and two Jury Special Awards.

MANAGEMENT SYSTEMS

OYAK Mining Metallurgy Group, which holds internationally accepted management system certificates, carries out its activities in line with high standards.

Providing a major contribution to Turkey's economy by using the latest production and management technologies in all of its activities, OYAK Mining Metallurgy Group produces flat steel products that meet national and international standards and offers them to the market. Customer expectations are always in the spotlight in the Group, in which employees adopt the quality culture. New and contemporary management systems are developed and implemented in order to enhance customer satisfaction and closely analyze the needs and expectations of the stakeholders.

OYAK Mining Metallurgy Group carries out all of its activities in compliance with legal and ethical requirements, with a transparent and responsible management approach that is sensitive to the needs and expectations of its stakeholders. The approaches, that are developed and continuously improved in line with internationally recognized management systems and standards, are based on quality, occupational health and safety, the environment and a people-centric approach.

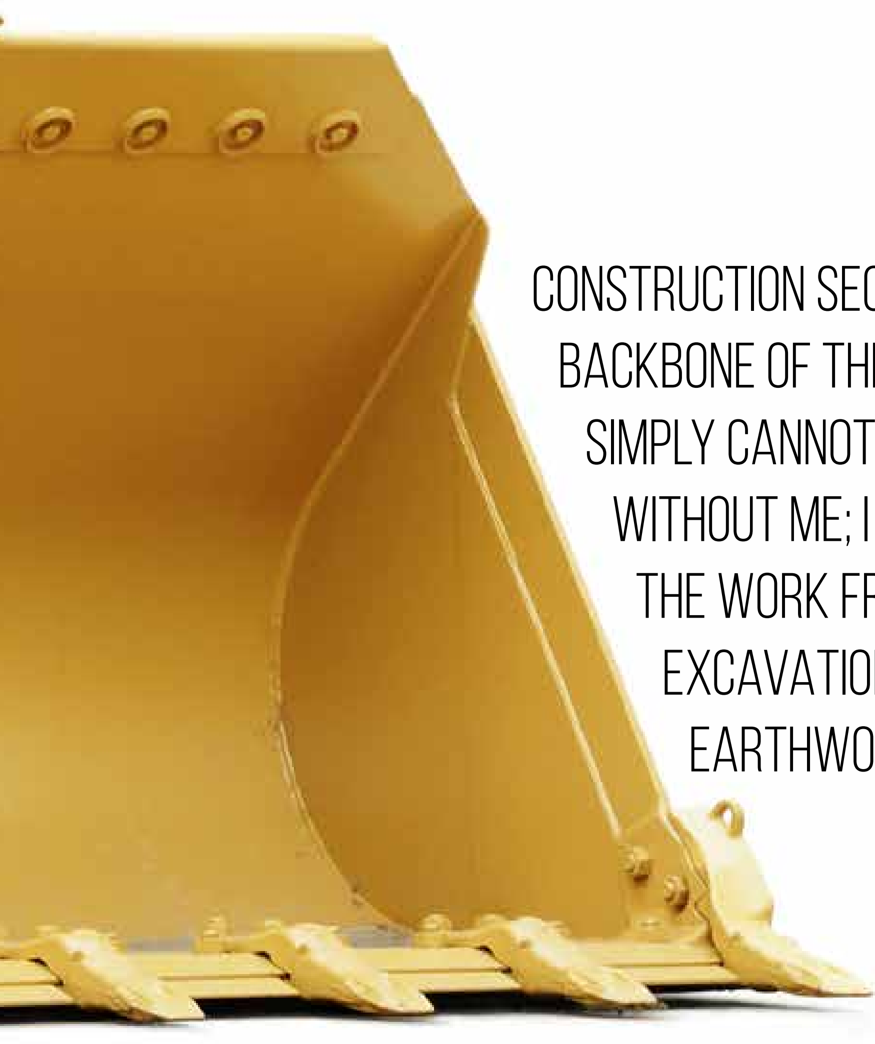
The compliance of the Group companies, Erdemir and İsdemir, with the revisions of the ISO 9001: 2015 Quality, ISO 14001: 2015 Environment certification and the IATF were successfully completed in 2017. The companies were found eligible for the certificates as a result of the external audits.

Management System Documents of OYAK Mining Metallurgy Group Companies

Management Standard	Erdemir	İsdemir	Ersem	Erdemir Romania	Erdemir Maden
TS EN ISO 9001:2015 Quality Management System	X	X	-	-	-
TS EN ISO 9001:2008 Quality Management System	-	-	X	X	-
TS EN ISO 14001:2015 Environment Management System	X	X	-	-	-
TS EN ISO 14001:2005 Environment Management System	-	-	-	X	-
TS 18001 Occupational Health and Safety Management System	X	X	-	X	X
IATF 16949:2016 Quality Management System for the Automotive Industry	X	X	X	-	-
TS EN ISO 50001 Energy Management System	X	X	-	X	-
TS EN ISO/IEC 17025:2012 General Requirements for the Competence of Testing and Calibration Laboratories	X	-	-	-	-
TS EN ISO/IEC 17025:2012 Laboratory Qualification Certificate	-	X	-	-	-
ISO/IEC 27001:2013 Information Security Management System	X	X	X	-	-

OYAK MINING METALLURGY GROUP CARRIES OUT ALL ITS ACTIVITIES WITH A TRANSPARENT AND RESPONSIBLE MANAGEMENT APPROACH.

THE FUTURE
MADE OF STEEL



CONSTRUCTION SECTOR, THE BACKBONE OF THE ECONOMY, SIMPLY CANNOT OPERATE WITHOUT ME; I DO ALL THE WORK FROM THE EXCAVATION TO THE EARTHWORK.

CORPORATE SOCIAL RESPONSIBILITY

OYAK MINING METALLURGY GROUP CARRIES OUT PROJECTS IN THE AREAS OF OCCUPATIONAL HEALTH AND SAFETY, BIODIVERSITY AND THE ARTS, WHICH IT HAS DETERMINED AS ITS AREAS OF PRIORITY IN CORPORATE SOCIAL RESPONSIBILITY POLICY.

Attaching priority to long-term, comprehensive and high-impact social responsibility projects

OYAK Mining Metallurgy Group, which touches almost every area of human life with the steel that it produces, supports social development through its corporate social responsibility activities that it carries out on a voluntary basis. The group attaches priority to long-term, comprehensive and high-impact projects.

OYAK Mining Metallurgy Group continued work on its projects in the areas of occupational health and safety, biodiversity and the arts, which it determined as its priority areas in the corporate social responsibility policy, in 2017.

I Produce Safely: Within the scope of the project started in 2015 at Erdemir and İsdemir aimed at improving the OHS performance and attaining a zero accident rate, work groups were established by determining priority areas at both facilities. A detailed field survey specific to OHS was conducted simultaneously through interviews with focus groups and the participation of 900 employees. As a result of the survey outcomes and group work, projects were prepared such that they would be adopted by all employees, who could voluntarily spread the approach of accident-free steel production. The prepared projects were presented to the "I Produce Safely" Committee and the senior management, and the steps to be taken as a matter of priority were determined. Again under the concept of "I Produce Safely ", a new project, "creating a style of greeting and branding" will be carried out in 2018.

Steel and Life Sculpture Competition: In order to emphasize the indispensable place that the steel produced by Erdemir has in human life through art, and to contribute to the education of art in Turkey, Erdemir organized the 4th of the "Steel and Life" Sculpture Competition in 2017. In the competition, which was aimed at students studying sculpture at undergraduate and graduate level in Turkish universities, students personally used steel produced by Erdemir and İsdemir to produce a number of works of art, while bringing together a fission of art and steel. The winning work of art, found worthy of exhibition in the "Steel and Life Sculpture Competition", was exhibited to lovers of art in Istanbul, Ereğli, Iskenderun, Divriği and Ankara.

Ottoman Strawberry Cultivation: Erdemir has been continuing work on the project that it started in 2016 in order to promote the cultivation of the "Ottoman Strawberry", identified with the region of Karadeniz Ereğli where the Erdemir production facilities are located, but whose production has decreased over the years. It focused primarily on the production and reproduction of quality seedling in the project carried out in cooperation with the Karadeniz Ereğli District Directorate of the Ministry of Food, Agriculture and Animal Husbandry, the Zonguldak Ereğli District Directorate of National Education, and the Association of Spread of the Ottoman Strawberry and Protection of Producers. The first fruit harvest will be realized in the project, which aims to increase production quantity of the Ottoman Strawberry and to promote its cultivation in the region, in 2018.

OVER 2,000

CHILDREN'S THEATRICAL SHOW, PRESENTED BY OYAK MINING METALLURGY GROUP IN THE 4 CITIES IT OPERATES IN, REACHED MORE THAN 2,000 CHILDREN IN 2017.

CORPORATE SOCIAL RESPONSIBILITY

Contributions to social development

In addition to these projects, the Group companies work to contribute to social development, especially in the regions they operate in. The children's play, presented by the Group, and which has become something of a tradition in Ereğli, was performed on the April 23rd National Sovereignty and Children's Day in four different cities this year. The musical children's play, "Magnet Child", was first performed to children in Ereğli on April 18th. The much loved children's play reached more than 2,000 children in the 4 cities where OYAK Mining Metallurgy Group operates in 2017.

Erdemir, a group company, continued to meet the needs for technical equipment, maintenance, repairs and material requirements of schools in the region, as it has done every year. During the holy month of Ramadan, food aid was provided to families in need, carrying on a years-long tradition. Financial assistance was provided in the form of cash to meet the food needs of the Karadeniz Ereğli Physical Disabilities Association. Within the scope of the cooperation with public institutions and organizations, municipalities in the region were provided with the assistance in kind and in cash to be used for various needs such as roads, bridges and the construction of an overpass. On the request of the Karadeniz Ereğli Social Assistance and Solidarity Foundation, material aid was provided for the opening of vocational courses for convicted and imprisoned detainees, to help them to reintegrate into the society.

İsdemir continued to meet the various material needs of public institutions in the region. Accordingly, reading room materials were provided to the Iron-Steel Primary School on the site. The Company meanwhile provided tablet computers to pupils at the Iron Steel Junior High School who ranked highly in the TEOG examination, and cash donations to the Payas Handicapped Association for the purchase of a battery run wheelchair. As it has every year, in 2017 İsdemir continued to provide support to schools in the lodging area, such as cleaning and electricity expenses, expenses for students in need, the security personnel in the districts and personnel of the public institutions within the site, and the transportation expenses of students with insufficient economic means. İsdemir also provided packed iftar meals to people in need during the holy month of Ramadan.

In 2017, Erdemir Maden organized a painting contest on the subject occupational health and safety for students in primary and junior high school education, while renewing the chess tournament in which primary and junior high school students took part. It offered presentations under the theme of Safe Living, while helping to address the deficiencies of various schools in the district.

The Erdemir Steel Service Center provided 20 computers to a vocational high school, thus contributing to the establishment of a computer laboratory in the school.

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: Süleyman Savaş Erdem)	Chairman of the Board of Directors	OYTAŞ İç ve Dış Ticaret A.Ş., elected as a Member of the Board of Directors on May 27, 2013 and assigned as Chairman of the Board of Directors and Managing Director effective from the same date, his Managing Director duty has been terminated as of February 2, 2018 while Chairman of the Board of Directors duty is still continuing. Elected as Independent Member of the Board of Directors on September 20, 2012 and resigned from this position as of November 14, 2013, Ali Pandır has been serving as real person representative of OYTAŞ İç ve Dış Ticaret A.Ş. since 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. Following the termination of Ömer Muzaffer Baktır's term on February 2, 2018, Süleyman Savaş Erdem has been serving as real person representative of OYTAŞ İç ve Dış Ticaret A.Ş. beginning from February 2, 2018.
OYAK PAZARLAMA HİZMET VE TURİZM A.Ş. (Representative: Toker Özcan)	Deputy Chairman of the Board of Directors- Managing Director	OYAK Pazarlama Hizmet ve Turizm A.Ş., elected as a Member of the Board of Directors on September 13, 2012 and has been serving as the Deputy Chairman of the Board of Directors and the Managing Director since February 2, 2018. Due to the end of the duty of Fatma Canlı, who had been appointed as a Member of the Board of Directors on March 9, 2010 and resigned from the membership of the Board of Directors on September 13, 2012 and who has been serving as the real person representative of OYAK Pazarlama Hizmet ve Turizm A.Ş. since this date, Toker Özcan was appointed instead of Fatma Canlı and he has been serving as the real person representative of OYAK Pazarlama Hizmet ve Turizm A.Ş. since February 2, 2018.
REPUBLIC OF TURKEY PRIME MINISTRY PRIVATIZATION ADMINISTRATION (Representative: H. Abdullah Kaya)	Member of the Board of Directors	Privatization Administration of Turkey, elected as Member of the Board of Directors on September 20, 2012, H. Abdullah Kaya is still holding this position. On April 1, 2016 H. Abdullah Kaya has been assigned as the real person representative of the Privatization Administration of Turkey, a position he is still holding.
OYKA KAĞIT AMBALAJ SANAYİİ VE TİCARET A.Ş. (Representative: Ertuğrul Aydın)	Member of the Board of Directors	OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş., elected as Member of the Board of Directors on September 12, 2012 and had been serving as the Deputy Chairman of the Board of Directors since April 1, 2016. His Deputy Chairmanship ended as of February 2, 2018, however, his membership of the Board of Directors continues. Ertuğrul Aydın, who was elected as the member of the Board of Directors on March 31, 2008, and who resigned from its membership on September 12, 2012, has been serving as the real person representative of OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş. since that date.

OYAK DENİZCİLİK VE LİMAN İŞLETMELERİ A.Ş. (Representative: Güliz Kaya)	Member of the Board of Directors	OYAK Girişim Danışmanlığı A.Ş., (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 as of September 12, 2012, Güliz Kaya is still holding this position. 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	OMSAN Lojistik A.Ş., elected as Member of the Board of Directors as of September 11, 2012, Ahmet Türker Anayurt is still holding this position. Ahmet Türker Anayurt has been serving as the real person representative of OMSAN Lojistik A.Ş. since April 1, 2016.
Yunus Arıncı	Independent Member of the Board of Directors	Elected as Independent Member of the Board of Directors at the Ordinary General Assembly Meetings held on March 31, 2016, Yunus Arıncı is currently holding his position.
Ali Fidan	Independent Member of the Board of Directors	Due to the end of duties of Emin Hakan Eminsoy, who was elected as an Independent Member of the Board of Directors on March 4, 2014, and Hakkı Cemal Ererdi, who was elected as an Independent Board Member at the Ordinary General Assembly Meeting dated March 31, 2017, Ali Fidan was elected as an Independent Member of the Board of Directors in the same Meeting. He has been serving as Independent Member of the Board of Directors since that date.
Kurtuluş Bedri Varoğlu	Independent Member of the Board of Directors	Due to the end of duties of Emin Hakan Eminsoy, who was elected as an Independent Member of the Board of Directors on March 4, 2014, and Hakkı Cemal Ererdi, who was elected as an Independent Board Member at the Ordinary General Assembly Meeting dated March 31, 2017, Kurtuluş Bedri Varoğlu was elected as an Independent Member of the Board of Directors in the same Meeting. He has been serving as Independent Member of the Board of Directors since that date.

INFORMATION ON MEMBERS OF THE BOARD OF DIRECTORS

OYAK Mining Metallurgy 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.	Toker Özcan has been serving as the General Manager of İskenderun Demir ve Çelik A.Ş. since January 16, 2017.
Vacant	General Manager of Erdemir Mühendislik, Yönetim ve Danışmanlık Hizmetleri A.Ş.	Burak Büyükfırat, who has been serving as Acting General Manager of Erdemir Mühendislik, Yönetim ve Danışmanlık Hizmetleri A.Ş. since February 2, 2015, resigned from this position as of July 31, 2017.
Başak Turgut	Acting General Manager of Erdemir Çelik Servis Merkezi Sanayi ve Ticaret A.Ş.	Başak Turgut has been serving as Acting General Manager of Erdemir Çelik Servis Merkezi Sanayi ve Ticaret A.Ş. since July 1, 2015.
Halil Melih Türkeş	General Manager of Erdemir Romania S.R.L.	Halil Melih Türkeş has been serving as General Manager of Erdemir Romania S.R.L. 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.

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. Coordinators		
İbrahim Emrah Silav	Chief Financial Management and Financial Affairs Officer	Bülent Beydüz, who had been serving as 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. Following the resignation of Emre Berk Hacıgüzeller on November 30, 2017, İbrahim Emrah Silav 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 since June 10, 2013.
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 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.
Can Örüng	Chief Information Technology Officer (Acting)	Ahmet Tunç Noyan, who has been serving as 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.
Can Örüng	Chief Enterprise Architect & Human Resources Officer	The name of 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.		
Sami Nezih Tunalıtosunoğlu	Financial Affairs Assistant General Manager	Sami Nezih Tunalıtosunoğlu has been serving as Financial Affairs Assistant General Manager since April 11, 2011.

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 2017, 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 2017, 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 2017, 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. 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. 2017 activity report presented in BoD meeting dated 02 February 2018.

The table below presents activities performed within 2017 so that investors could be informed in-depth concerning the operations of the Company:

The number of investors and analysts who have been contacted	380
The number of tele-conferences held regarding financials	4
The number of meetings held regarding financials	1

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 2017 were carried out by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A Member Firm of Deloitte Touche Tohmatsu 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.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

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 2016 was held on March 31, 2017 in İstanbul and 67.90% 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 that complies with legal regulations as well as made on our websites at www.erdemir.com.tr and www.oyakmadenmetalurji.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.oyakmadenmetalurji.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 2017, 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 Meetings 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 2015 and 2016, which amounted to 815,461 TRY and 966,055 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.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

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 submitted for the shareholder's approval 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, 2017 dated Ordinary General Assembly, it has been decided to distribute TRY 1,435 million cash dividend based on 2016 financial results and as of April 05, 2017 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.

SECTION III - THE PUBLIC DISCLOSURE AND TRANSPARENCY

3.1. Corporate Website and Its Contents

Erdemir's corporate websites (www.erdemir.com.tr and www.oyakmadenmetalurji.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 Privileged Share	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.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

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, 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.

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 2017 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.oyakmadenmetalurji.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, 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 2017. 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.

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, 2017. 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 (*)
Yunus ARINCI	Independent Board Member	31.03.2016
Ali FİDAN	Independent Board Member	31.03.2017
Kurtuluş Bedri VAROĞLU	Independent Board Member	31.03.2017

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

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

Three applications to our Company were evaluated in 2017 for Independent Board Member position. In our Company tasks of Candidate Nomination Committee are carried out by Corporate Governance Committee. The Committee report, prepared by the Committee on February 06, 2017 pertaining to the candidacy of Mr Yunus ARINCI, Mr Ali FİDAN and Mr Kurtuluş Bedri VAROĞLU as the independent board members was submitted to the Board of Directors on February 07, 2017. 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 2017, no situation has occurred for violation of the independency.

It has been decided to be registered and to be announced of the assignment of Ömer Muzaffer BAKTIR as the representative of Chairman and Executive Director OYTAŞ İç ve Dış Ticaret A.Ş. due to the end of Ali Aydın PANDIR's duty on 16 January 2017 in the Trade Registry Gazette by the resolution of Board of Directors, dated 5 January 2017 and numbered 9442.

By the General Assembly executed on 31 March 2017; OYTAŞ İç ve Dış Ticaret A.Ş. (Represented by: Ömer Muzaffer BAKTIR), OYKA Kâğıt Ambalaj Sanayii ve Ticaret A.Ş. (Represented by: Ertuğrul AYDIN), Republic of Turkey Prime Ministry Privatization Administration (Represented by: H. Abdullah KAYA), OYAK Pazarlama Hizmet ve Turizm A.Ş. (Represented by: Fatma CANLI), OYAK Denizcilik ve Liman İşletmeleri A.Ş. (Represented by: Güliz KAYA), OMSAN Lojistik A.Ş. (Represented by: Ahmet Türker ANAYURT) have been elected as board members for three years and Yunus ARINCI, Ali FİDAN and Kurtuluş Bedri VAROĞLU have been elected as independent board members for one year.

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.

Declaration of independency of the Independent Board Members can be found in the appendix of the Board of Directors' Annual Report.

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 2017. The attendance rate was 94% 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 100 million. The insurance compensates for the legal expense and indemnity.

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.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

Audit Committee

Name-Surname	Title	Relation with the Company	Details
Yunus Arıncı	Chairman	Board Member	Independent / Not Executive
Ali Fidan	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
Ali Fidan	Chairman	Board Member	Independent / Not Executive
Kurtuluş Bedri Varoğlu	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
Kurtuluş Bedri Varoğlu	Chairman	Board Member	Independent / Not Executive
Yunus Arıncı	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 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 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 Group's mid/long-term strategic roadmap are prepared by Department of the relevant Group Companies and are submitted to Investment Development Directorate. The Investment 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 Management and Financial Affairs Coordinator. No planned investments can be submitted to the Board of Directors without the approval of the Group Financial Management and Financial Affairs Coordinator.

Internal Audit Department is in charge of evaluating and improving the effectiveness of risk management, control and governance processes of 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, 2017, 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 3,000 TRY per month (at the beginning of the relevant month, paid in advance, net) and the Independent Board Members shall be paid 6,600 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 9468 dated April 3, 2017, and pursuant to the provisions of Capital Markets Board Corporate Governance Communiqué 11-17.1, it was resolved:

- To appoint Independent Board Members Yunus ARINCI and Ali FİDAN to serve as the Audit Committee and Yunus ARINCI to be the committee's chairman;
- To appoint Independent Board Members Kurtuluş Bedri VAROĞLU and Yunus ARINCI and Investor Relations Manager İdil ÖNAY ERGİN to serve as the Corporate Governance Committee and Kurtuluş Bedri VAROĞLU to be committee's chairman;
- To appoint Independent Board Members Ali FİDAN and Kurtuluş Bedri VAROĞLU to serve as the Early Detection of Risk Committee and Ali FİDAN 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.oyakmadenmetalurji.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 2017, 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 7, 2017, April 20, 2017, August 3, 2017, and October 26, 2017.
- The Corporate Governance Committee convened four times: February 7, 2016, April 20, 2017, August 3, 2017, and October 26, 2017.
- Early Detection of Risk Committee convened six times: February 6, 2017, April 20, 2017, June 22, 2017, August 9, 2017, October 26, 2017, and November 30, 2017.

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:
  - o 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.
  - o Overseeing the activities of the Investor Relations Department.
  - o 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.
  - o Regularly assessing the structure and effectiveness of the Board of Directors; making recommendations to the Board of Directors concerning possible changes in such matters.
  - o Determining and overseeing approaches, principles, and practices applicable to performance evaluations and career-planning processes of Board Members and managers under executive responsibilities.
  - o 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 Group companies is assessed through risk-oriented audits conducted by Internal Audit Department.
The aim, authorities and responsibilities of the Department are determined by Internal Audit Regulations. Besides reporting directly to the Chairman & Managing Director, Internal Audit Department informs the Audit Committee, which consists of independent board members, about the audit activities and effectiveness of the internal control system at least once in a year and upon request.

Process audits of 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 compliance system as well. Investigation activities are carried out by the Internal Audit Directorate with regards to conformity of Code of Ethics and Business Conduct, and Fight Against Corruption Policy. 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 Code of Ethics and Business Conduct, and Fight Against Corruption Policy, 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 2017, no conflicts of interest occurred with these institutions.
- Our Company did not disclose any future expectations in 2017.
- In 2017, 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 December 31, 2017.
- Due to the end of duty of Ömer Muzaffer BAKTIR, who acts on behalf of OYTAŞ İç ve Dış Ticaret A.Ş. as its representative and who was the Chairman of the Board of Directors and the Managing Director as of February 1, 2018, it was decided that the assignment of Süleyman Savaş ERDEM in his place to be announced and registered in the trade registry effective from January 2, 2018 as per the decision of the Board of Directors dated February 2, 2018 and numbered 9523.
- Due to the end of duty of Fatma CANLI, who acts on behalf of OYAK Pazarlama Hizmet ve Turizm A.Ş as its representative and who was the Member of the Board of Directors, February 1, 2018, it was decided that the assignment of Toker ÖZCAN in her place to be announced and registered in the trade registry effective from January 2, 2018 as per the decision of the Board of Directors dated February 2, 2018 and numbered 9523.
- Under the provisions of the Turkish Commercial Code and the Company's Articles of Association, it was decided that the managing director authority of OYTAŞ İç ve Dış Ticaret A.Ş. (the real person representative on behalf of: Süleyman Savaş ERDEM), which is legal entity, to be cancelled; the duty of the Deputy Chairman of the Board of Directors of OYKA Kağıt Ambalaj Sanayi ve Ticaret A.Ş. (the real person representative on behalf of: Ertuğrul AYDIN), which is a member of the Board, to be cancelled; OYTAŞ İç ve Dış Ticaret A.Ş. (the real person representative on behalf of: Süleyman Savaş ERDEM), which is a Member of the Board, to be appointed as the Chairman of the Board; OYAK Pazarlama Hizmet ve Turizm A.Ş. (the real person representative on behalf of: Toker ÖZCAN), which is a member of the Board, to be appointed as the Deputy Chairman of the Board; OYAK Pazarlama Hizmet ve Turizm A.Ş. (the Real person Representative on behalf of: Toker ÖZCAN), which is the Deputy Chairman of the Board, to be authorised as a managing director, and this is to be registered in the trade registry and this is to be announced.
- Apart from the developments mentioned above, there has been no significant development since December 31, 2017.

AFFILIATED COMPANY REPORT

“During 2017, 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 2017 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 2017 and it is expected that these transactions will continue under the determined circumstances in 2018. 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: 02.02.2018
RESOLUTION NUMBER: 9518

About 01.01.2017 - 31.12.2017 period

We have reviewed Ereğli Demir ve Çelik Fabrikaları T.A.Ş. consolidated financial statements and annual report for the period between 01.01.2017-31.12.2017.

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

İbrahim Emrah Silav	**Ali Fidan**	**Yunus Arıncı**
CFO	Member of the Audit Committee	Chairman of the Audit Committee

CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017 AND INDEPENDENT AUDITOR'S REPORT

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

Deloitte.

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

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

A) Report on the Audit of the Financial Statements

1) Opinion

We have audited the consolidated financial statements of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Turkish Accounting Standards (TAS).

2) Basis for Opinion

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

Deloitte.

3) Key Audit Matters

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

Key Audit Matter	How the matter was addressed in the audit
Revenue recognition Revenue is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods. Due to the nature of the Group's operations, there are some goods invoiced and cash collection is completed although the Group retains physical possession. Those goods are kept at premises of the Group as of the financial reporting date. Significant risks and rewards of ownership of these goods are transferred to the buyers. Therefore, revenue recognition for those goods in the correct accounting period is a key matter for our audit. Please refer to notes 2.8.1 and 22 to the consolidated financial statements for the Group's disclosures on revenue recognition, including the related accounting policy.	We performed the following procedures in relation to the revenue recognition: The design and implementation of the controls on the revenue process have been evaluated. The Group's sales and delivery procedures have been analyzed. Terms of trade and delivery with respect to contracts made with customers have been examined and the timing of revenue recognition in the financial statements for the different shipment arrangements has been assessed. For substantive procedures, special emphasis is given for transactions where the goods billed but revenue has not been earned. Testing of returns in the subsequent period to ensure revenue recognized in the proper accounting period. In addition, we assessed the adequacy of the disclosures in Note 22 of the Note under TAS.

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3) Key Audit Matters (cont'd)

Key Audit Matter	How the matter was addressed in the audit
Units of production depreciation calculation As explained in Note 2.2 (accounting policies) and Note 13 (notes to the financial statements), the Group perform units of production depreciation calculation method for relevant land improvements, machinery and equipment and vehicles. Units of production depreciation calculation is made for large number of assets and determining the remaining life and production capacities involve estimates. Therefore, there is risk that there may be an error on calculation of depreciation.	Procedures performed related with Units of production depreciation calculation risk are as follows: • Review of the expert report for the estimation of production capacity dated 22 February 2017. • Comparison of net book values of property, plant and equipment that are included in the report with net book values in the financial statements • Evaluation of competence and capabilities of the management's expert • Evaluation of the production capacity estimates by comparing with the estimations used in previous periods by negotiating with the Group management • Analysis of production amount of yearly production and production capacity • Recalculation of depreciation amount of the year In addition, we assessed the adequacy of the disclosures in Note 13 to property, plant and equipment under TAS.

4) Emphasis of Matter

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

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5) Other Matter

The financial statements of the Group for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 7 February 2017.

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

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

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

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

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

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

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

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

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

Deloitte.

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Deloitte.

B) Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 398 of the Turkish Commercial Code No. 6102 (“TCC”), the auditor’s report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Company on 2 February 2018.

In accordance with paragraph four of the Article 402 of TCC, nothing has come to our attention that may cause us to believe that the Group’s set of accounts and financial statements prepared for the period 1 January-31 December 2017 does not comply with TCC and the provisions of the Company’s articles of association in relation to financial reporting.

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

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

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

Volkan Becerik, SMMM
Partner

İstanbul, 2 February 2018

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

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2017

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

ASSETS	Note	(Audited) Current Period 31 December 2017 USD'000	(Audited) Current Period 31 December 2017 TRY'000	(Audited) Previous Period 31 December 2016 USD'000	(Audited) Previous Period 31 December 2016 TRY'000
Current Assets		**3.934.814**	**14.841.725**	**3.143.675**	**11.063.224**
Cash and Cash Equivalents	4	1.865.224	7.035.440	1.303.396	4.586.911
Financial Derivative Instruments	6	915	3.452	18.274	64.310
Trade Receivables	8	684.564	2.582.106	573.114	2.016.901
Due From Related Parties	*30*	*21.988*	*82.936*	*15.594*	*54.877*
Other Trade Receivables	*8*	*662.576*	*2.499.170*	*557.520*	*1.962.024*
Other Receivables	9	530	2.000	535	1.883
Inventories	10	1.336.066	5.039.509	1.209.095	4.255.047
Prepaid Expenses	11	14.047	52.982	12.080	42.513
Other Current Assets	19	33.468	126.236	27.181	95.659
Non Current Assets		**3.588.147**	**13.534.130**	**3.576.965**	**12.588.053**
Other Receivables	9	3.617	13.643	3.918	13.787
Financial Investments	5	3.562	13.437	35	122
Financial Derivative Instruments	6	1.298	4.896	1.692	5.955
Investment Properties	12	26.961	101.695	26.961	94.882
Property, Plant and Equipment	13	3.465.591	13.071.862	3.453.050	12.151.972
Intangible Assets	14	56.022	211.311	58.388	205.479
Prepaid Expenses	11	15.787	59.543	20.106	70.757
Deferred Tax Assets	28	15.309	57.743	9.730	34.243
Other Non Current Assets	19	-	-	3.085	10.856
TOTAL ASSETS		**7.522.961**	**28.375.855**	**6.720.640**	**23.651.277**

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

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

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2017

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

LIABILITIES	Note	(Audited) Current Period 31 December 2017 USD'000	(Audited) Current Period 31 December 2017 TRY'000	(Audited) Previous Period 31 December 2016 USD'000	(Audited) Previous Period 31 December 2016 TRY'000
Current Liabilities		**1.464.605**	**5.524.344**	**1.201.046**	**4.226.720**
Short Term Borrowings	7	594.801	2.243.529	357.464	1.257.986
Short Term Portion of Long Term Borrowings	7	233.890	882.211	296.649	1.043.968
Financial Derivative Instruments	6	11.064	41.734	5.438	19.137
Trade Payables	8	249.951	942.791	260.024	915.076
Due to Related Parties	*30*	*14.289*	*53.897*	*9.948*	*35.008*
Other Trade Payables	8	*235.662*	*888.894*	*250.076*	*880.068*
Other Payables	9	11.124	41.958	11.970	42.126
Deferred Revenue	20	39.842	150.280	30.221	106.353
Current Tax Liabilities	28	211.554	797.961	129.468	455.624
Short Term Provisions	17	35.636	134.414	41.369	145.586
Payables for Employee Benefits	16	47.175	177.938	47.944	168.724
Other Current Liabilities	19	29.568	111.528	20.499	72.140
Non Current Liabilities		**960.618**	**3.623.354**	**1.069.709**	**3.764.524**
Long Term Borrowings	7	361.804	1.364.688	459.631	1.617.534
Financial Derivative Instruments	6	453	1.707	585	2.060
Provisions for Employee Benefits	16	168.831	636.813	161.235	567.419
Deferred Tax Liabilities	28	429.417	1.619.718	448.122	1.577.032
Other Non Current Liabilities	19	113	428	136	479
EQUITY		**5.097.738**	**19.228.157**	**4.449.885**	**15.660.033**
Equity Attributable to Equity Holders of the Parent		**4.953.574**	**18.684.383**	**4.321.343**	**15.207.669**
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)		(39.612)	(77.330)	(37.151)	(72.090)
Revaluation Reserve of Tangible Assets		*11.107*	*33.917*	*10.757*	*29.437*
Actuarial (Loss)/ Gain funds		*(50.719)*	*(111.247)*	*(47.908)*	*(101.527)*
Other Comprehensive Income/Expense to be Reclassified to Profit/ (Loss)		(54.474)	7.649.204	(41.532)	6.530.218
Cash Flow Hedging Gain (Loss)		*(4.314)*	*(16.272)*	*2.277*	*8.013*
Foreign Currency Translation Reserves		*(50.160)*	*7.665.476*	*(43.809)*	*6.522.205*
Restricted Reserves Assorted from Profit	21	625.450	1.567.280	516.714	1.166.197
Retained Earnings	21	1.497.692	2.144.646	1.486.278	2.420.078
Net Profit for the Period		1.029.865	3.753.755	502.381	1.516.438
Non-Controlling Interests		**144.164**	**543.774**	**128.542**	**452.364**
TOTAL LIABILITIES AND EQUITY		**7.522.961**	**28.375.855**	**6.720.640**	**23.651.277**

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

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

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

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

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Note	(Audited) Current Period 1 January - 31 December 2017 USD'000	(Audited) Current Period 1 January - 31 December 2017 TRY'000	(Audited) Previous Period 1 January - 31 December 2016 USD'000	(Audited) Previous Period 1 January - 31 December 2016 TRY'000
Revenue	22	5.115.069	18.643.914	3.855.062	11.636.504
Cost of Sales	22	(3.698.582)	(13.480.960)	(3.036.715)	(9.166.325)
GROSS PROFIT		**1.416.487**	**5.162.954**	**818.347**	**2.470.179**
Marketing Expenses	23	(45.138)	(164.522)	(46.783)	(141.215)
General Administrative Expenses	23	(88.387)	(322.163)	(95.503)	(288.275)
Research and Development Expenses	23	(3.598)	(13.113)	(3.673)	(11.088)
Other Income from Operating Activities	25	76.094	277.354	73.982	223.314
Other Expenses from Operating Activities	25	(30.201)	(110.079)	(49.775)	(150.244)
OPERATING PROFIT		**1.325.257**	**4.830.431**	**696.595**	**2.102.671**
Finance Income	26	68.192	286.868	118.126	356.562
Finance Expense	27	(44.660)	(162.783)	(87.232)	(187.805)
PROFIT BEFORE TAX		**1.348.789**	**4.954.516**	**727.489**	**2.271.428**
Tax (Expense) Income	28	(279.475)	(1.056.974)	(206.800)	(699.726)
Current Corporate Tax Expense (Income)		(301.685)	(1.137.927)	(150.794)	(530.673)
Deferred Tax (Expense) Income		22.210	80.953	(56.006)	(169.053)
NET PROFIT FOR THE PERIOD		**1.069.314**	**3.897.542**	**520.689**	**1.571.702**
Non-Controlling Interests		39.449	143.787	18.308	55.264
Equity Holders of the Parent		1.029.865	3.753.755	502.381	1.516.438
EARNINGS PER SHARE (TRY 1 Nominal value per share)	29		1,0725		0,4333

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.

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

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

	(Audited) Current Period 1 January - 31 December 2017 USD'000	(Audited) Current Period 1 January - 31 December 2017 TRY'000	(Audited) Previous Period 1 January - 31 December 2016 USD'000	(Audited) Previous Period 1 January - 31 December 2016 TRY'000
PROFIT FOR THE PERIOD	**1.069.314**	**3.897.542**	**520.689**	**1.571.702**
OTHER COMPREHENSIVE INCOME				
Not to be reclassified subsequently to profit or loss				
Increase (Decrease) in Revaluation Reserve of Tangible Assets	344	4.480	(1.781)	2.521
Actuarial Gain (Loss) of Defined Benefit Plans	(3.650)	(12.618)	1.136	8.006
Tax Effect of Actuarial Gain (Loss) of Defined Benefit Plans	774	2.673	(227)	(1.601)
To be reclassified subsequently to profit or loss				
Gain (Loss) in Cash Flow Hedging Reserves	(8.316)	(30.663)	3.811	13.040
Tax Effect of Gain (Loss) in Cash Flow Hedging Reserves	1.830	6.746	(762)	(2.608)
Foreign Currency Translation Gain (Loss)	(7.162)	1.177.422	(14.998)	2.580.095
OTHER COMPRHENSIVE INCOME	**(16.180)**	**1.148.040**	**(12.821)**	**2.599.453**
TOTAL COMPREHENSIVE INCOME	**1.053.134**	**5.045.582**	**507.868**	**4.171.155**
Distribution of Total Comprehensive Income				
Non-controlling Interests	38.672	178.081	16.533	126.266
Equity Holders of the Parent	1.014.462	4.867.501	491.335	4.044.889

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.

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

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

						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 2017		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**29.437**	**(101.527)**
Net profit for the period		-	-	-	-	-	-
Other comprehensive income/ (loss)		-	-	-	-	4.480	(9.720)
Total comprehensive income/ (loss)		-	-	-	-	4.480	(9.720)
Dividends (*)		-	-	-	-	-	-
Transfers	21	-	-	-	-	-	-
31 December 2017	21	**3.500.000**	**156.613**	**(116.232)**	**106.447**	**33.917**	**(111.247)**
(Audited)							
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)**

(*) In annual General Assembly dated 31 March 2017, dividend distribution (gross dividend per share: TRY 0,4100 (2016: TRY 0,3000) amounting to TRY 1.435.000 thousand (31 March 2016: TRY 1.050.000 thousand) from 2016 net profit was approved. As the Company holds 3,08 % of its shares with a nominal value of TRY 1 as of 31 March 2017, dividends for treasury shares are netted off under dividends paid. The dividend payment was started at 5 April 2017. The Group paid TRY 86.671 thousand divident to non-controlling interests on İsdemir and Ermaden apart from the Equity holders of the Parent in current year (2016: TRY 31.665 thousand).

The accompanying notes form an integral part of these 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
8.013	**6.522.205**	**1.166.197**	**2.420.078**	**1.516.438**	**15.207.669**	**452.364**	**15.660.033**
-	-	-	-	3.753.755	**3.753.755**	143.787	**3.897.542**
(24.285)	1.143.271	-	-	-	**1.113.746**	34.294	**1.148.040**
(24.285)	1.143.271	-	-	3.753.755	**4.867.501**	178.081	**5.045.582**
-	-	-	(1.390.787)	-	**(1.390.787)**	(86.671)	**(1.477.458)**
-	-	401.083	1.115.355	(1.516.438)	**-**	-	**-**
(16.272)	**7.665.476**	**1.567.280**	**2.144.646**	**3.753.755**	**18.684.383**	**543.774**	**19.228.157**
(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**

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Note	(Audited) Current Period 1 January- 31 December 2017 USD'000	(Audited) Current Period 1 January- 31 December 2017 TRY'000	(Audited) Current Period 1 January- 31 December 2016 USD'000	(Audited) Current Period 1 January- 31 December 2016 TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES		1.099.532	3.624.616	757.107	2.346.153
Profit (Loss) for The Period		**1.069.314**	**3.897.542**	**520.689**	**1.571.702**
Adjustments to Reconcile Profit (Loss)		**503.628**	**1.874.258**	**469.040**	**1.491.299**
Adjustments for Depreciation and Amortisation Expenses	22/23	197.453	719.695	217.916	657.779
Adjustments for Impairment Loss (Reversal of Impairment Loss)		878	3.201	15.579	47.023
Adjustments for Provision (Reversal of Provision) for Receivables	8/9	*(251)*	*(914)*	*1.224*	*3.694*
Adjustments for Provision (Reversal of Provision) for Inventories	10	*1.129*	*4.115*	*1.415*	*4.271*
Adjustments for Provision (Reversal of Provision) for Property, Plant and Equipment	13	-	-	*12.940*	*39.058*
Adjustments for Provisions		37.018	135.198	28.610	86.362
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	16	*30.510*	*111.209*	*34.791*	*105.018*
Adjustments for Provision (Reversal of Provision) for Pending Claims and/or Lawsuits	17	*6.508*	*23.989*	*(6.181)*	*(18.656)*
Adjustments for Interest (Income) and Expenses		(29.800)	(108.616)	(6.560)	(19.802)
Adjustments for Interest Income	26	*(56.735)*	*(206.792)*	*(40.959)*	*(123.634)*
Adjustments for Interest Expense	27	*28.901*	*105.342*	*34.636*	*104.548*
Unearned Financial Income from Credit Sales		*(1.966)*	*(7.166)*	*(237)*	*(716)*
Adjustments for Unrealised Foreign Exchange Differences		15.119	55.106	(6.610)	(19.951)
Adjustments for Fair Value (Gains) Losses		1.379	5.025	12.333	37.228
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments	27	*1.379*	*5.025*	*12.333*	*37.228*
Adjustments for Tax (Income) Expenses	28	279.475	1.056.974	206.800	699.726
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		2.106	7.675	972	2.934
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment	25	*2.106*	*7.675*	*972*	*2.934*
Changes in Working Capital		**(227.030)**	**(1.253.977)**	**(24.579)**	**(86.499)**
Adjustments for Decrease (Increase) in Trade Receivables		(113.018)	(577.478)	(10.252)	(36.076)
Decrease (Increase) in Trade Receivables from Related Parties		*(6.394)*	*(28.059)*	*(3.338)*	*(11.747)*
Decrease (Increase) in Trade Receivables from Third Parties		*(106.624)*	*(549.419)*	*(6.914)*	*(24.329)*
Adjustments for Decrease (Increase) in Other Receivables Related from Operations		859	(2.930)	4.589	16.148
Decrease (Increase) in Other Receivables from Operations from Third Parties		*859*	*(2.930)*	*4.589*	*16.148*
Decrease (Increase) in Derivative Financial Instruments		17.753	61.917	9.959	35.048
Adjustments for Decrease (Increase) in Inventories		(130.712)	(813.242)	(96.267)	(338.784)
Decrease (Increase) in Prepaid Expenses		(1.487)	(9.103)	12.231	43.044
Adjustments for Increase (Decrease) in Trade Payables		(10.073)	27.715	59.789	210.409
Increase (Decrease) in Trade Payable to Related Parties		*4.341*	*18.889*	*2.381*	*8.378*
Increase (Decrease) in Trade Payable to Third Parties		*(14.414)*	*8.826*	*57.408*	*202.031*
Adjustments for Increase (Decrease) in Other Payables Related from Operations		(1.615)	9.046	7.163	25.208
Increase (Decrease) in Other Payables to Third Parties Related from Operations		*(1.615)*	*9.046*	*7.163*	*25.208*
Increase (Decrease) in Derivative Liabilities		(4.202)	(13.445)	(16.340)	(57.505)
Adjustments for Other Increase (Decrease) in Working Capital		15.465	63.543	4.549	16.009
Decrease (Increase) in Other Assets Related from Operations		*(3.202)*	*(19.721)*	*(49)*	*(174)*
Increase (Decrease) in Other Payables Related from Operations		*18.667*	*83.264*	*4.598*	*16.183*
Cash Flows Provided by Operating Activities		**1.345.913**	**4.517.823**	**965.150**	**2.976.502**
Payments Related to Provisions for Employee Termination Benefits	16	(15.195)	(55.385)	(12.158)	(36.701)
Payments Related to Other Provisions	17	(11.587)	(42.232)	(99.663)	(300.830)
Income Taxes Refund (Paid)	28	(219.599)	(795.590)	(96.222)	(292.818)
CASH FLOWS FROM INVESTING ACTIVITIES		**(205.862)**	**(754.952)**	**(168.362)**	**(512.479)**
Cash Outflows Arising From Purchase of Shares or Capital Increase of Associates and/or Joint Ventures		(3.527)	(13.315)	(8)	(29)
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		1.961	7.148	2.460	7.427
Cash Inflow from Sales of Property, Plant and Equipment	13/14/25	*1.961*	*7.148*	*2.460*	*7.427*
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(208.135)	(758.633)	(162.275)	(489.827)
Cash Outflow from Purchase of Property, Plant and Equipment	13	*(205.556)*	*(749.232)*	*(158.746)*	*(479.175)*
Cash Outflow from Purchase of Intangible Assets	14	*(2.579)*	*(9.401)*	*(3.529)*	*(10.652)*
Cash Advances and Debts Given		3.839	9.848	(8.539)	(30.050)
Other Cash Advances and Debts Given		*3.839*	*9.848*	*(8.539)*	*(30.050)*
CASH FLOWS FROM FINANCING ACTIVITIES		**(310.305)**	**(855.527)**	**(267.466)**	**(691.791)**
Cash Inflow from Borrowings		982.379	3.608.910	848.157	2.984.835
Cash Inflow from Loans		*982.379*	*3.608.910*	*848.157*	*2.984.835*
Cash Outflow from Repayments of Borrowings		(921.579)	(3.096.109)	(754.354)	(2.654.378)
Cash Outflow from Loan Repayments		*(921.579)*	*(3.096.109)*	*(754.354)*	*(2.654.378)*
Dividends Paid		(400.591)	(1.475.801)	(369.979)	(1.048.544)
Interest Paid		(29.215)	(106.485)	(32.249)	(97.344)
Interest Received		58.701	213.958	40.959	123.640
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		**583.365**	**2.014.137**	**321.279**	**1.141.883**
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(21.537)	434.392	(27.204)	510.325
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**561.828**	**2.448.529**	**294.075**	**1.652.208**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	1.303.396	4.586.911	1.009.321	2.934.703
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	**1.865.224**	**7.035.440**	**1.303.396**	**4.586.911**

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

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

NOTE 1 - GROUP'S ORGANIZATION AND NATURE OF OPERATIONS

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

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

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

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

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

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

Name of the Company	Country of Operation	Operation	2017 Share %	2016 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 Mühendilik Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100	100
Erdemir Romania S.R.L.	Romania	Silicon Steel Production	100	100
Erdemir Asia Pacific Private Limited	Singapore	Trading	100	100
İsdemir Linde Gaz Ortaklığı A.Ş.(*)	Turkey	Energy	50	50

(*) As of 18 November 2016, İsdemir Linde Gas Partnership A.Ş. has been established through 50%-50% partnership with the German Linde Group in order to supply the additional industrial gases required for our subsidiary İsdemir's production and to reduce the costs with an effective and efficient management. 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. Share capital of the jointly controlled entity amounting to TRY 13.335 thousand reported under financial investments.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

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

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

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

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

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

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

The financial statements are prepared on cost basis, except the derivative financial instruments and iron ore and silicon steel used in the production of fixed assets carried on fair value measured at business at acquisition date.

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

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

2.1 Basis of Presentation (cont'd)

Functional and Reporting Presentation Currency

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

Functional currency for the subsidiaries abroad

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

Presentation currency translation

Presentation currency of the consolidated financial statements is TRY. According to 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 Eur for Erdemir Romania, have been translated in TRY as the following method:

- The assets and liabilities on financial position as of 31 December 2017 are translated from USD Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 3,7719=US $ 1 and TRY 4,5155=EUR 1 on the balance sheet date (31 December 2016: TRY 3,5192= US $ 1, TRY 3,7099=EUR 1).
- For the year ended 31 December 2017, income statements are translated from the 12 months average TRY 3,6449 = US $ 1 and TRY 4,1139=EUR 1 rates of 2017 January - December period (31 December 2016: TRY 3,0185 = US $ 1 TRY 3,3377 = 1 EUR).
- Exchange differences are shown in other comprehensive income as of foreign currency translation reserve.
- 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 2017 and 31 December 2016, consolidated statement of income and other comprehensive income, and consolidated statement of cash flows for the year ended 31 December 2017 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.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

2.1 Basis of Presentation (cont'd)

Approval of the consolidated financial statements

The consolidated financial statements have been approved and authorized to be published on 2 February 2018 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

2.2 Restatement and errors in the accounting policies and estimates

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

Based on the report of Hatch Associates Limited prepared as of 31 December 2008 and dated 12 May 2009, the Group changed the depreciation method of Erdemir and İsdemir's land improvements, machinery, equipment and vehicles from straight line to the units of production method effective from 1 January 2009, where it is appropriate, to reflect their expected consumption model in a more accurate way.

After new investments and modernizations realized, The Group had a new assessment report prepared by Hatch Associates Limited as of 22 February 2017 effective from the date of 1 January 2017. As a result of the new assessment report, the estimated useful life of assets has increased. If the Group used previous useful life assumptions on the accompanied consolidated financial statements, depreciation expense would be higher amounting to TRY 87.972 thousand for the twelve month.

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.

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

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

2.3 Consolidation Principles (cont'd)

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 2017 and 31 December 2016 (%) and their functional currencies:

	31 December 2017			31 December 2016		
	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 Pasific	US Dollars	100,00	100,00	US Dollars	100,00	100,00

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.

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).

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).

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)

2.5.3 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.

2.5.8 Impairments on Assets

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

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

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

<u>Amendments to IFRSs that are mandatorily effective for the current year</u>

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements.

Amendments to IAS 7 *Disclosure Inıtiative*

This amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of borrowings and certain other financial liabilities . A reconciliation between the opening and closing balances of these items is provided in note. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in note, the application of these amendments has had no impact on the Group's consolidated financial statements.

Annual Improvements to IFRS Standards 2014-2016 Cycle

IFRS 12: IFRS 12 states that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Group's consolidated financial statements as none of the Group's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

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

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

New and revised IFRSs in issue but not yet effective**:**

The Group has not yet implemented the following amendments and interpretations to the existing standards that have not yet entered into force:

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets / liabilities and for derecognition and for general hedge accounting.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

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

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

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

IFRS 9 *Financial Instruments (cont'd)*

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the management of the Company have assessed the impact of IFRS 9 to the Group's consolidated financial statements as follows:

Classification and measurement

Bills of exchange and debentures classified as held-to-maturity investments and loans carried at amortized cost. These are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortized cost upon the application of IFRS 9. All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

Impairment

Financial assets measured at amortized cost, listed redeemable notes that will be carried at FVTOCI under IFRS 9.

The Group expects to apply the simplified approach to recognize lifetime expected credit losses for its trade receivables as required or permitted by IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

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

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

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

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

IFRS 15 Revenue from Contracts with Customers (cont'd)

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The sales-related warranties cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Group will continue to account for the warranty in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with its current accounting treatment.

Apart from providing more extensive disclosures on the Group's revenue transactions, the management do not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance of the Group.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

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

The amendments clarify the estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

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

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

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

Annual Improvements to IFRS Standards 2014-2016 Cycle

The Annual Improvements include amendments to a number of IFRSs, which have been summarised below. The package also includes amendments to IFRS 12 Disclosure of Interests in Other Entities, which is effective for annual periods beginning on or after 1 January 2017 (see section 1A above for details).

- IFRS 1: The amendments delete certain short-term exemptions in IFRS 1 because the reporting period to which the exemptions applied have already passed. As such, these exemptions are no longer applicable.
- IAS 28: The amendments clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture.

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

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

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

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

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

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

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

The management of the Company do not evaluating impacts of the amendments in the future will have an impact on the Group's consolidated financial statements.

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.

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.

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)

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 higher of net selling price and value in use.

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

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

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)

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.

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

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

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

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

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

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.

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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

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.

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).

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

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

2.8.13 Related parties (cont'd)

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

2.8.14 Taxation and deferred income taxes

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

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

<u>Current tax</u>

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

<u>Deferred tax</u>

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

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

The carrying amount of deferred tax assets is reviewed at each 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.

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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)

2.8.14 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 2017 and 31 December 2016 is as follows:

	31 December 2017	31 December 2016
Cash	31	41
Banks - demand deposits	68.679	75.433
Banks - time deposits	6.966.730	4.511.437
	7.035.440	4.586.911
Time deposit interest accruals (-)	(18.737)	(9.206)
Cash and cash equivalents excluding interest accruals	7.016.703	4.577.705

The details of demand deposits are presented below:

	31 December 2017	31 December 2016
US Dollars	57.769	50.185
TRY	6.096	9.857
EURO	3.695	9.315
Romanian Lei	617	4.915
GB Pound	11	972
Japanese Yen	6	42
Other	485	147
	68.679	75.433

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NOTE 4 - CASH AND CASH EQUIVALENTS (cont'd)

The details of time deposits are presented below:

	31 December 2017	31 December 2016
US Dollars	6.704.513	4.441.259
TRY	12.015	45.026
EURO	250.006	24.988
Romanian Lei	196	164
	6.966.730	4.511.437

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 2017	31 December 2016
Available for sale financial assets	13.437	122
	13.437	122

As of 31 December 2017 and 31 December 2016, 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 2017	Ratio %	31 December 2016
Financial investments without an active market				
Teknopark Hatay A.Ş.	5	102	5	95
Joint venture				
İsdemir Linde Gaz Ortaklığı A.Ş. (*)	50	13.335	50	27
		13.437		122

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

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NOTE 6 - FINANCIAL DERIVATIVE INSTRUMENTS

The detail of financial derivative instruments as of 31 December 2017 and 31 December 2016 is as follows:

	31 December 2017		31 December 2016	
	Asset	Liability	Asset	Liability
Fair value hedging derivative financial assets				
Forward contracts for fair value hedges of currency risk of sales	27	9.470	14.825	-
Forward contracts	1.514	17	-	-
Cross currency swap contracts	-	-	22.640	133
Interest rate swap contracts	4.159	-	4.240	-
Basis Swap contracts	-	943	-	2.060
	5.700	10.430	41.705	2.193
Cash flow hedging derivative financial assets				
Forward contracts for cash flow hedges of currency risk of sales	1	24.017	17.354	444
Cross currency swap contracts for cash flow hedges of currency risk of borrowings	-	-	9.243	18.389
Interest rate swap contracts for cash flow hedges of interest rate risk of borrowings	572	12	244	171
Commodity swap contracts for cash flow hedges of price fluctuations of raw material purchases	2.075	8.982	1.719	-
	2.648	33.011	28.560	19.004
	8.348	43.441	70.265	21.197

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

NOTE 6 - FINANCIAL DERIVATIVE INSTRUMENTS (cont'd)

Derivative instruments for fair value hedge

As of 31 December 2017 and 31 December 2016, the details of forward, swap and cross currency swap transactions for fair value hedge are as follows:

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

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NOTE 6 - FINANCIAL DERIVATIVE INSTRUMENTS (cont'd)

Derivative instruments for fair value hedge (cont'd)

		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

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 2018 and February 2019.

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

In respect of these contracts which has a nominal value of TRY 1.086.544 thousand for the purpose of hedging cash flow risk, with related deferred tax effect TRY (24.016) thousand was included in other comprehensive income (31 December 2016: TRY 16.910 thousand).

In the current period, TRY (61.857) thousand resulting from the sales related forward contracts was accounted under the revenue account of the profit or loss table (31 December 2016: TRY 25.238).

NOTE 6 - FINANCIAL DERIVATIVE INSTRUMENTS (cont'd)

Derivative instruments for cash flow hedge (cont'd)

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 279.991 thousand, for the purpose of hedging cash flow risk, with related deferred tax effect TRY 560 thousand was included in other comprehensive income (31 December 2016: TRY (9.073) 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.

The maturities of 162 thousands tons of iron ore contracts which has a nominal value of TRY 40.101 thousand, vary until January 2019 and fair value except deferred tax effect, TRY 2.075 thousand is included in other comprehensive income (31 December 2016: TRY 1.719 thousand). Amounts recognized on other comprehensive income table TRY (8.982) thousand related with commodity price hedging swap contracts for raw material purchases, realized as of 31 December 2017 and capitalized on inventories.

As of 31 December 2017, TRY (11.198) thousand realised reclassification from other comprehensive income to cost of inventories. (31 December 2016: TRY 2.728 thousand).

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NOTE 7 - BORROWINGS

Details of borrowings are as follows:

	31 December 2017	31 December 2016
Short term borrowings	2.243.529	1.257.986
Current portion of long term borrowings	882.211	1.043.968
Total short term borrowings	3.125.740	2.301.954
Long term borrowings	1.364.688	1.617.534
Total long term borrowings	1.364.688	1.617.534
	4.490.428	3.919.488

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

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

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)

The details of the loan repayments with respect to their maturities are as follows:

	31 December 2017	31 December 2016
Within 1 year	3.125.740	2.301.954
Between 1-2 years	537.186	585.316
Between 2-3 years	487.084	480.309
Between 3-4 years	130.335	332.078
Between 4-5 years	117.133	102.893
Five years or more	92.950	116.938
	4.490.428	3.919.488

Reconciliation of net financial borrowings as of 31 December 2017 and 31 December 2016 is as follows:

	31 December 2017	31 December 2016
Opening balance	3.919.488	2.975.903
Interest expenses	105.342	104.548
Interest paid	(106.485)	(97.344)
Unrealised foreign exchange differences	55.106	(19.951)
Net present value differences	(13.520)	7.713
Cash inflow from loans	3.622.430	2.542.503
Cash outflow from loan repayments	(3.091.933)	(1.593.884)
Closing balance	4.490.428	3.919.488

NOTE 8 - TRADE RECEIVABLES AND PAYABLES

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

	31 December 2017	31 December 2016
Short term trade receivables		
Trade receivables	2.599.865	2.056.215
Due from related parties (Note 30)	82.936	54.877
Discount on receivables (-)	(2.119)	(3.709)
Provision for doubtful trade receivables (-)	(98.576)	(90.482)
	2.582.106	2.016.901

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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 2017	1 January - 31 December 2016
Opening balance	90.482	77.993
Provision for the period	431	1.417
Doubtful receivables collected (-)	(4.179)	-
Provision released (-)	(4.335)	(610)
Translation difference	16.177	11.682
Closing balance	98.576	90.482

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

As the Group provides services and products to a large number of customers, collection risk is widely distributed amongst these customers and there is no significant credit risk exposure. Therefore, the Group does not provide for any further provision beyond the doubtful receivables provisions that the Group has already provided for in the consolidated financial statements.

The detail of overdue receivables included in trade receivables as of the reporting date is disclosed in the management of credit risk management (Note 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 2017	31 December 2016
Trade payables	892.236	882.527
Due to related parties (Note 30)	53.897	35.008
Discount on trade payables (-)	(4.077)	(4.159)
Expense accruals	735	1.700
	942.791	915.076

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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 2017	31 December 2016
Receivables from water system construction	1.701	1.592
Deposits and guarantees given	299	291
	2.000	1.883

Long term other receivables	31 December 2017	31 December 2016
Receivables from Privatization Authority	73.193	70.236
Receivables from water system construction	12.591	12.808
Deposits and guarantees given	1.052	979
Provision for receivables from Privatization Authority (-)	(73.193)	(70.236)
	13.643	13.787

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

	1 January - 31 December 2017	1 January - 31 December 2016
Opening balance	70.236	67.397
Provision for the period	2.990	2.887
Other doubtful receivables collected (-)	-	(227)
Translation difference	(33)	179
Closing balance	73.193	70.236

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

Short term other payables	31 December 2017	31 December 2016
Taxes payable	2.863	2.709
Employee's income tax payables	27.343	27.766
Deposits and guarantees received	8.745	9.539
Dividend payables to shareholders (*)	3.007	2.112
	41.958	42.126

(*) 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 2017	31 December 2016
Raw materials	1.184.596	834.711
Work in progress	921.580	720.679
Finished goods	1.143.812	866.700
Spare parts	781.590	768.861
Goods in transit	895.153	983.678
Other inventories	341.025	289.205
Allowance for impairment on inventories (-)	(228.247)	(208.787)
	5.039.509	4.255.047

The movement of the allowance for impairment on inventories:

	1 January - 31 December 2017	1 January - 31 December 2016
Opening balance	208.787	168.433
Provision for the period	39.530	39.576
Provision released (-)	(35.415)	(35.305)
Translation difference	15.345	36.083
Closing balance	228.247	208.787

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).

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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 2017	31 December 2016
Insurance expenses	37.495	24.355
Order advances given	3.890	5.142
Prepaid utility allowance to employees	7.608	7.657
Other prepaid expenses	3.989	5.359
	52.982	42.513

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

	31 December 2017	31 December 2016
Order advances given	54.684	64.532
Insurance expenses	654	3.262
Other prepaid expenses	4.205	2.963
	59.543	70.757

NOTE 12 - INVESTMENT PROPERTIES

Cost	1 January - 31 December 2017	1 January - 31 December 2016
As of 1 January	94.882	71.731
Transfers (*)	-	6.916
Translation difference	6.813	16.235
As of 31 December	101.695	94.882
Book value	101.695	94.882

According to the recent valuation reports, the fair value of the Group's investment properties is TRY 558.868 thousand (31 December 2016: TRY 484.801 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, relavent lands are reclassed to investment properties.

The Group's all investment properties consist of land parcels.

For the year ended 31 December 2017, the Group generated rent income amounting to TRY 506 thousand (31 December 2016: TRY 419 thousand) recognized under other operating income.

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NOTE 13 - PROPERTY, PLANT AND EQUIPMENT

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

(*) The amount of capitalized borrowing cost is TRY 4.176 thousand for the current period (31 December 2016: TRY 2.028 thousand).

(**) TRY 6.325 thousand is transferred to intangible assets (Note 14).

As of 31 December 2017, the Group has no collaterals or pledges upon its tangible assets (31 December 2016: None).

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NOTE 13 - PROPERTY, PLANT AND EQUIPMENT (cont'd)

Cost	Land	Land Improve-ments	Buildings	Machinery and equipment	Vehicles	Furniture and Fixtures	Other Property, Plant and Equipment	Construction in Progress (CIP)	Total
Opening balance as of 1 January	173.843	2.418.629	3.815.068	16.107.877	958.465	474.272	155.854	560.468	24.664.476
Transfers (***)	(6.916)	-	-	-	-	-	-	-	(6.916)
Translation difference	32.861	510.388	805.422	3.453.408	171.916	81.944	14.191	89.520	5.159.650
Additions (*)	-	795	2.368	93.568	7.873	11.607	10.998	353.994	481.203
Transfers from CIP (**)	2.757	61.808	34.802	419.298	3.957	3.990	20.053	(554.161)	(7.496)
Disposals	-	(92)	-	(33.207)	(1.748)	(2.258)	(835)	-	(38.140)
Closing balance as of 31 December 2016	202.545	2.991.528	4.657.660	20.040.944	1.140.463	569.555	200.261	449.821	30.252.777
Accumulated Depreciation									
Opening balance as of 1 January	-	(1.718.537)	(2.650.501)	(9.107.231)	(562.416)	(241.276)	(95.383)	(24.671)	(14.400.015)
Translation difference	-	(365.284)	(569.690)	(1.973.701)	(91.899)	(34.322)	(7.114)	(8.744)	(3.050.754)
Charge for the period	-	(59.477)	(83.516)	(430.766)	(30.636)	(20.796)	(14.507)	-	(639.698)
Impairment (****)	-	-	(3.916)	(11.285)	(811)	-	(1.617)	(21.429)	(39.058)
Disposals	-	50	-	24.304	1.735	2.016	615	-	28.720
Closing balance as of 31 December 2016	-	(2.143.248)	(3.307.623)	(11.498.679)	(684.027)	(294.378)	(118.006)	(54.844)	(18.100.805)
Net book value as of 31 December 2015	173.843	700.092	1.164.567	7.000.646	396.049	232.996	60.471	535.797	10.264.461
Net book value as of 31 December 2016	202.545	848.280	1.350.037	8.542.265	456.436	275.177	82.255	394.977	12.151.972

(*) The amount of capitalized borrowing cost is TRY 2.028 thousand for the current period.

(**) 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, relavent 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;

- For non used assets, an impairment loss of TRY 19.223 thousand is recognised that on income statement under other operating expenses (Note 25);
- 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).

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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 2017	31 December 2016
Associated with cost of production	649.088	609.576
General administrative expenses	9.652	8.397
Marketing, sales and distribution expenses	25.299	20.416
Research and development expenses	2.094	1.309
	686.133	639.698

NOTE 14 - INTANGIBLE ASSETS

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

As of 31 December 2017, the Group has no collaterals or pledges upon its intangible assets (31 December 2016: None).

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NOTE 14 - INTANGIBLE ASSETS (cont'd)

	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)
Closing balance 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

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

	31 December 2017	31 December 2016
Associated with cost of production	14.256	12.815
General administrative expenses	9.249	6.469
Marketing, sales and distribution expenses	620	629
Research and development expenses	117	76
	24.242	19.989

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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 supoorts from Tübitak - Teydeb, in return for research and devolopment expenditures,
- Inward processing permission certificates,
- Social Security Institution incentives
- Insurance premium employer share incentive.

Research and development incentive premiums taken or certain to be taken amounts to TRY 1.348 thousand (31 December 2016: TRY 1.062 thousand) which are accounted under income statement for the year ended 31 December 2017.

NOTE 16 - EMPLOYEE BENEFITS

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

	31 December 2017	31 December 2016
Due to personnel	113.687	109.062
Social security premiums payable	64.251	59.662
	177.938	168.724

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

	31 December 2017	31 December 2016
Provisions for employee termination benefits	511.971	448.932
Provisions for seniority incentive premium	43.468	38.884
Provision for unpaid vacations	81.374	79.603
	636.813	567.419

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 2017, the amount payable consists of one month's salary limited to a maximum of TRY 4.732,48 (31 December 2016: TRY 4.297,21). As of 1 January 2018, the employee termination benefit has been updated to a maximum of TRY 5.001,76.

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 2017 has been calculated by an independent actuary. The actuarial assumptions used in the calculation of the present value of the future probable obligation are as follows:

	31 December 2017	31 December 2016
Discount rate	%11,50	%11,00
Inflation rate	%8,30	%7,80
Salary increase	real 1,5%	real 1,5%
Maximum liability increase	%8,30	%7,80

Discount rates are determined considering the expected duration of the retirement obligations and the currency in which the obligations will be paid. In calculations as of 31 December 2017, a fixed discount rate is used. Long term inflation estimates are made using an approach consistent with discount rate estimates and long term inflation rate fixed over years is used.

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

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

	1 January - 31 December 2017	1 January - 31 December 2016
Opening balance	448.932	404.699
Service cost	43.762	41.921
Interest cost	46.296	40.319
Actuarial loss/(gain)	12.618	(8.006)
Termination benefits paid	(39.717)	(30.965)
Translation difference	80	964
Closing balance	511.971	448.932

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

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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 2017 as follows:

	Interest rate	
Change in rate	1% increase	1% decrease
Change in employee benefits liability	(21.996)	23.646

	Inflation rate	
Change in rate	1% increase	1% decrease
Change in employee benefits liability	22.110	(20.772)

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 2017	1 January - 31 December 2016
Opening balance	38.884	28.289
Service cost	4.189	4.315
Interest cost	3.883	3.069
Actuarial loss/(gain)	6.244	4.802
Termination benefits paid	(9.798)	(1.522)
Translation difference	66	(69)
Closing balance	43.468	38.884

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

	1 January - 31 December 2017	1 January - 31 December 2016
Opening balance	79.603	72.927
Provision for the period	68.042	60.847
Vacation paid during the period (-)	(5.870)	(4.214)
Provisions released (-)	(61.207)	(50.255)
Translation difference	806	298
Closing balance	81.374	79.603

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

NOTE 17 - PROVISIONS

The Group's short term provisions are as follows:

	31 December 2017	31 December 2016
Provision for lawsuits	103.689	105.448
Penalty prov. for employment shortage of disabled pers.	6.374	7.488
Provision for state right on mining activities	5.102	2.650
Provision for land occupation	11.665	16.602
Provision for the potential tax penalty	7.584	13.398
	134.414	145.586

The movement of the short term provisions is as follows:

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

	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

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

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NOTE 17 - PROVISIONS (cont'd)

Provision for lawsuits

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

	31 December 2017	31 December 2016
Lawsuits filed by the Group	581.107	526.308
Provision for lawsuits filed by the Group	79.933	64.076

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

	31 December 2017	31 December 2016
Lawsuits filed against the Group	377.793	348.856
Provision for lawsuits filed against the Group	103.689	105.448

The Company, prepared its consolidated financial statements as of 31 March 2005, 30 June 2005 and 30 September 2005 according to CMB's Communiqué Serial XI No 25 on "Accounting Standards to be implemented in Capital Markets" which is not in effect today, whereas its consolidated financial statements of 31 December 2005 was prepared according to International Financial Reporting Standards by virtue of the Article 726 and Temporary Article 1 of the aforementioned Communiqué, and CMB's letter no. SPK.017/83-3483 dated 7 March 2006, sent to the Group Management. The aforementioned Communiqué (Serial XI No. 25 on the "Accounting Standards to be implemented in Capital Markets"), and Communiqués inserting some provisions thereto together with the Communiqués amending it, became effective starting with the consolidated financial statements of the first interim period ending after 1 January 2005.

CMB asked the Company to prepare its consolidated financial statements of 31 December 2005 all over again according to the same accounting standards set used during the period, to publish those statements, and to submit them to the General Assembly Approval as soon as possible, by stating on its decision no. 21/526 dated 5 May 2006 that the Company's changing the accounting standards set used during the term (Serial XI, No 25) at the end of the same term (IFRS) caused a decrease amounting to TRY 152.330 thousand on the period due to negative goodwill income.

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

NOTE 17 - PROVISIONS (cont'd)

Provision for lawsuits (cont'd)

CMB, prepared the Company's consolidated financial statements as of 31 December 2005, which had been prepared according to the IFRS, by adding the negative goodwill of TRY 152.330 thousand, that had previously been added to the accumulated earnings, to the profit of 2005 on its own motion and account, and published them on Istanbul Stock Exchange Bulletin on 15 August 2006; with the rationale that the Company had not fulfilled its due demand on grounds that "Article 726 and Temporary Provision 1 of CMB's Communiqué Serial XI, No. 25 authorize the use of IFRS on consolidated financial statements of 2005, although CMB had given the Company a 'permission' No. SPK.0.17/83-3483 of 7 March 2006, and the lawsuits regarding this issue are still pending". The Company challenged CMB's aforementioned decision by a separate lawsuit on 10 October 2006. 11th Administrative Court of Ankara rejected this case on 25 June 2007. The Company appealed this rejection 11 October 2007; 13th Chamber of the Council of State, accepted the appeal request and abolished the rejection judgment. CMB appealed the Chamber's decision on 6 September 2010. 13th Chamber of the Council of State accepted CMB's appeal and reverted its previous abolishment decision, and ratified 11th Administrative Court of Ankara's judgment by the majority of the votes on 30 May 2012 with its decision no. E. 2010/4405; K. 2012/1352. This decision was notified to the Company's lawyers on 20 July 2012.

Had the Company started to prepare its consolidated financial statements in accordance with IFRS after 31 December 2005, it would also have to present the comparative consolidated financial statements in accordance with IFRS based on "IFRS 1: First-time adoption of International Financial Reporting Standards" and the previously recognized negative goodwill would be transferred directly to retained earnings on 1 January 2005 instead of recognizing in the consolidated income statement in accordance with "IFRS 3: Business Combinations". Therefore, the net profit for the periods ended 31 December 2017 and 31 December 2016 will not be affected from the above mentioned disputes.

Company's Shareholders' General Assembly, which was held at 30 March 2006, decided dividend distribution according to the consolidated financial statements as of 31 December 2005, which was prepared according to IFRS. Privatization Administration, who has a usufruct right over 1 (one) equity share among the Company shares it transferred to Ataer Holding A.Ş., filed a lawsuit at 1 May 2006 the 3th Commercial Court of Ankara against the aforementioned General Assembly decision, and claimed that, dividend distribution decision must be abolished and TRY 35.673 thousand allegedly unpaid dividend must be paid to itself (E. 2006/218). The Court rejected the case on 23 October 2008; Privatization Administration appealed this rejection on 7 January 2009. Court of Appeals' 11th Chamber reversed this rejection judgment on 30 November 2010; this time the Company appealed the Chamber's decision on 18 February 2011. However, the Chamber rejected the Company's appeal on 14 July 2011. The case file, sent back to 3th Commercial Court of Ankara once again. The case was dismissed at the hearing held on 26 June 2015. Decision of the local court has been reversed by the Supreme Court 11th Civil Chamber with the decision dated 24 May 2017 and 2015/15771 Docket; 2017/3040 Decision number. The decision of reversal has been notified to the Company on 2 August 2017. Erdemir has applied for revision of the decision against the Supreme Court 11th Civil Chamber's decision dated 24.05.2017 and 2015/15771 Docket; 2017/3040 Decision number. Conclusion of the application for revision of the decision is expected.

The Company, based on the above mentioned reasons, doesn't expect for the possible effects of changes in the net profit for the year ended 31 December 2005 due to the lawsuits mentioned above to have any impact in the accompanying consolidated financial statements as of 31 December 2017 and 31 December 2016.

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 of Kdz. Ereğli on 17 April 2013 for the compensation of the loss arising from the sales contract has been dismissed in favor of the Company at the stages of appeal and revision of decision.

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. At the hearing of the ongoing case dated 28 November 2017, Kdz. Ereğli 2. Civil Court of First Instance has decided to partially accept the case against our Company. Our company has applied for the appeal against the decision. A provision amounting to TRY 31.099 thousand recognised on financial statements for related lawsuit.

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

NOTE 17 - PROVISIONS (cont'd)

Provision for state right on mining activities

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

Land occupation

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

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

Tax Penalty Provision

As a result of the comprehensive corporate tax audit carried out by the relevant tax administration for the period 2009-2014 for one of the Group's subsidiaries, Erdemir Romania SRL in Romania, a total payment of TRY 7.584 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.

NOTE 18 - COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	31 Aralık 2017	31 Aralık 2016
Letters of guarantees received	1.976.567	1.797.646
	1.976.567	1.797.646

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

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

	31 December 2017	31 December 2016
A. Total CPM given for the Company's own legal entity	116.263	112.584
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	176.335	625.603
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	-	-
D. Other CPM given	-	-
i. Total CPM given in favour of parent entity	-	-
ii. Total CPM given in favour of other Group companies out of the scope of clause B and C	-	-
iii. Total CPM given in favour of other 3rd parties out of the scope of clause C	-	-
	292.598	738.187

TRY 93.835 thousand of total CPM given in favor of subsidiaries TRY 176.335 thousand is related with financial borrowings stated in Note 6 and TRY 82.500 thousand of total CPM given by the Group is related with jointly controlled entity of Isdemir, Isdemir Linde Gaz A.Ş.'s financial borrowings.As of 31 December 2017, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2016: 0%).

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

	31 December 2017	31 December 2016
US Dollars	70.205	472.815
TRY	180.249	109.989
EURO	42.144	135.753
Japanese Yen	-	19.630
	292.598	738.187

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

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 2017	31 December 2016
Other VAT receivable	67.269	68.156
Deferred VAT	26.431	8.815
Prepaid taxes and funds	2.146	2.013
Other current assets	30.390	16.675
	126.236	95.659

Other non-current assets

	31 December 2017	31 December 2016
Other VAT receivable	-	10.856
	-	10.856

Other current liabilities

	31 December 2017	31 December 2016
VAT payable	106.512	64.382
Other current liabilities	5.016	7.758
	111.528	72.140

Other non-current liabilities

	31 December 2017	31 December 2016
Other non-current liabilities	428	479
	428	479

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

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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 2017	31 December 2016
Advances received	142.980	99.215
Deferred income	7.300	7.138
	150.280	106.353

NOTE 21 - EQUITY

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

Shareholders	(%)	31 December 2017	(%)	31 December 2016
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 2017 consists of 350.000.000.000 lots of shares (31 December 2016: 350.000.000.000 lots). The nominal value of each share is 1 Kr (Turkish cent) (31 December 2016: 1 Kr). This capital is split between A and B group shares. Group A shares consist of 1 share with a share value of 1 Kr and Group B shares consist of 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.

NOTE 21 - EQUITY (cont'd)

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

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 2017, holds its own shares with a nominal value of TRY 107.837 thousand (31 December 2016: 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 2017	31 December 2016
Share Premium	106.447	106.447
Revaluation Reserves of Tangible Assets	33.917	29.437
- Revaluation Reserves of Tangible Assets	*33.917*	*29.437*
Cash Flow Hedging Reserves	(16.272)	8.013
Foreign Currency Translation Reserves	7.665.476	6.522.205
Actuarial (Loss)/ Gain Fund	(111.247)	(101.527)
Restricted Reserves Assorted from Profit	1.567.280	1.166.197
- Legal Reserves	*1.567.280*	*1.166.197*
Retained Earnings	2.144.646	2.420.078
	11.390.247	10.150.850

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

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

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

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

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

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 the inflation adjustment differences in dividend distribution in cash, it is subject to corporate tax.

Other sources which might be used in dividend distribution, except the net profit for the period, in statutory books of the Company are equal to TRY 182.726 thousand as of 31 December 2017 (31 December 2016: TRY 375.632 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.

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

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 2017	1 January - 31 December 2016
Sales Revenue		
Domestic sales	15.812.158	9.936.330
Export sales	2.480.404	1.474.428
Other revenues (*)	403.195	255.177
Sales returns (-)	(37.610)	(18.506)
Sales discounts (-)	(14.233)	(10.925)
	18.643.914	11.636.504
Cost of sales (-)	(13.480.960)	(9.166.325)
Gross profit	5.162.954	2.470.179

(*)The total amount of by product exports in other revenues is TRY 191.125 thousand (31 December 2016: TRY 85.696 thousand).

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

NOTE 22 - SALES AND COST OF SALES (cont'd)

The breakdown of cost of sales for the periods 1 January - 31 December 2017 and 1 January - 31 December 2016 is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Raw material usage	(9.805.665)	(5.859.664)
Personnel costs	(1.457.439)	(1.299.385)
Energy costs	(671.070)	(744.573)
Depreciation and amortization expenses	(672.664)	(620.483)
Factory overheads	(412.100)	(335.818)
Other cost of goods sold	(209.234)	(110.057)
Non-operating costs (*)	(25.368)	(19.392)
Freight costs for sales delivered to customers	(199.017)	(145.532)
Inventory write-downs within the period (Note 10)	(39.530)	(39.576)
Reversal of inventory write-downs (Note 10)	35.415	35.305
Other	(24.288)	(27.150)
	(13.480.960)	(9.166.325)

(*) 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 (25.368) thousand, has been accounted directly under cost of sales (31 December 2016: TRY (19.392) thousand).

NOTE 23 - RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

The detail of marketing, sales and distribution expenses according to their nature for the periods 1 January - 31 December 2017 and 1 January - 31 December 2016 is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Marketing, sales and distribution expenses (-)	(164.522)	(141.215)
General administrative expenses (-)	(322.163)	(288.275)
Research and development expenses (-)	(13.113)	(11.088)
	(499.798)	(440.578)

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

NOTE 24 - OPERATING EXPENSES ACCORDING TO THEIR NATURE

The detail of marketing, sales and distribution expenses according to their nature for the periods 1 January - 31 December 2017 and 1 January - 31 December 2016 is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Personnel expenses (-)	(81.242)	(75.697)
Depreciation and amortization(-)	(25.919)	(21.045)
Service expenses (-)	(57.361)	(44.473)
	(164.522)	(141.215)

The detail of general administrative expenses for the periods 1 January - 31 December 2017 and 1 January - 31 December 2016 is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Personnel expenses (-)	(174.144)	(158.976)
Depreciation and amortization (-)	(18.901)	(14.866)
Service expenses (-)	(122.408)	(103.477)
Tax, duty and charges (-)	(7.624)	(7.262)
Provision for doubtful receivables (-)	914	(3.694)
	(322.163)	(288.275)

The detail of research and development expenses for the periods 1 January - 31 December 2017 and 1 January - 31 December 2016 is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Personnel expenses (-)	(8.475)	(7.575)
Depreciation and amortization (-)	(2.211)	(1.385)
Other (-)	(2.427)	(2.128)
	(13.113)	(11.088)

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NOTE 25 - OTHER OPERATING INCOME/(EXPENSES)

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

	1 January - 31 December 2017	1 January - 31 December 2016
Other operating income		
Provisions released for land occupation (Note 17)	-	63.786
Interest income from sales with maturities	94.054	60.210
Discount income	9.210	6.281
Provisions released	47.001	23.726
Service income	16.514	14.017
Maintenance repair and rent income	12.322	10.723
Warehouse income	4.771	4.548
Indemnity and penalty detention income	2.968	2.301
Insurance indemnity income	45.398	7.046
Lawsuit income	7.496	353
Gain on sale of tangible assets	5.540	683
Gain on sale of investment properties	7.931	-
Other income and gains	24.149	29.640
	277.354	223.314

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

	1 January - 31 December 2017	1 January - 31 December 2016
Other operating expenses (-)		
Provision expenses	(48.734)	(49.137)
Discount expenses	(6.342)	(6.852)
Lawsuit compensation expenses	(4.738)	(5.515)
Port facility pre-licence expenses	(6.443)	(5.399)
Donation expenses	(2.573)	(3.329)
Service expenses	(7.058)	(5.531)
Loss on disposal of tangible assets	(13.215)	(3.617)
Stock exchange registration expenses	(1.396)	(1.077)
Rent expenses	(1.631)	(1.516)
Penalty expenses	(1.345)	(2.741)
Impairment of property, plant and equipment (Note 13)	-	(34.181)
Other expenses and losses	(16.604)	(31.349)
	(110.079)	(150.244)

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

NOTE 26 - FINANCE INCOME

The breakdown of finance income for the periods 1 January - 31 December 2017 and 1 January - 31 December 2016 is as follows:

Finance income	1 January - 31 December 2017	1 January - 31 December 2016
Interest income on bank deposits	206.792	123.634
Foreign exchange gains (net)	79.849	232.928
Other financial income	227	-
	286.868	356.562

NOTE 27 - FINANCE EXPENSES

The breakdown of finance expenses for the periods 1 January - 31 December 2017 and 1 January - 31 December 2016 is as follows:

Finance expenses (-)	1 January - 31 December 2017	1 January - 31 December 2016
Interest expenses on borrowings	(105.342)	(104.548)
Interest cost of employee benefits	(50.179)	(43.388)
Fair value differences of derivative financial instruments (net)	(5.025)	(37.228)
Other financial expenses	(2.237)	(2.641)
	(162.783)	(187.805)

During the period, the interest expenses of TRY 4.176 thousand have been capitalized as part of the Group's property, plant and equipment (31 December 2016: TRY 2.028 thousand).

NOTE 28 - TAX ASSETS AND LIABILITIES

	31 December 2017	31 December 2016
Corporate tax payable:		
Current corporate tax provision	1.137.927	530.673
Prepaid taxes and funds (-)	(339.966)	(75.049)
	797.961	455.624

	1 January - 31 December 2017	1 January - 31 December 2016
Taxation:		
Current corporate tax expense	1.137.927	530.673
Deferred tax (income) / expense	(80.953)	169.053
	1.056.974	699.726

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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 2017 (31 December 2016: in Turkey 20%, in Romania 16%, in Singapore 17%). The total amount of the corporate tax paid by the Group in 2017 is TRY 795.590 thousand (31 December 2016: TRY 292.818 thousand).

In Turkey, advance tax returns are filed on a quarterly basis. The temporary tax of 2017 has been calculated over the corporate earnings using the rate 20%, during the temporary taxation period. (31 December 2016: 20%).

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

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

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

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

Income withholding tax

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

NOTE 28 - TAX ASSETS AND LIABILITIES (cont'd)

Income withholding tax (cont'd)

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.

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 2016: 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.

Deferred tax assets and liabilities (excluding land) tax rate used for calculating corporate tax for the subsidiaries in Turkey in accordance with the additional provisional Article 10 of Corporate Tax Law; corporate tax rate will be 22% for the corporate earnings to be obtained in the taxation periods of 2018, 2019, 2020 and 20% for the following years. The effective corporate tax rate is 17% in Singapore and 16% in Romania as of 31 December 2017 (31 December 2016: in Turkey 20%, in Romania 16%, in Singapore 17). The deferred tax on the temporary timing differences arising from land is calculated with the 10% tax rate. (31 December 2016: 5%)

In accordance with the Provisional Article added to the Law of Corporate Income Tax, the corporate tax rate for corporate earnings to be obtained during the tax years 2018, 2019 and 2020 has been increased from 20% to 22%.

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 2017	31 December 2016
Deferred tax assets:		
Carry forward tax losses	737	2.017
Provisions for employee benefits	129.580	113.400
Investment incentive	66.046	7.760
Provision for lawsuits	22.383	21.089
Provision for termination fee of long term contract	7.717	453
Inventories	19.170	12.683
Provision for other doubtful receivables	14.639	14.047
Tangible and intangible assets	16.039	15.819
Other	46.345	39.860
	322.656	227.128
Deferred tax liabilities:		
Tangible and intangible assets	(1.832.586)	(1.667.791)
Fair values of the derivative financial instruments	-	(10.267)
Amortized cost adjustment on loans	(4.994)	(1.930)
Inventories	(34.872)	(80.088)
Other	(12.179)	(9.841)
	(1.884.631)	(1.769.917)
	(1.561.975)	(1.542.789)

In accordance with the Provisional Article added to the Law of Corporate Income Tax, the corporate tax rate for corporate earnings to be obtained during the tax years 2018, 2019 and 2020 has been increased from 20% to 22 for the Group's subsidiaries operate in Turkey. Group recorded the effect on corporate tax rate change to the deffered tax calculations according to the current circumstances.

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 2017	31 December 2016
Deferred tax assets	57.743	34.243
Deferred tax (liabilities)	(1.619.718)	(1.577.032)
	(1.561.975)	(1.542.789)

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

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 2017	31 December 2016	31 December 2017	31 December 2016
1 year	-	-	-	-
2 year	4.606	-	4.606	-
3 year	-	12.606	-	12.606
4 year	-	-	-	-
5 year	-	-	-	-
	4.606	12.606	4.606	12.606

Movements of deferred tax asset / (liability)

	1 January - 31 December 2017	1 January - 31 December 2016
Opening balance	(1.542.789)	(1.024.995)
Deferred tax (expense)/income	80.953	(169.053)
The amount in comprehensive income	9.419	(4.209)
Translation difference	(109.558)	(344.532)
Closing balance	(1.561.975)	(1.542.789)

Reconciliation of tax provision is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Profit before tax	4.954.516	2.271.428
Statutory tax rate	20%	20%
Calculated tax expense acc. to effective tax rate	(990.903)	(454.286)
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	(4.252)	(2.890)
- Adjustment effect of rates subjected to corporate tax and deffered tax	(5.387)	-
- Effect of currency translation to non taxable assets	(123.270)	(239.896)
- Investment incentive	66.942	(2.772)
- Effect of the different tax rates due to foreign subsidiaries	(104)	118
Total tax exp. in reported in the stat. of income	(1.056.974)	(699.726)

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NOTE 28 - TAX ASSETS AND LIABILITIES (cont'd)

As of 1 January - 31 December 2017 and 2016, the details of the tax gains/(losses) of the other comprehensive income/(expense) are as follows:

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

	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

NOTE 29 - EARNINGS PER SHARE

	1 January - 31 December 2017	1 January- 31 December 2016
Number of shares outstanding	350.000.000.000	350.000.000.000
Net profit attributable to equity holders - TRY thousand	3.753.755	1.516.438
Profit per share with 1 TRY nominal value TRY %	1,0725 / %107,25	0,4333 / %43,33

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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 2017	31 December 2016
Oyak Renault Otomobil Fab. A.Ş.[2]	59.622	40.722
Bolu Çimento Sanayi A.Ş.[1]	7.507	7.484
Adana Çimento Sanayi T.A.Ş. [1]	10.195	6.065
İsdemir Linde Gaz Ortaklığı A.Ş.[3]	3.820	-
Other	1.792	606
	82.936	54.877

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

Due to related parties (short term)	31 December 2017	31 December 2016
Omsan Lojistik A.Ş.[1]	14.466	8.021
Omsan Denizcilik A.Ş.[1]	11.696	11.747
Oyak Pazarlama Hizmet ve Turizm A.Ş.[1]	7.846	8.045
Oyak Savunma ve Güvenlik Sistemleri A.Ş.[1]	8.156	3.865
Oyak Denizcilik ve Liman İşletmeleri A.Ş.[1]	7.322	-
Oyak Grup Sigorta ve Reasürans Brokerliği A.Ş. [1]	1.980	-
Other	2.431	3.330
	53.897	35.008

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

[1] Subsidiaries of the parent company
[2] Joint venture of the parent company
[3] Joint venture of subsidiary

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NOTE 30 - RELATED PARTY DISCLOSURES (cont'd)

Major sales to related parties	1 January - 31 December 2017	1 January - 31 December 2016
Oyak Renault Otomobil Fab. A.Ş.[2]	223.492	143.767
Adana Çimento Sanayi T.A.Ş.[1]	20.527	16.523
Bolu Çimento Sanayi A.Ş.[1]	9.635	14.337
Aslan Çimento A.Ş.[1]	2.320	1.635
Oyak Denizcilik ve Liman İşletmeleri A.Ş.[1]	11.245	-
Mardin Çimento Sanayi ve Ticaret A.Ş.[1]	1.104	650
Omsan Lojistik A.Ş.[1]	1.101	889
İsdemir Linde Gaz Ortaklığı A.Ş.[3]	3.341	-
Other	1.612	1.958
	274.377	179.759

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 2017	1 January - 31 December 2016
Omsan Denizcilik A.Ş.[1]	125.918	91.641
Oyak Pazarlama Hizmet ve Turizm A.Ş.[1]	89.863	64.352
Omsan Lojistik A.Ş.[1]	96.159	64.534
Oyak Savunma ve Güvenlik Sistemleri A.Ş.[1]	40.845	31.846
Omsan Logistica SRL[1]	13.346	8.733
Oyak Denizcilik ve Liman İşletmeleri A.Ş.[1]	55.565	-
Oyak Grup Sigorta ve Reasürans Brokerliği A.Ş. [1]	7.324	-
Other	21.332	16.060
	450.352	277.166

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

[1] Subsidiaries of the parent company

[2] Joint venture of the parent company

[3] Joint venture of subsidiary

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

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

Salaries, bonuses and other benefits of the key management:

For the year ended 31 December 2017, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 26.741 thousand (31 December 2016: TRY 22.919 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 2017 and 31 December 2016 the net (credit) debt /equity ratio is as follows:

	Note	31 December 2017	31 December 2016
Total financial liabilities	7	4.490.428	3.919.488
Less: Cash and cash equivalents	4	7.035.440	4.586.911
Net (credit) debt		(2.545.012)	(667.423)
Total adjusted equity (*)		19.355.676	15.753.547
Total resources		16.810.664	15.086.124
Net (credit) debt/Total adjusted equity ratio		-13%	-4%
Distribution of net (credit) debt/ total adjusted equity		-15/115	-4/104

(*)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 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 arisng from any customer.

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

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

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

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				Bank Deposits	Derivative financial instruments
	Trade Receivables		Other Receivables			
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.

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

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 2017 and 31 December 2016, stated in Note 2.8.9 the foreign currency position of the Group in terms of original currency is calculated as it as follows:

	30 September 2017			
	TRY (Total in reporting currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)
1. Trade Receivables	400.354	47.969	75.455	208
2a. Monetary financial assets	272.343	17.528	56.033	200
2b. Non- monetary financial assets	-	-	-	-
3. Other	156.535	155.013	337	-
4. CURRENT ASSETS (1+2+3)	**829.232**	**220.510**	**131.825**	**408**
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	48.402	22.182	4.491	191.111
8. Non-current assets (5+6+7)	**48.402**	**22.182**	**4.491**	**191.111**
9. Total assets (4+8)	**877.634**	**242.692**	**136.316**	**191.519**
10. Trade payables	326.770	282.292	7.856	206.922
11. Financial liabilities	406.475	198.808	45.990	-
12a. Other monetary financial liabilities	543.414	538.995	979	-
12b. Other non-monetary financial liabilities	785.150	785.150	-	-
13. Current liabilities (10+11+12)	**2.061.809**	**1.805.245**	**54.825**	**206.922**
14. Trade payables	-	-	-	-
15. Financial liabilities	308.573	-	68.336	-
16a. Other monetary financial liabilities	620.791	620.791	-	-
16b. Other non-monetary financial liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	**929.364**	**620.791**	**68.336**	**-**
18. Total liabilities (13+17)	**2.991.173**	**2.426.036**	**123.161**	**206.922**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	**(1.398.078)**	**232.660**	**(361.142)**	**-**
19a. Off-balance sheet foreign currency derivative financial assets	232.660	232.660	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	1.630.738	-	361.142	-
20. Net foreign currency asset/liability position (9-18+19)	**(3.511.617)**	**(1.950.684)**	**(347.987)**	**(15.403)**
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15- 16a)	**(1.533.326)**	**(1.575.389)**	**8.327**	**(206.514)**
22. Fair value of derivative financial instruments used in foreign currency hedge	(31.961)	-	(7.078)	-
23. Hedged foreign currency assets	1.630.738	-	361.142	-
24. Hedged foreign currency liabilities	232.660	232.660	-	-
25. Exports	2.671.529			
26. Imports	9.620.585			

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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 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			

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

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, 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 2017 asset and liability balances are translated by using the following exchange rates: TRY 3,7719 = US $ 1,TRY 4,5155 = EUR 1 and TRY 0,0334= JPY 1 (31 December 2016: TRY 3,5192 = US $ 1,TRY 3,7099 = EUR 1 and TRY 0,0300= JPY 1).

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2017	Appreciation of foreign currency	Depreciation of foreign currency
1- TRY net asset/liability	(218.334)	218.334
2- Hedged portion from TRY risk (-)	23.266	(23.266)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(195.068)	195.068
5- 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	5.940	(5.940)
10- Hedged portion from Euro risk (-)	-	-
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	5.940	(5.940)
13- Jap. Yen net asset/liability	(48)	48
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(48)	48
TOTAL (4+8+12+16)	**(189.176)**	**189.176**

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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 an d 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**

(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 2017	31 December 2016
Floating interest rate financial instruments		
Financial liabilities	2.388.577	2.967.313

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 8.516 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 2017

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

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

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.

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

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 2017	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	7.035.440	-	-	-	-	-	7.035.440	4
Trade receivables	-	2.582.106	-	-	-	-	2.582.106	8
Financial investments	-	-	13.437	-	-	-	13.437	5
Other financial assets	-	15.643	-	-	-	-	15.643	9
Derivative financial instruments	-	-	-	-	2.648	5.673	8.321	6
Financial Liabilities								
Financial liabilities	-	-	-	4.490.428	-	-	4.490.428	7
Trade payables	-	-	-	942.791	-	-	942.791	8
Other liabilities	-	-	-	268.419	-	-	268.419	9/16/19
Derivative financial instruments	-	-	-	-	33.011	10.430	43.441	6
31 December 2016								
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

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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 2017	Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	5.700	-	5.700	-
Derivative financial liabilities	(10.430)	-	(10.430)	-
			-	
Financial assets and liabilities at fair value through other comprehensive income/expense				
			-	
Derivative financial assets	2.648	-	2.648	-
Derivative financial liabilities	(33.011)	-	(33.011)	-
Total	(35.093)	-	(35.093)	-

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

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 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				
			-	
Derivative financial assets	28.560	-	28.560	-
Derivative financial liabilities	(19.004)	-	(19.004)	-
Total	49.068	-	49.068	-

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

- In the Board of Directors meeting of Iskenderun Demir ve Çelik AS, a subsidiary of the Company, dated 2 February 2018; it has been decided to participate 50% in the capital increase of Isdemir Linde Gaz Ortaklığı A.Ş., which is a jointly controlled entity, amounting to USD 46 million.

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

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