FOR HALF A CENTURY

STEEL IN LIFE

50 YEARS

2015 ANNUAL REPORT

ErdemirGroup

CONTENTS

WE ARE WITH YOU AT EVERY MOMENT OF THE DAY, IN ALL AREAS OF LIFE

50 YEARS

WE ARE THE ERDEMİR GROUP, WORKING 365 DAYS A YEAR, 24 HOURS A DAY TO OFFER YOU A SAFER, MORE COMFORTABLE AND MORE AESTHETIC LIFE, AND TO CREATE MORE VALUE FOR OUR COUNTRY.

WE HAVE ALWAYS THOUGHT BIG WITH THE RESPONSIBILITY OF BEING TURKEY'S LEADING STEEL PRODUCER IN OUR HALF CENTURY JOURNEY, ONE THAT HAS TRANSFORMED OUR INDUSTRY. WHILE PIONEERING OUR COUNTRY'S INDUSTRIALIZATION, WE PROGRESSED DEVOTED TO A PRINCIPLE OF RESPECT FOR PEOPLE, RESPECT FOR THE COMMUNITY WHERE WE LIVE AND TO NATURE. WE HAVE ALWAYS UPHELD OUR STAKEHOLDERS' SATISFACTION AND THEIR SUSTAINABLE DEVELOPMENT.

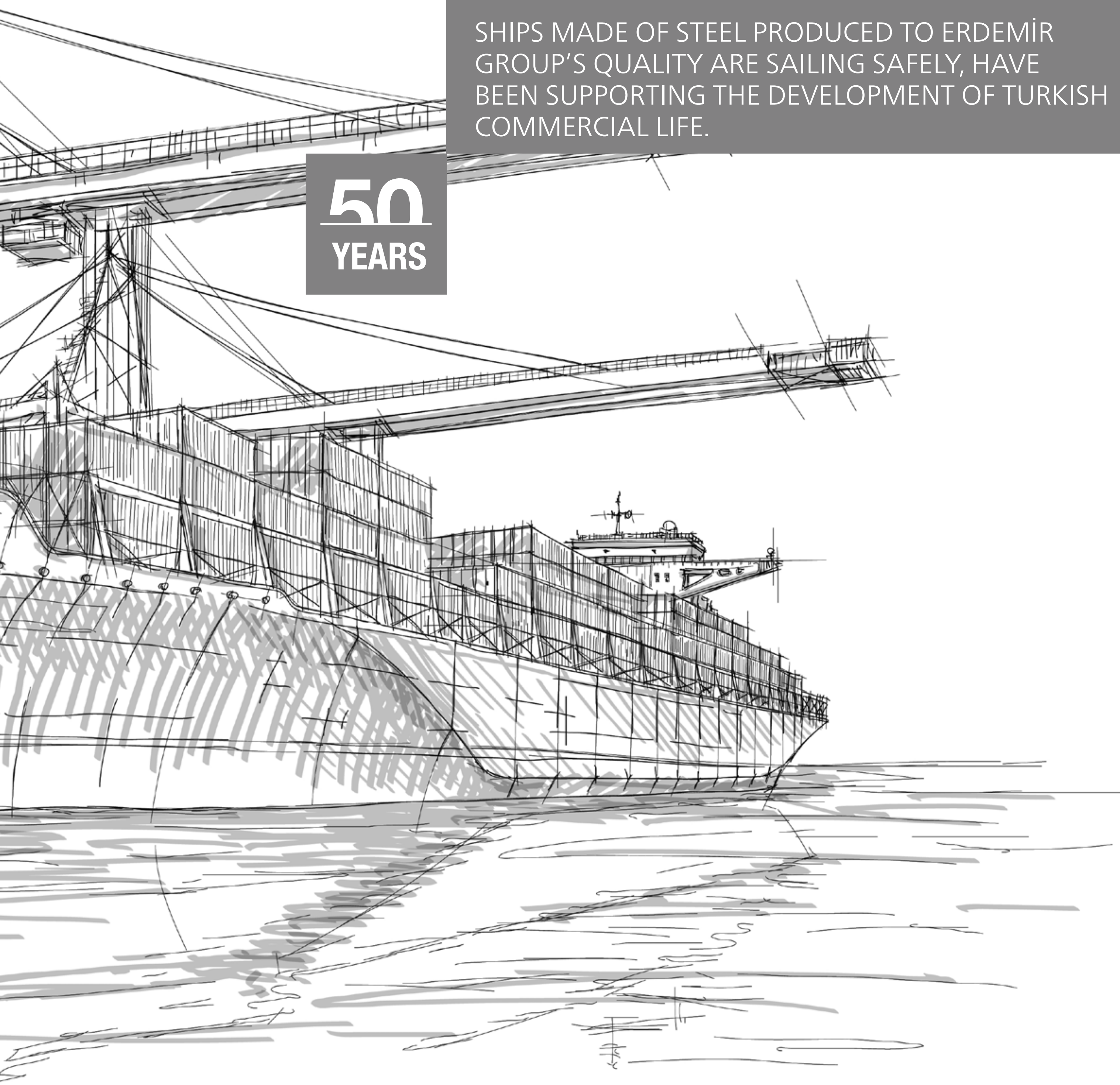
WE ACCOMPLISHED GREAT SUCCESS TOGETHER WITH OUR EMPLOYEES, SHAREHOLDERS AND ALL OF OUR BUSINESS PARTNERS AND WE HAVE ALWAYS AIMED TO BE A STEP AHEAD. WE ARE THE THOUSANDS OF ERDEMİR EMPLOYEES, WHO WORK IN EREĞLİ, İSKENDERUN, İSTANBUL, SİVAS, MANİSA, TARGOVISTE, SINGAPORE… SOME OF US IN FRONT OF BLAZING FURNACES, SOME AT OUR DESKS, OTHERS UNDER GROUND… ALL STRIVING TOWARDS A SINGLE GOAL FROM A SINGLE BEATING HEART. WE ARE WORKING TO MAKE OUR GROUP, WHICH IS ONE OF TURKEY'S LARGEST INDUSTRIAL ESTABLISHMENTS, "A WORLD-CLASS COMPANY" WHICH GENERATES VALUE AT THE HIGHEST LEVEL FOR ALL OF OUR STAKEHOLDERS.

WE ARE THE ERDEMİR GROUP. WE HAVE BEEN WORKING TO MAKE YOUR LIFE BETTER AND EASIER FOR HALF A CENTURY. OUR PATHS INTERSECT IN ALL AREAS AT EVERY MOMENT OF THE DAY. WE WOULD LIKE TO THANK ALL OF OUR STAKEHOLDERS WHO HAVE ADDED VALUE TO US IN OUR JOURNEY.

THE TRACE OF STEEL IS EVERYWHERE IN OUR LIVES

SHIPS MADE OF STEEL PRODUCED TO ERDEMİR GROUP'S QUALITY ARE SAILING SAFELY, HAVE BEEN SUPPORTING THE DEVELOPMENT OF TURKISH COMMERCIAL LIFE.

50 YEARS



CORPORATE PROFILE

Contributing to Turkey's economy for half a century

The Erdemir Group, Turkey's only integrated flat steel producer, has been the pioneer and the undisputed leader in the industry since 1965 when it entered operation.

Erdemir Group has unwaveringly created value for Turkish industry and Turkey's economy for 50 years with its established brand, large production capacity, value-added products and strong financial structure.

A subsidiary of OYAK, Erdemir Group consists of seven companies operating in the fields of flat steel and long steel production, steel service center, mining, engineering and project management.

The capital structure of the Erdemir Group, with 47.63% of the shares open to the public, allows Erdemir Group to share its financial gains with a large shareholder base. The Group also offers a portion of the value added that it generates to the community through social responsibility projects implemented in different areas in a concrete example of corporate citizenship principles.

The factors behind sustainable success

Erdemir Group's market experience in production and in trade and knowledge, with competent human resources who are motivated on the axis of quality, production and quality services stand out as the most important factors ensuring that growth, development and success are sustainable.

35%

Erdemir Group, single handedly accounts for approximately 35% of the employment in the sector which it operates in.

A SUBSIDIARY OF OYAK, ERDEMİR GROUP HAS BEEN CREATING VALUE FOR TURKISH INDUSTRY AND THE TURKEY'S ECONOMY FOR 50 YEARS WITH ITS PRODUCTION CAPACITY, VALUE-ADDED PRODUCTS AND STRONG FINANCIAL STRUCTURE.

The Group offers value added to a wide range of sectors, from automotive to machinery manufacturing, from durable household appliances to the construction industry, thanks to its up-to-date technological infrastructure that is seamlessly integrated into the every stage of production processes on the solid foundation of an investment and management philosophy based on analytical thinking. With an effective marketing and sales organization and a product portfolio that is segmented and diversified according to the needs and expectations of Turkish industry, the Group offers its products to customers in 42 countries as well as the domestic market.

As of 31 December 2015, the Erdemir Group which is one of Turkey's largest employers, employing 12,659 people single handedly accounts for approximately 35% of the employment in the sector which it operates in.

One of the most popular stocks among corporate investors

Erdemir shares (EREGL) are listed on the BIST 30 index, which have been trading publicly since the establishment of the Borsa İstanbul in 1986. The majority of Erdemir's shares, which is one of the publicly traded companies that has the widest base of 47.63%, are held by corporate investors.

Erdemir Tickers

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

42

Erdemir Group offers its products to customers in 42 countries besides the domestic market.

KEY FINANCIAL INDICATORS

ERDEMİR GROUP RECORDED REVENUE OF TL 11,915 MILLION FOR THE YEAR 2015.

Key Financial Indicators

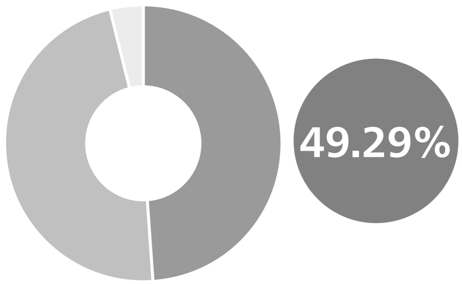
		2011	2012	2013	2014	2015
Net Sales Revenue	(TL million)	8,921	9,570	9,781	11,484	11,915
	(US$ million)	5,339	5,340	5,142	5,252	4,382
Net Operating Profit	(TL million)	1,957	756	1,538	2,094	1,591
	(US$ million)	1,171	422	808	958	585
EBITDA	(TL million)	2,073	1,083	1,878	2,484	2,094
	(US$ million)	1,241	604	987	1,136	770
Net Profit	(TL million)	1,021	452	920	1,601	1,126
	(US$ million)	611	252	484	732	414
Current Assets	(TL million)	6,025	5,854	6,008	7,372	8,000
	(US$ million)	3,190	3,284	2,815	3,179	2,751
Fixed Assets	(TL million)	7,366	7,287	8,026	8,562	10,635
	(US$ million)	3,900	4,088	3,761	3,692	3,657
Total Assets	(TL million)	13,391	13,141	14,034	15,934	18,634
	(US$ million)	7,089	7,372	6,576	6,871	6,409
Short Term/Current Liabilities	(TL million)	2,415	2,818	2,475	3,105	2,615
	(US$ million)	1,279	1,581	1,160	1,339	900
Long Term Liabilities	(TL million)	3,688	2,908	2,852	2,518	3,481
	(US$ million)	1,952	1,631	1,336	1,086	1,197
Shareholders' Equity	(TL million)	7,087	7,205	8,467	10,003	12,180
	(US$ million)	3,752	4,042	3,967	4,314	4,189
Market Capitalization (Annual Average)	(TL million)	8,040	7,120	7,818	12,682	14,392
	(US$ million)	4,812	3,972	4,110	5,799	5,294

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

(**) Adjustments and classifications were performed in the consolidated financial statements retrospectively due to the recognition of actuarial losses/gains resulting from provisions regarding benefits provided to the employees in comprehensive income statement and in accordance with the examples of financial statements and usage guide enacted since the interim periods ending after March 31, 2013 for the capital market institutions that are within the scope of Capital Markets Board Series II, 14.1 No. "Communiqué on Principles of Financial Reporting in Capital Markets", in accordance with Turkish Accounting Standards and Turkish Financial Reporting Standards issued by the Public Oversight, Accounting and Auditing Standards Board.

ACTING IN ACCORDANCE WITH THE PRINCIPLE OF CONTINUOUS DEVELOPMENT, ERDEMİR GROUP CREATES VALUE FOR TURKEY THROUGH THE PRODUCTION, THE JOBS IT CREATES AND THE TAXES IT PAYS.

Shareholding Structure



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

ERDEMİR GROUP - MILESTONES

1960's

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

1961 Excavation and construction work started for the Erdemir plant.

1965 Erdemir started production on 15 May with a crude steel capacity of 500 thousand tons.

1970's

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.

1980's

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.

1990's

1996 CIM I and CIM 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, started operation.

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

2010's

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. started operation with an annual capacity of 150 thousand tons/year in Gebze.

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

2002 İsdemir was acquired.

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

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

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

1965

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

IN ITS 50TH YEAR, ERDEMİR GROUP BROKE NEW RECORDS FOR PRODUCTION AND SALES, SINGLE HANDEDLY PRODUCING 28% OF TURKEY'S CRUDE STEEL IN 2015.

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 processed 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.

2010's

2011 İsdemir's 4th blast furnace was commissioned.

Ermaden, Ekinbaşı plant started operations.

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

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

2013 Erdemir's Head Office relocated to İstanbul.

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

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

Erdemir 2020 vision was determined.

2015 Erdemir Group celebrated its 50th anniversary.

Ersem's Manisa facilities were brought into service.

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

Ersem-Manisa Facilities

MESSAGE FROM THE CHAIRMAN OF THE BOARD

Ali Pandır
Chairman of the Board
(Representative of Oytaş İç ve Dış Ticaret A.Ş.)

Please read the adjacent QR code via smartphone to reach Chairman of the Board message and other contents of web site.

Esteemed Stakeholders,

Our Group's 50th year of operation was one marked by difficult conditions in the world and in the Turkish steel industry. As Erdemir Group we pressed ahead unwaveringly in our investments breaking new records in sales and production in 2015 and maintaining our profitability, despite the volatility in the international markets, the slump in steel prices and increased imports.

In 2015, a year in which Turkey become a net importer of iron and steel, we broke a new record by producing 8.9 million tons of crude steel and 7.4 million tons of flat steel products. With such a fine performance, our Group single-handedly generated 28% of our country's crude steel production.

Our Group has executed the highest level of shipments in the flat products, with 1.3 million tons of cold rolled steel, 326 thousand tons of galvanized products, 244 thousand tons of packaging steel and 5.4 million tons of hot rolled flat products sales to date.

Our Group also maintained our customer-focused work without interruption with a wide range of products, adding 87 new customers to our portfolio.

As a result of these efforts, we achieved 8% growth in our revenues to US$ 4.4 billion, which included US$ 403 million of exports to 42 countries, demonstrating a successful performance at a time of volatility both in Turkey and in the world.

Our Group's total investment expenditures amounted to US$ 201 million in 2015. We generated an operating profit of US$ 585 million and an annual net profit of US$ 414 million. Our Group EBITDA stood at US$ 770 million, with an EBITDA margin of 17.6%.

Our Group's consolidated assets stood at US$ 6.4 billion at the end of 2015 with US$ 4.3 billion of shareholders' equity, enabling us to maintain our strong financial structure.

Erdemir Group steps into its prime of life in its 50th year of operation, backed by half a century of experience and knowledge of creativity, efficiency and customer focus within the framework of its 2020 vision.

In 2015, our Group maintained long term collaborations based on mutual gain and respect in trade relations, both domestically as well as foreign with a corporate culture that is innovative, lean, flexible and agile.

Teamwork has been at the heart of the positive results we have achieved. Our success was due in large part to all our units working seamlessly in cooperation with a team spirit, and reflecting the best practices to the field, along with the sector experience of the sales team, market monitoring and their rapid, considered and accurate and fast decisions regarding buying-selling, our support teams' contributions to them and the visionary perspective of our management team.

IN ITS 50TH YEAR OF OPERATION, ERDEMİR GROUP PRESSED AHEAD WITH ITS INVESTMENTS AND MAINTAINED ITS PROFITABILITY, DESPITE THE VOLATILITY IN INTERNATIONAL MARKETS, AND THE DECLINE IN STEEL PRICES, AND INCREASED IMPORTS.

Within the scope of our 2020 vision, our Group has adopted three priorities as the keystone of becoming a world-class company and has conducted all manner of activity in this direction.

Our first priority is to further upgrade the quality of our products and services. As a customer-focused group, our investments in quality are of key importance to us because of the customer satisfaction that they will also bring about.

The second basic element is to be more productive and in connection with our intragroup efficiency to reduce our costs further.

Our third priority is to develop value-added products and to be differentiated with our products and services by focusing on innovation, our customers' expectations and needs in what we do. When resolving problems through an innovative approach, the fundamental issue here is to be our customers' solution partner understanding their needs proactively and to be a business partner which develops solutions both pre and post sales in close cooperation.

Our R&D Center is absolutely vital in our innovative work and new product projects. Our R&D Center, was the first R&D Center in the Turkish steel industry and started out with the mission of being an Advanced Steel Research Center focused on infrastructure investments, customer collaboration and employment in 2015, while leaving its first year behind with successful works.

As one of Turkey's biggest company, the greatest strength within our 2020 vision is undoubtedly our qualified and competent human resources, as it has been for 50 years.

When people are our most precious asset, the field of Occupational Health and Safety (OHS) also becomes so indispensable for us. We provide the most up to date and advanced practices in the OHS field, intensively continuing our work and training with a zero tolerance stance towards accidents.

Our Group, which employed 12,659 people as of the end of 2015, continues to provide training in the Erdemir Group Academy, established to reflect the importance the Group attaches to training activities with the aim of increasing its employees' competencies and supporting their personal and professional development.

In keeping with our "Sustainable Society & Sustainable Environment" philosophy, our goals are to create increasingly more added value for our country and to be an exemplary company in our industry with respect to sustainability issues as well.

IN 2015, ERDEMİR GROUP UNWAVERINGLY CONTINUED ITS CUSTOMER-FOCUSED OPERATIONS, ATTRACTING 87 NEW CUSTOMERS INTO ITS WIDE PRODUCT PORTFOLIO.

MESSAGE FROM THE CHAIRMAN OF THE BOARD

As Erdemir Group, we gave special importance in biodiversity as part of our sustainability objectives. In this regard, we carry out exploratory and preliminary studies to ensure conservation and the development of the natural resources and biodiversity, to minimize our environmental impacts and improve the quality of life, which is an indicator of a healthy environment.

In July 2015, we began to work on a new “Galvanizing Line” that will serve our country’s manufacturing industry, principally the automotive sector. This new galvanizing line, which will increase the share of value added products, will double our production capacity. In November, we also brought Turkey’s most modern steel service center in Manisa into operation while continuing our investments on boosting energy efficiency and recycling at Erdemir and İsdemir, along with field studies and project processes regarding the renovation of our facilities.

The investments we have planned for 2016 are geared to expand our product range, renovating our facilities, reducing our environmental impacts and increasing our energy efficiency.

In this context, we aim to increase our quality further, ensure efficiency, expand our range of value-added products and thus create more value by enhancing our competitive advantages.

As we move towards the future, I would once again like to stakeholder extend my heartfelt thanks and to pay respect to our stakeholders once again, especially those retired colleagues who played such a major role in our success that built over the last 50 years, and our colleagues who are currently working with us.

Ali Pandır
Chairman of the Board

IN KEEPING WITH OUR “SUSTAINABLE SOCIETY & SUSTAINABLE ENVIRONMENT” PHILOSOPHY, OUR GOALS ARE TO CREATE INCREASINGLY MORE ADDED VALUE FOR OUR COUNTRY AND TO BE AN EXEMPLARY COMPANY IN OUR INDUSTRY WITH RESPECT TO SUSTAINABILITY ISSUES AS WELL.

BOARD OF DIRECTORS

ALİ PANDIR
Chairman of the Board of Directors
(Representative of OYTAŞ İç ve Dış Ticaret A.Ş.)

NİHAT KARADAĞ
Deputy Chairman of the Board of Directors
(Representative of OYAK Girişim Danışmanlığı A.Ş.)

DİNÇ KIZILDEMİR
Member of the Board of Directors
(Representative of OMSAN Lojistik A.Ş.)

ALİ KABAN
Member of the Board of Directors
(Representative of Privatization Administration of Turkey)

ERTUĞRUL AYDIN
Member of the Board of Directors
(Representative of OYKA Kağıt Ambalaj San. ve Tic. A.Ş.)

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

EMİN HAKAN EMİNSOY
Independent Member of the Board of Directors

HAKKI CEMAL ERERDİ
Independent Member of the Board of Directors

ALİ TUĞRUL ALPACAR
Independent Member of the Board of Directors

SENIOR MANAGEMENT

OĞUZ N. ÖZGEN
Chief Production Officer

SEDAT ORHAN
General Manager of Erdemir

ŞEVKİNAZ ALEMDAR
Chief Purchasing Officer

ÖZGÜR ÖZEL
Chief Strategy Officer

BÜLENT BEYDÜZ
Chief Financial Affairs Officer

BAŞAK TURGUT
Chief Marketing and Sales Officer

BANU KALAY ERTON
Chief Corporate Affairs Officer

ALİ PANDIR
Chairman of the Board of Directors

ERIC VITSE
Chief Technology Officer

RECEP ÖZHAN
General Manager of İsdemir

TUNÇ NOYAN
Chief Information Technology Officer

OYA ŞEHİRLİOĞLU
Chief Legal Officer

ERDEMİR GROUP IN BRIEF

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (Erdemir)

Erdemir, Turkey's largest producer of integrated flat steel, commenced manufacturing in 1965. Erdemir manufactures hot and cold rolled flat steel products, plate, tin, chrome and zinc coated flat steel products which all meet international quality standards. Erdemir provides basic input to the automotive, white goods, energy, construction, piping, shipbuilding, household appliances, general machinery manufacturing, heat and pressure vessel equipment, heavy industry, food and packaging industries. Leading the country's industrial development, Erdemir's crude steel capacity has multiplied over the years from a humble beginning of 500 thousand tons to 4 million tons currently, while its final product capacity has exceeded 5 million tons through the uninterrupted investments in widening Erdemir's product range and capacity.

İskenderun Demir ve Çelik A.Ş. (İsdemir)

İsdemir was the third steel plant to be founded in Turkey and the largest integrated iron and steel plant in terms of long product manufacturing capacity. İsdemir joined the Erdemir Group in 2002 and is Turkey's only integrated steel plant manufacturing both flat and long products with its Hot Rolling Mill. The mill, with an annual production capacity of 3.5 million tons, was commissioned in 2008. The manufacture of billet and coil long products are carried out at İsdemir which plays an important role in increasing the capacity of flat product manufacturing that is of vital importance in the development of Turkey's steel industry. İsdemir currently commands a final product manufacturing capacity of approximately 5.3 million tons of liquid steel, 3.5 million tons of flat products, 0.6 million tons of coil 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), established in 2001, provides services at the highest standards to many companies operating in an array of sectors in industry such as general machinery and manufacturing, heating industry, electric and electronic industries mainly the automotive and white goods industries. It commenced its operations in Gebze in 2002 with a cold slitting line with an annual capacity of 150 thousand tons and a cut-to-length line with an annual capacity of 100 thousand tons. Ersem now commands a hot cut-to-length line with an annual capacity of 700 thousand tons and a hot slitting line with an annual capacity of 200 thousand ton in İskenderun; and a 100 thousand tons annual capacity multiple length cutting line, a 100 thousand tons annual capacity oblique cutting line, a 150 thousand tons annual capacity hot slitting line, a 150 thousand tons annual capacity cold slitting line and a 150 thousand tons annual capacity hot cut-to-length line in Ereğli. In addition to these facilities, in 2015 Ersem opened a new steel service center with a 150 thousand tons annual capacity cold slitting line in Manisa. With a total production capacity of 1.95 million tons, Ersem predominantly serves industrial areas in Turkey to rapidly meet the immediate demands of customers. It dispatches the products at the desired grades and dimensions on time and to the desired locations, manages the inventories and meets specialized demands such as production at low tolerances, and dispatches in small batches.

ERDEMİR GROUP STEADILY INCREASED ITS CONTRIBUTION TO THE TURKISH ECONOMY WITH ITS 7 COMPANIES.

Erdemir Madencilik San. ve Tic. A.Ş. (Erdemir Maden)

Erdemir Maden, which joined the Erdemir Group in 2004, accounts for 50% of Turkey's iron ore production and supplies 20% of the country's iron ore demand with nine iron ore and one manganese field. Based in the Divriği district in Sivas, Erdemir Maden is the sole pellet plant that meets the demands of Turkey's iron and steel industry. Besides pellet production, Erdemir Maden also produces semi finished products that are used in steel production and hematite lump ore. Erdemir Maden has a production capacity of 1.5 million tons of pellet and 750 thousand tons of lump ore.

Erdemir Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş.

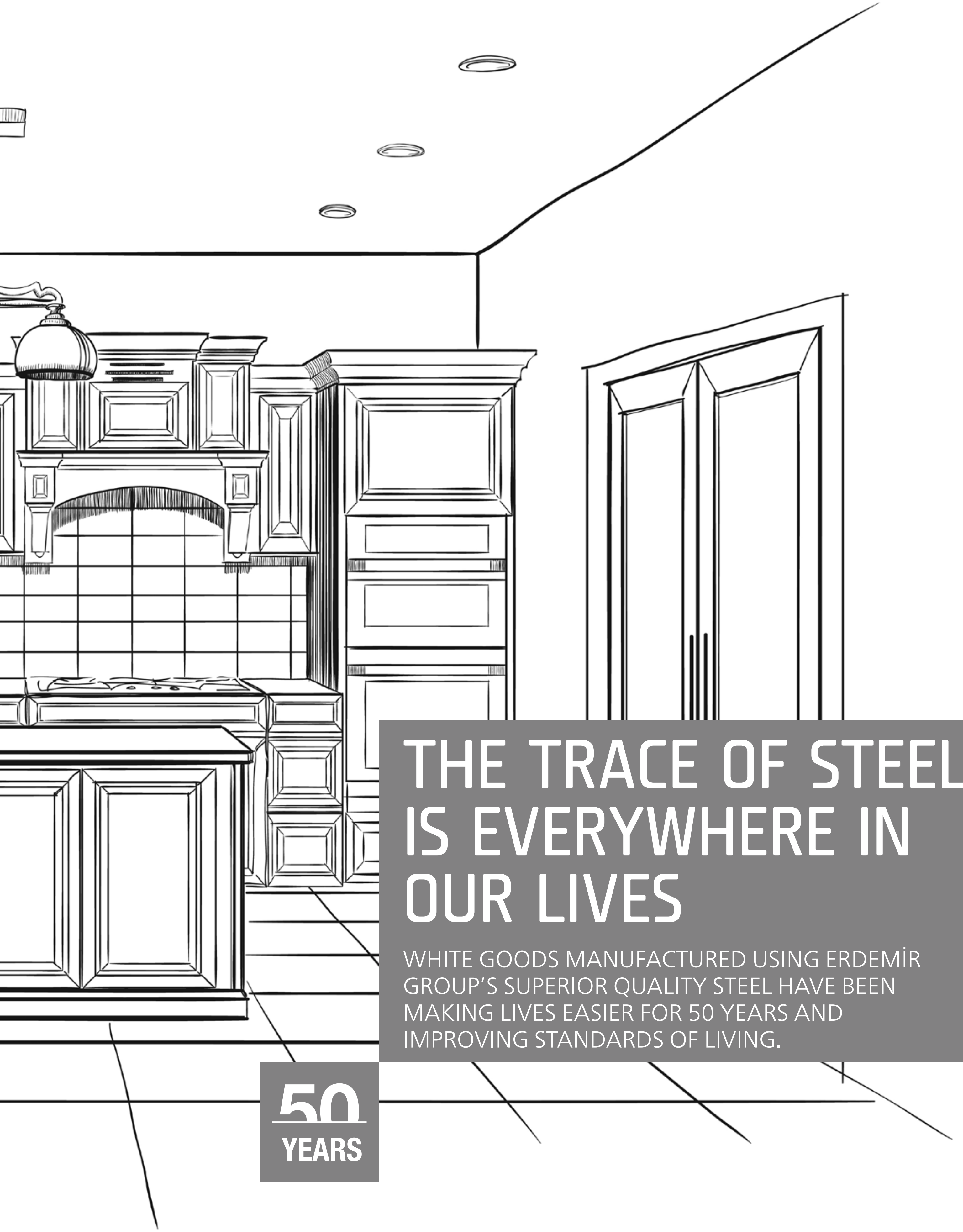
Erdemir Engineering, established in 2001, provides a wide range of engineering and project management services from planning to application for investments undertaken by the Erdemir Group of companies to help them achieve their objectives of profitability, increased product range, efficiency and quality. The organizations engaged in various engineering and investment activities in different companies within the Group were gathered under the roof of Erdemir Engineering and the company was restructured in 2015. While getting a step closer to its vision of being a world-class company with this new structure of engineering company, Erdemir Group aims to become more competitive with the backing of its employees, who have reached a level of expertise that is valid on a global scale, who are empowered with competent business partners, and who oversee sustainability criteria.

Erdemir Romania S.R.L

Erdemir Romania produces electrical steel (silicon flat steel), one of the main inputs to electric motors, transformers and generators, industry joined the Erdemir Group in 2002. Established in Targoviste, Romania and commanding an important position in electrical steel production in Europe, 10% of Erdemir Romania products are used in the Romanian domestic market, with 90% of the products exported, mainly to European countries.

Erdemir Asia Pacific Pte. Ltd.

Erdemir Group established "Erdemir Asia Pacific Private Limited (EAPPL)", fully owned by Erdemir, in Singapore to carry out Erdemir Group's commercial operations in the Far East region. The company was established with US$ 250 thousand of capital and commenced operations on October 1, 2014.



THE TRACE OF STEEL IS EVERYWHERE IN OUR LIVES

WHITE GOODS MANUFACTURED USING ERDEMİR GROUP'S SUPERIOR QUALITY STEEL HAVE BEEN MAKING LIVES EASIER FOR 50 YEARS AND IMPROVING STANDARDS OF LIVING.

50 YEARS

DEVELOPMENTS IN 2015

Erdemir Group in the Forbes 2000 list

The Forbes 2000 list, created by assessing publicly traded companies all around the world based on four basic criteria such as revenue, profitability, assets and market value was published for the 13th time. Erdemir Group entered the list ranked 1,729th with US$ 5.3 billion of sales, US$ 732 million in profit, US$ 6.9 billion of assets and a market value of US$ 5.7 billion.

The most admired company of the steel sector: Erdemir

Capital, a journal for Business and the Economy, once again selected Erdemir as the most admired company in the iron and steel industry in the "Turkey's Most Admired Companies" survey that the journal carried out for the 15th time in 2015.

Membership of WorldAutoSteel

Erdemir Group became a member of WorldAutoSteel, the automotive group of the World Steel Association. Erdemir took another very important step towards increasing its weight in the automotive industry with its membership of WorldAutoSteel, in which the leading steel producers of different countries such as the USA, Japan, the UK, Germany, Sweden, Austria, Luxembourg, South Korea, Brazil, Russia, China and India all take part.

ERDEMİR GROUP ENTERED THE FORBES LIST, IN WHICH THE PUBLICLY TRADED COMPANIES ALL AROUND THE WORLD ARE ASSESSED, FROM 1,729 RANK.

21.6%

İsdemir was awarded the first prize, in recognition of reducing its energy intensity by 21.6% in the last three years.

ERDEMİR GROUP ACCOMPLISHED MANY SUCCESSES IN ITS 50TH ANNIVERSARY.

Erdemir Group received "Exports Stars" prize

Within the scope of the "2014 Export Stars" assessment, İstanbul Mineral and Metals Exporters' Association (IMMEA) awarded İsdemir first prize in the billet category, second prize in the mineral fuels category and third prize in the flat products category; while Erdemir was handed the second prize in the flat products category and third prize in the mineral fuels category.

Efficiency Award for Erdemir

Erdemir was awarded second prize in the "Large-Scale Companies Sustainable Production" category in the Efficiency Project Awards organized for a second time in 2015 by the Republic of Turkey Ministry of Science, Industry and Technology with the aim of enhancing our country's competitive edge and enabling the country's economy to achieve an efficiency based sustainable structure. The Basic Oxygen Furnace (BOF) Gas Recovery and the operations to increasing usage rates brought recognition to Erdemir in the 2015 Efficiency Project Awards. Erdemir is creating added value for the environment and national economy with the project aimed at maximizing the use of BOF gas, which is one of the by-products released in the integrated production process and one of the activities aimed at raising energy efficiency.

İsdemir won Grand prize in energy efficiency

In 2015, İsdemir was awarded first prize by the General Directorate of Renewable Energy in "Reducing Energy Intensity in Metal Industry Sector" category, in recognition of reducing energy intensity by 21.6% in the last three years.

Erdemir Group participated in "OHS Day" of the World Steel Association.

Erdemir Group continued its work emphasizing the importance of OHS awareness in its plants by participating in "OHS Day" organized by the World Steel Association. Within the scope of the event organized under the slogan of a "safer steel industry", site audits in which all department managers and employees participated were carried out in Erdemir and İsdemir.

A new head office for Erdemir Group

In its 50th year, Erdemir Group began to operate from its new head office building in Batı Ataşehir, İstanbul. The new head office building was designed with the contribution of all units. It ensured that all employees had portable computers and wide wireless internet access in the building and that fewer printers and other appliances were needed, thereby minimizing the environmental impact of the new office. A free office structure was designed so employees were not burdened by the obligation to remain at their desks, while increased social areas were also provided. The ergonomics of working was taken to the highest level with many details such as in sound insulation, the anti-allergic carpets and special lighting that is easy on the eyes.

Headquarters

In 2015, Erdemir Group moved to its new headquarters in Batı Ataşehir, İstanbul.

DEVELOPMENTS IN 2015

Erdemir Group has been awarded with the Green Era Award.

Erdemir Group was awarded "The Green Era" award that is handed out for recognition and appreciation of achievements in the environmental field and leading sustainable practices. The success in integrating the sustainable development objectives into the business plans by continuously improving the effectiveness and efficiency of operations without affecting the ecological balance brought the Group another international award. The other important factors behind the Group being given "The Green Era" award were the increasing public awareness of waste management, energy management and efficiency and the contributions to the protection of the environment in Turkey with the use of environmentally friendly technologies.

Four Erdemir Group companies included in the ISO 500.

According to 2014 figures, two Erdemir Group companies succeeded in ranking in the top 10, while four Erdemir Group companies in the top 500 in the "Turkey's Top 500 Industrial Enterprises" survey organized annually by the İstanbul Chamber of Industry (ISO). In the 2014 ranking based on the sales of the products manufactured by the same companies, İskenderun Demir ve Çelik A.Ş. ranked 7th, Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ranked in 8th place, Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. was ranked in 137th position while Erdemir Madencilik San. ve Tic. A.Ş. was in 221st place. With these results, the total sales figures of Erdemir Group of companies, which are included in the 2014 report of "Turkey's Top 500 Industrial Enterprises", amounted to over TL 13.4 billion.

The successful corporate governance of the Erdemir Group

Within the scope of the Corporate Governance Principles Compliance Rating Report prepared by Kobirate International Credit Rating and Corporate Governance Services Inc., Erdemir Group received 8.83 points out of 10 as a result of the points it collected under 4 main headings. Participating for the first time in the activity in which the compliance with the Corporate Governance Principles are assessed, Erdemir proved that it is a transparent, fair, responsible and accountable enterprise through the high scores it received in the first year.

The Capital Markets Board's Corporate Governance Principles Compliance Rating Note was given as a result of the examination of 408 criteria under the main headings of shareholders, public disclosure and transparency, stakeholders and board of directors, prepared for "BIST First Group Companies" by Kobirate. The 8.83 point rating received by Erdemir demonstrates that potential risks have largely been identified and being kept under control, as well as showing that the Corporate Governance Principles published by the Capital Markets Board are largely complied with. Erdemir, which is one of the BIST First Group Companies, gained inclusion into the BIST Corporate Governance Index with the results that it achieved.

THE TOTAL SALES FIGURES OF 4 OF ERDEMİR GROUP COMPANIES, WHICH ARE INCLUDED IN THE 2014 REPORT OF "TURKEY'S TOP 500 INDUSTRIAL ENTERPRISES", STOOD AT OVER TL 13.4 BILLION.

ERDEMİR THAT BASES ALL ITS ACTIVITIES ON SUSTAINABILITY AND CREATING LASTING VALUE WAS INCLUDED IN THE BIST SUSTAINABILITY INDEX BETWEEN NOVEMBER 2015 AND OCTOBER 2016.

New Galvanizing Line contract signed.

Erdemir Group shaping the needs of clients, continued its investments, aiming to be closer to their customers in 2015. A contract was signed for the new galvanizing line investment that will contribute to the development of the whole manufacturing sector, especially in the automotive industry, in July 2015. With this US$ 120 million investment, the Group's galvanizing capacity will more than double.

Ersem Manisa plant started operation.

Ersem Manisa, the 4th steel service center of the Erdemir Group, became operational in November, complementing the plants in Gebze, İskenderun and Ereğli. Turkey's largest and most modern steel service center with 70 acres of open space and 25 acres of enclosed space, the plant will provide cold slitting service with an annual capacity of approximately 150 thousand tons/year. The plant, which will serve as an important link in the Group's supply chain of products in the Aegean Region, will provide services to a wide range of industries such as automotive, packaging, panel-radiator, heating and cooling, white goods, electronics, machinery manufacturing, agriculture, distribution and pipe-profile.

Inclusion in Borsa İstanbul's Sustainability Index

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (Erdemir), the parent company of the Group, which bases all its activities on sustainability and creating lasting value, was included in the Borsa İstanbul (BIST) Sustainability Index, which consists of companies traded on the stock market and whose corporate sustainability performance are at a high level. The companies included in the BIST Sustainability Index, which aims to increase the understanding, knowledge and practices in the field of sustainability in Turkey, were determined by being subjected to assessment according to the criteria of environment, biodiversity, climate change, human rights, the structure of board of directors, action against corruption and occupational health and safety. As a result of the assessment conducted into BIST 50 companies, 29 companies were included in the Index between November 2015 and October 2016.

İsdemir broke a record in liquid steel production in Turkey.

İsdemir succeeded in exceeding 5 million tons of liquid steel production, a first in Turkey, and broke a record in achieving this production volume in Turkey.

THE GROUP'S GALVANIZING CAPACITY WILL BE MORE THAN DOUBLE WITH THE NEW GALVANIZING LINE, FOR WHICH ERDEMİR GROUP SIGNED A CONTRACT IN 2015.

5 million tons

İsdemir broke a record with its production volume of liquid steel exceeding 5 million tons in Turkey.

DEVELOPMENTS IN 2015

İsdemir shares started to being traded in BIST.

In accordance with the first paragraph of Article 16 in the Capital Market Law numbered 6362, as the number of shareholders exceeds 500, İsdemir gained the qualification to be a publicly held company and became subjected to the Capital Markets regulations. For this purpose, İsdemir's Articles of Association were amended in accordance with the Capital Markets regulations. Furthermore, the İsdemir Board of Directors took a decision to apply to the Capital Market Board (CMB) for İsdemir shares to be traded on the BIST A.Ş. Free Trading Platform (Pre-Market Trading Platform) with a decision numbered 333 and dated January 12, 2015. The draft offering circular prepared on June 11, 2015 was approved by the CMB on October 2, 2015. The dematerialization process of the shares representing İsdemir capital was began by OYAK Yatırım Menkul Değerler A.Ş. on November 9, 2015. The transfer process of dematerialized shares corresponding to the physical certificates received from the shareholders to the accounts of the beneficiaries will be initiated by OYAK Yatırım Menkul Değerler A.Ş. (OYAK Yatırım).

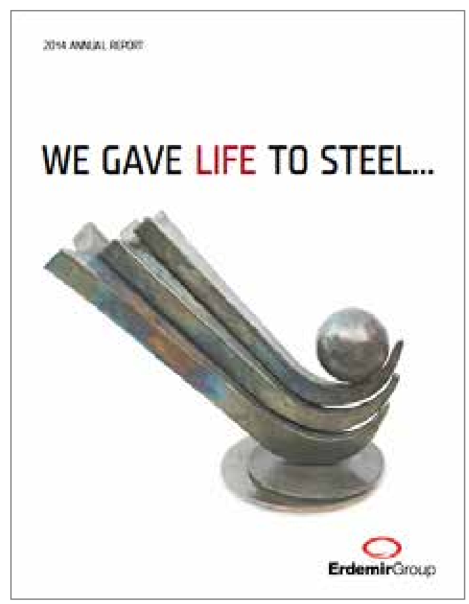
Awards for Erdemir's Web Site and its Annual Report

Erdemir Group web site www.erdemirgrubu.com.tr obtained the highest score in the category of production companies in the "Interactive Media Awards" competition regarded as the most prestigious competition in its field in the USA and was awarded the "Best in its Class" prize. Erdemir's website, www.erdemir.com.tr, won the "Standard of Excellence" award in the US based "Web Award" competition, one of the industry's prestigious competitions, and gained particularly strong results in innovation and design.

The 2014 Erdemir Group Annual Report with the theme of "We Gave Life to Steel" won three separate awards in "The International ARC Awards" competition organized by Mercomm Inc. International Awards Programs. Erdemir Group Annual Report, competing in the "steel" category in the ARC Awards defined as the Academy Awards of the annual reports, won silver in the cover photo/design category, bronze in the interior design category and gold in the original annual report category.

Erdemir Group was also deemed worthy of five awards by LACP (League of American Communications Professionals) with its Annual Report and ranked first in the metal industry worldwide and won a platinum award. The 2014 Erdemir Group Annual Report that succeeded in entering the world's best top 100 annual reports, ranked as the best top 50 in the EMEA (Europe, Middle East, Africa) region, and ranked as the best top 20 in Turkey rankings. The report also won the most creative annual report award in the EMEA region.

ERDEMİR GROUP'S 2014 ANNUAL REPORT WON A TOTAL OF 8 AWARDS IN THE INTERNATIONAL ARENA WITH ITS "WE GAVE LIFE TO STEEL" THEME.



IN 2015, ERDEMİR RANKED 6TH AMONG 45 COMPANIES IN THE RESEARCH OF “TRANSPARENCY IN THE CORPORATE REPORTING”.

The Bonds & Loans Award to Erdemir Group

Erdemir Group won the second prize in “Foreign Trade Finance” (Trade & Export Finance) category in the Bonds & Loans 2015 Turkey Awards, one of the most prestigious awards in Turkey’s financial sector, with the foreign trade financing loan of a 5 year maturity and amounting to US$ 200 million in total, which the Group used. As a general market practice, foreign trade financing loans are disbursed for a maximum 1 year term; however, the Group succeeded in obtaining the nonrecourse loan for a grace period of 2 years, which does not contain any guarantees and conditions with a 5 years term, which is a first application in the market. This was the criteria that brought the Group the award.

A high ranking in the Transparency Survey in Corporate Reporting

Erdemir raised the principles of transparency, honesty and accountability to world standards by being given a very high ranking in the “Transparency in Corporate Reporting” survey prepared by International Transparency Association. In the survey, Erdemir ranked at 6th place among 45 companies defined as A-Group companies who have overseas subsidiaries. Based on the corporate reporting of the companies included in Borsa İstanbul (BIST)-100 index, which includes publicly-held the largest companies established in Turkey and support the country’s economy and industry, the transparency performances of the companies were examined within the framework of topics such as “Reporting of Anti-Corruption Program”, “Organizational Transparency” and “Territorial Reporting” in the “Transparency in Corporate Reporting” survey.

Tax ranking

In the ranking of 2014 fiscal year tax champions, while Erdemir ranked 18th across Turkey, it took the first place in Zonguldak. Erdemir Maden ranked 99th across Turkey.

Bonds & Loans

Erdemir Group won second prize in the Foreign Trade Financing category in the Bonds & Loans 2015 Turkey Awards.

ECONOMIC AND SECTORAL ENVIRONMENT

WORLD ECONOMY

The year of 2015 was marked by unease over global economic growth, strong volatility in the money markets and the Fed's impending interest rate hike.

According to the latest forecasts published by international organizations, the global economy was estimated to have grown by 3% in 2015. When this growth is examined, the differences between the growth rates of advanced economies attract attention. In particular, while the USA exhibited a higher than expected rate of growth, the rates of growth in Japan and the European Union (EU) remained below expectations. The appreciation of the US$, the fall of the EUR, the EU's common currency, and the Japanese Yen stood out among the main reasons for the economic divergence between advanced economies. Likewise, emerging economies saw their currencies lose value due to the decline in exports. While yields and risk premiums climbed higher due to the economic uncertainties in the global economy, investment instruments linked to the commodity markets, especially oil, saw significant losses.

ACCORDING TO THE LATEST FORECASTS BY GLOBAL ORGANIZATIONS, IN 2015, THE GLOBAL ECONOMY WAS EXPECTED TO RECORD 3% GROWTH.

MANUFACTURING PRODUCTION INCREASED BY 3.5%, SUPPORTED BY DOMESTIC DEMAND, PROVIDING A SIGNIFICANT CONTRIBUTION TO TURKEY'S ECONOMY.

China's economic growth, which had ridden on a wave of rising exports until the 2008 financial crisis broke out in the USA, entered a phase of slowdown due to the reduction in demand for Chinese goods as a result of advanced economies entering recession after the 2008 crisis. After this development, the Chinese government followed an incentive policy intended to boost domestic demand and investment as well as export-led growth. After having maintained a strong growth rate until 2010 by investing in the country, China suffered its lowest performance for 25 years with growth of just 6.8% in 2015, moving permanently away from double-digit growth rates. The reduction in production in parallel with the economic slowdown in China, which is one of the world's largest manufacturers, negatively affected raw material exporters, causing a fall in the revenues for commodity-exporting countries, notably Russia; this caused a deterioration in their economies. Moreover, while the devaluation policies implemented by the Chinese government to protect its exports against the impact of declining markets created turbulence in global markets, the devaluation of the Chinese currency allowed China to export goods and services more cheaply. However, this raised economic anxieties towards China.

TURKISH ECONOMY

Turkey's economy demonstrated a positive performance in 2015, despite the turmoil in the global economy and anxiety over the election environment in the background.

Turkey and other developing countries suffered from capital outflows which had not been seen in previous years due to the interest rate hike by the Fed after a 10 year break and the volatilities in the global economy. Accordingly, the TL was one of the currencies which weakened sharply against the US$ during the year.

However, Turkey's economy demonstrated an unexpectedly resilient stance in the face of the depreciation of the TL, which was more a reflection of the global economy. Turkey's economy exceeded expectations with 4% growth in the third quarter of the year. Consequently, Turkey's economy posted an overall 3.4% rate of growth the first three quarters of the year, demonstrating one of the best performances among emerging economies, and indicating that Turkey's economy was on course to close 2015 with a growth rate of over 3%.

The investment side of Turkey's growth, which had been following a weak course for some time, could not show a lasting performance, with the economic growth more consumption driven. In contrast, the main indicator of economic growth, growth in the manufacturing production index, contributed significantly to the economy, posting 3.6% growth when compared to the previous year, also with the support of domestic demand.

3.4%

Turkey's economy registered 3.4% growth in the first three quarters of the year in one of the best performances among emerging economies.

ECONOMIC AND SECTORAL ENVIRONMENT

The decline in energy prices, which started in September 2014, continued in 2015. The decline in the price of oil, which constitutes a significant part of the foreign trade deficit, also had an easing impact on the current account deficit. The export-import coverage rose 4 percentage points to reach 69.5% in 2015. The current account deficit ended the year 2015 at US$ 32.2 billion, a decrease of 26% compared to 2014. The most important factor in this narrowing of the current account deficit was the reduction in the foreign trade deficit on the back of the slump in energy costs. The foreign trade deficit also contracted by 25% compared to its 2014 level. As a result, the current account deficit is estimated to have ended the year at 4-4.5% of GDP. Preserving such levels is of paramount importance in keeping the current account deficit sustainable.

Turkey continues to maintain the position as a rising country with its economic performance.

The Fed, which raised interest rates at the end of 2015, is now expected to continue raising rates, although not as it had initially planned. It appears that those economies that are highly dependent on foreign capital will continue to experience difficulties in 2016, although potentially to a lesser extent. It would not be possible to separate Turkey from other countries in this group. However, the dynamism in domestic demand and the flexible structure of the Turkish private sector and its rapid adaptation to global conditions suggest that Turkey's economy could easily reach its targeted performance level.

THE STEEL INDUSTRY

World Steel Industry

At the end of 2015, world crude steel production stood at 1.6 billion tons, decreasing by 2.8% compared to 2014. The crude steel production capacity utilization rate declined from 73.4% across the world in 2014 to 69.7% in 2015.

Global steel production down in all regions of the world.

Producing 50% of the world's steel, China's crude steel production volume stood at 804 million tons in 2015, decreasing by 2.3%. The crude steel production of the EU-28 stood at 166 million tons, decreasing by 1.8%. The CIS countries realized 102 million tons of crude steel production, a decrease of 4.3%. In particular, the crude steel production in Ukraine decreased by 15.6% amid the tensions with Russia.

804

Producing 50% of the world's steel, China's crude steel production volume stood at 804 million tons.

THE EXCESS SUPPLY IN CHINA WAS INSTRUMENTAL IN THE FALL IN GLOBAL STEEL PRICES IN 2015.

Except for China, which had to export its excess production due to the contraction in domestic consumption, the other Asian large steel producer countries registered decline such as 5% in Japan, 2.6% in South Korea. In contrast, India reached the position of being the only country that increased the crude steel production among the top 15 steel producing countries with an increase of 2.6%. Although the USA implemented the most protectionist measures on steel products, it has been the county whose crude steel production reduced most decreasing by 10.5% after Ukraine among the top 15 crude steel producing countries.

In 2015, apparent steel consumption in the world stood at 1.5 billion tons decreasing by 3.1%.

In 2015, apparent steel consumption of Europe, which is one of the main markets near Turkey, increased with the recovery in economic growth. In Ukraine, a member of the CIS, steel consumption fell due to the tensions with Russia, while in Russia itself, steel consumption fell as a result of a worsening economic performance amid declining oil prices and the sanctions imposed against the country.

With China's economy leaving behind its run of double -digit growth that it had achieved for many years, the world's second largest economy posted 6.8% growth in 2015, its lowest rate of growth for 25 years. This trend of lower growth in China is expected to continue. Steel consumption decreased by 5.4% as a result of the lower rate of growth, leading Chinese manufacturers to export their excess supply. The country's 2015 export volume increased by 20% to exceed 110 million tons.

According to figures announced by the World Trade Organization (WTO), the year 2015 was marked by intense investigations in the steel industry. The USA, the largest steel market in the world after China with consumption of about 100 million tons, in particular stepped up its protectionist measures in 2015.

Many countries in the world opened anti-dumping investigations against countries that flood the market with exports, in order to protect their domestic steel industries for various products, or introduced safeguard subsidies. Although some of these investigations were no doubt opened correctly, a significant majority of these investigations occurred as a result of political pressures against their governments by domestic steel producers, which had allegedly been harmed by the competition.

2.6%

India was the only country among the top 15 steel producing countries to increase its crude steel production, with an increase of 2.6%.

THE STEEL INDUSTRY IN TURKEY

Turkey produced 31.5 million tons of crude steel in 2015.

After a 1.8% decline in 2014, Turkey completed 2015 with crude steel production of 31.5 million tons, marking a decline of 7.4%. Turkey ranked 9th among the world's steel producers in 2015, a place lower than in 2014. Of the crude steel produced, 74% was for long products and 26% for flat products.

The capacity utilization rate of Turkey's steel production edged down from 68% in 2014 to 62% in 2015. In the same period the capacity utilization rate for flat steel production decreased by 11 percentage points when compared to the previous year to stand at 44%. The country's annual flat steel production capacity increased from 16 million tons to 18.5 million tons in 2015 as a result of domestic investments commissioned at the end of 2014. In the same period, the utilization rate of long product production stood at 55%, a decrease of 5 percentage points.

Turkey's billet production declined by 5.6% compared to the previous year to 23.2 million tons in 2015. Production of slab, the semi finished product of flat steel products providing inputs to various industries such as pipe profile, white goods and automotive declined sharply by 12% to 8.3 million tons.

As of 2015, according to the World Steel Association (worldsteel) data, Turkey was;

- The world's 9th largest steelmaker
- The world's 8th largest steel consumer

Despite the advantages of high production technology, knowledge and high-quality production, for the last 3 years Turkish steel industry has been suffering from a glut of imports being dumped from countries with a large excess supply rather than strengthening its position gained over years of efforts in the world.

Production from integrated facilities increases

While 35% of Turkey's steel was produced in integrated facilities in 2015, 65% was produced in electric arc furnaces. The proportion of steel produced in integrated facilities increased when compared to the previous year with the impact of the increase in the domestic flat steel consumption.

Last year, the crude steel production of integrated facilities in Turkey amounted to 11 million tons, increasing by 7.3% compared to the previous year. The volume of steel produced by electric arc furnace facilities stood at 20.5 million tons in 2015 a decrease of 13.8%.

62%

The steel production capacity utilization rate stood at 62% in Turkey in 2015.

AS ONE OF THE TOP 10 STEEL CONSUMING COUNTRIES IN THE WORLD, TURKEY DEMONSTRATED THE MOST RAPID GROWTH AMONG THESE COUNTRIES WITH AN 11.7% INCREASE IN CONSUMPTION IN 2015.

The reduction in Turkish steel production was mainly due to the increase in the imports of finished and semi-finished products. In 2015, Turkey turned from being a net exporter to a net importer, due to the increase in the volume of imports.

Turkey's import of finished steel product increased by 24.3% compared to the previous year, with a 27.9% increase in imports of flat products and a 7.7% increase in imports of long products. However, imports of semi-finished products increased by 65.1% compared to the previous year.

Imports of slab, semi-finished product of flat steel, increased by 61.3%; imports of billet, semi-finished product of long steel, increased by 45.5%. Thus, Turkey reached the highest level in its history, with 7.9 million tons of semi-finished product imports.

A 5.6% decrease in Turkey's exports of finished steel products.

Particularly China, Russia, Japan and South Korea, have excess capacity due to shrinking domestic consumption, followed a more aggressive export policy in 2015, all increased their export volumes.

Accordingly, Turkey's exports of finished steel products also dropped by 27.1% due to the increasing protectionist measures taken and with the impact of long investigation periods. Exports of flat products decreased by 21%, while exports of long products decreased by 29% compared to the previous year.

Despite shrinking global steel consumption, Turkey's steel consumption grew in excess of expectations.

Turkey ranks 8th among the top 10 steel consuming countries in the world. Steel consumption declined in six of these ten countries in 2015 compared to 2014, while Turkey demonstrated the strongest growth among these countries, with an 11.7% increase.

With its young population, our country's domestic steel consumption has grown due to increasing urbanization and a number of new infrastructural investments. On the other hand, the growth related to industrial production has also supported the growth in steel consumption. The automotive, white goods and machinery industry in particular turned the depreciation of the TL against US$ into an advantage and gained a competitive advantage in foreign markets during 2015, while at the same time achieving a significant increase in the volume of production with strong domestic consumption.

24.3%

Turkey's finished steel product imports increased by 24.3% compared to the previous year.

EXPECTATIONS FOR 2016

After the contraction in 2015, steel consumption is expected to hold steady in 2016.

In 2016 it is expected that the world steel consumption to be at similar levels to 2015, with no major change when compared to 2015. Accordingly, only two countries (China and Russia) are expected to exhibit a decline in steel consumption in 2016.

Demand is expected to continue contracting in China; Chinese steel exports are therefore expected to increase from 110 million tons in 2015 to 120 million tons in 2016. This excess capacity, which puts pressure on the world steel industry, is now expected to be gradually phased out due to both environmental pollution and the protectionist measures being taken.

The supply glut, which has resulted from the contraction in domestic demand in those countries with excess capacity in the world, not just China, stands out as the most important challenge facing the sector. The steel supply/demand balance is expected to be corrected with the phasing out of around 200 million tons of excess steel capacity in the next 3 years; however, this process is not expected to occur rapidly. Accordingly, it is expected that the negative impact in markets such as Turkey, where there is a high proportion of imports, will rise and that the protectionist measures taken in 2015 will be increased in 2016.

There is an expectation that steel consumption in Turkey will grow at a rate in excess of the average among developing countries, but not as much as in 2015.

In a year dominated by the contraction of demand in the world, Turkey whose steel consumption performance has exceeded the average among developing countries is expected to maintain its consumption growth in 2016, although at a lower rate than in 2015. In addition to the higher share of industry in Gross Domestic Product (GDP), the growth trend in industry is expected to continue, due to the increasing rate of urbanization in our country with its young population.

Despite the difficulties that Turkey faced amid increasing competition in foreign markets and challenging market conditions in 2015, Turkey exported 12.8 million tons of finished steel products. Steel producers in Turkey are expected to play a more active role in export markets than in 2015 with the recovery forecast in the balance of supply and demand in 2016 and reduced pressure in global markets from the countries with excess supply.

12.8 million tons

Turkey exported 12.8 million tons of finished steel products in 2015.

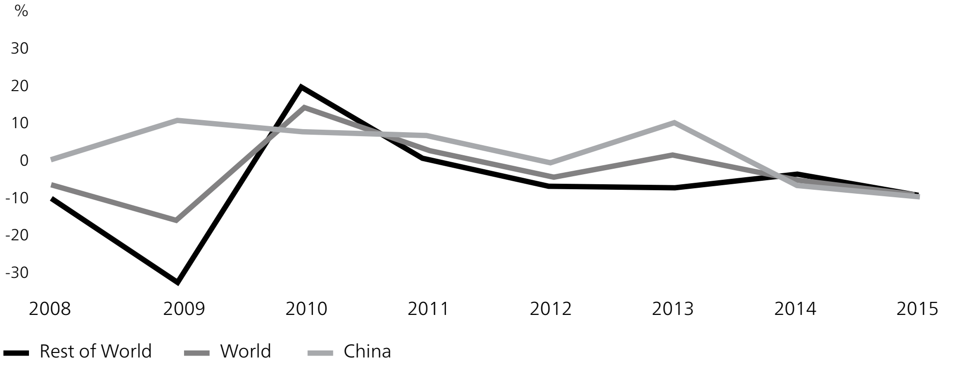
PRODUCTION QUANTITIES IN THE WORLD STEEL SECTOR BETWEEN 2014 AND 2015 ARE SHOWN IN THE FOLLOWING TABLE.

Global Steel Industry - Major Indicators

Country	2015		2014		2015/2014
million tons	Production	Rank	Production	Rank	Change (%)
China	803.8	1	822.8	1	-2.3
Japan	105.4	2	110.7	2	-4.8
India	89.8	3	87.3	4	2.6
USA	78.9	4	88.2	3	-10.5
Russia	71.1	5	71.5	6	-0.5
South Korea	69.6	6	71.5	5	-2.7
Germany	42.7	7	42.9	7	-0.6
Brazil	33.3	8	33.9	9	-1.9
TURKEY	**31.5**	**9**	**34.0**	**8**	**-7.4**
Ukraine	22.9	10	27.2	10	-15.6
Italy	22.0	11	23.7	11	-7.1
Taiwan, China	21.7	12	23.1	12	-7.1
Mexico	18.3	13	19.0	13	-3.9
Iran	16.1	14	16.3	14	-1.4
France	15.0	15	16.1	15	-7.2
World	1,622.8		1,607.2		-2.8

Source: worldsteel

Crude steel production annual growth trend



Source: worldsteel

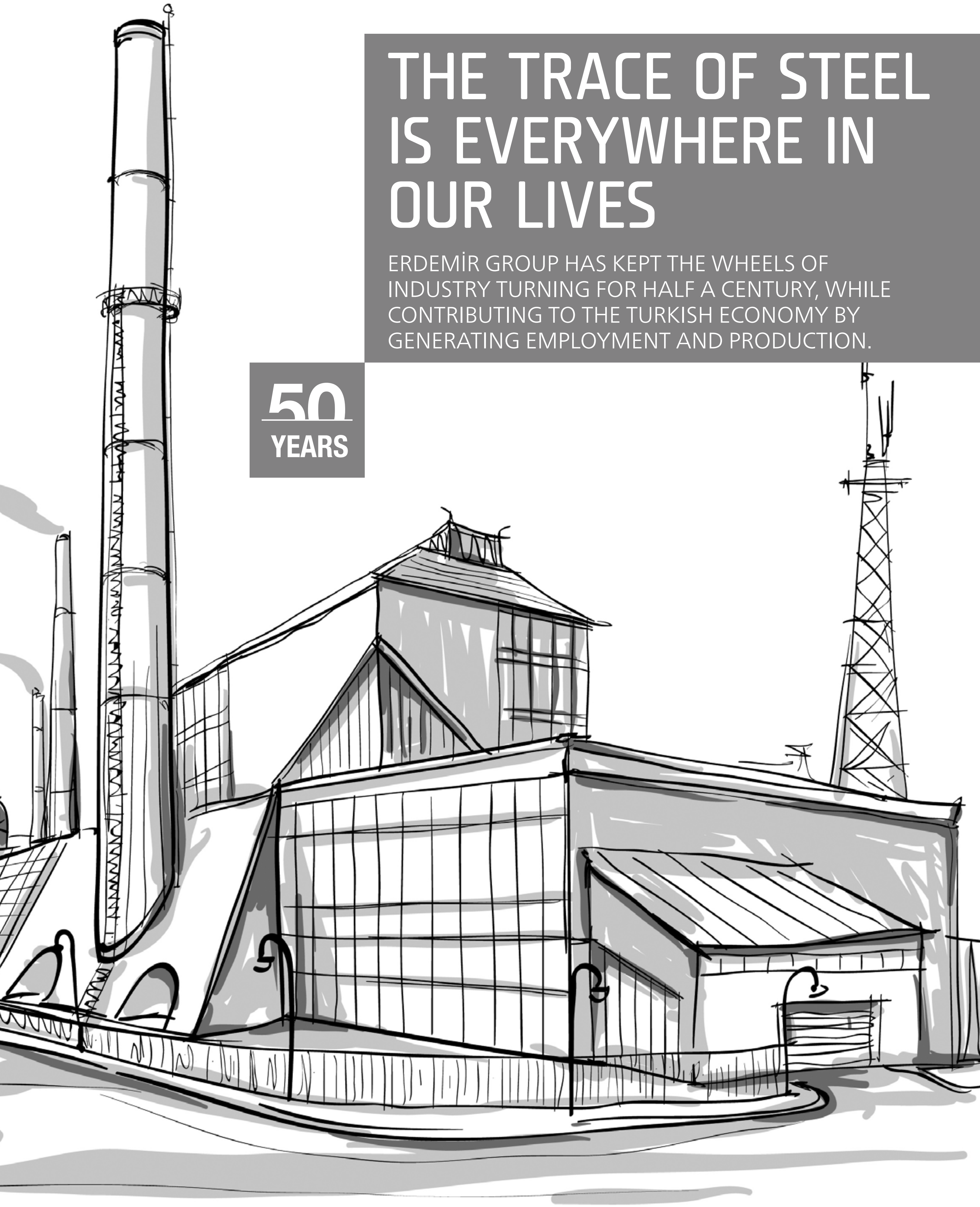
9th

Turkey was ranked 9th among world steel producers, with 31.5 million tons of steel production in 2015.

THE TRACE OF STEEL IS EVERYWHERE IN OUR LIVES

ERDEMİR GROUP HAS KEPT THE WHEELS OF INDUSTRY TURNING FOR HALF A CENTURY, WHILE CONTRIBUTING TO THE TURKISH ECONOMY BY GENERATING EMPLOYMENT AND PRODUCTION.

50 YEARS



2015 IN SUMMARY

STRATEGIES, PRODUCTION, SALES

Moving forward with firm steps in line with its 2020 vision

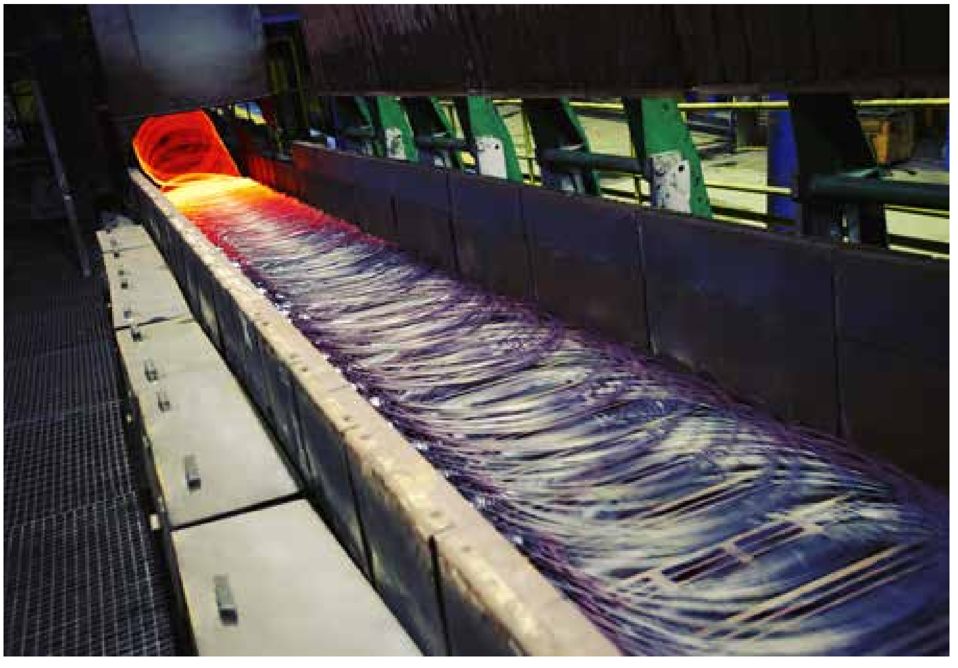
Erdemir Group's 2020 vision is to "Become a World-Class Company". This vision means being one of the best and exemplary in the sector with its way of doing business rather than ranking at the top on a global level in the indicators such as sales volume and production capacity.

Erdemir Group is shaping its future in line with the strategic planning process that integrates the views of all units within the organization. A measurable and manageable game plan lies on the foundation of the strategic planning process. This plan clarifies the Group's future claims, links and embodies the strategies with the daily operations and includes strategic priorities and focus areas. This plan also includes initiatives to close the gap between the current capabilities and potential to achieve its vision. As the strategies are cascaded from corporate level to functional level and individual objectives, the process is an integrated journey from vision to individual performance.

Erdemir Group sets out its strategies by anticipating the difficulties of a constantly changing dynamic environment, and works on different scenarios that will provide the Group with a competitive advantage. The Group's strengths such as effective leadership, organizational flexibility and agility stand out in implementing its strategies and plans.

Research & Development, innovation, formation of a World-Class Manufacturing (WCM) system, sustainability, investing in people and respect for society are the Group's focus areas towards achieving its 2020 vision. Due to the plan in which these concepts are detailed, firm steps are taken towards achieving a world-class company as well as increasing the Group's reputation in the eyes of all stakeholders, where the Group will fully meet its social responsibilities and duty to society.

ERDEMİR GROUP IS SHAPING ITS FUTURE IN LINE WITH THE STRATEGIC PLANNING PROCESS THAT INTEGRATES THE VIEWS OF ALL UNITS WITHIN THE ORGANIZATION.



IN 2015, ERDEMİR GROUP'S CRUDE STEEL PRODUCTION AMOUNTED TO 8.9 MILLION TONS, WITH FINISHED FLAT STEEL PRODUCTION OF 7.4 MILLION TONS.

Erdemir Group continued to moving its competitive power to the next level also in 2015.

Rounding off 2015 breaking new records in production, Erdemir Group single-handedly produced 28% of crude steel manufactured in Turkey. Directing its production activities with the principles of high efficiency, low cost and a high quality manufacturing, the Group continued to raise its competitive power to the next level in 2015.

Erdemir Group continued to increase its production in 2015 to meet the rapid increase in demand for flat steel products in Turkey. The Group's crude steel production amounted to 8 million 930 thousand tons, an increase of 5%, while finished flat steel product production stood at 7 million 400 thousand tons, an increase of 6%.

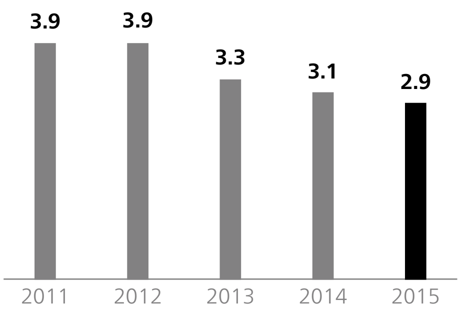
In 2015, Erdemir Group operated at a capacity utilization rate of 100%. Overall Equipment Effectiveness (OEE), that shows the effectiveness and efficiency level of production and enables monitoring of the business performance, was recorded at 71.01% for Erdemir in 2015. The amount of labor needed to produce each ton of finished steel product stood at 2.86 man hours/tons for Erdemir and 2.26 man hours/tons for İsdemir during the year.

2015 IN SUMMARY

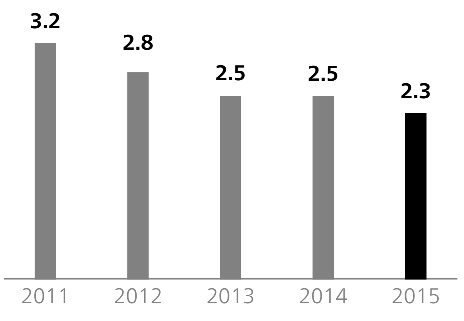
Production by year (Thousand Tons)

PRODUCTION	2011	2012	2013	2014	2015
Hot Metal	**6,812**	**7,172**	**7,603**	**7,695**	**8,077**
Ereğli	3,039	2,934	3,412	3,413	3,438
İskenderun	3,773	4,238	4,191	4,282	4,639
Liquid Steel	**7,656**	**8,042**	**8,477**	**8,693**	**9,122**
Ereğli	3,480	3,328	3,865	3,846	3,894
İskenderun	4,176	4,714	4,582	4,847	5,228
Crude Steel	**7,473**	**7,867**	**8,268**	**8,493**	**8,930**
Ereğli (Slab)	3,372	3,236	3,761	3,732	3,779
İskenderun (Slab)	3,288	3,093	3,103	3,631	3,570
İskenderun (Billet)	813	1,538	1,403	1,130	1,581
Flat Finished Product	**6,119**	**5,983**	**6,427**	**6,954**	**7,400**
Ereğli Tin Plate	227	237	257	255	235
Ereğli Galvanized	321	305	303	305	319
Ereğli Cold Rolled	1,104	1,056	1,284	1,186	1,266
Ereğli Hot Rolled	1,872	1,785	1,812	2,020	2,206
Ereğli Plate	247	248	253	348	334
İskenderun Hot Rolled	2,348	2,352	2,518	2,840	3,040
Long Finished Product	**794**	**1,519**	**1,356**	**1,153**	**1,563**
Billet	344	945	775	589	1,022
Wire Rod	446	574	581	564	541
Rebar	4	-	-	-	-
Iron Ore	**2,862**	**2,832**	**2,646**	**2,666**	**2,422**
Pellet	1,495	1,543	1,480	1,550	1,547
Other	1,367	1,288	1,166	1,116	874

Erdemir Finished Products Workforce Productivity (Man hours/Ton)



İsdemir Finished Products Workforce Productivity (Man hours/Ton)



IN 2015, THE TOTAL LIQUID STEEL PRODUCTION VOLUME STOOD AT 9.1 MILLION TONS IN ERDEMİR AND İSDEMİR.

ERDEMİR GROUP, WHICH IS FOCUSED ON ACHIEVING LASTING SUCCESS BY DIFFERENTIATING ITSELF IN TURKISH INDUSTRY, HAS BEEN STEADILY INCREASED ITS SERVICE QUALITY OVER THE YEARS, IN ITS EFFORTS TO MEET CUSTOMER EXPECTATIONS.

Flat Steel Production

In 2015, Erdemir produced 2.5 million tons of hot products and 1.8 million tons of cold products, while İsdemir produced 3 million tons of hot products. The Group total finished flat steel product production stood at 7.4 million tons. Erdemir Romania produced 64 thousand tons of silicon flat steel, which including contract manufacturing.

Long Steel Production

In 2015, Erdemir Group produced 1.6 million tons of finished long product including 1.02 million tons billet, 541 thousand tons coil.

Iron Ore Production

In 2015, 1.5 million tons of pellets were produced in Erdemir Maden. The total production of the other products (lump ore, fine ore, by products and pellet cake) stood at 874 thousand tons.

Steel Service Center Service

In 2015, 960 thousand tons of sales were achieved in Erdemir Steel Service Centers. 452 thousand tons of this sale were crude; 508 thousand tons were processed product.

Engineering and Project Management Services

In 2015, Erdemir Engineering that manages Erdemir Group's investments carried out successfully 24 projects in Ereğli facilities, 11 projects in İskenderun facilities.

In 2015, 22.8 million tons of handling services were provided in Erdemir Group ports.

In 2015, a total of 22.8 million tons of handling including 2.3 million tons to third parties was carried out in the Group ports.

As of the end of 2015, The Group's revenues from the ports amounted to US$ 20 million and 875 thousand.

A total of 10.3 million tons of handling including 0.9 million tons of third-party handling services were carried out in Erdemir port and revenues worth of US$ 9 million and 917 thousand were obtained. The handling revenues worth of US$ 10 million and 957 thousand were obtained as a result of handling services provided in İsdemir port which amounted to 12.5 million tons including 1.3 million tons as third-party services.

22.8 million tons

In 2015, a total of 22.8 million tons of handling were carried out in Erdemir Group ports.

2015 IN SUMMARY

Fast and effective solutions aimed at improving customer-oriented service quality.

Erdemir Group is taking steps towards providing just-in-time and effective solutions for the needs of its customers in all of its activities in line with its goal of becoming a company that acts and decides swiftly, as with the vision of becoming a world-class company.

The Group that has a strong position among the leading steel companies in the world as well as in Turkey's economy is following closely the developments in the domestic and overseas markets. The Group continues to supply the most appropriate service for the needs and expectations of Turkish industry through the customer-oriented sales policies and the high quality products.

Erdemir Group provides the most accurate and fastest solutions to the needs of customers through the marketing and sales organization that is structured according to the industry.

Sales volumes break a new record in 2015.

Despite encountering a year which has significant volatility in domestic and international markets, Turkey's economy is estimated to have achieved more than 3.5% growth in 2015, outperforming expectations. According to figures announced by the Turkey Steel Producers' Association (TSPA), steel consumption increased by 11.7% in 2015, largely on the back of the increased share of the industry and construction sectors in economic growth. The consumption of flat steel products that are the Erdemir Group's main product groups, increased by 12.7%.

Turkey's steel imports reached their highest ever level in 2015, spurred by increased domestic consumption. In the face of increasing competition, Erdemir Group built on the growth in sales volumes seen in recent years to a new record in 2015 with the support of new investments commissioned domestically, which facilitate superior product quality and effective customer relationships management as a result of the high level service offered in sales and distribution activities. In 2015, the Group broke a dispatch record in the flat products group, selling 1.3 million tons of cold rolled product, 326 thousand tons of galvanized products, 244 thousand tons of packaging steel and 5.4 million tons of hot-rolled flat steel.

Despite difficulties in exporting due to the adverse conditions affecting the sector, Erdemir products reached 42 countries in 2015.

Erdemir Group, the most important supplier of the Turkish steel industry, is one at Turkey's top exporters and also plays a proactive role in foreign markets.

The Erdemir Group exported a total of 849 thousand tons of finished products in 2015 including 688 thousand tons of flat products and 161 thousand tons of long products, with export revenues amounting to US$ 403 million. The Group exported flat products to 42 countries and long products to 8 countries, comprising 9% of the total sales.

The protectionist measures are increasing year after year in the sector because of the excess supply released due to a reduction in global steel consumption and this situation is restricting export

IN 2015, ERDEMİR GROUP BROKE A DISPATCH RECORD IN THE FLAT PRODUCTS GROUP BY SELLING 1.3 MILLION TONS OF COLD-ROLLED PRODUCT, 326 THOUSAND TONS OF GALVANIZED PRODUCT, 244 THOUSAND TONS OF PACKAGING STEEL AND 5.4 MILLION TONS OF HOT-ROLLED FLAT STEEL.

IN 2015, THE ERDEMİR GROUP RECORDED TOTAL FLAT STEEL PRODUCT SALES OF 7.2 MILLION TONS AND DOMESTIC FLAT STEEL PRODUCT SALES OF 6.5 MILLION TONS.

opportunities even further. Despite the difficult market conditions that was felt more in 2015, Erdemir Group carried out exports in a wide geographical area extending from South America to the Far East due to proactive marketing strategies that it manages successfully.

The Group's flat steel exports increased by 2% in 2015 compared to the previous year, while its long product exports declined by 29% compared to the previous year.

Erdemir Group's wide recognition as a world-class steel brand

Erdemir Group has increased its presence in different regions by reaching new international markets with the more effective use of strategic planning, monitoring and evaluation functions in line with its vision of being a world-class company, and is recognized as a reliable steel brand worldwide with a wide range of flat and long steel product groups.

Erdemir Group's customer portfolio in flat steel market is expanding.

In response to customer demands, Erdemir Group continued to diversify its product range in 2015 in response to quality and product development activities oriented to end-users. These product and service improvements carried out under dynamic and innovative approach were one of the most important factors enhancing the strength of the Group in the market.

Erdemir Group commanded a 36% market share of the domestic flat steel market in 2015, while its long product market share stood at 18%. The Group continued to expand its customer base during the year, adding 87 new customers to its portfolio.

In 2015, hot rolled and plate products accounted for 74% of the Erdemir Group's total flat steel sales, with cold products accounting for an 18% share.

Turkey is one of the world's leading countries in terms of both production and consumption in the iron and steel sector, which is one of the primary driving forces of a strong economy the rate of growth in consumption exceeded the global average, especially through the increase in industrial production in 2015, along with big-ticket investments such as TANAP (The Trans-Anatolian Natural Gas Pipeline), the 3rd bridge and İstanbul's 3rd airport, taking Turkey to the position of being the world's 8th largest steel consumer.

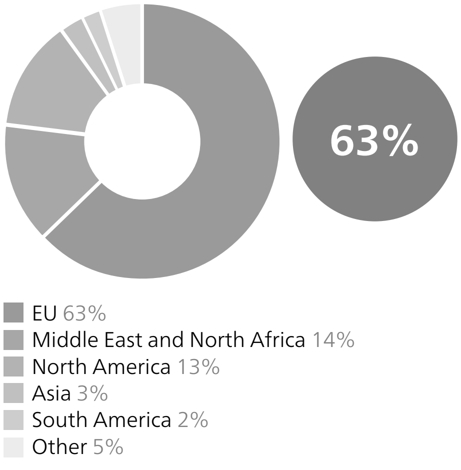
Erdemir Group maintained its strong position in the market by increasing domestic shipments in Turkey's flat steel market where competition heated up due to a glut of imports and newly commissioned investments.

According to data released by Turkey Steel Producers' Association (TSPA), Turkey's flat steel consumption stood at 16.45 million tons in 2015.

3.7 billion

Erdemir Group recorded total flat steel sales revenues of US$ 3.7 billion in 2015.

Flat steel export sales breakdown in 2015



In 2015, Erdemir Group's total flat product sales amounted to 7.2 million tons, an increase of 4% compared to 2014 with domestic flat steel sales volumes growing by 5% to reach 6.5 million tons. The Group's total flat steel sales revenue stood at US$ 3.7 billion in 2015.

In 2015, hot and plate products accounted for 74% of Erdemir Group's flat steel sales, with cold products having an 18% share, galvanized products a 5% share and steel packaging comprising 3%.

1.6 million tons of shipments for long products

Erdemir Group shipped 554 thousand tons of coil and 998 thousand tons of billet in the finished long products group during 2015. Exports accounted for 10% of the total 1.6 million tons of long products that were sold by the Group. As it continues to increase the share of high value added products in total shipments, the Group earned US$ 625 million in revenues from the sales in 2015.

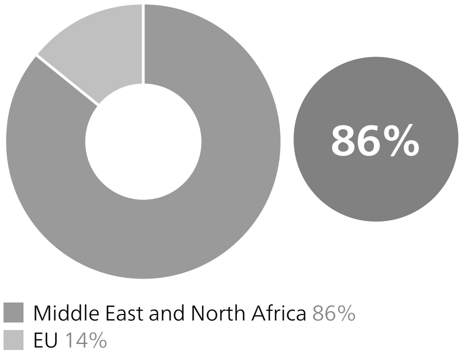
Operational competence to meet customer expectations as rapidly as possible

Erdemir Group's Steel Service Center Ersem is the highest capacity steel service center in Turkey, and sets itself apart with its new and modern steel processing lines. Ersem offers its customers fast and high-tech solutions through the synergy provided with the Erdemir Group, of which it is a member.

SALES (thousand tons)	2011	2012	2013	2014	2015
Flat Finished Product	**5,856**	**5,980**	**6,338**	**6,933**	**7,229**
Ereğli Tin Plate	214	253	255	258	244
Ereğli Galvanized	213	155	126	79	63
Ereğli Cold Rolled	946	1,009	1,070	974	926
Ereğli Hot Rolled	1,583	1,623	1,669	1,736	1,884
Ereğli Plate	219	234	222	333	311
İskenderun Hot Rolled	2,317	2,309	2,432	2,846	2,841
Ersem Sales	**364**	**397**	**564**	**707**	**960**
Ersem Galvanized	95	126	169	221	263
Ersem Cold Rolled	148	145	211	256	348
Ersem Hot Rolled	121	126	185	230	349
Long Finished Product	**791**	**1,468**	**1,346**	**1,163**	**1,552**
Billet	331	913	754	625	998
Wire-Rod	450	555	591	538	554
Other	10	-	-	-	-
Iron Ore	**2,904**	**2,895**	**2,399**	**2,853**	**2,285**
Billet	1,477	1,556	1,463	1,538	1,532
Wire-Rod	1,427	1,339	936	1,315	753

Ersem commissioned its plant in the Manisa Organized Industrial Zone in 2015, which operates in line with the principles of optimal cost, maximum efficiency and quality production. Ersem serves customers of all sizes through the facilities that have the competence of manufacturing at precise tolerances, in small volumes and of different kinds. Ersem allows end users to benefit from the economies of scale by reducing the use of resources such as plant, machinery, time and labor with its expertise in supply chain management services and the feature of just-in-time delivery.

Long steel export sales breakdown in 2015



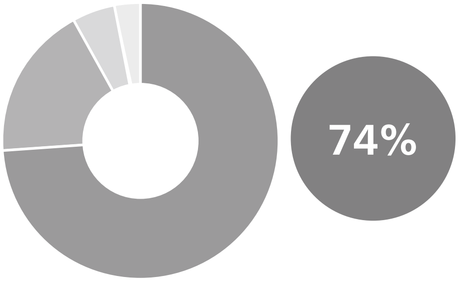
Ersem configured its sales and marketing network on a regional base, and delivers the Erdemir quality and guarantee to its customers through the services and pre/after sales support that it offers.

Ersem achieved sales of 960 thousand tons in 2015, marking an increase of 36% compared to the previous year and demonstrating a significant success in meeting the processed material needs of its customers. It also raised its processed product sales to 508 thousand tons, an increase of 37%.

Erdemir Group Sales

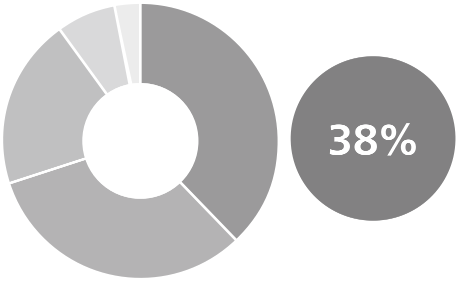
Sector	Sales amount	Distribution (%)
Pipe Profile and Re-rolling	2.9 million tons	45
Distribution Channels	1.2 million tons	18
Automotive	694 thousand tons	11
Manufacturing Industry	613 thousand tons	9
Projected Works	527 thousand tons	8
Consumer Products	321 thousand tons	5
Packaging Industry	242 thousand tons	4

Flat Steel Sales Breakdown by Product



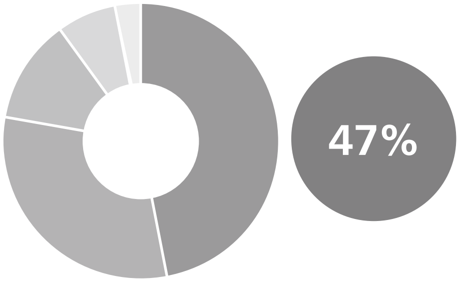
- Hot-Rolled and Plates 74%
- Cold Rolled 18%
- Galvanized 5%
- Metal Packaging Steel 3%

Wire Rod Breakdown by Industry

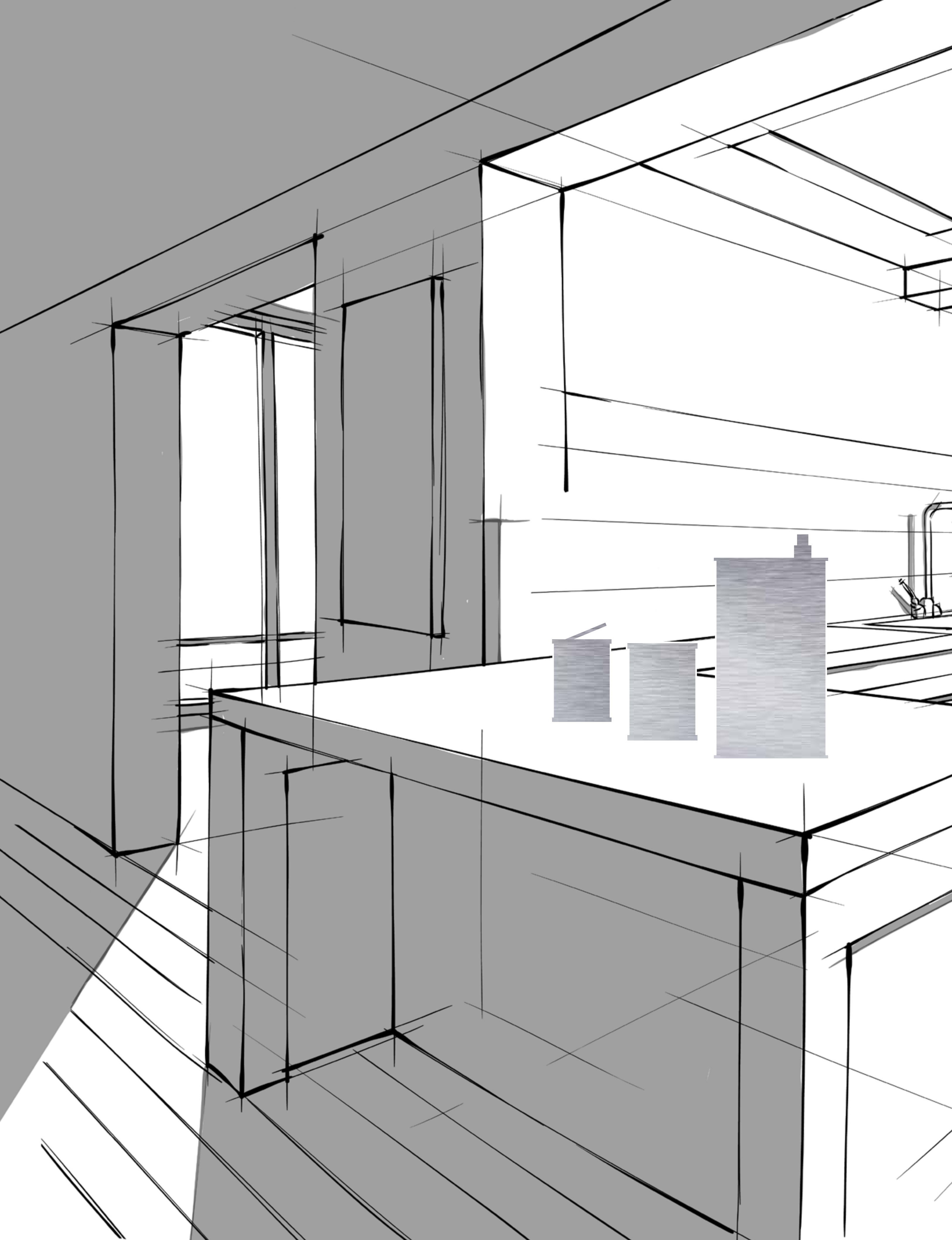


- Mesh and Nail 38%
- High Carbon 32%
- Thin Wire 20%
- Bolt and Nut 7%
- Electrode and Welding 3%

Ersem Steel Service Center Sales Breakdown by Industry



- Automotive 47%
- General Manufacturing 31%
- White Goods 12%
- Distribution 7%
- Export 3%



THE TRACE OF STEEL IS EVERYWHERE IN OUR LIVES

FOOD PACKAGED WITH ERDEMİR GROUP PRODUCTS CONTRIBUTE TO BUILDING HEALTHY GENERATIONS THROUGH THE PROPERTIES THAT THEY PROTECT FOR LONG PERIODS.

50 YEARS

INFORMATION TECHNOLOGIES

Information technologies are developed within the vision of being a world-class company and a global player.

A Master Plan workshop was held at the Erdemir Group to determine a suitable road map that will meet the needs of stakeholders and to ensure adaptation to rapidly changing and evolving information technologies, which was detailed for 5 years.

In this context, work was carried out for a "Transformation Project" that will provide more traceable, manageable and reportable infrastructure and enable the Group to work on more efficient enterprise resource planning system in the coming period.

IT process design activities were initiated based on the Information Security Management Systems and Processes (ITIL) that are commonly used to raise the maturity level of information technology processes.

Certification process of ISO/IEC 27001 Information Security Management System in Erdemir and İsdemir, aimed at increasing information security, were completed in 2015 and certification was received in March 2016.

WITHIN THE SCOPE OF INFORMATION TECHNOLOGIES, A WORKSHOP WAS HELD IN 2015 TO DISCUSS THE 5-YEAR MASTER PLAN IN THE ERDEMİR GROUP.

ISO/IEC 27001

Certification process of ISO/IEC 27001 Information Security Management System in Erdemir and İsdemir were completed in 2015 and the certification was received in March 2016.

IN 2015, ERDEMİR GROUP CONTINUED ITS OPERATIONS IN THE FIELD OF INFORMATION TECHNOLOGIES IN ORDER TO PROVIDE INSTANT ACCESS TO INTEGRATED INFORMATION FROM ALL LOCATIONS AND RESPOND QUICKLY TO ALL NEEDS.

Working to offer instant access to integrated information from any location

With the objective of increasing efficiency, accessing information from any location and providing a flexible communication environment, the wireless network infrastructure was renewed and remote connection methods were simplified in the Group. Collaboration platforms were integrated with audio and visual systems and offered for service. The "Çelik Portal" was launched to support internal communication and increase sharing among employees. With the aim of creating institutional memory, the Content Management System was commissioned, which will accommodate all the knowledge while including also management systems functions.

The data center was planned in accordance with the Group's road map by analyzing the data center infrastructure. Necessary maintenance and monitoring of the components in the data centers' infrastructure were carried out and unplanned downtime was reduced to a minimum level.

Service desk was established and support services launched in order to more rapidly solve employees' problems related to IT. The IT Service Desk application was commissioned for tracking and reporting the services provided.

Many business unit application demands, which provide efficiency and tracking such as stock fields monitoring, the monitoring of subcontractors' employees, delivery online system, were responded to and improvements were made in existing applications.

In addition to these activities, software, infrastructure installation, improvement, operation, maintenance and support activities were carried out successfully in order to provide existing services on a 24/7 basis safely and without interruption.

Erdemir Group, that began to build the foundations of the "Transformation" to be able to provide instant access to integrated information from any location and swiftly respond to all sorts of needs, continues its activities in the field of information technologies with the goal of maintaining the "Transformation" without interrupting existing services.

Çelik Portal

The "Çelik Portal" was launched for use in order to support internal communication and increase sharing among employees in the Erdemir Group.

PROCUREMENT AND SUPPLY

The downward trend in raw material prices that began in 2014 continued in 2015. The slowdown in China's growth and decline in demand in international commodity markets, the recession in Brazil and Russia and yet the decisions by miners not to cut output supported the downward trend. The resistance of high-cost mines to cut production both in China and other ore producer countries with the support of depreciated currencies and the relative decline in costs encouraged the downward trend in prices.

As for Erdemir Group's other main raw material, coking coal, the decision by Australian miners to maintain their high levels of production, a relatively mild wet season in Australia, the reduced demands for Chinese products in international markets and the reflection of increased production in Russia and in Mozambique to the markets precipitated a decline in coal prices during the year.

Even the contraction in supply resulting from mines in Australia, Canada and the United States, which had to halt their operations due to high costs, could not halt the downward trend in prices. The combination of the slowdown in ore and coal shipments to China combined with the fall in oil prices also kept freight markets working at low levels for most of 2015.

Domestic natural gas and electricity prices remained stable from 2014 to 2015.

Domestic supply purchases, providing significant advantages in terms of security of supply in volatile market conditions, were carried out at an optimum level. Powder ore and pellets produced in Erdemir's Maden Divriği plants that are part of the Erdemir Group, were consumed at a maximum capacity. Other domestic resources were purchased to the maximum extent possible and utilized to the consumption limits by taking into account price and quality.

In line with the philosophy of sustainable procurement, Erdemir Group continued activities to develop domestic and foreign supply resources and to create alternatives for all purchase items. Once new domestic sources were identified, field visits were conducted, production conditions were observed in place and quality testing was carried out through laboratory tests by taking samples.

The market volatility in 2015 was effectively exploited. The Group maximized its profitability by earning while buying instead of just focusing on costs, while also benefiting from the advantages of newly created resources.

FINE ORE AND PELLET PRODUCED BY ERDEMİR MADEN WERE CONSUMED AT THE MAXIMUM CAPACITY.

R&D

Erdemir R&D Center successfully completed the first year of operation.

The official opening of the R&D center approved by the Republic of Turkey Ministry of Science, Industry and Technology on August 26, 2014 and is a first in Turkish steel sector was carried out on May 22, 2015 by the Republic of Turkey Ministry of Science, Industry and Technology. Successfully completed the first year of R&D Center was evaluated at a commission meeting held with the Ministry officials on June 12, 2015.

In accordance with the objective of achieving a dynamic structure that allows the production of innovative products and being "Advanced Steel Research Center", Erdemir R&D Center conducted intensive works in the fields of infrastructure investments, customer collaborations, recruitment of competent and experienced staff in 2015.

The R&D Center operates in four main departments including Raw Materials and Iron Production, Steel Production and Casting Technologies, Hot Rolled Products and Process and Cold Rolled Products and Process. The utmost care was given to the determination of the current technological trends by particularly focusing on the training of employees working as researchers in Erdemir R&D Center. The existing technical equipment of the R&D laboratories were improved with the addition of new laboratory equipment such as a gas chromatography/mass spectrometer, calorie meter, rotary furnace, 25 tons tensile test machine and a 3D surface topography measuring - profilometer and micro hardness tester.

Within the scope of infrastructure investments, for all the activities in the R&D Center to be carried out freely in high numbers and repetitions, independent of the constraints in the production facilities and without creating large-scale trial costs, activities were carried out aimed at coordinating these activities through "simulator/pilot plants".

An experimental sinter simulator, vacuum induction furnace, hot and cold rolling simulator, hot-dip and coating simulator are among the simulators for which the procurement process is ongoing.

In 2015, some organizational changes were implemented for the activities aimed at innovation to become a priority and for developing new projects and transforming them into commercial value. In September, the R&D Incentives and Intellectual Property Rights Department was established within the R&D Directorate. At Erdemir and İsdemir, the Erdemir and İsdemir Patent Registration Procedure was set up within the scope of provisions of "Patent Rights Protection Decree Law" No. 551, that defines the steps to be taken in order to protect inventions which are planned to be made, to be put into practice or to be commercialized as a result of participation tools, business applications or R&D activities.

4

Erdemir R&D Center consists of 4 main departments including Raw Materials and Iron Production, Steel Production and Casting Technologies, Hot Rolled Products and Process and Cold Rolled Products and Process.

IN 2015, ERDEMİR MADEN COMPLETED 32,307 METERS OF DRILLING IN 171 DIFFERENT REGIONS WITHIN THE SCOPE OF EXPLORATION AND DRILLING OPERATIONS.

In 2015, a total of 63 projects, 19 of which were completed, were carried out by the R&D Center. One of the 9 projects developed to benefit from the incentives under the TÜBİTAK-TEYDEB projects (the 1501 program) was accepted and one project was rejected. The application and approval processes for the other 7 projects are continuing.

The number of grades amounted to 430 in flat products, 261 in long products with the development of new products.

In 2015, 19 new flat product grades were developed as a result of works carried out jointly by Erdemir R&D and Quality Technology units (14 new grades were developed, 5 existing grades were revised) and the total number of grades in flat products rose to 430. The number of grades amounted to 261 in long products, for which 11 new grades were produced.

The following numbers of steel grades with respect to their area of use were offered for sale; 2 grades for can and packaging manufacturing, 2 grades suitable for heat treatment, 7 grades suitable for building and machinery manufacturing, 2 grades for white goods sector, 4 grades for automotive sector, 1 grade for secondary producers and 1 grade suitable for pressurized use.

ISO/IEC 17025 Certificate for Erdemir Laboratories

The experiment laboratories within Erdemir Quality Technology Directorate applied to TÜRKAK (Turkish Accreditation Agency) to obtain accreditation certificate under TS EN ISO/IEC 17025 standard.

As a result of the audit carried out between June 8-9, 2015, the experiment laboratories were found to be fulfilling the management and technical requirements of the standard. Laboratories were accredited by "AB-0852-T" number within the scope of the following tests; coal and ash content in coke, coal and upper calorific value in coke, galvanize coating weight, saponification number in mineral oils, carbon - sulphur analysis in pig iron and steel and steel sheet tensile testing.

Also in 2015, analytical activity of the laboratories was enhanced with new equipment such as the WD -XRF Spectrometer, the installation of which is complete, DOS Oil Tester for tin products and an Online Gas Calorimeter and Automatic Sampling System to be used for iron ore evacuation.

In Erdemir Maden, 6.5 million tons of additional magnetite ore reserves were identified.

Erdemir Maden continued with the exploration and drilling activities aimed at increasing iron ore reserves also in 2015. 32,307 meters drilling were carried out in 171 different regions in the fields located in Divriği and 2,055 meters magnetite ore was cut.

The production and mining projects are being prepared for the additional 6.5 million tons of magnetite ore reserves identified as a result of these works. Outside of Divriği, drilling activities were carried out for hematite ore and manganese ore in the fields located in Kayseri and Denizli.

691

In 2015, a total of 691 grades of flat and long products were available as a result of the work carried out jointly by Erdemir's R&D and Quality Technology units.

INVESTMENTS

In 2015, Erdemir Group undertook an important transformation for the management of investments in line with the operational excellence and becoming lean, which are one of the main issues being focused on, on the road to its 2020 vision. Business processes have been restructured in a manner which supports the Group's strategic objectives, while all units that carry out engineering processes and plant investments were united under the roof of Erdemir Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş.

Erdemir Group continues to invest through this new structure which oversees sustainability criteria, implements projects consistent with its strategies and completes them through efficient and effective management and brings in employees who have reached the required level of expertise that is valid on a global scale.

Investment activities that were completed or ongoing in the Erdemir Group

- **Manisa Steel Service Center**

  Erdemir Group established the 4th Steel Service Center in Manisa in order to achieve operational competence to meet customer expectations in the shortest possible time. The plant, with a coil slitting capacity of 150 thousand tons/year, will be an important link in the supply chain in the Aegean region in transforming the Erdemir Group from being just a mass producer steel supplier into a business partner offering effective solutions to its customers with stocking, processing and logistics services.

In 2015, the No. 7 Air Separation Plant, Level 1 and 2 System Modernization of BOF Steel Mill and Continuous Casters No: 3 and 4 and the Construction of the New Bridge over the River Gülüç and access roads projects were completed at Erdemir.

- **No. 7 Air Separation Plant Project**

  The No. 7 Air Separation Plant, which was installed to replace the air separation plants that had completed their economic lives and were burdened by high energy costs, and also to reduce costs by increasing the amount of coal injected to the blast furnaces, began production at the beginning of 2015. The plant, which has a low specific energy consumption, will serve the No. 1 and 2 blast furnaces and is expected to help lowering production costs.

- **The Modernization of Level 1 and 2 of the Automation Systems at the BOF Steel mill and continuous casting of No: 3 and 4 Facilities**

  In 2015, Level 1 and 2 systems of BOF Steel Mill and Continuous Casting Facilities No: 3 and 4 were renewed to ensure the sustainability of Level 1 and 2 systems that have been in use since 1992, and the integration of the newly added equipment. Thus, a more modern system was established which is able to detect incidences of non-compliances more reliably, which is very safe, which supports the presence of dynamic models that will allow increased production and cost reductions and is user friendly.

IN 2015, ALL UNITS THAT CARRY OUT ENGINEERING PROCESSES AND PLANT INVESTMENTS WERE UNITED UNDER THE ROOF OF ERDEMİR ENGINEERING IN ERDEMİR GROUP.

In Erdemir, No. 7 Air Separation Plant began production in 2015.

IN 2015, ERDEMİR GROUP OPENED 4TH STEEL SERVICE CENTER FOR SERVICE IN MANİSA ORGANIZED INDUSTRIAL ZONE.

- **Construction of the New Bridge over the River Gülüç and Access Roads**

  With the Ereğli Steel Service Center, established in the Gülüç Gate region, reaching full capacity, 650 thousand tons of deliveries are carried out through the Gülüç Gate, and the 3rd party loads in the port are received through this gate. This bridge is used for the transportation of raw materials and auxiliary materials that arrive by land, which necessitate the construction of a second bridge and landscaping works. The construction of the bridge was completed during the year and opened for use. This aims to halt the product deliveries from Kışla Gate and deliveries from the Gülüç Gate, thereby relieving the pressure on city traffic in the medium term.

Ongoing investments at Erdemir in 2015

In Erdemir, intensive field applications are continuing within the scope of the projects such as the Rewamp of Ladle Treatment Station to a Ladle Furnace (Ladle Furnace No:3), Modernization of Normalizing Furnace, Environmental Investments, Reconstruction of Gülüç Gate Region as Transportation Gate, Raw Material Stocking and Blending Yard Modernization, Modernization of Converter Slag Stopper System in B.O.F.

Other projects for which there are ongoing applications:

- **Erdemir No. 2 Continuous Galvanizing Line**

  High quality special products will be produced in the state-of-the-art No. 2 Continuous Galvanizing Line, with production aimed particularly at the automotive industry. The contract of the investment, which will more than double the galvanized product capacity of the Erdemir Group was signed.

- **Construction of the 4th Stove for Blast Furnace No. 1**

  The stove capacities of Erdemir's No. 1 Blast Furnace were renewed without changing the stoves and the capacities rose to 1,750,000 tsm/year. After this, only maintenance investments are planned for the stoves, a new stove will be constructed to prevent a loss of production at the No. 1 blast furnace.

- **Erdemir Top Pressure Recovery Turbines (TRT) Plants**

  At Erdemir's blast furnaces, blast furnace gas, which has a certain pressure and is produced as a by-product of blast furnaces, will pass through "Top Pressure Recovery Turbines" after being cleaned and cooled off, and electricity will be generated before the gas is piped to low pressure gas distribution lines.

Erdemir Projects whose design, specification, tender activities are ongoing:

- New No. 4 Coke Oven Battery and By-Product Plants
- Continuous Pickling Line and Tandem Cold Mill (CPL&TCM) Capacity Improvement and Strip Width Enlargement Project
- 60 MW Turbo Generator and No. 6 Steam Boiler
- R&D and Simulation Center
- No: 2 Pickling Line Welding Machine and Side Trimmer Modernization Project
- Surface Inspection Systems
- Erdemir Additional Environmental Package
- Completion of Modernization of Levels 1 and 2 of the Steel Production Facilities
- Modernization of Level 2 of the No. 2 Hot Rolling Mill and Additional Investments in the Power Distribution System

Erdemir Group's galvanized product capacity will more than double with the completion of the No. 2 Continuous Galvanizing Line project, which is currently at the field application stage.

R&D and Simulation Center

Efforts were initiated to establish a Simulation Center in the Erdemir R&D Center to develop new products and production technologies, to raise the quality and standard of the products, to increase efficiency, to reduce costs, to save energy and to carry out R&D operations in a more effective manner and under a central structure. The Simulation Center, which is planned to be commissioned in 2017, will also include two comprehensive laboratories including "Raw material R&D simulation" and "Product Development R&D simulation".

Erdemir plans to purchase "a Sinter pot grate", "a vacuum induction melting furnace", "an induction melting furnace", "hot and cold rolling" and "a temper and hot-dip coating simulator" for the laboratories.

The Group's priority strategies with the simulation laboratories include "developing new products with high added value" and "undertaking efforts to reduce raw material costs".

Investment activities in the İsdemir Group that were completed or ongoing during 2015

Following the Modernization and Transformation Investments (MTI), work aimed at using the facilities in the most effective and efficient way continued at İsdemir in 2015 and the projected liquid steel capacity was achieved. During this period, planning activities were carried out for the completion investments that will increase the efficiency and effectiveness of implemented MTI projects by taking into consideration the developments in the sector as well as developments in the world economy and Turkey's economy. Efforts related to investments aimed at environmental protection, energy saving, product development and quality improvement were maintained.

In this context, the project for the Heart Refractory Change of No. 3 Blast Furnace was completed and commissioned in 2015. Intensive field activities are continuing for the No. 3 and 4 Blast Furnace TRT Plants and No. 2 Blast Furnace Re-line and Modernization projects. Of the 25 projects that make up the "Environmental Package", 13 have been completed, while field activities continue for the other projects.

- **İsdemir Top Pressure Recovery Turbines (TRT) Plants**

  Blast furnace gas from in İsdemir's No. 3 and 4 blast furnaces, which is of a certain pressure and is produced as a by-product of blast furnaces, will pass through "Top Pressure Recovery Turbines" to be installed after being cleaned and cooled off. Consequently electricity will be generated before being given to low pressure gas distribution lines.

- **2. Blast Furnace Re-line and Modernization**

  As the No 2. Blast Furnace body with heart refractories and stoves completed their estimated life cycles, the re-line became mandatory in the plant. In this context, the Group aimed to ensure the most optimal production and operation conditions, and also by carrying out improvement activities so the facility could be used more efficiently and effectively. With this modernization, the working volume of the blast furnace will increase to 1,450 m^3.

13

At İsdemir, 13 projects of the "Environmental Package" consisting of 25 projects, which focus on the environment, were completed.

IN 2015, ERDEMİR MADEN INITIATED WORK ON AN INVESTMENT TO EXTRACT 3,158,000 TONS OF MAGNETITE ORE DISCOVERED IN THE CÜREK AREA.

The project is expected to bring the following benefits:

- Fuel savings achieved by increasing the temperature of the air supplied to the blast furnace.
- Fuel savings achieved by a transitioning to the Bell Less Top (BLT) Charging System by eliminating the need to change top equipment thereby reducing maintenance costs and downtime.
- With the establishment of the onsite granulating plant, savings of 15% in coarse slag, reduction in transport with pot and maintenance costs and the opportunity to gain additional gas that will be generated by the No. 2 Blast Furnace during when the No. 3 and 4 Blast Furnaces are switched off.

Projects whose design, specification, tender activities are ongoing in İsdemir

- Hot Rolling Mill Improvement Investments
- 8th Air Separation Plant
- Modernization of No.3 Coke Oven Battery
- Hot Slab Marking Machine Installation
- Power Station Dust Collection and Water Cooling System
- Hot Rolling Mill Harmonic Filter / Compensation System

In 2015, investment efforts in Erdemir Maden

- **Cürek Underground Operation Investment**

  In Erdemir Maden, within the scope of works of life extension of Divriği pelletizing plant and increase of reserve capacity, investment efforts began for the production of 3,158,000 tons of magnetite ore uncovered in Cürek area in 2015 as a result of field drillings. Upon the completion of the investment estimated to take one year, in July 2016, the ore production is planned to be begun in Cürek Underground Operation.

INVESTMENT PROJECTS		2015		2016		2017		2018	
Name	**Company**	**1. H**	**2. H**	**1. H**	**2. H**	**1. H**	**2. H**	**1. H**	**2. H**
A-COMPLETED INVESTMENTS									
MODERNIZATION OF BOF AND CONTINUOUS CASTING OF THE LEVEL 1 AND LEVEL 2 SYSTEMS OF THE 3RD & 4TH PLANTS	ERDEMİR		■						
NO. 7 AIR SEPARATION PLANT PROJECT	ERDEMİR	■							
MANİSA STEEL SERVICE CENTER	ERSEM		■						
NO. 3 BLAST FURNACE HEART REFRACTORY CHANGE	İSDEMİR	■							
B-ONGOING INVESTMENTS									
NO. 2 CONTINUOUS GALVANIZING LINE (WIDE PRODUCT)	ERDEMİR							■	
BLAST FURNACES TOP PRESSURE RECOVERY TURBINES (TRT) PROJECT	ERDEMİR				■				
60 MW NEW TURBO GENERATOR AND NO. 6 STEAM BOILER	ERDEMİR						■		
ERDEMİR ENVIRONMENTAL INVESTMENTS	ERDEMİR							■	
REWAMP OF BOF LADLE TREATMENT STATION INTO LADLE FURNACE	ERDEMİR			■					
ERDEMİR GROUP R&D INVESTMENTS	ERDEMİR						■		
ERDEMİR COKE OVEN BATTERY NO. 4 AND MODERNIZATION OF THE BY-PRODUCT PLAN	ERDEMİR								■
CONSTRUCTION OF NEW BRIDGE OVER GÜLÜÇ RIVER AND LINK ROADS	ERDEMİR		■						
ADDITIONAL INVESTMENTS IN ENERGY DISTRIBUTION SYSTEMS	ERDEMİR						■		
INCREASE IN PRODUCT RANGE AND CAPACITY AT NO. 2 COLD ROLLING MILL CONTINUOUS PICKLING-TANDEM LINE (CPL-TCM) PROJECT	ERDEMİR					■			
NO. 2 CONTINUOUS PICKLING LINE (CPL) WELDING MACHINE, EDGE CUTTING AND SCRAP CHOPPING UNIT'S RENOVATION	ERDEMİR						■		
CONSTRUCTION OF NO. 4 STOVE FOR NO. 1 BLAST FURNACE	ERDEMİR				■				
LEVEL 2 MODERNIZATION OF NO. 2 HOT ROLLING MILL	ERDEMİR				■				
NORMALIZING FURNACE MODERNIZATION	ERDEMİR			■					
ERDEMİR ADDITIONAL ENVIRONMENTAL PACKAGE 1	ERDEMİR								■
RECONSTRUCTION OF GÜLÜÇ GATE REGION AS A DELIVERY DOOR	ERDEMİR					■			
COMPLETION OF MODERNIZATION OF LEVELS 1 AND 2 OF THE STEEL PRODUCTION FACILITIES	ERDEMİR								■
ONLINE SURFACE INSPECTION EQUIPMENT (1ST AND 2ND PHASE)	ERDEMİR				■		■		
MODERNIZATION OF RAW MATERIAL STORAGE AND BLENDING YARDS	ERDEMİR						■		
NEW CENTRAL BATHS AND DINING HALL BUILDINGS	ERDEMİR							■	
MODERNIZATION OF CONVERTER SLAG STOPPER SYSTEM	ERDEMİR				■				
NO. 3 BLAST FURNACE AND NO. 4 BLAST FURNACE TRT PLANTS PROJECT	İSDEMİR			■					
HOT ROLLING MILL IMPROVEMENT INVESTMENTS	İSDEMİR							■	
NO. 2 BLAST FURNACE RELINE AND STOVE MODERNIZATION	İSDEMİR			■					
NO. 8 AIR SEPARATION PLANT	İSDEMİR							■	
NEW ENVIRONMENTAL PACKAGE	İSDEMİR				■				
MODERNIZATION OF NO. 3. COKE OVEN BATTERY	İSDEMİR								■
SOUTH PORT (1ST PHASE)	İSDEMİR				■				
HOT SLAB MARKING MACHINE INSTALLATION	İSDEMİR				■				
POWER STATION DUST COLLECTION AND WATER COOLING SYSTEM	İSDEMİR				■				
HOT ROLLING MILL HARMONIC FILTER / COMPENSATION SYSTEM	İSDEMİR				■				
CÜREK UNDERGROUND OPERATION	ERDEMİR MADEN				■				

MANAGEMENT SYSTEMS

To continuously improve the Group performance

Erdemir Group implements management system standards accepted worldwide and prepared by the subject experts to continuously improve its processes in all business areas to provide a mechanism that is more effective, accurate and less costly and to meet the expectations of stakeholders at the highest level. These standards allows the Group performance to be continuously improved for the issues of efficient use of resources, more effective risk management and ensuring stakeholder satisfaction.

In 2015, Erdemir Group shared the basic principles on occupational health and safety, quality, the environment and energy as well as information security by revising its management systems policy and assigned information security management representatives.

Group companies Erdemir and İsdemir hold the ISO 9001 Quality, ISO 14001 Environment, OHSAS 18001 Occupational Health and Safety, ISO 50001 Energy, ISO/TS 16949 Quality for Automotive Sector certificates. Beside this, Erdemir holds ISO/IEC 17025 Laboratory Management System accreditation certificates for both Main Laboratories and Calibration Center. On the other hand, İsdemir holds Laboratory Qualification Certificate. Studies undertaken by Erdemir and İsdemir to obtain the ISO/IEC 27001 Information Security Management System certification that began in 2015 was completed in March 2016.

Ersem, the Steel Service Center, implements the ISO 9001 Quality, ISO/TS 16949 Quality for Automotive Sector and ISO/IEC 27001 Information Security Management System while Erdemir Romania implements the ISO 9001 Quality, ISO 14001 Environment, OHSAS 18001 Occupational Health and Safety and the ISO 50001 Energy Management Systems. Erdemir Maden holds the OHSAS 18001 Occupational Health and Safety Management System certificate.

ERDEMİR AND İSDEMİR HOLD THE ISO 9001 QUALITY, ISO 14001 ENVIRONMENT, OHSAS 18001 OCCUPATIONAL HEALTH AND SAFETY, ISO 50001 ENERGY, ISO/TS 16949 QUALITY FOR AUTOMOTIVE SECTOR CERTIFICATES. BESIDE THIS, ERDEMİR HOLDS ISO/IEC 17025 LABORATORY MANAGEMENT SYSTEM ACCREDITATION CERTIFICATES FOR BOTH MAIN LABORATORIES AND CALIBRATION CENTER. ON THE OTHER HAND, İSDEMİR HOLDS LABORATORY QUALIFICATION CERTIFICATE.

SUSTAINABILITY

SUSTAINABILITY APPROACH

The sustainability approach that is integrated into all processes allows Erdemir Group to create added value in all areas of business.

Playing an indispensable role in the development of modern life and society, Erdemir Group is the largest manufacturer of steel, which will ensure it remains one of the essential inputs of the green economy today and in the future, in Turkey.

The Group pays regard to the social development to meet the needs of everyone, the protection of the environment, the efficient use of natural resources, ensuring the development and employment in a balanced manner in its production process, while adopting the strategy pursued by its main shareholder, OYAK - to create more value with fewer resources.

Erdemir Group is focused on generating sustainable value in all areas, and pursues its activities as a corporate citizen aware of its responsibilities to the economy, the environment and society. The Group cares about conducting all of its activities in a manner which continuously improves its environmental performance, while striving to create awareness across the Group in this respect.

With the principles of sustainable development being a guide in all business and the decision-making processes:

- Erdemir Group has successful practices that have represented our country at the United Nations, while possessing an effective environmental management system, and holds an array of national and international awards.
- Erdemir Group carries out its duties as the "TSPA Environment Committee Chairman" and "TOBB Climate Change and Environment Committee Vice Presidency" with its successful applications regarding environment.
- As a result of its high performance in environmental management, Erdemir Group ranked among one of the few companies in the Borsa İstanbul Sustainability Index in 2015.

Ensuring the following lies at the heart of Erdemir Group's sustainability goals;

- establishing the environmental footprint of steel production,
- supporting life cycle,
- manufacturing high-strength steel,
- promotion of smart product design and promotion of the life cycle, with consideration for the dissemination of reuse,
- ensuring the recycling of waste.

ERDEMİR GROUP CONTINUES ITS ACTIVITIES AS A CORPORATE CITIZEN AWARE OF ITS RESPONSIBILITIES TOWARDS THE ECONOMY, THE ENVIRONMENT AND SOCIETY.

OCCUPATIONAL HEALTH AND SAFETY

A safety culture that adopts the principles of occupational health and safety

Erdemir Group sees providing a healthy and safe working environment for its employees as a priority, and strives to create a safety culture in which this priority manifests itself in the ways of doing business, where all employees adopt the principles of occupational health and safety.

Believing that every accident can be prevented, and that accident-free steel production is possible, even if it is not an easy target, Erdemir Group handles occupational health and safety practices through a holistic approach. The Group shapes its practices in line with the physical conditions of the workplaces and the equipment required by these conditions, effective and efficient planning of business processes, determination of rules and responsibilities in a clear and understandable manner and the creation of awareness that employees are responsible for the health and safety of themselves and their teammates.

The Group's parent company, Erdemir, implemented the OHSAS 18001 Occupational Health and Safety Management System in order to manage occupational health and safety performance within a system in 2004, and was the first company in the industry to obtain this certificate. For the same purpose, the OHSAS 18001 Occupational Health and Safety Management System certificate was awarded to İsdemir in 2005, to Erdemir Maden in 2009 and to Erdemir Romania in 2008.

ERDEMİR GROUP BELIEVES THAT EVERY ACCIDENT CAN BE PREVENTED AND ACCIDENT-FREE STEEL PRODUCTION IS POSSIBLE.

IN 2015, ERDEMİR GROUP WITHIN THE SCOPE OF OHS EFFORTS, APPOINTED THE OHS LEADER TO CARRY OUT THE ACTIVITIES ON BEHALF OF THE ENTIRE GROUP AND TO LEAD.

The Basic Principles of Erdemir Group's Occupational Health and Safety (OHS) Policy:

- To produce "Accident-free steel" by applying risk management,
- To make working environments safe and to protect the health of employees,
- To ensure that employees adopt a sustainable "safety culture".

In 2015, the Activities in the field of Occupational Health and Safety

In 2015, Erdemir Group appointed an OHS Leader to carry out the activities on behalf of the entire Group and to lead by restructuring in the field of Occupational Health and Safety.

The Erdemir Group of companies successfully completed the OHSAS 18001 Occupational Health and Safety Management System annual audits carried out by the TSE (Turkish Standards Institute) again in 2015. In addition, further measures were fulfilled in a short space of time at Erdemir Maden after the inspection of underground and surface mines carried out by inspectors appointed by the Republic of Turkey Ministry of Labor and Social Security.

İsdemir, one of the Group companies, has achieved the best scores of the past 14 years in the field of OHS. 2015 was the first year when İsdemir achieved an overall accident rate of below 1, a total number of accidents of less than 50 and total lost working days of less than 2 thousand days. In 2015, İsdemir achieved the best score of 3.15 in the accident frequency rate.

Priority given to training to ensure a safety culture

Erdemir Group is aware that one of the important steps towards creating the culture of safety it strives for and maintaining it is the training it provides in this field. All of the Group's employees are given training in different subjects to educate them of the different risks specific to their jobs; support is provided from specialist lecturers. Also by virtue of its knowledge and experience, the Group provides gratis guidance to Joint Health Safety Unit companies, from which subcontractors purchase services to increase their awareness of their field of business, and holds information meetings.

In 2015, a total of 157,462 man-hours of OHS training were provided in Erdemir, 110,330 man-hours in İsdemir, 4,856 man-hours in Erdemir Maden and 63 man-hours in Erdemir Engineering, where both Group employees and employees of the Group's subcontractors attended the training.

Systematic practices that improve OHS performance

Erdemir Group continuously monitors its risks regarding occupational health and safety and the areas requiring improvement through systematic practices and is taking the necessary measures. In addition to daily checks and inspections carried out regularly by occupational safety experts and engineers, "Announced and Unannounced Safety Walkabouts", in which managers also participate, are organized in the Group's workplaces to raise OHS awareness to all levels of the organization and to create safe conditions.

OHS training

In 2015, a total of 272,767 man-hours OHS training was provided in Erdemir Group.

OHS Training	Number of Attendant	Hours*	Ratio in Total Training (%)	Average Training Hour per Employee
Erdemir	24,199	157,462	41	17.24
İsdemir	18,627	110,330	27	15.23
Erdemir Maden	255	4,856	21.20	19.04
Ersem	215	56	95	55
Erdemir Romania	280	6,738	51.94	24

* The hourly information provided in the table shows the amount of OHS training given to all employees.

IN 2015, THE IMPROVEMENTS WERE CARRIED OUT FOLLOWING 498 SAFETY WALKABOUTS CONDUCTED BOTH ANNOUNCED AND UNANNOUNCED IN ERDEMİR GROUP FACILITIES.

A total of 194 announced and 136 unannounced safety walkabouts were carried out at Erdemir during 2015, after which 2,857 workplace environment improvement activities were performed. At İsdemir, a total of 168 safety walkabouts, including 26 general announced safety walkabouts and 142 internal announced safety walkabouts were carried out. The improvement measures of most of the 2,297 issues identified were completed. At İsdemir, 10,782 areas for improvement were also identified as a result of OHS systematic activities, and were followed up on systematically. At Erdemir Maden, physical non-conformities identified by the hazard and near-miss notifications undertaken by the workers were eliminated.

The reports filed by the Group's employees electronically are monitored to identify hazard notifications that are an important factor in the prevention of occupational accidents and near-miss incidents. The improvement activities intended for these issues are included in the objectives of the unit managers.

As a result of the examination of 1,379 hazard notifications and 133 near-misses in Erdemir during 2015, improvements were carried out. At İsdemir, a total of 24,562 near-miss incidents were examined and 80% of the issues requiring improvement were completed. In general standards, it is estimated that the improvement activities carried out after the reporting of 3 thousand near-miss incidents will prevent a fatal accident.

Proactive results from reactive measures

An Erdemir standard has already been created that can serve as an example to other companies with the Accident Analysis applied at Erdemir. Accidents are analyzed according to business, human and environmental factors to derive proactive results from reactive measures and to get to the root causes of accidents that take place in Erdemir, and to determine the measures to be taken. The measures to be taken are determined in accordance with the statistical results obtained and measures are carried out accordingly.

ERDEMİR GROUP CLOSELY FOLLOWS THE DEVELOPMENTS AND PRACTICES IN THE OHS FIELD AND SHARES ITS WORKS IN VARIOUS PLATFORMS.

Emergency Management

Within the scope of the Regulation on the Prevention of Major Industrial Accidents and Mitigation of Impacts, the safety report (SEVESO) prepared in Erdemir was largely completed in 2015. The final reports will be prepared in 2016, following the preparation of the explosion protection document, work on which started in 2015. These efforts will allow Erdemir to take measures to prevent major industrial accidents that may occur in the future. Meanwhile, 41 emergency drills were held in Erdemir's various facilities throughout the year.

At İsdemir, the collaboration entered into with the Search and Rescue Association (AKUT) under the Emergency Management System has been continuing since 2010. All Emergency Awareness training sessions were completed in 2015; training programs were offered to emergency and on-scene managers and unit emergency response teams. A project was prepared to raise awareness about business continuity, emergency management and safety culture in Turkey together with AKUT, Social Accountability International (SAI) that is the founder of SA 8000 Social Compliance Standard and the Rapid Results Institute. Within the scope of the project, five teams were established and the teams successfully completed the OHS projects within 100 days.

World-class protective equipment for employees

At Erdemir Group, Protective Equipment Commissions are in charge of determining the appropriate protective equipment appropriate for working conditions and carrying out the necessary improvements by monitoring them in use.

Employees are provided with world-class protective equipment designed specifically for their work. The effective use of this equipment is constantly monitored.

Erdemir Group follows the developments in the sector and shares its knowhow

Erdemir Group has been following developments and best practices in the field of occupational health and safety both in the steel sector as well as in different areas, and shares its own best practices on various platforms.

The Group supported the Safety Day practice organized under the slogan of a "Safer Steel Industry" by the World Steel Association in 2015. In this context, site audits focused on the five most commonly occurring accident types were conducted concurrently at Erdemir and İsdemir, with the World Steel Association member organizations on April 28, 2015. The OHS committee meeting organized by the World Steel Association held in Saudi Arabia was attended.

Erdemir employees made a presentation about Erdemir Occupational Safety Practices in 2nd Occupational Health and Safety Summit held in İzmir. İsdemir employees participated with 6 posters and 6 oral presentations in VIII. National OHS Congress organized by the Chamber of Mechanical Engineers in Adana.

41

41 Emergency Drills were held in Erdemir's various facilities throughout 2015.

HUMAN RESOURCES

World-class human resources

Erdemir Group believes world-class human resources are vital to achieve its vision of becoming a world-class company. It aims to achieve a culture through which its employees are proud to work, can feel that they are members of a valuable family and are encouraged to put forward new ideas. The Group supports the professional and personal development of its employees, oversees that they have good living standards and helps them organize their work environments and processes in a manner which is healthier, more productive and ergonomic.

The Group believes its employees are members of a large family that share common goals, values and principles, and implements human resources practices to increase the satisfaction and loyalty of its employees in a manner which allows the inclusion of talented individuals within the Group.

As of the end of 2015 Erdemir Group, one of Turkey's largest employers, provided employment to 12,659 people.

To improve organizational performance

One of Erdemir Group's priorities in its 2015 strategy map was "to strengthen the high-performance culture". In this direction, measurement and improvement activities focused on the development of feedback culture through programs initiated especially for management positions are carried out.

A performance management system is implemented for all employees to determine employee targets in parallel with the Group's objectives, to measure their contribution and to plan their development needs.

AT THE END OF 2015, ERDEMİR GROUP EMPLOYED 12,659 PEOPLE.

IN 2015, ERDEMİR GROUP ACADEMY ESTABLISHED A "LEADERSHIP FACULTY" WITH THE OBJECTIVE OF RAISING LEADERS WHO WILL CARRY THE GROUP TO THE FUTURE.

Talent management

Erdemir Group defines talent management processes in line with the Group's strategies and develops them by taking into account the Group's needs and the current applications in the field of talent management. The process comprising the steps of bringing the talent from outside the Group into the Group, retaining new and existing employees and implementing developmental activities that will reveal employees' potential is supported through different means such as horizontal career paths, rotation, mentoring and experiential learning applications.

Erdemir Group carries out training and development activities specific to the individual for engineers/specialists and upper level employees together with top managers. In addition, Group specific training is also designed for certain title group, unit or special development areas.

From experience to the future

At Erdemir Group, an internal mentoring program is carried out to support the development of employees, to guide employees based on the experience of the managers and to transfer the Erdemir leadership culture to new and potential leaders. In this context, 20 internal mentors continue the development process in İstanbul and İskenderun. In Ereğli, the development process continues with a total of 26 mentors and 44 employees receiving mentoring.

Also in 2015, under the "Mentoring of Managers preparing for their new duty", 28 managers holding management or higher positions, who had been promoted and who had recently joined the Group, began the mentoring program.

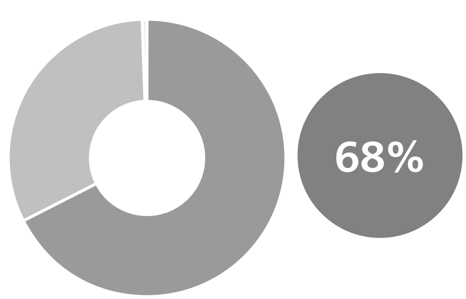
Progress with inspiring leaders

To create a common management culture by developing its management and leadership skills and to set itself apart in corporate performance, Erdemir Group established a "Leadership Faculty" with the objective of raising leaders who will carry the Group to the future. In this context, 194 managers started the "Executive Development Project" at the Erdemir Group in 2015. In addition, Corporate Representation training was performed with the participation of 75 people to strengthen managers' media relations with the aim of creating a common language in media communication and corporate representation.

194

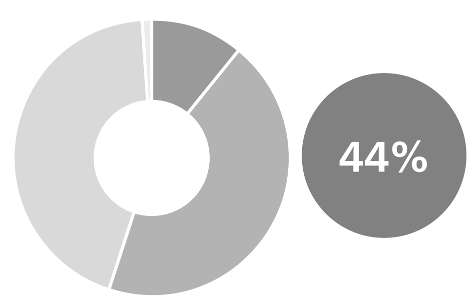
In 2015, 194 managers started "Executive Development Project" in the Erdemir Group.

Number of Employees



- 8,537 Blue-Collar 68%
- 4,100 White-Collar 32%
- 22 Contracted 0%

Breakdown by Age



- 1,460 18-30 Years 11%
- 5,559 31-40 Years 44%
- 5,572 41-55 Years 44%
- 68 56 and Older 1%

Continuous learning

Erdemir Group carries out training activities to enhance its employees' personal and professional knowledge, and offers continuous development opportunities based on contemporary needs and which meet the Group's common values to be adopted by the employees. The Group continued to provide training in a wide range of fields such as personal and professional development, management, management systems and occupational health and safety.

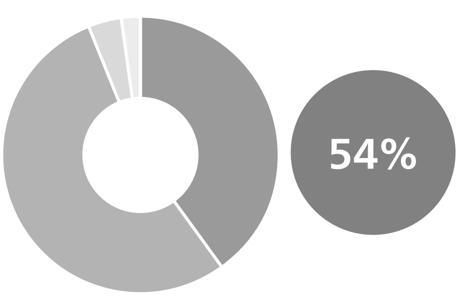
In this context, a common Learning Management System was implemented within the Group. A competency-based training catalog was issued and opened to employees' demands, and training planning was carried out accordingly. As for the staff who had recently joined the Group, a "New Graduate Development Program" was created and online orientation program was designed to accelerate the adaptation of new employees. Within the framework of "Preparations for a Career Development Program", 94 new graduate employees participated in the training programs.

Academy Portal up and running

The training needs and activities across the Group are managed under a single roof through Erdemir Group Academy to serve the corporate strategy and objectives.

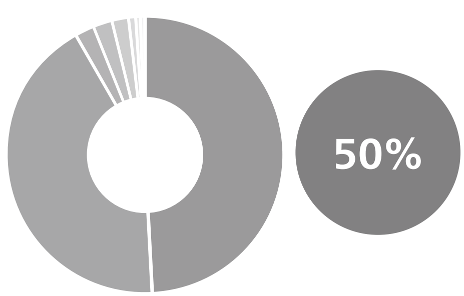
In 2015, the Group Academy Portal, which is a continuous and up-to-date platform, was published, in which employees can follow Erdemir Group Academy activities and their training schedules online, reach articles and videos in many different fields when and where they want, and can participate in e-training.

Employee Tenure



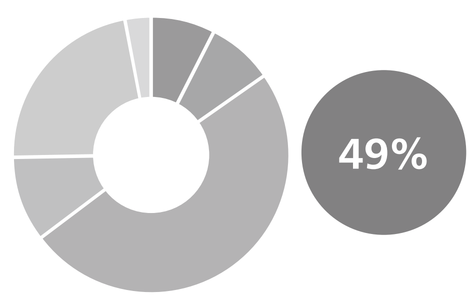
- 5,071 0-10 Years 40%
- 6,776 11-20 Years 54%
- 521 21-25 Years 4%
- 291 26 and Over 2%

Breakdown by Province



- 6,277 Kdz. Ereğli 50%
- 5,459 İskenderun 43%
- 281 İstanbul 2%
- 268 Romania 2%
- 255 Sivas 2%
- 87 Gebze 1%
- 27 Manisa 0%
- 5 Singapore 0%

Education Level



- 959 Primary School and Below 8%
- 990 Elementary School 8%
- 6,257 High School and Equivalent 49%
- 1,280 Vocational School 10%
- 2,820 Undergraduate 22%
- 353 Master/Ph.D. 3%

IN 2015, THROUGH THE "IN-UNIT TRAINING SYSTEM", TRAINING WAS PROVIDED TO 2,655 EMPLOYEES IN ERDEMİR AND 6,848 EMPLOYEES IN İSDEMİR.

Occupational/Technical, personal development, executive and obligatory training		
Company	**Participants**	**Hours**
Erdemir - Kdz. Ereğli	31,508	249,822
İsdemir - İskenderun	44,174	311,648
Erdemir Group - İstanbul	923	458
Erdemir Maden - Sivas	1,626	22,909
Erdemir Mühendislik	126	887
Erdemir Çelik Servis Merkezi	302	12,368
Erdemir - Romania	280	12,973

Congress, summit, conference and seminar participations

Employees are given the chance to participate in domestic and international events to follow current developments related to the sector and business, for the purpose of transferring the Group's knowledge and experience on a variety of topics.

In 2015, a total of 404 employees from Erdemir (323 Erdemir, 81 joint services employees) and 362 employees from İsdemir attended the congress, summit, conference and seminars.

A dynamic learning model

At Erdemir and İsdemir, the "In-Unit Training System" is implemented that allows continuous improvement in the ways of doing business by sharing of the knowledge and experience it has built up over the years. In this context, 2,655 employees from Erdemir and 6,848 employees from İsdemir received training.

Internship programs

Internship programs were converted into an approach cantered on the Company's manpower needs by restructuring with Iron Class, Steel Class and Ore Class brands at Erdemir in 2015. The Iron Class program provided on-the-job training through skill internships to 165 Vocational High School students, and the Steel and Ore Class Program provided internship opportunities to a total of 187 students from the Faculty and Vocational Junior Colleges during the summer. Meanwhile, İsdemir provided summer internship for 386 university students, long-term internship for 5 university students, skills training internship for 185 vocational high school students.

The selection of students who will participate in Ore Class Program designed to meet the Group's manpower needs was carried out by the evaluation center. On-the-job trainings were provided the interns to ensure their development; rotation plans were created in which they are allowed the opportunity to see the different units. At the end of the internship, measurements were carried out by intern evaluation team with an evaluation matrix and using means such as an exam and project.

Additional amenities offered to employees

Erdemir Group supports its employees and their families through various facilities such as lodgings in Ereğli and İskenderun, cultural centers, sporting facilities such as stadium, sports halls, tennis courts, beaches and swimming pools to increase the commitment of employees, enrich their social lives and improve their communication with each other. Health centers provide employees with

573

In Erdemir Group, a total of 573 students were offered internships during the summer of 2015.

preventive medicine, periodic examinations, services aimed at the prevention of work accidents and occupational diseases, emergency response and first aid. It provides employees with food and transportation.

Continuous improvement and employee involvement in sustainable development

Viewing continuous improvement as one of the most important components of its corporate culture, Erdemir Group has been working to be an organization that is sustainable, innovative, competitive, fast and agile, able to respond immediately to customer demands, with lean and effective processes. In this respect, the Group cares about its employees' participation, contributions and ideas. Operational excellence projects also add strength to the synergy created by the teamwork conducted with all levels of employees in many areas and contribute to achieving the strategic objectives.

In 2015, seven operational excellence projects in Erdemir and six in İsdemir were implemented to achieve lower cost production, to extend the life of equipment, to achieve energy saving and raw material optimization, and to improve product quality. These efforts, that enable a review of which processes are most efficient, provided the Group with a cost advantage and also supported the development of environmental and energy performance. Erdemir was awarded second prize in "the Efficiency Project Awards Competition" organized by the Republic of Turkey Ministry of Science, Industry and Technology with the project aimed at increasing production and consumption of BOF Gas.

Statistical Data Analysis Training (SDA), supported by the Minitab® program, Design of Experiments Training (DoE) and Statistical Modeling Training for Executives (SMTE), which are aimed at employees, are provided in order to promote this and similar projects that add value to the Group. In addition to these training programs, the Group plans to offer Measurement Systems Analysis (MSA) training in 2016.

In 2015, Group employees shared opportunities for improvement they noticed in many areas such as occupational health and safety, the environment, customer satisfaction, quality improvement, energy saving, efficiency, streamlining business processes, contributing to the lifespan of equipment and employee satisfaction through the suggestion system. In Erdemir, suggestions received through suggestion systems and whose return could be calculated brought returns of US$ 11.7 million in 2015 and US$ 45.5 million between 2011 and 2015; in İsdemir, US$ 32.4 million of returns have been obtained so far.

In 2015, in İsdemir, the record was broken with 13.61 suggestions per person, with 336 of the 1,148 established kaizen activities were completed, from which TL 68 million of revenue was obtained. 53% of İsdemir's employees took part in the kaizen activities. In 2016, an application was tabled to participate in the "Successful Team of the Year Award" competition organized by the İzmir branch of KalDer with "the reduction of CH-4 crane moving cable system breakdown and maintenance duration" kaizen project. In İsdemir, patents are obtained for the innovative and creative ideas revealed as a result of suggestion systems and kaizen activities and a contribution was made to intellectual accumulation. In this context, at İsdemir, 9 patent applications were made, 2 patents and 1 utility model (petty patent) certificate were obtained. Six patent applications are in the review stage.

IN ERDEMİR, US$ 45.5 MILLION OF RETURNS WERE OBTAINED FROM THE SUGGESTIONS RECEIVED THROUGH SUGGESTION SYSTEMS AND WHOSE RETURN CAN BE CALCULATED BETWEEN 2011 AND 2015; IN İSDEMİR, RETURNS OF US$ 32.4 MILLION HAVE BEEN OBTAINED TO DATE.

THE ENVIRONMENT AND ENERGY

Environmentally friendly production

Erdemir Group knows that the production process largely depends on the existence and continuity of natural resources and is constantly working to improve its environmental performance. Aiming to use the resources in the most efficient manner and prevent losses, and to achieve the highest level of recycling, the Group chooses environmentally friendly clean production technologies in its investments.

Ensuring that all employees adopt the Group's environmental approach is achieved through the management systems policy; efforts are undertaken to make sure this approach is adhered to.

In 2015, the success in integrating the sustainable development objectives into the business plans by continuously improving the effectiveness and efficiency of operations without affecting the ecological balance brought the Group "The Green Era" award in the international arena. The other important factors behind the decision to give the Group the "The Green Era" award were the efforts to increase public awareness of waste management, energy management and efficiency and its contributions to the protection of the environment in Turkey with the use of environmentally friendly technologies.

AIMING TO USE RESOURCES AT MOST EFFICIENCY AND ACHIEVE THE HIGHEST LEVEL OF RECYCLING, ERDEMİR GROUP CHOOSES ENVIRONMENTALLY FRIENDLY AND CLEAN TECHNOLOGIES IN ITS INVESTMENTS.

ERDEMİR GROUP CARRIES OUT AN ENVIRONMENTAL IMPACT ASSESSMENT FOR ALL OF ITS INVESTMENTS AND MODERNIZATION PROJECTS AND ENSURES COMPLIANCE WITH THE RELEVANT LEGISLATION.

Erdemir Group companies, Erdemir, İsdemir and Erdemir Romania that implement ISO 14001 Environmental Management System ensured the continuity of the certification in 2015.

Environmental credit for Erdemir Group

Erdemir Group submitted a loan application to the European Bank for Reconstruction and Development (EBRD) for the financing of investments with regard to energy and resource efficiency and in this context site inspections were carried out in Erdemir and İsdemir.

The disbursement of a EUR 75 million loan to the Erdemir Group to finance the investment of Blast Furnace Top Pressure Recovery Turbines (TRT), to be provided to Erdemir and İsdemir by the EBRD, was approved in January 2016.

Regulatory compliance

Erdemir Group observes full compliance with the legislation regarding the environment, as in all areas. In 2015, Erdemir, the parent company of the Group, obtained an Environmental Permit and License Certificate from the Ministry of Environment and Urbanization, regarding Wastewater Discharge, Air Emissions, Landfill-1st Class (Hazardous Waste Landfill), the Waste Acceptance Facility and Non-hazardous Waste Recycling, which will be valid for 5 years. İsdemir completed its efforts to obtain the Environmental Permit and License Certificate regarding Wastewater Discharge, Air Emissions and Waste Acceptance Facility including Non-hazardous Waste Recycling on March 9, 2016, which will also be valid for 5 years. Erdemir Maden obtained the Environmental Permit and License Certificate covering issues such as Air Emissions, Wastewater Discharge and Landfill within the scope of Environmental Permits and Licenses Regulation in 2015.

In line with the Regulation on the Control of Water Pollution, the Continuous Wastewater Monitoring System (CWMS), which allows wastewater parameters to be monitored online by the Ministry of Environment and Urbanization was established in Erdemir and İsdemir. All of the Continuous Emission Measurement Systems (CEMS) were connected to the data network of the Ministry of Environment and Urbanization. Erdemir and İsdemir greenhouse gas monitoring plans were uploaded to the Ministry of Environment and Urbanization system and consent was obtained. In line with the Regulation on Soil Pollution Control and Point Source Contaminated Sites, notifications were passed through the Contaminated Sites Information System.

According to the Industrial Air Pollution Control Regulation, Emission Verification Measures that should be performed biannually were carried out in September 2015 at Erdemir Maden. The result of the measurements showed that the limits set out in the Regulation had not been exceeded. The Annual Validation Test (AVT) that needs to be performed every year was carried out, and a Continuous Emission Measurement device located in the DeSOx flue verified the results.

EUR 75 million

A EUR 75 million loan to be disbursed to the Erdemir Group by the EBRD to finance the investment of the Blast Furnace Top Pressure Recovery Turbines (TRT), which will be built in Erdemir and İsdemir, was approved.

ERDEMİR GROUP AIMS TO ACHIEVE THE HIGHEST LEVEL OF RECYCLING TO MINIMIZE ITS IMPACT ON THE ENVIRONMENT.

Environmental impact assessments of the investment

Erdemir Group is conducting environmental impact assessments for all investment and modernization projects and complies with the legislation in this regard. In 2015, environmental impact assessment permit documents were obtained for the No. 2 Continuous Galvanizing Line Project, the Construction of Stove for the No. 1 Blast Furnace and the widening in product range and capacity at the No. 2 Cold Rolling Mill Continuous Pickling-Tandem Line (CPL-TCM).

Effective waste management and maximum recycling

Erdemir Group aims to achieve the highest level of recycling to minimize its environmental impacts and send waste that cannot be recycled to licensed companies in accordance with laws and regulations.

Afforestation and the conservation of green fields

Erdemir Group continues its efforts towards increasing the presence of trees and the conservation of green fields in the regions where it operates. In 2015, Group companies Erdemir Maden planted 15,200 trees, İsdemir planted 6,201 trees and Erdemir planted 1,512 trees.

Raising awareness of employees and stakeholders

In 2015, the Erdemir Group continued to provide environmental training intended for its employees in accordance with the legislation related to the environment and impacts on the environment.

The awareness training on topics such as Erdemir's Environmental Management System, climate change, major industrial accidents, and classification of waste was provided to 458 employees in Erdemir and 50 contractor employees. In addition, training sessions were provided for 30 environmental representatives. At İsdemir, legal requirement and ISO 14001 Environmental Management System training sessions were provided to 4,273 employees.

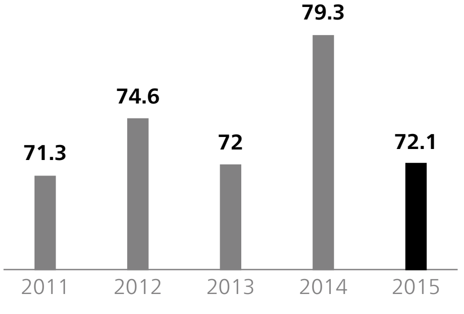
Within the scope of Hazardous Materials Safety Consulting, 106 Erdemir employees and 96 İsdemir employees received general awareness training; 228 Erdemir employees and 176 İsdemir employees received task-oriented training; 51 Erdemir employees received loading safety training and 98 İsdemir employees received safety training.

Within the scope of the World Environment Day events, Group employees provided environmental awareness training at the Erdemir Primary School, the Mustafa Akçakoca Açıkalın Secondary School and in the Ereğli Vocational Junior College in order to raise public awareness.

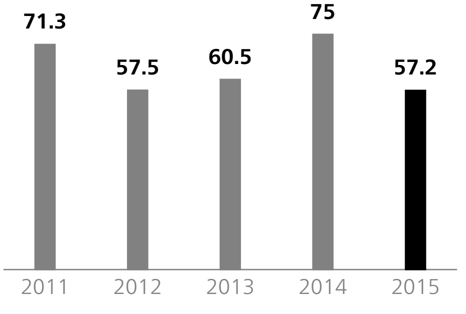
Afforestation

In 2015, Group companies Erdemir Maden planted 15,200 trees, İsdemir planted 6,201 trees and Erdemir planted 1,512 trees.

Erdemir Facilities Solid Waste Recovery Rate (%)



İsdemir Facilities Solid Waste Recovery Rate (%)



With the United Nations General Assembly designating 2015 as the year of "International Light and Light-Based Technologies", an event was organized in the Iron and Steel Anatolia High School in İskenderun in order to raise awareness about photonics science and technology and light pollution, in which 100 pupils participated.

Collaborations and events supported

The World Steel Association's (world steel) Environmental Committee meeting, which was hosted by Erdemir Group, was held in İstanbul in 2015. Within the scope of the event, representatives of leading companies in the world steel industry visited the Erdemir site and discussed Erdemir's environmental activities and practices.

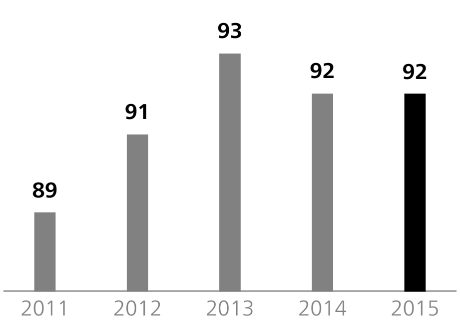
Erdemir Group attended a number of events throughout the year, including the World Steel Association's Sustainability Reporting event, the Product Sustainability and BOF Slag Applications Workshops, the 2nd Carbon Summit, the 24th Quality Congress, the Preparatory Meeting on International Climate Change Negotiations and the 38th International Association for the Energy Economics Conference.

Under the leadership of the World Steel Life Cycle Assessment Specialist Team, Erdemir and İsdemir have been carrying out life cycle assessment (LCA) for 2015. In the LCA study to be conducted together with the World Steel the following environmental impacts will be assessed:

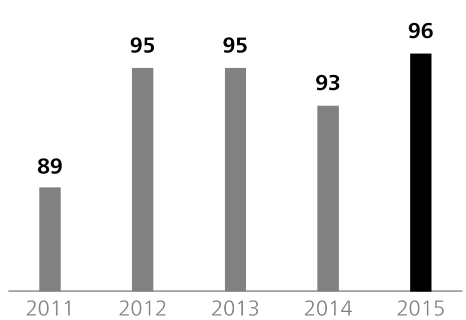
- Use of raw materials (iron ore, iron and steel scrap) and recycling rate
- Water consumption and water emissions
- CO_2 and particulate matter (PM10-2.5) emissions
- Waste generation, recycling and disposal amounts (Blast Furnace Slag and Steel Mill Slag are included)
- Primary energy demand and energy consumption
- Global Warming Potential (CO_2, CH_4)
- Acidification potential (SO_2, NOx)
- Eutrophication potential (NOx)

In 2015, the rate of recirculated water stood at 92% in Erdemir's facilities and 96% in İsdemir facilities.

Rate of Recirculated Water Use at Erdemir Facilities (%)



Rate of Recirculated Water Use at İsdemir Facilities (%)



ERDEMİR GROUP IS COMMITTED TO APPLYING TECHNOLOGICAL INNOVATIONS THAT INCREASE ENERGY EFFICIENCY, TO BENEFIT FROM THE BY-PRODUCTS AT THE HIGHEST LEVEL AND TO MINIMIZE ENERGY LOSSES.

Energy comprises a significant portion of Erdemir Group's costs in terms of its inputs.

The rapid depletion of fossil fuel reserves that supply an important proportion of the world's energy needs, the environmental impacts of these resources bring with them the obligation of energy saving and to seek the use of alternative energy resources worldwide.

As an integrated steel producer, the environmental performance of Erdemir Group is directly affected by energy management. Energy accounts for a significant portion of the inputs on the basis of cost. Therefore, the Group deems energy efficiency as an important investment with the monitoring and support of the upper management. In line with its Management Systems Policy, the Group commits to apply technological innovations that increase energy efficiency to gain the greatest benefit from by-products and to minimize energy losses.

Group Companies, Erdemir, İsdemir and Erdemir Romania, which implement the ISO 50001 Energy Management System, are constantly raising their energy efficiency.

Competitive advantage and rewards brought about by energy savings and recycling

Operating in an energy intensive industry, Erdemir Group achieves a competitive advantage through smart and efficient energy use. For the effective use of resources, all by-product fuels released during production processes are used at the highest level instead of primary energy sources. Although the Group is capable of generating nearly all of the energy it needs, it monitors market conditions and plans energy production to achieve a cost advantage. Group companies are among the most successful in the sector in specific energy consumption.

As a result of activities aimed at saving energy, Erdemir has reduced its specific energy consumption by 44.5% since it started monitoring energy consumption in 1982; İsdemir meanwhile achieved 38.5% in savings since was transferred to the Group in 2001. In 2015, Erdemir and İsdemir achieved the lowest specific energy consumption per ton of crude steel.

IN ACCORDANCE WITH ITS EFFORTS TO SAVE ENERGY, ERDEMİR HAS CUT ITS SPECIFIC ENERGY CONSUMPTION BY 44.5% SINCE 1982, AND İSDEMİR HAS ACHIEVED 38.5% IN ENERGY SAVINGS SINCE 2001 WHEN IT WAS TRANSFERRED TO THE GROUP.

In Erdemir, the savings from the improvement investments such as the installation of additional Combustion System on the Waste Heat Boiler of Cogeneration Plants, OG Fan Capacity Increase, No. 3 Slab Furnace Modernization and Evaporative Cooling System (ECS), which were implemented in 2014 to bring the highest possible benefit from waste heat, were observed clearly in 2015. The Cogeneration Plant Additional Combustion System reduced blast furnace gas emissions, while the use of BOF increased significantly with the new BOF fan.

This project provided benefits which far exceeded expectations by extending the gas recovery durations with the work taken in the automation system in addition to reducing the amount of heat released into the atmosphere.

Erdemir was awarded second prize in the "Large-Scale Companies Sustainable Production" category in the Efficiency Project Awards organized the second time in 2015 by Ministry of Science, Industry and Technology in recognition of its BOF Gas Recovery and Increasing Usage project.

İsdemir was awarded the first prize in Reducing Energy Intensity in Metal Industry Sector by the General Directorate of Renewable Energy. İsdemir has also won a total of 5 first, 1 second and 1 third prize and 2 Special Jury Prizes between 2002 and 2015, by participating in "Energy Efficiency in the Industry Project Competition" in the category of "Increasing Energy Efficiency in the Industry Projects (SEVAP-3)" organized by the Ministry of Energy and Natural Resources.

Work on Erdemir's "Power Plant Optimization Project", which is planned to be commissioned at the beginning of 2016, was completed in 2015. The project aims to achieve maximum efficiency by optimizing the fuel used in steam boilers. In addition, Blast Furnace Top Pressure Recovery Turbines (TRT) are planned to be commissioned at the end of 2016 when the ongoing construction work is completed. The feasibility studies for the purchase of a new Steam Boiler and new extraction steam generator able to produce 60 MW of power, and which will replace the No. 1, 2 and 3 Turbo Generators, were completed.

At İsdemir, excess air intake was prevented by allowing the FD (Forced Draught) fan motors to operate at varying speeds. These motors are able to align with the intake air requirements of the generating units by using the variable speed drive on the two constant speed motor FD Air Fans with the use of the Variable Speed Drive on the FD Air Fans of No. 5 Steam Boiler project. Taking the power consumption of other steam boilers as the basis, a 63% energy saving was achieved with this project.

63% ENERGY SAVINGS WERE ACHIEVED WITH THE "VARIABLE SPEED DRIVE ON THE NO. 5 STEAM BOILER FD (FORCED DRAUGHT) AIR FANS" PROJECT IN İSDEMİR.

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility

Erdemir Group offers a portion of the added value generated by the contribution efforts to the community especially in the regions where it operates.

The 3rd Steel Sculpture Competition with the "Steel and Life" topic intended for graduate and post-graduate students from the sculpture department of the universities in Turkey was organized in 2015. The competition, organized to support the education of the arts in our country, help young talent in this field and to draw attention to the place of steel in human life, attracted the participation of 14 schools with 144 works of art which were made with Erdemir products. A total of 28 works of art were awarded in the competition and 44 works were found worthy of exhibition.

The works of art that were awarded and found worthy of exhibition in the Steel and Life National Steel Sculpture Student Competition were exhibited in the Tek Kubbe Hall of the Tophane-i Amire Culture-Art Center in the Mimar Sinan Fine Arts University between June 2-5, 2015. The award-winning works were also exhibited in Ereğli, Divriği and İskenderun.

The children's theatre event, organized in Ereğli to commemorate the 23rd April National Sovereignty and Children's Day and which has become a regular fixture, was staged on April 21, 2015. In the event, primary school pupils and employees' children in Ereğli had the opportunity to watch a musical play entitled "I'm not Rubbish", free of charge. Nearly 800 children watched the play that aims to draw attention to the importance of recycling, raise environmental awareness in childhood and encourage positive habits.

As in previous years, food packages were provided to low-income families in 2015; 2,600 low-income families in Ereğli and the surrounding areas and 1 thousand families in İskenderun and its surroundings were provided with food packages.

800

The play "I'm not Rubbish", held within the framework of the children's theatre event organized in Ereğli to commemorate the 23rd April National Sovereignty and Children's Day, and which has become a regular fixture, was watched by nearly 800 children.

Steel and Life Sculpture Competition

A total of 28 works of art were awarded in the "Steel Sculpture Competition", organized for the 3rd time in 2015.

ERDEMİR GROUP CONTINUED TO CONTRIBUTE TO THE COMMUNITY WITH VARIOUS SOCIAL RESPONSIBILITY PROJECTS IMPLEMENTED IN 2015.

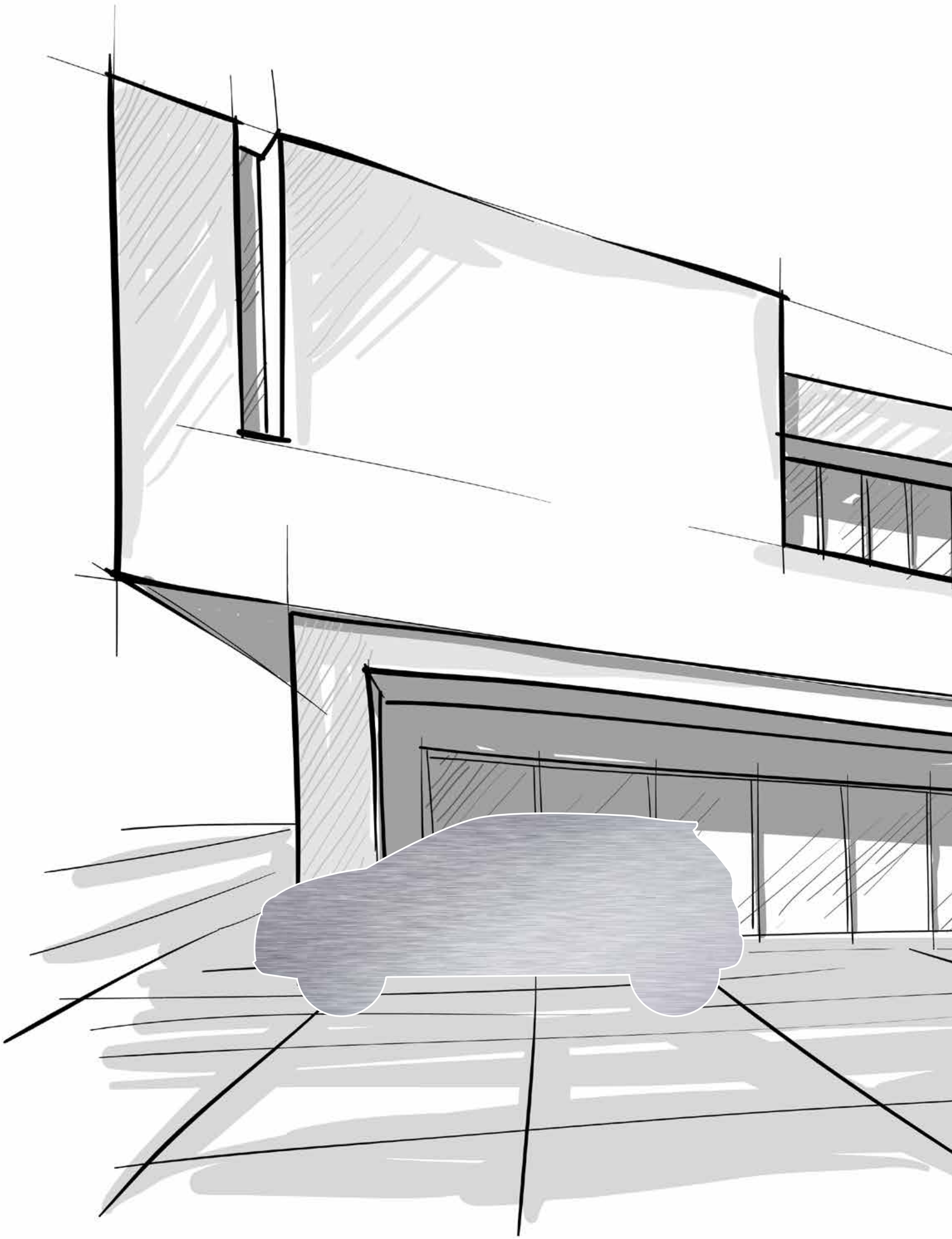
Erdemir Group continued to support the activities of various non-governmental organizations carrying out work for the benefit of the community in 2015.

The donations were made to the Turkish Spinal Chord Injury Association, the Turkey Foundation for Children in Need of Protection (KORUNCUK), The Turkish Foundation for Combating Soil Erosion, supporting Reforestation and the Protection of Natural Habitats (TEMA) and the Buğday Association for Supporting Ecological Living (Buğday) on behalf of the Erdemir Group running team that consists of employees participating in the Step by Step, that is the collective charity run. Although it was the first time Erdemir Group participated in the run, it attracted 500 sponsors and the Group ranked in the top 15 among "Good-hearted companies" based on the voluntary donations made by the Group and its employees. The Group also provided financial support to the Search and Rescue Association (AKUT) and Clean Seas Association (TURMEPA) while maintaining its contributions to the Ereğli Association for the Physically Disabled.

The Group continued to provide the heating and electricity needs of some educational institutions located close to the sites of Erdemir Group companies in Ereğli and İskenderun. The Group also provided the steel sheet material requested for undergraduate and graduate studies at various universities in Turkey, while it also provided services such as maintenance, repairs, material, cleaning and lunch to a number of educational institutions in Ereğli, İskenderun and Divriği.

In Divriği, the Group organized chess tournaments in the categories of primary, high school and vocational junior college and the painting competition at the level of primary and secondary education within the scope of OHS activities. The Corporate Reputation Survey conducted to assess stakeholder expectations and the impacts of the activities undertaken on the perceptions of the Group in 2014 was renewed.

Erdemir Group, the leader of Turkey's steel industry, organized various events throughout the year to share the excitement of its 50th year of operation with its customers, employees and the residents of Ereğli, where the production journey began. Erdemir Group shed light both on its long-standing past and the history of Turkish industry in a documentary and book called "the Dance of Iron and Coal" prepared especially for Erdemir Group's 50th year. It also immortalized the 50th year with a stamp commemorating this special year. The Group brought together customers, business leaders and executives from the OYAK and Erdemir Group of companies in the 50th year reception held at the Head Office on June 11, 2015. The celebrations in Ereğli, where the Group's production journey began, turned into a feast in which the employees and the people of Ereğli mingled with each other. Erdemir Group asked for feedback from the residents of Ereğli for the 50th anniversary events in the Reputation Survey conducted in 2014. Accordingly, the Group held a celebration consisting of an outdoor concert and a dance show in which nearly 15 thousand people attended. Within the scope of the celebration activities, the Tipcat Rhythm Orchestra, which consists of the children of Erdemir employees took to the stage, and a "Steel Pedal" bicycle tour was organized. Within the scope of the 50th anniversary events, Erdemir Group's Steel and Life Sculpture Competition exhibition attracted art lovers in İstanbul, Ereğli, Sivas and İskenderun.



THE TRACE OF STEEL IS EVERYWHERE IN OUR LIVES

ERDEMİR GROUP BRINGS HAPPINESS TO PEOPLE WITH THE PRODUCTS THAT IT MANUFACTURES; IT HAS BEEN GOING ON ITS WAY CONTINUOUSLY TOGETHER WITH THEM FOR 50 YEARS.

CORPORATE GOVERNANCE

Information on Members of the Board of Directors

Members of the Board of Directors of Ereğli Demir ve Çelik Fabrikaları T.A.Ş.		
OYTAŞ İÇ VE DIŞ TİCARET A.Ş. (Representative: Ali Pandır)	Chairman of the Board of Directors - Managing Director	Elected as Independent Member of the Board of Directors of Erdemir on September 20, 2012 Ali Pandır resigned from his position as Independent Member of the Board of Directors as of November 14, 2013, and reelected as Member of the Board of Directors at the Ordinary General Assembly Meeting held on March 31, 2014, was elected as a Member of the Board of Directors on May 27, 2013 and appointed as Chairman of the Board of Directors and Managing Director, Ali Pandır has been serving as real person representative of OYTAŞ İç ve Dış Ticaret A.Ş. since November 15, 2013.
OYAK GİRİŞİM DANIŞMANLIĞI A.Ş. (Representative: Nihat Karadağ)	Deputy Chairman of the Board of Directors	Elected as Member of the Board of Directors of Erdemir on September 30, 2009, Nihat Karadağ resigned from his position as Member of the Board of Directors as of September 12, 2012. Since that date, Nihat Karadağ has been serving as the real-person representative of OYAK Girişim Danışmanlığı A.Ş., which was elected as Member of the Board of Directors and appointed as Vice Chairman of the Board of Directors on the same date; and reelected as Member of the Board of Directors at the Ordinary General Assembly Meeting held on March 31, 2014 and appointed as Vice Chairman of the Board of Directors.
REPUBLIC OF TURKEY PRIME MINISTRY PRIVATIZATION ADMINISTRATION (Represented by: Ali Kaban)	Member of the Board of Directors	Privatization Administration of Turkey, which in turn was elected as Member of the Board of Directors of Erdemir on September 20, 2012, resigned from his duty as of January 5, 2013. Ali Kaban, who was appointed to the vacant position of real-person representative on March 6, 2014, serves as the real-person representative of the Privatization Administration of Turkey, which was reelected as Member of the Board of Directors at the Ordinary General Assembly Meeting held on March 31, 2014.
OMSAN LOJİSTİK A.Ş. (Representative: Dinç Kızıldemir)	Member of the Board of Directors	Elected as Member of the Board of Directors of Erdemir on February 27, 2006, Dinç Kızıldemir resigned from his position as Member of the Board of Directors as of September 11, 2012. Since that date, Dinç Kızıldemir has been serving as the real-person representative of OMSAN Lojistik A.Ş., which was elected as Member of the Board of Directors and appointed as Member of the Board of Directors on the same date; and reelected as Member of the Board of Directors at the Ordinary General Assembly Meeting held on March 31, 2014 and appointed as Member of the Board of Directors.
OYKA KAĞIT AMBALAJ SANAYİİ VE TİCARET A.Ş. (Representative: Ertuğrul Aydın)	Member of the Board of Directors	Elected as Member of the Board of Directors of Erdemir on March 31, 2008, Ertuğrul Aydın resigned from his position as Member of the Board of Directors as of September 12, 2012. Since that date, Ertuğrul Aydın has been serving as the real person representative of OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş., which was elected as Member of the Board of Directors on the same date; and reelected as Member of the Board of Directors at the Ordinary General Assembly Meeting held on March 31, 2014.
OYAK PAZARLAMA HİZMET VE TURİZM A.Ş. (Representative: Fatma Canlı)	Member of the Board of Directors	Elected as Member of the Board of Directors of Erdemir on March 9, 2010, Fatma Canlı resigned from her position as Member of the Board of Directors as of September 13, 2012. Since that date, Fatma Canlı has been serving as the real-person representative of OYAK Pazarlama Hizmet ve Turizm A.Ş., which was elected as Member of the Board of Directors on the same date; and reelected as Member of the Board of Directors at the Ordinary General Assembly Meeting held on March 31, 2014.
Emin Hakan Eminsoy	Independent Member of the Board of Directors	Emin Hakan Eminsoy was appointed as Independent Member of the Board of Directors of Erdemir on March 4, 2014. Mr Eminsoy who was reelected as Independent Member of the Board of Directors at the Ordinary General Assembly Meeting held on March 31, 2015, he is currently holding his position.
Hakkı Cemal Ererdi	Independent Member of the Board of Directors	Due to the end of duties of Nazmi Demir and Atilla Tamer Alptekin who have been elected as independent board members on March 31, 2015, Hakkı Cemal Ererdi has been elected as independent board members at the Regular General Assembly held on the same date. Mr Ererdi is currently holding his position.
Ali Tuğrul Alpacar	Independent Member of the Board of Directors	Due to the end of duties of Nazmi Demir and Atilla Tamer Alptekin who have been elected as independent board members on March 31, 2015, Ali Tuğrul Alpacar has been elected as independent board members at the Regular General Assembly executed on March 31, 2015 Mr Alpacar is currently holding his position.

Erdemir Group General Managers		
Sedat Orhan	General Manager of Ereğli Demir ve Çelik Fabrikaları T.A.Ş.	Sedat Orhan has been serving as the General Manager of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. since August 16, 2013.
Recep Özhan	General Manager of İskenderun Demir ve Çelik Fabrikaları A.Ş.	Appointed as Acting General Manager of İskenderun Demir ve Çelik A.Ş. on July 2, 2012, Recep Özhan has been serving as the General Manager since November 21, 2012.
Burak Büyükfırat	Acting General Manager of Erdemir Mühendislik, Yönetim ve Danışmanlık Hizmetleri A.Ş.	Mesut Uğur YILMAZ who had been serving as Acting General Manager of Erdemir Mühendislik, Yönetim ve Danışmanlık Hizmetleri A.Ş. since February 1, 2014, has been appointed as General Manager on April 10, 2014. After the resignation of Mr Yılmaz from his duty on January 29, 2015, Burak Büyükfırat was appointed as Acting General Manager on February 2, 2015.
Başak Turgut	Acting General Manager of Erdemir Çelik Servis Merkezi Sanayii ve Ticaret A.Ş.	Emin Parıldar who had been serving as Acting General Manager of Erdemir Çelik Servis Merkezi Sanayi ve Ticaret A.Ş. since February 3, 2014, has resigned from his duty in this position as of June 30, 2015. After the resignation of Mr Parıldar, Başak Turgut was appointed as Acting General Manager on July 1, 2015.
Halil Melih Türkeş	General Manager of Erdemir Romania S.R.L.	After the resignation of Cemal Erdoğan Günay, who had been serving as General Manager of Erdemir Romania S.R.L since September 27, 2010, Halil Melih Türkeş was appointed as General Manager since January 13, 2015.
Halil Yıldırım	General Manager of Erdemir Madencilik Sanayi ve Ticaret A.Ş.	Halil Yıldırım has been serving as General Manager of Erdemir Madencilik Sanayi ve Ticaret A.Ş. since September 2, 2013.
Sukhjeet Sekhon	General Manager of Erdemir Asia Pacific PTE. LTD.	Sukhjeet Sekhon has been serving as General Manager of Erdemir Asia Pacific PTE. LTD. since July 1, 2014.

Erdemir Group Coordinators		
Bülent Beydüz	Chief Financial Affairs Officer of Erdemir Group	Bülent Beydüz has been serving as Erdemir Group's Chief Financial Affairs Officer since April 11, 2011.
Başak Turgut	Chief Marketing and Sales Officer of Erdemir Group	Başak Turgut who was appointed as Chief Marketing and Sales Officer on February 1, 2013, has been serving as Chief Marketing and Sales Officer of Erdemir Group since June 10, 2013.
Oğuz Nuri Özgen	Chief Production Officer of Erdemir Group	Oğuz Nuri Özgen has been serving as Erdemir Group's Chief Production Officer since July 2, 2012.
Şevkinaz Alemdar	Chief Purchasing Officer of Erdemir Group	Şevkinaz Alemdar who was appointed as Chief Purchasing Officer on May 18, 2013, has been serving as Chief Purchasing Officer of Erdemir Group since November 7, 2013.
Eric Andre Cornil Vitse	Chief Technology Officer Erdemir Group	Mesut Uğur Yılmaz who had been serving as Erdemir Group Chief Technology Officer since July 2, 2012, has resigned from his duty in this position as of January 29, 2015. Burak Büyükfırat has been assigned to this position by proxy on February 24, 2015. Burak Büyükfırat's duty has ended as of 13.10.2015 and Eric Andre Cornil Vitse has taken up his duty as Erdemir Group Chief Technology Officer since October 14, 2015.
Naci Özgür Özel	Chief Strategy Officer of Erdemir Group	Naci Özgür Özel has been serving as Erdemir Group's Strategic Planning and Business Development Coordinator since May 29, 2014.
Banu Kalay Erton	Chief Corporate Affairs Officer of Erdemir Group	Banu Kalay Erton has been serving as Erdemir Group's Chief Corporate Affairs Officer since June 13, 2014.
Ahmet Tunç Noyan	Chief Information Technology Officer of Erdemir Group	Ahmet Tunç Noyan has been serving as Erdemir Group's Chief Information Technology Officer since July 1, 2014.
Oya Şehirlioğlu	Chief Legal Officer of Erdemir Group	Oya Şehirlioğlu has been serving as ERDEMİR Group's Chief Legal Officer since January 14, 2015.
Vacant	Chief Human Resources Officer of Erdemir Group	

General Manager and Assistant General Managers of Ereğli Demir ve Çelik Fabrikaları T.A.Ş.		
Kaan Böke	Human Resources Assistant General Manager	Kaan Böke has been serving as Human Resources Assistant General Manager since April 2, 2012.
Mehmet Mücteba Bekcan	Technical Services and Investments Assistant General Manager	Mehmet Mücteba Bekcan, who was appointed as Technical Services and Investments Acting Assistant General Manager on July 14, 2010, he has been serving as Technical Services and Investments Assistant General Manager since March 14, 2011. Mehmet Mücteba Bekcan's duty as Erdemir Technical Services and Investments Assistant General Manager has ended as of January 9, 2015, and this position has been abrogated.
Esat Günday	Operations Assistant General Manager	Esat Günday, who was appointed as Operations Acting Assistant General Manager on July 13, 2006, has been serving as Operations Assistant General Manager since January 1, 2007.
Sami Nezih Tunalıtosunoğlu	Financial Affairs Assistant General Manager	Sami Nezih Tunalıtosunoğlu has been serving as Financial Affairs Assistant General Manager since April 11, 2011.

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 2015, 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. 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 2015, 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 entry into the registration system, the General Assembly and the dividend distribution. Depending on the nature and the content of the requested information in case of necessity, the query is shared with the independent auditors of the Company and the relevant responses are submitted to the enquirer.

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

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

Investor Relations Department

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

İdil Önay 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. 2015 activity report presented in BoD meeting dated 15 February 2016.

The table below presents activities performed within 2015 so that investors could be informed in-depth concerning the operations of the Company:

The number of investors and analysts who have been contacted:	409
The number of tele-conferences held regarding financials:	4
The number of analyst meetings held regarding financials:	3

2.2. The Use of Shareholders' Rights to Obtain Information

Pursuant to the Inquiry 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 harbor 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 regularly and periodically audited by an Independent Auditor(s), appointed by the General Assembly/ Assembly Resolution, regularly and periodically. The independent auditing procedures for the year 2015 were carried out by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (i.e. A Member Firm of Ernst & Young Global Limited).

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

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 2014 was held on March 31, 2015 in İstanbul and 66.21% of the shares were represented in the General Assembly.

Invitations to the General Assembly Meetings are issued by the BoD in compliance with the TCC, Capital Markets Code 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.erdemirgrubu.com.tr, no later than 3 weeks prior to the General Assembly in order to reach the highest number of shareholders possible.

Prior to the General Assembly Meeting, the agenda items and related documents are announced to the public in compliance with all legal processes and regulations. Balance sheets, income statements and annual reports are prepared prior to the General Shareholders' Meetings and made available to shareholders within the period determined in the applicable regulation via the websites, at the Karadeniz Ereğli branch and at the Head Office of the Company in İstanbul and 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 at www.erdemir.com.tr and www.erdemirgrubu.com.tr.

Open ballot voting is used in the General Assembly for voting on agenda articles simply by raising hands/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.

A number of shareholders intended to raise their concerns outside of the agenda during the speeches they delivered at the Ordinary General Assembly Meeting. They addressed queries relating to the Company's performance and strategies. Such questions were replied by the Assembly Chairman and the relevant executives under the guidance of the Chairman. No shareholders submitted a written question to the Investor Relations Department on the basis of not having received an answer at the General Assembly.

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 2015, 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 at 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 Shareholders' 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 policy, the Shareholders were kept informed of the donations and aids realized in 2013 and 2014, which amounted to 926,757 TRY and 1,398,594 TRY, respectively.

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

2.4. Voting Rights and Minority Rights

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

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

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

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

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

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

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

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

2.5. Dividend Right

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

The dividend distribution policy, as disclosed to shareholders at the General Assembly, is in the activity report. In addition, the policy is posted on the Company websites, 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, 2015 dated Ordinary General Assembly, it has been decided to distribute TRY 1,400 million cash dividend based on 2014 financial results and as of May 26, 2015 dividend distribution has 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.erdemirgrubu.com.tr) is actively in use both in Turkish and English. The websites include the following issues under the Investor Relations heading:

Corporate Governance	Financial Statements
Corporate Governance Principles Compliance Report	Summary Information for Investors
Board of Directors	Financial and Operational Highlights
Management	Annual Reports
Capital Structure	Disclosures and Announcements
Trade Registry Information	General Assembly Announcement
Articles of Association	Minutes of General Assembly
Information About the Share which has Usufructary Right	General Assembly Meeting Information Document
Safe Harbor 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

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

3.2. Annual Report

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

SECTION IV - STAKEHOLDERS

4.1. Informing Stakeholders

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

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

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

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

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

The recommendations and ideas of our employees are received through the Erdemir Recommendation System (ERÖS) 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 behaviors to the Code of Ethics Advisors and/or the Ethics Committee. For this purpose, contact addresses are provided on the Company website under the heading of the Code of Ethics and Business Conduct.

4.2. Participation of Stakeholders in Management

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

4.3. Human Resources Policy

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

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

Erdemir Group effectively identifies the needs of its white and blue collar employees for training and improvement as well as the added-value they create through the Individual Performance Management. 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 2014 or the previous years.

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

4.4. Code of Ethics and Social Responsibility

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

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

For the Group, contributing to social issues voluntarily and effectively by coming up with solutions is a significant principle. Accordingly, the Group maintained its activities regarding social responsibility in cooperation with the local authorities and the non-governmental organizations in 2015. 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, 2015. Our Chairman was appointed as the Managing Directors. Although there is no executive board in the Company, OYTAŞ İç ve Dış Ticaret A.Ş. (Represented by Ali Aydın PANDIR) 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: Ali Aydın Pandır)	Chairman - Executive Director	27.05.2013
OYAK Girişim Danışmanlığı A.Ş. (Represented by: Nihat Karadağ)	Deputy Chairman	12.09.2012
Republic of Turkey Prime Ministry Privatization Administration (Represented by: Ali Kaban)	Board Member	20.09.2012
OMSAN Lojistik A.Ş. (Represented by: Dinç Kızıldemir)	Board Member - Executive Director	11.09.2012
OYKA Kağıt Ambalaj San. ve Tic. A.Ş. (Represented by: Ertuğrul Aydın)	Board Member	12.09.2012
OYAK Pazarlama Hizmet ve Tur. A.Ş. (Represented by: Fatma Canlı)	Board Member	13.09.2012
Emin Hakan Eminsoy	Independent Board Member	04.03.2014
Hakkı Cemal Ererdi	Independent Board Member	31.03.2015
Ali Tuğrul Alpacar	Independent Board Member	31.03.2015

Three applications to our Company were evaluated in 2015 for Independent Board Member position. In our Company tasks of Candidate Nomination Committee are carried out by Corporate Governance Committee. The Committee reports, prepared by the Committee on February 05, 2015, pertaining to the candidacy of Mr Emin Hakan Eminsoy, Mr Hakkı Cemal Ererdi and Mr Ali Tuğrul Alpacar as the independent board members were submitted to the Board of Directors on February 10, 2015. 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 2015, no situation has occurred for violation of the independency.

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 a woman member who is the proxy of a legal person.

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 during the first meeting of the year 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 or several executive members of the Board of 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 2015. The attendance rate was 95% for these meetings. The date for the following Board meeting is set based on the requirement of the company and on the requests arising from the members. The members are invited to the meeting via e-mail messages. The secretariat, set up in accordance with the Corporate Governance Principles under the body of the Board of Directors, informs the Board members on the meeting agenda and forwards them the relevant documents on the agenda. Neither the Chairman nor the members of the Board have a weighted voting right. All members, including the Chairman, have equal voting rights. Dissenting opinions and votes, disclosed at Board of Directors' meetings, are written down in the minutes.

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

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

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

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

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

The amount of the insurance, which covers personal responsibilities of Board Members arising from the legal obligations, is US$ 75 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.

Audit Committee

Name-Surname	Title	Relation with the Company	Details
Hakkı Cemal Ererdi	Chairman	Board Member	Independent / Not Executive
Ali Tuğrul Alpacar	Member	Board Member	Independent / Not Executive

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

Early Detection of Risk Committee

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

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

Corporate Governance Committee

Name-Surname	Title	Relation with the Company	Details
Emin Hakan Eminsoy	Chairman	Board Member	Independent / Not Executive
Ali Tuğrul Alpacar	Member	Board Member	Independent / Not Executive
İdil Önay	Member	Investor Relations Manager	Non-independent / Not Executive

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

5.4. Risk Management and Internal Control Mechanism

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

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

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

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

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

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

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

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

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 the target deployment systematic.

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, 2015, the Board Members elected in representation of the B Group shares shall not be paid. The Board Members elected in representation of the A Group Shares shall be paid 2,360 TRY per month (at the beginning of the relevant month, paid in advance, net) and the Independent Board Members shall be paid 5,500 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 favor.

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

Under Company Board of Directors resolution 9347 dated 31 March 2015, it was resolved, pursuant to the provisions of Capital Markets Board Corporate Governance Communique 11-17.1:

- To appoint independent directors Hakkı Cemal ERERDİ and Ali Tuğrul ALPACAR to serve as the Audit Committee and Mr ERERDİ to be the committee's chairman;
- To appoint independent directors Emin Hakan EMİNSOY and Ali Tuğrul Alpacar and investor relations manager İdil ÖNAY to serve as the Corporate Governance Committee and Mr EMİNSOY to be committee's chairman;
- To appoint independent directors Emin Hakan EMİNSOY and Hakkı Cemal ERERDİ to serve as the Risk Detection Committee and Mr EMİNSOY to be the committee's chairman.

Taking the structure of the company Board of Directors into account, the board decided under resolution 9149 dated 29 June 2012 to delegate the authorities, duties, and responsibilities of both a nomination committee and a remuneration committee to the Corporate Governance Committee instead.

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

During 2015, 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: 09 February 2015, 16 April 2015, 04 August 2015, 27 October 2015.
- The Corporate Governance Committee convened four times: 10 February 2015, 27 April 2015, 05 August 2015, 04 November 2015.
- The Risk Detection Committee convened six times: 10 February 2015, 27 April 2015, 05 August 2015, 04 November 2015, 16 December 2015, 29 December 2015.

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

Board of Directors' committee activities in 2015

The Audit Committee oversaw the operation and effectiveness of the Company's:

- Accounting system,
- Public disclosure of financial information,
- Independent auditing,
- Internal control and internal auditing system.

The Corporate Governance Committee's activities consisted of:

- Contributing to the developmental and implementary 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.

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

- Overseeing the activities of the Investor Relations Unit.
- Working on a transparent system for identifying, evaluating, and training candidates for seats on the Board of Directors; identifying policies and strategies for such a system.
- Regularly assessing the structure and effectiveness of the Board of Directors; making recommendations to the Board of Directors concerning possible changes in such matters.
- Determining and overseeing approaches, principles, and practices applicable to board members' and senior executives' performance evaluations and career-planning processes.
- Making suggestions pertaining to principles governing the remuneration of board members and senior executives taking the company's long-term objectives into account.

The Risk Detection 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.
- Dealing with risk management issues.

INTERNAL AUDIT SYSTEM

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

All business process audits at Erdemir Group are carried out with risk based and value added approach, in accordance with the annual audit calendar approved by the Group's Chairman & Managing Director, and based on international standards for the professional practice of internal auditing. During the audit activities, internal control environment of a process is evaluated with a systematic approach and mitigating controls are suggested if necessary. Action plans determined by the management are followed up and reported regularly.

Quality assurance activities are held to assess effectiveness of the activities performed by the internal audit function. Performance evaluations are conducted within the audit team continuously and in real time, constructive feedback of audited process owners are gathered through the evaluation surveys at the end of each audit project. Auditing practices are reviewed regularly and professional standards are taken into consideration consistently.

Internal audit function also coordinates the works to improve and maintain ethics and compliance system as well. Investigation activities are carried out by the Internal Audit Directorate with regards to conformity with Erdemir Group Code of Ethics and Business Conduct updated in 2014. There are written and verbal communication channels (e-mail, mail and ethics hotline) where shareholders may directly get information from and/or report possible violations. Ethics Committee is the top governance body responsible for resolving incompliances with regards to Erdemir Group Code of Ethics and Business Conduct and applying sanctions when needed.

2015 AFFILIATED COMPANY REPORT

AFFILIATED COMPANY REPORT AS PER ARTICLE 199 OF THE TURKISH COMMERCIAL CODE

During 2015, 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 2015 took place under conditions that were consistent with market (i.e. arms-length) conditions.

During 2015, both the extensive and continuous trading in goods of a commercial nature between our Company and its affiliate İskenderun Demir ve Çelik AŞ as governed by CMB Corporate Governance Communique 11-17.1 corresponded to more than 10% of the total cost of sales and the extensive and continuous trading in goods of a commercial nature between our Company and its affiliate Erdemir Çelik Servis Merkezi Sanayii ve Ticaret AŞ as governed by CMB Corporate Governance Communique 11-17.1 corresponded to more than 10% of the total cost of sales. It is anticipated that such dealings will continue take to place on the same basis in 2016 as well on the grounds that they appear to be reasonable when compared with those of previous years and with 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: 08.03.2016
RESOLUTION NUMBER: 9396

Period: 01.01.2015 - 31.12.2015,

We have reviewed Ereğli Demir ve Çelik Fabrikaları T.A.Ş. consolidated financial statements and annual report for the fiscal year ended 31 December 2015.

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,

Hakkı Cemal ERERDİ
Chairman of the Audit Committee

Ali Tuğrul ALPACAR
Member of the Audit Committee

Bülent BEYDÜZ
Erdemir Group's Chief Financial Affairs Officer

*This statement has been published on the Public Disclosure Platform (PDP) on March 8, 2016.

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2015 AND INDEPENDENT AUDITOR'S REPORT

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

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

Güney Bağımsız Denetim ve SMMM A.Ş.
Eski Büyükdere Cad.
Orjin Maslak No: 27
Maslak, Sarıyer 343398
İstanbul - Turkey

Tel: +90 212 315 3000
Fax: +90 212 230 8291
ey.com
Ticaret Sicil No: 479920-427502

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

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

Report on Financial Statements

We have audited the accompanying consolidated statement of financial position of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (the Company) and its subsidiaries (together will be referred to as "the Group'') as at 31 December 2015 and the related 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 a summary of significant accounting policies and explanatory notes.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

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

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

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

Building a better working world

Güney Bağımsız Denetim ve SMMM A.Ş.
Eski Büyükdere Cad.
Orjin Maslak No: 27
Maslak, Sarıyer 343398
İstanbul - Turkey

Tel: +90 212 315 3000
Fax: +90 212 230 8291
ey.com
Ticaret Sicil No: 479920-427502

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its subsidiaries as at 31 December 2015 and their financial performance and cash flows for the year then ended in accordance with the Turkish Accounting Standards.

Emphasis of Matter

Without qualifying our opinion we draw attention to the matter in Note 16 to the accompanying consolidated financial statements. The court cases related to Capital Market Board's ("CMB") claim that the Company had prepared its 31 December 2005 financial statements in accordance with International Financial Reporting Standards instead of Communiqué Serial XI, No:25 on "Accounting Standards in Capital Markets" without taking the permission of the CMB in prior years were concluded against the Company at Council of State and such conclusions declared to the Company via notifications sent in July 2012. On 1 August 2012, the Company applied to the Administrative Court to remove the conflicting decisions of this court; but the Administrative Court decided to reject the application by the notification made on 17 February 2014. However, lawsuit filed by the Privatization Administration ("PA") of The Turkish Republic is at the stage of appeal at the Supreme Court and is pending as of the date of our report.

Reports on Other Responsibilities Arising From Regulatory Requirements

1) Auditors' report on Risk Management System and Committee in accordance with subparagraph 4, Article 378 of Turkish Commercial Code no. 6102 ("TCC") is prepared to be submitted to the Board of Directors of the Company on 8 March 2016.

2) In accordance with subparagraph 4, Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January - 31 December 2015 and financial statements are not in compliance with the code and provisions of the Company's articles of association in relation to financial reporting.

3) In accordance with subparagraph 4, Article 402 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

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

Metin Canoğulları, SMMM
Engagement Partner

8 March 2016
İstanbul, Turkey

TABLE OF CONTENTS

(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 2015

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

ASSETS	Note	(Audited) Current Period 31 December 2015 USD'000	(Audited) Current Period 31 December 2015 TRY'000	(Audited) Previous Period 31 December 2014 USD'000	(Audited) Previous Period 31 December 2014 TRY'000
Current Assets		**2.751.401**	**7.999.975**	**3.178.814**	**7.371.353**
Cash and Cash Equivalents	4	1.009.321	2.934.703	943.038	2.186.810
Financial Derivative Instruments	5	15.286	44.445	15.795	36.628
Trade Receivables	7	561.504	1.632.629	757.626	1.756.860
Due From Related Parties	*29*	*14.834*	*43.130*	*15.701*	*36.409*
Other Trade Receivables	*7*	*546.670*	*1.589.499*	*741.925*	*1.720.451*
Other Receivables	8	712	2.069	1.639	3.800
Inventories	9	1.113.595	3.237.890	1.405.144	3.258.389
Prepaid Expenses	10	18.143	52.754	16.094	37.320
Other Current Assets	18	32.840	95.485	39.478	91.546
Non Current Assets		**3.657.490**	**10.634.515**	**3.692.406**	**8.562.321**
Other Receivables	8	5.183	15.069	10.237	23.738
Financial Investments		27	79	27	63
Financial Derivative Instruments	5	14.639	42.564	24.013	55.684
Investment Properties	11	24.670	71.731	24.879	57.691
Property, Plant and Equipment	12	3.520.075	10.234.969	3.535.882	8.199.357
Intangible Assets	13	69.596	202.357	72.689	168.559
Prepaid Expenses	10	15.112	43.939	10.931	25.348
Deferred Tax Assets	27	8.188	23.807	13.748	31.881
TOTAL ASSETS		**6.408.891**	**18.634.490**	**6.871.220**	**15.933.674**

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 2015

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

LIABILITIES	Note	(Audited) Current Period 31 December 2015 USD'000	(Audited) Current Period 31 December 2015 TRY'000	(Audited) Previous Period 31 December 2014 USD'000	(Audited) Previous Period 31 December 2014 TRY'000
Current Liabilities		**899.513**	**2.615.423**	**1.339.179**	**3.105.422**
Financial Liabilities	6	8.353	24.286	274.948	637.577
Short Term Portion of Long Term Fin. Liab.	6	360.179	1.047.256	615.918	1.428.252
Financial Derivative Instruments	5	6.705	19.495	2.629	6.096
Trade Payables	7	200.235	582.203	180.076	417.579
Due to Related Parties	*29*	*9.159*	*26.630*	*7.904*	*18.329*
Other Trade Payables	*7*	*191.076*	*555.573*	*172.172*	*399.250*
Other Payables	8	11.583	33.680	13.623	31.591
Deferred Revenue	19	32.115	93.377	32.972	76.458
Current Tax Liabilities	27	74.896	217.769	55.935	129.708
Short Term Provisions	16	150.298	437.007	101.138	234.528
Payables for Employee Benefits	15	41.168	119.700	42.917	99.520
Other Current Liabilities	18	13.981	40.650	19.023	44.113
Non Current Liabilities		**1.197.164**	**3.480.875**	**1.085.836**	**2.517.945**
Financial Liabilities	6	654.960	1.904.361	581.269	1.347.905
Financial Derivative Instruments	5	7.345	21.355	10.280	23.839
Provisions for Employee Benefits	15	173.997	505.915	210.326	487.724
Deferred Tax Liabilities	27	360.711	1.048.802	283.803	658.110
Other Non Current Liabilities	18	151	442	158	367
EQUITY		**4.312.214**	**12.538.192**	**4.446.205**	**10.310.307**
Equity Attributable to Equity Holders of the Parent		**4.189.170**	**12.180.429**	**4.313.813**	**10.003.303**
Share Capital	20	1.818.371	3.500.000	1.818.371	3.500.000
Inflation Adjustment to Capital	20	81.366	156.613	81.366	156.613
Treasury Shares (-)	20	(60.387)	(116.232)	(60.387)	(116.232)
Share Issue Premium	20	55.303	106.447	55.303	106.447
Other Comprehensive Income/Expense to be Reclassified to Profit/(Loss)		(36.155)	(80.580)	(44.682)	(101.563)
Revaluation Reserve of Tangible Assets		*12.623*	*27.215*	*10.405*	*24.151*
Actuarial (Loss)/Gain funds		*(48.778)*	*(107.795)*	*(55.087)*	*(125.714)*
Other Comprehensive Income/Expense to be Reclassified to Profit/(Loss)		(31.483)	4.010.257	(4.007)	1.623.162
Cash Flow Hedging Reserves		*(754)*	*(2.192)*	*3.088*	*7.160*
Foreign Currency Translation Reserves		*(30.729)*	*4.012.449*	*(7.095)*	*1.616.002*
Restricted Reserves Assorted from Profit	20	441.058	950.831	313.307	617.355
Retained Earnings	20	1.506.960	2.527.180	1.422.232	2.616.106
Net Profit for the Period		414.137	1.125.913	732.310	1.601.415
Non-Controlling Interests		**123.044**	**357.763**	**132.392**	**307.004**
TOTAL LIABILITIES AND EQUITY		**6.408.891**	**18.634.490**	**6.871.220**	**15.933.674**

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 2015

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

	Note	(Audited) Current Period 1 January - 31 December 2015 USD'000	(Audited) Current Period 1 January - 31 December 2015 TRY'000	(Audited) Previous Period 1 January - 31 December 2014 USD'000	(Audited) Previous Period 1 January - 31 December 2014 TRY'000
OPERATING INCOME					
Revenue	21	4.382.455	11.914.581	5.251.572	11.484.137
Cost of Sales (-)	21	(3.624.633)	(9.854.290)	(4.136.479)	(9.045.652)
GROSS PROFIT		**757.822**	**2.060.291**	**1.115.093**	**2.438.485**
Marketing, Sales and Distribution Expenses (-)	22	(48.186)	(131.002)	(54.777)	(119.786)
General Administrative Expenses (-)	22	(104.733)	(284.738)	(106.097)	(232.012)
Research and Development Expenses (-)	22	(3.399)	(9.240)	(3.201)	(6.999)
Other Operating Income	24	101.301	275.408	67.936	148.563
Other Operating Expenses (-)	24	(117.672)	(319.916)	(61.202)	(133.839)
OPERATING PROFIT		**585.133**	**1.590.803**	**957.752**	**2.094.412**
Finance Income	25	155.113	421.707	104.950	229.505
Finance Expense (-)	26	(223.280)	(576.343)	(170.798)	(358.346)
PROFIT BEFORE TAX		**516.966**	**1.436.167**	**891.904**	**1.965.571**
Tax Expense	27	(89.442)	(273.858)	(132.442)	(304.780)
- Current Corporate Tax Expense		(162.473)	(472.407)	(114.729)	(266.045)
- Deferred Tax Income		73.031	198.549	(17.713)	(38.735)
NET PROFIT FOR THE PERIOD		**427.524**	**1.162.309**	**759.462**	**1.660.791**
- Non-Controlling Interests		13.387	36.396	27.152	59.376
- Equity Holders of the Parent		414.137	1.125.913	732.310	1.601.415
EARNINGS PER SHARE	28		0,3217		0,4575
(TRY 1 Nominal value per share)					

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

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

(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 2015

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

	Note	(Audited) Current Period 1 January - 31 December 2015 USD'000	(Audited) Current Period 1 January - 31 December 2015 TRY'000	(Audited) Previous Period 1 January - 31 December 2014 USD'000	(Audited) Previous Period 1 January - 31 December 2014 TRY'000
PROFIT FOR THE PERIOD		**427.524**	**1.162.309**	**759.462**	**1.660.791**
Other Comprehensive Income/(Expense):					
Not to be reclassified subsequently to profit or loss					
Change in Revaluation Reserve of Tangible Assets		2.219	3.064	(491)	896
Change in Actuarial (Loss)/Gain		7.970	22.930	(30.472)	(75.386)
Tax Effect of Changes in Actuarial (Loss)/Gain		(1.594)	(4.586)	6.094	15.077
To be reclassified subsequently to profit or loss					
Change in Cash Flow Hedging Reserves		(4.905)	(12.078)	9.445	20.842
Tax Effect of Change in Cash Flow Hedging Reserves		981	2.416	(1.889)	(4.168)
Change in Foreign Currency Translation Reserves		(26.345)	2.462.935	(7.038)	792.010
OTHER COMP. INCOME/EXPENSE FOR THE PERIOD (AFTER TAX)	27	**(21.674)**	**2.474.681**	**(24.351)**	**749.271**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**405.850**	**3.636.990**	**735.111**	**2.410.062**
Distribution of Total Comprehensive Income					
- Non-controlling Interests		10.662	102.999	25.259	78.814
- Equity Holders of the Parent		395.188	3.533.991	709.852	2.331.248

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 2015

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

						Other comprehensive income/expense not to be reclassified subsequently to profit or loss		Other comprehensive income/expense to be reclassified subsequently to profit or loss			Retained Earnings				
(Audited)	**Note**	**Share Capital**	**Inflation Adjust-ment to Capital**	**Treasury Shares (-)**	**Share Issue Premium**	**Revalu-ation Reserve of Tangible Assets**	**Actuarial loss/(gain) funds**	**Cash Flow Hedging Reserves**	**Foreign Currency Translation Reserves**	**Restricted Reserves Assorted from Profit**	**Retained Earnings**	**Net Profit For The Period**	**Equity Attri-butable to the Parent**	**Non-controlling Interests**	**Total Share-holders' Equity**
1 January 2015		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**24.151**	**(125.714)**	**7.160**	**1.616.002**	**617.355**	**2.616.106**	**1.601.415**	**10.003.303**	**307.004**	**10.310.307**
Net profit for the period		-	-	-	-	-	-	-	-	-	-	1.125.913	**1.125.913**	36.396	**1.162.309**
Other comprehensive income/(loss)		-	-	-	-	3.064	17.919	(9.352)	2.396.447	-	-	-	**2.408.078**	66.603	**2.474.681**
Total comprehensive income/(loss)		-	-	-	-	3.064	17.919	(9.352)	2.396.447	-	-	1.125.913	**3.533.991**	102.999	**3.636.990**
Dividend distributed (*)		-	-	-	-	-	-	-	-	-	(1.356.865)	-	**(1.356.865)**	(52.240)	**(1.409.105)**
Transfers	20	-	-	-	-	-	-	-	-	333.476	1.267.939	(1.601.415)	**-**	-	**-**
31 December 2015	20	**3.500.000**	**156.613**	**(116.232)**	**106.447**	**27.215**	**(107.795)**	**(2.192)**	**4.012.449**	**950.831**	**2.527.180**	**1.125.913**	**12.180.429**	**357.763**	**12.538.192**
(Audited)															
1 January 2014		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**23.255**	**(66.809)**	**(9.344)**	**844.664**	**500.949**	**2.607.273**	**919.974**	**8.466.790**	**240.030**	**8.706.820**
Net profit for the period		-	-	-	-	-	-	-	-	-	-	1.601.415	**1.601.415**	59.376	**1.660.791**
Other comprehensive income/(loss)		-	-	-	-	896	(58.905)	16.504	771.338	-	-	-	**729.833**	19.438	**749.271**
Total comprehensive income/(loss)		-	-	-	-	896	(58.905)	16.504	771.338	-	-	1.601.415	**2.331.248**	78.814	**2.410.062**
Dividend distributed (*)		-	-	-	-	-	-	-	-	-	(794.735)	-	**(794.735)**	(11.840)	**(806.575)**
Transfers	20	-	-	-	-	-	-	-	-	116.406	803.568	(919.974)	**-**	-	-
31 December 2014	20	**3.500.000**	**156.613**	**(116.232)**	**106.447**	**24.151**	**(125.714)**	**7.160**	**1.616.002**	**617.355**	**2.616.106**	**1.601.415**	**10.003.303**	**307.004**	**10.310.307**

(*) In annual General Assembly dated 31 March 2015, dividend distribution (gross dividend per share: TRY 0,4000 (2014: TRY 0,2343)) amounting to TRY 1.400.000 thousand (31 March 2014: TRY 820.000 thousand) from 2014 net profit was approved. As the Company holds 3,08% of its shares with a nominal value of TRY 1 as of 31 March 2015, dividends for treasury shares are netted off under dividends paid. The dividend payment was completed at 26 May 2015. The Group paid TRY 52.240 thousand dividend to non-controlling interests on İsdemir and Ermaden apart from the Equity holders of the Parent in current year (2014: TRY 11.840 thousand).

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 CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

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

	Note	Current Period 1 January 31 December 2015 USD	(Audited) Current Period 1 January 31 December 2015 TRY'000	Previous Period 1 January 31 December 2014 USD	(Audited) Previous Period 1 January 31 December 2014 TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax and non-controlling interests		516.966	1.436.167	891.904	1.965.571
Adjustments to reconcile net profit before tax to net cash provided by operating activities:					
Depreciation and amortization expenses	21/23	206.511	561.442	199.663	436.622
Provision for employee termination benefits	15	25.965	70.591	25.127	54.947
Provision for seniority incentive premium	15	1.639	4.456	4.632	10.130
Gain on sale of property plant and equipment	24	(364)	(989)	(482)	(1.054)
Gain on sale of investment property	24	(16.834)	(45.767)	-	-
Loss on write off of property plant and equipment	24	1.346	3.659	1.887	4.127
Increase in provision for doubtful receivables	7/8	4.540	12.343	3.860	8.441
Increase in the allowance for inventories	9	9.871	26.836	6.831	14.938
Increase in the impairment of tangible assets	12	728	1.980	8.485	18.555
Increase in provision for unpaid vacations	15	3.350	9.109	3.883	8.492
(Decrease)/increase in provision for pending claims and lawsuits	16	(5.381)	(14.630)	9.641	21.082
Increase in penalty prov. for obligatory empl.t shortage of disabled people	16	1.189	3.233	698	1.527
Increase in provision for termination fee of long term contract	16	75.000	203.903	-	-
Increase in provision for state right on mining activities	16	626	1.703	2.223	4.861
(Decrease)/increase in provision for civil defense fund	16	(3.466)	(9.422)	3.179	6.951
Interest expenses	26	45.077	122.551	84.265	184.271
Interest income from bank deposits	25	(31.734)	(86.276)	(24.545)	(53.675)
Interest income from overdue sales	24	(23.843)	(64.821)	(27.145)	(59.360)
Unrealized foreign currency (profit)/loss of financial liabilities		(3.483)	(9.468)	(12.564)	(27.474)
Loss/(gain) on fair value changes of derivative financial instruments	26	12.274	33.369	(5.588)	(12.220)
Net cash provided by operating activities before changes in working capital		**819.977**	**2.259.969**	**1.175.954**	**2.586.732**
Changes in working capital	33	493.567	1.435.096	195.772	453.975
Interest income from overdue sales collected		27.763	75.480	27.750	60.683
Lawsuits paid	16	(3.145)	(8.550)	(3.447)	(7.537)
Penalty paid for the employment shortage of disabled people	16	(1.174)	(3.192)	(402)	(880)
Corporate tax paid	27	(141.371)	(384.346)	(82.919)	(181.327)
Employee termination benefits paid	15	(13.502)	(36.709)	(18.190)	(39.777)
State rights paid for mining activities	16	(1.323)	(3.598)	(1.381)	(3.019)
Unused vacation paid	15	(1.877)	(5.102)	(2.960)	(6.474)
Seniority incentive premium paid	15	(589)	(1.602)	(1.017)	(2.224)
Net cash provided by operating activities		**1.178.326**	**3.327.446**	**1.289.160**	**2.860.152**
CASH FLOWS FROM INVESTING ACTIVITIES					
Changes in financial investments		-	-	(29)	(63)
Cash provided by sale of investment property	11	14.967	40.000	-	-
Cash (used) by purchase of investment property	11	-	-	(680)	(1.488)
Cash used in the purchase of tangible assets	12	(197.884)	(537.987)	(151.042)	(330.298)
Cash used in the purchase of intangible assets	13	(7.277)	(19.783)	(6.783)	(14.834)
Cash provided by sales of tangible assets	12/13/24	4.895	13.308	569	1.245
Net cash used in investing activities		**(185.299)**	**(504.462)**	**(157.965)**	**(345.438)**
CASH FLOWS FROM FINANCING ACTIVITIES					
New borrowings		1.238.628	3.601.435	964.751	2.237.160
Repayment of borrowings		(1.686.345)	(4.903.216)	(1.125.564)	(2.610.071)
Interest paid		(42.520)	(116.301)	(78.671)	(172.037)
Interest received on bank deposits		32.530	87.308	22.839	49.945
Dividends paid		(519.831)	(1.356.865)	(380.040)	(794.735)
Dividends paid to non-controlling interests		(19.871)	(51.835)	(5.330)	(11.840)
Net cash used in by financing activities		**(997.409)**	**(2.739.474)**	**(602.015)**	**(1.301.578)**
NET CHANGES IN CASH AND CASH EQUIVALENTS		**(4.382)**	**83.510**	**529.180**	**1.213.136**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	**940.865**	**2.181.773**	**355.997**	**759.804**
Currency translation difference, net		71.461	665.415	55.689	208.833
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	**1.007.944**	**2.930.698**	**940.866**	**2.181.773**
Accrued interest income	4	1.377	4.005	2.172	5.037
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD INCLUDING ACCRUED INTEREST INCOME	4	**1.009.321**	**2.934.703**	**943.038**	**2.186.810**

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 nearly sixty direct and indirect subsidiaries in industry, finance and service sectors. The detailed information about OYAK can be found on its official website (www.oyak.com.tr).

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

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

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

Name of the Company	Country of Operation	Operation	2015 Share %	2014 Share %
İskenderun Demir ve Çelik A.Ş.	Turkey	Integrated Steel Production	95,07	95,07
Erdemir Madencilik San. ve Tic. A.Ş.	Turkey	Iron Ore and Pellet	90,00	90,00
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Turkey	Steel Service Center	100	100
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100	100
Erdemir Romania S.R.L.	Romania	Silicon Steel Production	100	100
Erdemir Asia Pacific Private Limited	Singapore	Trading	100	100

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

(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 2015 and 31 December 2014 are as follows:

	Paid Hourly Personnel	Paid Montly Personnel	31 December 2015 Personnel
Ereğli Demir ve Çelik Fab. T.A.Ş.	4.530	1.797	6.327
İskenderun Demir ve Çelik A.Ş.	3.446	1.816	5.262
Erdemir Madencilik San. ve Tic. A.Ş.	128	127	255
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	215	87	302
Erenco Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	240	240
Erdemir Romania S.R.L.	218	50	268
Erdemir Asia Pacific Private Limited	-	5	5
	8.537	4.122	12.659

	Paid Hourly Personnel	Paid Montly Personnel	31 December 2014 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.593	1.861	6.454
İskenderun Demir ve Çelik A.Ş.	3.795	1.818	5.613
Erdemir Madencilik San. ve Tic. A.Ş.	137	139	276
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	61	73	134
Erenco Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	114	114
Erdemir Romania S.R.L.	227	51	278
Erdemir Asia Pacific Private Limited	-	3	3
	8.813	4.059	12.872

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

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

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

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

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

Functional and Reporting Currency

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

Functional currency for the subsidiary abroad

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

Presentation currency translation

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

a) The assets and liabilities on financial position as of 31 December 2015 are translated from USD Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 2,9076=US $ 1 and TRY 3,1776=EUR 1 on the balance sheet date (31 December 2014: TRY 2,3189= US $ 1, TRY 2,8207=EUR 1).
b) For the twelve months period ended 31 December 2015, income statements are translated from the average TRY 2,7187 = US $ 1 and TRY 3,0181=EUR 1 rates of 2015 January - December period (31 December 2014: TRY 2,1868 = US $ 1 TRY 2,9059 = 1 EUR).
c) Exchange differences are shown in other comprehensive income as of foreign currency translation reserve.
d) The differences between presentation of statutory and historical figures are recognised as translation differences under equity. All capital, capital measures and other measures are represented with their statutory figures, other equity accounts are represented with their historic cost figures in the accompanying financial statements.

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

2.1 Basis of Presentation (cont'd)

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 2015 and 31 December 2014, consolidated statement of income and other comprehensive income, and consolidated statement of cash flows for the year ended 31 December 2015 represent the consolidated financial statements within the frame of functional currency change that the Company has made, which is effective as of July 1, 2013, prepared in accordance with the TAS 21- Effects of Changes in Foreign Exchange Rates.

Going concern

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

Approval of the consolidated financial statements

The consolidated financial statements have been approved and authorized to be published on 8 March 2016 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

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

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

2.3 Consolidation Principles

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

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

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

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

(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 2015 and 31 December 2014 (%) and their functional currencies:

	31 December 2015			31 December 2014		
	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.

Reclassifications of financial position are as follows:

Account	**(Previously Reported) 31 December 2014**	**(Restated) 31 December 2014**	**(Difference) 31 December 2014**
Short Term Other Payables [1]	7.389	31.591	24.202
Short Term Payables for Employee Benefits [1]	123.722	99.520	(24.202)
Trade Payables [2]	417.255	417.579	324
Other Current Liabilities [2]	44.437	44.113	(324)
			-

[1] TRY 24.202 thousand employee's income tax payables that was reported under "Payables for Employee Benefits", is reclassified under "Short Term Other Payables" in consolidated financial statements as of 31 December 2014.

[2] TRY 324 thousand expense accruals that was reported under "Other Current Liabilities", is reclassified under "Trade Payables" in consolidated financial statements as of 31 December 2014.

(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 2015

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

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

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

Reclassifications of income statement are as follows:

Account	(Previously Reported) 1 January - 31 December 2014	(Restated) 1 January - 31 December 2014	(Difference) 1 January - 31 December 2014
General Administrative Expenses (-) [1]	(223.509)	(232.012)	(8.503)
Other Operating Expenses (-) [1]	(142.342)	(133.839)	8.503
Financial Income [2]	88.888	229.505	140.617
Financial Expense (-) [2]	(217.729)	(358.346)	(140.617)
			-

[1] Provision for doubtful receivables TRY 8.503 thousand which were reported under "Other Operating Expenses (-)" was reclassified to "General Administrative Expenses (-)" on the consolidated statement of income for the year ended 31 December 2014.

[2] Foreign exchange loss (net) TRY 22.993 thousand out of TRY 140.617 thousand which were reported under "Financial Expense (-)" was reclassified to foreign exchange gain from deferred tax base under "Financial Income" for the year ended 31 December 2014.

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

The Group 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 12, Note 13).

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 27).

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 5).

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)

2.5.4 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 7 and Note 8.

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 the technical personnel view. 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 9.

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 15.

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 16.

2.5.8 Provision for termination fee of long term contract

The Group has initiated termination process of long-term service agreement, which is signed on 11 August 2008 to transport of overseas iron ore supplies with capesize vessels for 2008-2022 period, in the last quarter of 2015. The Group Management has concluded that there is a constructive obligation because of the Management's decision and supplier's intention towards termination process related to the contract as of 31 December 2015 and possibility of cash outflow is more likely than not. The parties reached a certain agreement on 24 February 2016 on termination of the aforementioned agreement with USD 75.000 thousand termination fee and signing of a new freight contract linked with market prices. Therefore, it is considered that subsequent agreement on termination cost, is an adjusting event after the balance sheet date since it lets the measurability of constructive obligation in a trustable manner. As a result, USD 75.000 thousand provision for termination fee of long term contract is recognized as of 31 December 2015 (Note 16 and 24).

2.5.9 Impairments on Assets

The Group, performs impairment tests for assets that are subject to depreciation and amortization in case of being not possible to prevent recovery of the assets at each reporting period. Assets are grouped at the lowest levels which there are separately identifiable cash flows for evaluation of impairment (cash generating units). As a result of the impairment works performs by the Group management, as of the reporting date any impairment except calculated provision on non-financial assets has not been estimated (Note 12).

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

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2015 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of 1 January 2015. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

The new standards, amendments and interpretations which are effective as at 1 January 2015 are as follows:

- TAS 19 Defined Benefit Plans: Employee Contributions (Amendment)

  TAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. The amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. The amendment is to be applied retrospectively for annual periods beginning on or after July 1, 2014.

Annual Improvements to TAS/TFRSs

In September 2014, POA issued the below amendments to the standards in relation to "Annual Improvements - 2010-2012 Cycle" and "Annual Improvements - 2011-2013 Cycle.

Annual Improvements - 2010-2012 Cycle

- TFRS 2 Share-based Payment

  Definitions relating to performance and service conditions which are vesting conditions are clarified. The amendment is effective prospectively.

- TFRS 3 Business Combinations

  The amendment clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39 (or IFRS 9, as applicable). The amendment is effective for business combinations prospectively.

- TFRS 8 Operating Segments

  The changes are as follows: i) An entity must disclose the judgements made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'. ii) The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendment will not have an impact on the financial position or performance of the Group.

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

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

Annual Improvements - 2010-2012 Cycle (cont'd)

- TAS 16 Property, Plant and Equipment and TAS 38 Intangible Assets

  The amendment to TAS 16.35(a) and TAS 38.80(a) clarifies that revaluation can be performed, as follows: i) Adjust the gross carrying amount of the asset to market value or ii) determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the resulting carrying amount equals the market value. The amendment will not have an impact on the financial position or performance of the Group.

- TAS 24 Related Party Disclosures

  The amendment clarifies that a management entity - an entity that provides key management personnel services - is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment will not have an impact on the financial position or performance of the Group.

Annual Improvements - 2011-2013 Cycle

- TFRS 3 Business Combinations

  The amendment clarifies that: i) Joint arrangements are outside the scope of TFRS 3, not just joint ventures ii) The scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment will not have an impact on the financial position or performance of the Group.

- TFRS 13 Fair Value Measurement

  The portfolio exception in TFRS 13 can be applied to financial assets, financial liabilities and other contracts within the scope of IAS 39 (or IFRS 9, as applicable). The amendment will not have an impact on the financial position or performance of the Group.

- TAS 40 Investment Property

  The amendment clarifies the interrelationship of TFRS 3 and TAS 40 in determining whether the transaction is the purchase of an asset or business combination. The amendment will not have an impact on the financial position or performance of the Group.

Standards issued but not yet effective and not early adopted

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

- TFRS 9 Financial Instruments - Classification and measurement

  As amended in December 2012 and February 2015, the new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Phase 1 of this new TFRS introduces new requirements for classifying and measuring financial instruments. The amendments made to TFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is adopted by POA.

(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 2015

(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)

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

Standards issued but not yet effective and not early adopted (cont'd)

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

  TFRS 11 is amended to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in TFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in TFRS 3 and other TFRSs except for those principles that conflict with the guidance in this TFRS. In addition, the acquirer shall disclose the information required by TFRS 3 and other TFRSs for business combinations. These amendments are to be applied prospectively for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The amendments will not have an impact on the financial position or performance of the Group.

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

  The amendments to TAS 16 and TAS 38, have prohibited the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The amendments will not have an impact on the financial position or performance of the Group.

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

  TAS 16 is amended to provide guidance that bearer plants, such as grape vines, rubber trees and oil palms should be accounted for in the same way as property, plant and equipment in TAS 16. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates. Because their operation is similar to that of manufacturing, either the cost model or revaluation model should be applied. The produce growing on bearer plants will remain within the scope of TAS 41, measured at fair value less costs to sell. Entities are required to apply the amendments for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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

  In April 2015, Public Oversight Accounting and Auditing Standards Authority (POA) of Turkey issued an amendment to TAS 27 to restore the option to use the equity method to account for investments in subsidiaries and associates in an entity's separate financial statements. Therefore, an entity must account for these investments either:

  o At cost

  o In accordance with IFRS 9 or

  o Using the equity method defined in TAS 28

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

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

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

Standards issued but not yet effective and not early adopted (cont'd)

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

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

  In February 2015, amendments issued to TFRS 10 and TAS 28, to address the acknowledged inconsistency between the requirements in TFRS 10 and TAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognizes a full gain or loss on the sale or contribution of assets that constitute a business, as defined in TFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognized only to the extent of unrelated investors' interests in that former subsidiary. An entity shall apply those amendments prospectively to transactions occurring in annual periods beginning on or after January 1, 2016. Earlier application is permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

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

  In February 2015, amendments issued to TFRS 10, TFRS 12 and TAS 28, to address the issues that have arisen in applying the investment entities exception under TFRS 10 Consolidated Financial Statements. The amendments are applicable for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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

  In February 2015, amendments issued to TAS 1. Those amendments include narrow-focus improvements in the following five areas: Materiality, Disaggregation and subtotals, Notes structure, Disclosure of accounting policies, Presentation of items of other comprehensive income (OCI) arising from equity accounted investments. The amendments are applicable for annual periods beginning on or after January 1, 2016. Earlier application is permitted. These amendments are not expected have significant impact on the notes to the consolidated financial statements of the Group.

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

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

Annual Improvements to TFRSs - 2012-2014 Cycle

In February 2015, POA issued, Annual Improvements to TFRSs 2012-2014 Cycle. The document sets out five amendments to four standards, excluding those standards that are consequentially amended, and the related Basis for Conclusions. The standards affected and the subjects of the amendments are:

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

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

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

Annual Improvements - 2010-2012 Cycle

- IFRS 13 Fair Value Measurement

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

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

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

Annual Improvements - 2011-2013 Cycle

- IFRS 15 Revenue from Contracts with Customers

  In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 original effective date was January 1, 2017. However, in September 2015, IASB decided to defer the effective date to reporting periods beginning on or after January 1, 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach.

  The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

- IFRS 9 Financial Instruments - Final standard (2014)

  In July 2014 the IASB published the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. However, the Standard is available for early application. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

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

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

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

- IFRS 16 Leases

  In January 2016, the IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

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

  In January 2016, the IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are to be retrospectively applied for annual periods beginning on or after January 1, 2017 with earlier application permitted. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If the Group applies this relief, it shall disclose that fact. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

- IAS 7 'Statement of Cash Flows (Amendments)

  In January 2016, the IASB issued amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. These amendments are to be applied for annual periods beginning on or after January 1, 2017 with earlier application permitted. When the Company/Group first applies those amendments, it is not required to provide comparative information for preceding periods. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

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.

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)

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 revenue

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

Rental income

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

2.8.2 Inventories

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

2.8.3 Property, plant and equipment

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

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

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

2.8.3 Property, plant and equipment (cont'd)

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

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

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

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%
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 comprehensive 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.

(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 2015

(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)

2.8.4 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.

The amortization rates of the intangible assets are stated below:

	Rates
Rights	2-33%
Exploration costs and other intangible fixed assets with special useful lives	5-10% and units of production
Other intangible fixed assets	20-33%

2.8.5 Investment properties

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

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

2.8.6 Impairment of assets

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

2.8.7 Borrowing costs

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

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

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

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

2.8.8 Financial instruments

Financial assets and financial liabilities are recognized in the Group's consolidated balance sheet when the Group becomes a legal party for the contractual provisions of the financial instrument.

Financial assets

Financial assets, are initially measured at fair value, less transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale financial assets' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest rate method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the ratio exactly discounts the estimated future cash receipts through the expected life of the financial asset to the net present value of the financial asset or in a shorter period where appropriate.

Incomes related to the debt instruments that are held to maturity and are available for sale, and financial assets that are classified as loans and receivables are calculated according to the effective interest rate method.

Available for sale financial assets

Some of the shares and long term marketable securities held by the Group are classified as available for sale and recognized at their fair values.

The financial assets, which are not priced in an active market and the fair value cannot be recognized accurately, are recognized at cost less accumulated impairments.

Gains and losses arising from changes in fair value are recognized directly in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognized directly in the consolidated income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in the consolidated income statement for the period.

Dividends associated with the available for sale equity instruments are recognized in consolidated income statement when the Group has the right to receive the related payments.

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)

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.

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.

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 (cont'd)

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.

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).

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

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

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.

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.

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

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).

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

2.8.14 Taxation and deferred income taxes

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

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

Current tax

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

(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 2015

(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)

2.8.14 Taxation and deferred income taxes (cont'd)

Deferred tax

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

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

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

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.

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

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 15.

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

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

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.

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

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

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 Treasury shares

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

NOTE 3 - SEGMENTAL REPORTING

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

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

NOTE 4 - CASH AND CASH EQUIVALENTS

The detail of cash and cash equivalents as of 31 December 2015 and 31 December 2014 is as follows:

	31 December 2015	31 December 2014
Cash	28	27
Banks - demand deposits	45.482	52.083
Banks - time deposits	2.889.193	2.134.700
	2.934.703	2.186.810
Time deposit interest accruals (-)	(4.005)	(5.037)
Cash and cash equivalents excluding interest accruals	2.930.698	2.181.773

The breakdown of demand deposits is presented below:

	31 December 2015	31 December 2014
US Dollars	16.775	19.530
TRY	19.328	15.511
EURO	8.775	10.146
Romanian Lei	493	6.746
GB Pound	15	13
Japanese Yen	4	137
Other	92	-
	45.482	52.083

The breakdown of time deposits is presented below:

	31 December 2015	31 December 2014
US Dollars	2.866.533	1.768.703
TRY	9.504	357.129
EURO	13.016	8.745
Romanian Lei	140	123
	2.889.193	2.134.700

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.

(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 2015

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

NOTE 5 - FINANCIAL DERIVATIVE INSTRUMENTS

The detail of financial derivative instruments as of 31 December 2015 and 31 December 2014 is as follows:

	31 December 2015		31 December 2014	
	Asset	**Liability**	**Asset**	**Liability**
Fair value hedging derivative financial assets				
Forward contracts	9.122	85	18.776	3.957
Option contracts	1.709	-	2.353	659
Cross currency swap contracts	52.913	14.015	49.443	12.379
	63.744	14.100	70.572	16.995
Cash flow hedging derivative financial assets				
Forward contracts for cash flow hedges of currency risk of sales	12.571	640	17.028	-
Cross currency swap contracts for cash flow hedges of currency risk of borrowings	10.182	24.555	4.513	9.570
Interest rate swap contracts for cash flow hedges of interest rate risk of borrowings	72	703	-	2.103
Commodity swap contracts for cash flow hedges of price fluctuations of raw material purchases	440	852	199	1.267
	23.265	26.750	21.740	12.940
	87.009	40.850	92.312	29.935

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

NOTE 5 - FINANCIAL DERIVATIVE INSTRUMENTS (cont'd)

Derivative instruments for fair value hedge

As of 31 December 2015 and 31 December 2014, the details of forward, option and cross currency swap transactions for fair value hedge are as follows:

		Assets		Liabilities	
31 December 2015		**Nominal Value**	**Fair Value**	**Nominal Value**	**Fair Value**
Forward contracts					
Buy USD/Sell EUR	Less than 3 months	141.485	8.571	17.848	85
Buy USD/Sell EUR	Between 3-6 months	14.154	551	-	-
		155.639	9.122	17.848	85
Options contracts					
Buy USD/Sell EUR	Less than 3 months	11.187	1.709	-	-
		11.187	1.709	-	-
Cross currency / interest rates swap contracts					
Buy USD/Sell TRY	Between 6-12 months	44.841	22.386	44.841	13.946
Buy EUR/Sell TRY	More than 12 months	88.421	30.527	88.421	69
		133.262	52.913	133.262	14.015
		300.088	63.744	151.110	14.100

		Assets		Liabilities	
31 December 2014		**Nominal Value**	**Fair Value**	**Nominal Value**	**Fair Value**
Forward contracts					
Buy USD/Sell TRY	Less than 3 months	441.870	18.776	-	-
Buy TRY/Sell USD	Less than 3 months	-	-	77.876	3.957
		441.870	18.776	77.876	3.957
Options contracts					
Buy TRY/Sell USD	Less than 3 months	11.598	1.108	23.196	214
Buy USD/Sell EUR	Between 6-12 months	11.843	696	23.686	348
Buy USD/Sell EUR	More than 12 months	8.935	549	17.871	97
		32.376	2.353	64.753	659
Cross currency swap contracts					
Buy USD/Sell TRY	More than 12 months	50.066	18.630	50.066	9.126
Buy EUR/Sell TRY	More than 12 months	117.734	30.813	117.734	3.253
		167.800	49.443	167.800	12.379
		642.046	70.572	310.429	16.995

NOTE 5 - FINANCIAL DERIVATIVE INSTRUMENTS (cont'd)

Derivative instruments for cash flow hedge

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

Buy USD - Sell EUR forward contracts measured at fair value through other comprehensive income are designated as hedging instruments in cash flow hedges of forecast sales in EUR. These forecast transactions are highly probable and their maturities vary between January 2016 and March 2017.

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. TRY 8.450 thousand is recognised on consolidated statement of income until the collection is made following the recording of revenue.

In respect of these contracts which has a nominal value of TRY 623.640 thousand for the purpose of hedging cash flow risk, with related deferred tax effect TRY 11.931 thousand was included in other comprehensive income (31 December 2014: TRY 17.028 thousand).

As of 31 December 2015, TRY 50.635 thousand realised reclassification from other comprehensive income to sales during the year (31 December 2014: None).

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 December 2017.

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 201.186 thousand, for the purpose of hedging cash flow risk, with related deferred tax effect TRY (15.004) thousand was included in other comprehensive income (31 December 2014: TRY (7.160) 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.

(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 2015

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

NOTE 5 - FINANCIAL DERIVATIVE INSTRUMENTS (cont'd)

Derivative instruments for cash flow hedge (cont'd)

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

The maturities of these 100 thousands tons of iron ore contracts which has a nominal value of TRY 12.117 thousand, are vary between January 2016 and January 2017 and fair value with related deferred tax effect, TRY (412) thousand was included in other comprehensive income.

As of 31 December 2015, TRY 2.493 thousand realised reclassification from other comprehensive income to cost of inventories during the year (31 December 2014: None).

NOTE 6 - FINANCIAL LIABILITIES

Breakdown of financial liabilities is as follows:

	31 December 2015	31 December 2014
Short term financial liabilities	24.286	637.577
Current portion of long term financial liabilities	1.047.256	1.222.019
Corporate bonds issued	-	206.233
Total short term financial liabilities	1.071.542	2.065.829
Long term financial liabilities	1.904.361	1.347.905
Total long term financial liabilities	1.904.361	1.347.905
	2.975.903	3.413.734

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

Interest Type	Type of Currency	Weighted Average Rate of Interest (%)	Short Term Portion	Long Term Portion	31 December 2015
No interest	TRY	-	24.286	-	24.286
Fixed	TRY	9,26	170.482	12.865	183.347
Fixed	US Dollars	3,99	22.925	52.523	75.448
Fixed	EURO	3,27	2.422	46.725	49.147
Floating	US Dollars	Libor+2,03	717.249	1.619.418	2.336.667
Floating	EURO	Euribor+0,5	103.824	143.919	247.743
Floating	Japanese Yen	JPY Libor+0,22	30.354	28.911	59.265
			1.071.542	1.904.361	2.975.903

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

NOTE 6 - FINANCIAL LIABILITIES (cont'd)

As of 31 December 2014, 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 2014
No interest	TRY	-	24.300	-	24.300
Fixed	TRY	9,10	196.110	166.462	362.572
Fixed	US Dollars	1,68	396.802	58.794	455.596
Fixed	EURO	5,50	955	2.971	3.926
Floating	TRY	Trlibor+1,5	206.233	-	206.233
Floating	US Dollars	Libor+2,18	1.113.305	889.051	2.002.356
Floating	EURO	Euribor+0,32	103.141	185.311	288.452
Floating	Japanese Yen	JPY Libor+0,22	24.983	45.316	70.299
			2.065.829	1.347.905	3.413.734

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

	31 December 2015	31 December 2014
Within 1 year	1.071.542	2.065.829
Between 1-2 years	921.923	588.577
Between 2-3 years	488.184	522.255
Between 3-4 years	328.902	137.072
Between 4-5 years	163.914	16.680
Five years or more	1.438	83.321
	2.975.903	3.413.734

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

NOTE 7 - TRADE RECEIVABLES AND PAYABLES

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

	31 December 2015	31 December 2014
Short term trade receivables		
Trade receivables	1.670.078	1.784.623
Due from related parties (Note 29)	43.130	36.409
Notes receivables	-	42
Discount on receivables (-)	(2.586)	(2.107)
Provision for doubtful trade receivables (-)	(77.993)	(62.107)
	1.632.629	1.756.860

The movement of the provision for short term doubtful trade receivables are as follows:

	1 January - 31 December 2015	1 January - 31 December 2014
Opening balance	62.107	61.380
Provision for the period	8.210	1.804
Doubtful receivables collected (-)	(126)	-
Provision released (-)	(1.303)	(62)
Translation difference	9.105	(1.015)
Closing balance	77.993	62.107

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

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

As of the balance sheet date, there is no significant amount of overdue receivables within the trade receivables.

Other explanatory notes related to the credit risk of the Group are disclosed in Note 30.

The Group provides provision according to the balances of all unsecured receivables under legal follow up.

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

NOTE 7 - TRADE RECEIVABLES AND PAYABLES (cont'd)

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

Short term trade payables	**31 December 2015**	**31 December 2014**
Trade payables	557.016	400.717
Due to related parties (Note 29)	26.630	18.329
Discount on trade payables (-)	(3.086)	(1.791)
Expense accruals	1.643	324
	582.203	417.579

NOTE 8 - 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 2015**	**31 December 2014**
Receivables from water system construction	1.763	3.527
Deposits and guarantees given	306	273
	2.069	3.800

Long term other receivables	**31 December 2015**	**31 December 2014**
Receivables from Privatization Authority	67.397	62.403
Receivables from water system construction	14.036	22.836
Deposits and guarantees given	1.033	902
Provision for receivables from Privatization Authority (-)	(67.397)	(62.403)
	15.069	23.738

(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 2015

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

NOTE 8 - OTHER RECEIVABLES AND PAYABLES (cont'd)

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

	1 January - 31 December 2015	1 January - 31 December 2014
Opening balance	62.403	55.958
Provision for the period	5.436	6.699
Other doubtful receivables collected (-)	(482)	-
Translation difference	40	(254)
Closing balance	67.397	62.403

Short term other payables	31 December 2015	31 December 2014
Taxes payable	3.093	951
Employee's income tax payables	21.453	24.202
Deposits and guarantees received	7.394	5.248
Dividend payables to shareholders (*)	1.740	1.190
	33.680	31.591

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

NOTE 9 - INVENTORIES

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

	31 December 2015	31 December 2014
Raw materials	730.302	773.832
Work in progress	473.829	648.460
Finished goods	890.682	877.211
Spare parts	603.435	480.502
Goods in transit	409.524	361.212
Other inventories	298.551	228.924
Allowance for impairment on inventories (-)	(168.433)	(111.752)
	3.237.890	3.258.389

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

NOTE 9 - INVENTORIES (cont'd)

The movement of the allowance for impairment on inventories:

	1 January - 31 December 2015	1 January - 31 December 2014
Opening balance	111.752	88.739
Provision for the period	39.092	29.951
Provision released (-)	(12.256)	(15.013)
Translation difference	29.845	8.075
Closing balance	168.433	111.752

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 21).

NOTE 10 - PREPAID EXPENSES

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

	31 December 2015	31 December 2014
Insurance expenses	31.477	20.250
Order advances given	6.465	4.200
Prepaid utility allowance to employees	6.619	6.622
Other prepaid expenses	8.193	6.248
	52.754	37.320

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

	31 December 2015	31 December 2014
Order advances given	28.490	18.949
Insurance expenses	12.596	3.787
Other prepaid expenses	2.853	2.612
	43.939	25.348

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

NOTE 11 - INVESTMENT PROPERTIES

Cost	1 January - 31 December 2015	1 January - 31 December 2014
As of 1 January	57.691	51.647
Additions	-	1.488
Disposals	(568)	-
Translation difference	14.608	4.556
As of 31 December	71.731	57.691
Book value	71.731	57.691

According to the recent valuation reports, the fair value of the Group's investment properties is TRY 174.782 thousand (31 December 2014: TRY 216.760 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.

According to the decision of Board of Directors of the Company, dated 10 April 2015 and numbered 9350; the investment properties of the Group located in Balıkesir, Edremit District, Altınoluk town, are sold on 15 April 2015 in return for the value of TRY 46.000 thousand. TRY 45.767 thousand profit from investment property sales, recognised under other operating income.

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

For the year ended 31 December 2015, the Group generated rent income amounting to TRY 377 thousand (31 December 2014: TRY 256 thousand) recognized under other operating income.

(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 2015

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

NOTE 12 - 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	136.061	1.917.551	3.005.236	12.622.883	786.026	384.588	29.062	394.444	19.275.851
Transfers (****)	-	-	-	-	-	-	4.206	-	4.206
Translation difference	30.816	478.001	761.406	3.206.481	161.833	74.677	8.893	106.464	4.828.571
Additions (*)	290	1.374	827	81.255	14.168	14.533	9.156	416.384	537.987
Transfers from CIP (**)	6.676	21.813	48.335	258.136	1.461	2.482	13.847	(356.824)	(4.074)
Disposals	-	(110)	(736)	(60.878)	(5.023)	(2.008)	(5.144)	-	(73.899)
Closing balance as of 31 December 2015	173.843	2.418.629	3.815.068	16.107.877	958.465	474.272	60.020	560.468	24.568.642
Accumulated Depreciation									
Opening balance as of 1 January	-	(1.331.471)	(2.052.408)	(6.995.000)	(459.676)	(197.737)	(20.526)	(19.676)	(11.076.494)
Transfers (****)	-	-	-	-	-	-	(1.615)	-	(1.615)
Translation difference	-	(336.009)	(523.730)	(1.784.145)	(80.044)	(27.913)	(5.021)	(4.995)	(2.761.857)
Charge for the period	-	(51.124)	(75.059)	(374.028)	(27.694)	(17.343)	(4.400)	-	(549.648)
Impairment (***)	-	-	(17)	(1.963)	-	-	-	-	(1.980)
Disposals	-	67	713	47.905	4.998	1.717	2.521	-	57.921
Closing balance as of 31 December 2015	-	(1.718.537)	(2.650.501)	(9.107.231)	(562.416)	(241.276)	(29.041)	(24.671)	(14.333.673)
Net book value as of 31 December 2014	136.061	586.080	952.828	5.627.883	326.350	186.851	8.536	374.768	8.199.357
Net book value as of 31 December 2015	173.843	700.092	1.164.567	7.000.646	396.049	232.996	30.979	535.797	10.234.969

(*) The amount of capitalized borrowing cost is TRY 388 thousand for the current period (31 December 2014: TRY 3.936 thousand).

(**) TRY 4.074 thousand is transferred to intangible assets (Note 13).

(***) The Group review the amount of discarded fixed asset which is not able to generate cash flows independently. Accordingly, the review led to the recognition of an impairment loss of TRY (1.980) thousand that has been recognized in profit or loss under other operating expenses (Note 24). (31 December 2014: TRY (18.555) thousand).

(****) The Group's opening balances of leasehold improvements under intangible assets transferred to other property, plant and equipment.

As of 31 December 2015, the Group has no collaterals or pledges upon its tangible assets. (31 December 2014: None).

(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 2015

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

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (cont'd)

	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	122.007	1.724.939	2.721.371	11.379.466	731.536	354.805	23.577	429.980	17.487.681
Translation difference	8.669	148.388	235.353	990.267	50.047	22.931	1.635	33.161	1.490.451
Additions	400	381	560	59.157	3.810	12.682	4.425	248.883	330.298
Transfers from CIP (*)	4.985	43.843	47.952	208.186	1.770	7.039	78	(317.580)	(3.727)
Disposals	-	-	-	(14.193)	(1.137)	(12.869)	(653)	-	(28.852)
Closing balance as of 31 December 2014	136.061	1.917.551	3.005.236	12.622.883	786.026	384.588	29.062	394.444	19.275.851
Accumulated Depreciation									
Opening balance as of 1 January	-	(1.187.900)	(1.828.208)	(6.178.044)	(414.762)	(186.916)	(18.295)	-	(9.814.125)
Translation difference	-	(103.488)	(160.523)	(543.162)	(23.834)	(8.373)	(1.319)	(1.121)	(841.820)
Charge for the period	-	(40.083)	(63.677)	(285.197)	(22.121)	(13.885)	(1.565)	-	(426.528)
Impairment	-	-	-	-	-	-	-	(18.555)	(18.555)
Disposals	-	-	-	11.403	1.041	11.437	653	-	24.534
Closing balance as of 31 December 2014	-	(1.331.471)	(2.052.408)	(6.995.000)	(459.676)	(197.737)	(20.526)	(19.676)	(11.076.494)
Net book value as of 31 December 2013	122.007	537.039	893.163	5.201.422	316.774	167.889	5.282	429.980	7.673.556
Net book value as of 31 December 2014	136.061	586.080	952.828	5.627.883	326.350	186.851	8.536	374.768	8.199.357

(*) TRY 3.727 thousand is transferred to intangible assets (Note 13).

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

	31 December 2015	31 December 2014
Associated with cost of production	523.859	402.224
General administrative expenses	6.846	10.507
Marketing, sales and distribution expenses	18.142	13.653
Research and development expenses	801	144
	549.648	426.528

(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 2015

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

NOTE 13 - INTANGIBLE ASSETS

	Rights	Exploration Costs and Other Assets with Specific Useful Life	Other Intangible Assets	Total
Cost				
Opening balance as of 1 January	252.514	95.819	9.717	358.050
Translation difference	62.283	-	3.983	66.266
Additions	14.944	4.221	618	19.783
Transfers from CIP	4.074	-	-	4.074
Transfers (*)	-	(4.206)	-	(4.206)
Closing balance as of 31 December 2015	333.815	95.834	14.318	443.967
Accumulated amortization				
Opening balance as of 1 January	(119.676)	(62.603)	(7.212)	(189.491)
Translation difference	(28.403)	-	(3.916)	(32.319)
Charge for the period	(15.431)	(5.354)	(630)	(21.415)
Transfers (*)	-	1.615	-	1.615
Closing balance as of 31 December 2015	(163.510)	(66.342)	(11.758)	(241.610)
Net book value as of 31 December 2014	132.838	33.216	2.505	168.559
Net book value as of 31 December 2015	170.305	29.492	2.560	202.357

(*) The Group's opening balances of leasehold improvements under intangible assets transferred to property, plant and equipment.

As of 31 December 2015, the Group has no collaterals or pledges upon its intangible assets (31 December 2014: None).

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

NOTE 13 - INTANGIBLE ASSETS (cont'd)

	Rights	Exploration Costs and Other Assets with Specific Useful Life	Other Intangible Assets	Total
Cost				
Opening balance as of 1 January	220.331	91.881	7.105	319.317
Translation difference	18.771	290	1.111	20.172
Additions	10.747	3.648	439	14.834
Transfers from CIP	2.665	-	1.062	3.727
Closing balance as of 31 December 2014	252.514	95.819	9.717	358.050
Accumulated amortization				
Opening balance as of 1 January	(98.121)	(56.144)	(5.902)	(160.167)
Translation difference	(8.227)	(88)	(1.108)	(9.423)
Charge for the period	(13.328)	(6.371)	(202)	(19.901)
Closing balance as of 31 December 2014	(119.676)	(62.603)	(7.212)	(189.491)
Net book value as of 31 December 2013	122.210	35.737	1.203	159.150
Net book value as of 31 December 2014	132.838	33.216	2.505	168.559

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

	31 December 2015	31 December 2014
Associated with cost of production	17.504	17.374
General administrative expenses	3.363	2.013
Marketing, sales and distribution expenses	548	514
	21.415	19.901

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

NOTE 14 - 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.)
- 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 836 thousand (2014: TRY 531 thousand) which are accounted under income statement for the year ended 31 December 2015.

NOTE 15 - EMPLOYEE BENEFITS

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

	31 December 2015	31 December 2014
Due to personnel	93.459	74.611
Social security premiums payable	26.241	24.909
	119.700	99.520

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

	31 December 2015	31 December 2014
Provisions for employee termination benefits	404.699	393.478
Provisions for seniority incentive premium	28.289	25.389
Provision for unpaid vacations	72.927	68.857
	505.915	487.724

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 2015, the amount payable consists of one month's salary limited to a maximum of TRY 3.828,37 (31 December 2014: TRY 3.438,22). As of 1 January 2016, the employee termination benefit has been updated to a maximum of TRY 4.092,53.

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

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

NOTE 15 - 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 2015 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 2015	31 December 2014
Discount rate	10,70%	8,00%
Inflation rate	7,75%	6,50%
Salary increase	real 1.5%	real 1.5%
Maximum liability increase	7,75%	6,50%

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 2015, 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 2015, 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 2015	1 January- 31 December 2014
Opening balance	393.478	307.528
Service cost	40.125	26.379
Interest cost	30.466	28.568
Actuarial loss/(gain)	(22.930)	75.386
Termination benefits paid	(36.709)	(39.777)
Translation difference	269	(4.606)
Closing balance	404.699	393.478

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

NOTE 15 - 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 2015 as follows:

Sensitivity level

	Discount rate	
Rate	**1% increase**	**1% decrease**
Change in employee benefits liability	(35.505)	41.291

	Inflation rate	
Rate	**1% increase**	**1% decrease**
Change in employee benefits liability	38.280	(25.618)

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 2015	1 January - 31 December 2014
Opening balance	25.389	17.667
Service cost	3.970	2.312
Interest cost	2.229	1.870
Actuarial loss/(gain)	(1.743)	5.948
Termination benefits paid	(1.602)	(2.224)
Translation difference	46	(184)
Closing balance	28.289	25.389

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

	1 January - 31 December 2015	1 January - 31 December 2014
Opening balance	68.857	67.037
Provision for the period	54.151	48.475
Vacation paid during the period (-)	(5.102)	(6.474)
Provisions released (-)	(45.042)	(39.983)
Translation difference	63	(198)
Closing balance	72.927	68.857

(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 2015

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

NOTE 16 - PROVISIONS

The Group's short term provisions are as follows:

	31 December 2015	31 December 2014
Provision for lawsuits	210.914	214.722
Provision for termination fee of long term contract	218.070	-
Penalty prov. for employment shortage of disabled pers.	5.434	5.223
Provision for state right on mining activities	2.589	4.484
Provision for civil defense fund	-	10.099
	437.007	234.528

The movement of the short term provisions is as follows:

	1 January 2015	Change for the period	Payments	Provision released	Translation difference	31 December 2015
Provision for lawsuits	214.722	42.931	(8.550)	(57.561)	19.372	210.914
Penalty prov. for employment shortage of disabled pers.	5.223	4.265	(3.192)	(1.032)	170	5.434
Provision for state right on mining activities	4.484	2.589	(3.598)	(886)	-	2.589
Provision for termination fee of long term contract	-	203.903	-	-	14.167	218.070
Provision for civil defense fund	10.099	-	-	(9.422)	(677)	-
	234.528	253.688	(15.340)	(68.901)	33.032	437.007

	1 January 2014	Change for the period	Payments	Provision released	Translation difference	31 December 2014
Provision for lawsuits	194.475	43.919	(7.537)	(22.837)	6.702	214.722
Penalty prov. for employment shortage of disabled pers.	4.568	2.546	(880)	(1.019)	8	5.223
Provision for state right on mining activities	2.642	4.861	(3.019)	-	-	4.484
Provision for civil defense fund	3.341	6.951	-	-	(193)	10.099
	205.026	58.277	(11.436)	(23.856)	6.517	234.528

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

NOTE 16 - PROVISIONS (cont'd)

Provision for lawsuits

As of 31 December 2015 and 31 December 2014, lawsuits filed by and against the Group are as follows:

	31 December 2015	31 December 2014
Lawsuits filed by the Group	474.468	401.529
Provision for lawsuits filed by the Group	54.849	49.380

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

	31 December 2015	31 December 2014
Lawsuits filed against the Group	293.156	242.347
Provision for lawsuits filed against the Group	210.914	214.722

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 decrease amount of TRY 152.330 thousand on the period due to negative goodwill income.

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

NOTE 16 - 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 2015 and 31 December 2014 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. (E. 2011/551). The case was dismissed at the hearing held on 26 June 2015. The case is at the stage of appeal.

The Company, based on the above mentioned reasons, 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 2015 and 31 December 2014.

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.

NOTE 16 - PROVISIONS (cont'd)

Provision for lawsuits (cont'd)

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) and after this, the case file was sent back to the 7th Commercial Court of Ankara. The case file was sent to the 4th Commercial Court of Ankara due to the case shall seen by delegation according to the regulatory framework regarding the commercial courts. The Court has dismissed the case at the hearing held on 9 September 2015. The case is at the stage of appeal.

An action of debt was instituted by Messrs. Bor-San Isı Sistemleri Üretim ve Pazarlama A.Ş. against our company at the 3rd Civil Court of Kdz. Ereğli on 17 April 2013 under file no 2013/253 Esas claiming for the compensation of the loss arising from the sales contract of TRY 18 thousand, reserving the rights for surplus. The Company was informed from the amendment petition, which was served to the company on 1 November 2013 that the plaintiff pleaded from the court to raise the claim to TRY 10.838 thousand as assessed by the expert opinion submitted to the court. The Company contested to the expert opinion and the amendment petition within the statutory period. The court has given the judgment of dismissal on 11 March 2014. The plaintiff, Bor-San Isı Sistemleri Üretim ve Pazarlama A.Ş. has appealed against the judgment. Upon the reversal of judgment, the Company appealed the decision of Supreme Court of Appeal. The rejection decision of Supreme Court of Appeal has been notified to the Company on 28 January 2015. The case ongoing with the Kdz. Ereğli Civil Court of First Instance 3rd (2015/16 E.) has dismissed at the hearing held on 9 September 2015. The case is at the stage of appeal.

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

It is learnt through a notified made to the Company on 31 October 2012 that Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.) filed an action for compensation at amount of TRY 8.669 thousand (USD 4.800 thousand) together with accessory against the Company before Ankara 14th Commercial Court of First Instance. As a result of adjudication made; the court adjudged to dismiss the case on procedural grounds because of non-competence and to send the file to commissioned and competent Karadeniz 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. The court file has been entrusted to the expert. Date of next hearing of the case is 12 April 2016.

NOTE 16 - PROVISIONS (cont'd)

Provision for termination fee of long term contract

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

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

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

The Company has considered the termination cost as constructive obligation since the Management has taken a decision towards termination process related to the contract as of December 31, 2015 as well as an expectation is also formed by the supplier regarding the termination of aforementioned agreement and cash flows can be estimated in a trustable manner as of December 31, 2015 even if the termination process is concluded with the protocol after 31 December 2015. As a result, TRY 203.903 thousand (equivalent to USD 75.000 thousand) provision recognised under other operational expenses in the financial statements for the ended 31 December 2015 (Note 24).

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.

(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 2015

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

NOTE 17 - COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	31 December 2015	31 December 2014
Letters of guarantees received	1.514.383	1.538.130
	1.514.383	1.538.130

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

	31 December 2015	31 December 2014
A. Total CPM given for the Company's own legal entity	105.891	73.574
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	787.106	1.155.440
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	-	-
	892.997	1.229.014

As of 31 December 2015, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2014: 0%). Total CPM given in favor of subsidiaries consolidated on line-by-line basis amounting to TRY 787.106 thousand has been given as collateral for financial liabilities explained in Note 6.

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

	31 December 2015	31 December 2014
US Dollars	514.969	771.816
TRY	140.257	144.474
EURO	206.288	274.778
Japanese Yen	31.483	37.946
	892.997	1.229.014

(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 2015

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

NOTE 18 - 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 2015	31 December 2014
Other VAT receivable	51.684	44.134
Deferred VAT	33.417	37.035
Prepaid taxes and funds	1.575	1.422
Other current assets	8.809	8.955
	95.485	91.546

Other current liabilities

	31 December 2015	31 December 2014
VAT payable	36.003	40.524
Other current liabilities	4.647	3.589
	40.650	44.113

Other non-current liabilities

	31 December 2015	31 December 2014
Other non-current liabilities	442	367
	442	367

NOTE 19 - DEFERRED REVENUE

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

	31 December 2015	31 December 2014
Advances received	87.937	73.839
Deferred income	5.440	2.619
	93.377	76.458

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

NOTE 20 - EQUITY

As of 31 December 2015 and 31 December 2014, the capital structure is as follows:

Shareholders	(%)	31 December 2015	(%)	31 December 2014
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 2015 consists of 350.000.000.000 lots of shares (31 December 2014: 350.000.000.000 lots). The nominal value of each share is 1 Kr (Turkish cent) (31 December 2014: 1 Kr). This capital is split between A and B group shares. Group A shares consist of 1 share with a share value of 1 Kr and Group B shares consist of 3.499.999.999,99 shares representing TRY 349.999.999.999 of the issued capital.

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

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

Article IV-K of Articles of Association "According to Turkish Commercial Code Article 329, transactions of an entity's own shares" allows Erdemir to purchase, hold, sell or transfer its own shares, without voting rights. As of 31 December 2015, the Company holds its own shares with a nominal value of TRY 107.837 thousand (31 December 2014: TRY 107.837 thousand). The Company's own shares have been reclassified with its inflation adjusted value in the consolidated balance sheet as a deduction under equity.

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

NOTE 20 - EQUITY (cont'd)

Other equity items	31 December 2015	31 December 2014
Share premium	106.447	106.447
Revaluation reserves	27.215	24.151
- Cash flow hedging reserves	*27.215*	*24.151*
Cash Flow Hedging Reserves	(2.192)	7.160
Foreign currency translation reserves	4.012.449	1.616.002
Actuarial (loss)/gain fund	(107.795)	(125.714)
Restricted reserves assorted from profit	950.831	617.355
- Legal reserves	*950.831*	*617.355*
Retained earnings	2.527.180	2.616.106
- Extraordinary reserves	*781.469*	*780.894*
- Accumulated profit	*987.684*	*855.200*
- Statutory reserves	*758.027*	*980.012*
	7.514.135	4.861.507

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

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

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

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

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

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.

NOTE 20 - EQUITY (cont'd)

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

Other sources which might be used in dividend distribution, except the net profit for the period, in statutory books of the Company are equal to TRY 596.363 thousand as of 31 December 2015 (31 December 2014: TRY 960.741 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.

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.

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

NOTE 21 - SALES AND COST OF SALES

	1 January - 31 December 2015	**1 January - 31 December 2014**
Sales Revenue		
Domestic sales	10.592.118	9.962.783
Export sales	1.159.922	1.230.427
Other revenues (*)	198.004	308.022
Sales returns (-)	(27.678)	(11.158)
Sales discounts (-)	(7.785)	(5.937)
	11.914.581	11.484.137
Cost of sales (-)	(9.854.290)	(9.045.652)
Gross profit	2.060.291	2.438.485

(*) The total amount of by product exports in other revenues is TRY 23.409 thousand (31 December 2014: TRY 139.685 thousand).

The breakdown of cost of goods sales for the periods 1 January - 31 December 2015 and 1 January - 31 December 2014 is as follows:

	1 January - 31 December 2015	**1 January - 31 December 2014**
Raw material usage	(6.894.340)	(6.376.176)
Personnel costs	(1.212.635)	(1.085.243)
Energy costs	(698.858)	(616.695)
Depreciation and amortization expenses	(531.742)	(409.791)
Factory overheads	(290.866)	(214.760)
Other cost of goods sold	(65.500)	(142.572)
Non-operating costs (*)	(26.147)	(67.390)
Freight costs for sales delivered to customers	(87.211)	(62.594)
Inventory write-downs within the period (Note 9)	(39.092)	(29.951)
Reversal of inventory write-downs (Note 9)	12.256	15.013
Other	(20.155)	(55.493)
	(9.854.290)	(9.045.652)

(*) 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 (26.147) thousand, has been accounted directly under cost of goods sold (31 December 2014: TRY (67.390) thousand).

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

NOTE 22 - RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

The breakdown of operational expenses according to their nature for the periods 1 January - 31 December 2015 and 1 January - 31 December 2014 is as follows:

	1 January - 31 December 2015	1 January - 31 December 2014
Marketing, sales and distribution expenses (-)	(131.002)	(119.786)
General administrative expenses (-)	(284.738)	(232.012)
Research and development expenses (-)	(9.240)	(6.999)
	(424.980)	(358.797)

NOTE 23 - OPERATING EXPENSES ACCORDING TO THEIR NATURE

The breakdown of operational expenses according to their nature for the periods 1 January - 31 December 2015 and 1 January - 31 December 2014 is as follows:

	1 January - 31 December 2015	1 January - 31 December 2014
Personnel expenses (-)	(71.000)	(65.053)
Depreciation and amortization (-)	(18.690)	(14.167)
Service expenses (-)	(41.312)	(40.566)
	(131.002)	(119.786)

The breakdown of general administrative expenses for the periods 1 January - 31 December 2015 and 1 January - 31 December 2014 is as follows:

	1 January - 31 December 2015	1 January - 31 December 2014
Personnel expenses (-)	(150.128)	(135.299)
Depreciation and amortization (-)	(10.209)	(12.520)
Service expenses (-)	(105.430)	(71.756)
Tax, duty and charges (-)	(7.237)	(3.934)
Provision for doubtful receivables (-)	(11.734)	(8.503)
	(284.738)	(232.012)

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

NOTE 23 - OPERATING EXPENSES ACCORDING TO THEIR NATURE (cont'd)

The breakdown of research and development expenses for the periods 1 January - 31 December 2015 and 1 January - 31 December 2014 is as follows:

	1 January - 31 December 2015	**1 January - 31 December 2014**
Personnel expenses (-)	(6.322)	(4.364)
Depreciation and amortization (-)	(801)	(144)
Other (-)	(2.117)	(2.491)
	(9.240)	(6.999)

NOTE 24 - OTHER OPERATING INCOME/EXPENSES

The breakdown of other operating income for the periods 1 January - 31 December 2015 and 1 January - 31 December 2014 is as follows:

	1 January - 31 December 2015	**1 January - 31 December 2014**
Other operating income		
Gain on sale of investment property (Note 11)	45.767	-
Interest income from on credit sales	64.821	59.360
Discount income	16.283	15.479
Provisions released	68.015	23.896
Service income	21.328	18.389
Maintenance repair and rent income	13.676	7.243
Warehouse income	4.191	3.085
Indemnity and penalty detention income	2.151	4.079
Insurance indemnity income	13.747	738
Royalty income	-	606
Gain on sale of tangible assets	989	1.054
Other income and gains	24.440	14.634
	275.408	148.563

(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 2015

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

NOTE 24 - OTHER OPERATING INCOME/EXPENSES (cont'd)

The breakdown of other operating expenses for the periods 1 January - 31 December 2015 and 1 January - 31 December 2014 is as follows:

	1 January - 31 December 2015	**1 January - 31 December 2014**
Other operating expenses (-)		
Provision expenses	(37.131)	(41.057)
Discount expenses	(22.961)	(9.155)
Provision for termination fee of long term contract (Note 16)	(203.903)	-
Port facility pre-licence expenses	(7.235)	(4.906)
Lawsuit compensation expenses	(3.576)	(3.765)
Penalty expenses	(2.764)	(3.485)
Service expenses	(3.297)	(2.638)
Rent expenses	(1.803)	(618)
Donation expenses	(2.091)	(10.213)
Stock exchange registration expenses	(1.018)	(910)
Loss on disposal of tangible assets	(3.659)	(4.127)
Stock exchange registration expenses	-	(5.588)
Impairment of property, plant and equipment (Note 12)	(1.980)	(18.555)
Other expenses and losses	(28.498)	(28.822)
	(319.916)	(133.839)

NOTE 25 - FINANCE INCOME

The breakdown of finance income for the periods 1 January - 31 December 2015 and 1 January - 31 December 2014 is as follows:

Financial incomes	**1 January - 31 December 2015**	**1 January - 31 December 2014**
Interest income on bank deposits	86.276	53.675
Foreign exchange gains (net)	335.431	163.610
Fair value differences of derivative financial instruments (net)	-	12.220
	421.707	229.505

(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 2015

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

NOTE 26 - FINANCE EXPENSE

The breakdown of finance expenses for the periods 1 January - 31 December 2015 and 1 January - 31 December 2014 is as follows:

Financial expenses (-)	1 January - 31 December 2015	1 January - 31 December 2014
Interest expenses on financial liabilities	(122.551)	(184.271)
Interest cost of employee benefits	(32.695)	(30.438)
Foreign exchange loss from deferred tax base	(385.199)	(140.617)
Fair value differences of derivative financial instruments (net)	(33.369)	-
Other financial expenses	(2.529)	(3.020)
	(576.343)	(358.346)

During the period, the interest expenses of TRY 388 thousand have been capitalized as part of the Group's property, plant and equipment (31 December 2014: TRY 3.936 thousand).

NOTE 27 - TAX ASSETS AND LIABILITIES

	31 December 2015	31 December 2014
Corporate tax payable:		
Current corporate tax provision	472.407	266.045
Prepaid taxes and funds (-)	(254.638)	(136.337)
	217.769	129.708

	1 January - 31 December 2015	1 January - 31 December 2014
Taxation:		
Current corporate tax expense	472.407	266.045
Deferred tax income/(expense)	(198.549)	38.735
	273.858	304.780

NOTE 27 - TAX ASSETS AND LIABILITIES (cont'd)

Corporate tax

The Group, except its subsidiary 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 2015 (31 December 2014: in Turkey 20%, in Romania 16%, in Singapore 17%). The total amount of the corporate tax paid by the Group in 2015 is TRY 384.346 thousand (31 December 2014: TRY 181.327 thousand).

In Turkey, advance tax returns are filed on a quarterly basis. The temporary tax of 2015 has been calculated over the corporate earnings using the rate 20%, during the temporary taxation period. (31 December 2014: 20%).

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

In Turkey, a definite and distinct reconciliation procedure for tax assessment does not exist. Companies file their tax returns between 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 period of 24 April 2003 - 22 July 2006 is 10%. This rate was changed to 15% as of 22 July 2006 by the decision of the Council of Ministers, numbered 2006/10731. Undistributed dividends incorporated in share capital are not subject to the income withholding taxes.

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

NOTE 27 - TAX ASSETS AND LIABILITIES (cont'd)

Investment allowance application

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

Regarding the cancellation decision taken by the Constitutional Court, an amendment was made in the 69^{th} 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 2014: 20%).

Deferred tax

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

Tax rate used in the calculation of deferred tax assets and liabilities (excluding land) are 20% for the subsidiaries in Turkey, 17% for the subsidiary in Singapore and 16% for the subsidiary in Romania (31 December 2014: in Turkey 20%, in Romania 16%, in Singapore 17%). Deferred tax related with the temporary differences arising from land parcels is calculated with the tax rate of 5% (31 December 2014: 5%).

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

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

NOTE 27 - TAX ASSETS AND LIABILITIES (cont'd)

	31 December 2015	31 December 2014
Deferred tax assets:		
Carry forward tax losses	2.316	2.056
Provisions for employee benefits	101.179	97.545
Investment incentive	10.532	-
Provision for lawsuits	42.183	37.598
Provision for termination fee of long term contract	43.614	-
Inventories	7.491	15.601
Provision for other doubtful receivables	13.479	12.481
Tangible and intangible fixed assets	11.227	9.901
Other	29.857	21.606
	261.878	196.788
Deferred tax liabilities:		
Tangible and intangible fixed assets	(1.250.788)	(788.481)
Fair values of the derivative financial instruments	(9.232)	(13.399)
Amortized cost adjustment on loans	(3.472)	(6.199)
Inventories	(17.625)	(10.828)
Other	(5.756)	(4.110)
	(1.286.873)	(823.017)
	(1.024.995)	(626.229)

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 2015	31 December 2014
Deferred tax assets	23.807	31.881
Deferred tax (liabilities)	(1.048.802)	(658.110)
	(1.024.995)	(626.229)

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

NOTE 27 - TAX ASSETS AND LIABILITIES (cont'd)

Maturities of carry forward tax losses are as follows:

	Carry forward tax losses		Deferred tax assets	
	31 December 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
1 year	-	-	-	-
2 year	-	-	-	-
3 year	14.475	-	14.475	-
4 year	-	19.100	-	1.629
5 year	-	8.651	-	8.651
	14.475	27.751	14.475	10.280

Deferred tax asset/(liability) movements:	**1 January - 31 December 2015**	**1 January - 31 December 2014**
Opening balance	(626.229)	(409.266)
Deferred tax income	198.549	(38.735)
The amount in comprehensive (expense)/income	(2.170)	10.909
Translation difference	(595.145)	(189.137)
Closing balance	(1.024.995)	(626.229)

Reconciliation of tax provision is as follows:

Reconciliation of tax provision:	**1 January - 31 December 2015**	**1 January - 31 December 2014**
Profit before tax	1.436.167	1.965.571
Statutory tax rate	20%	20%
Calculated tax acc. to effective tax rate	287.233	393.114
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	2.777	4.668
- Effect of tax losses unrecognised deferred tax assets in prior years	-	(92.022)
- Effect of currency translation to non taxable assets	(7.906)	(4.219)
- Investment incentives	(10.532)	-
- Effect of non-taxable adjustments	2.583	3.164
- Effect of the different tax rates due to foreign subsidiaries	(297)	75
Tax exp. in reported in the consolidate stat. of income	273.858	304.780

(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 2015

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

NOTE 27 -TAX ASSETS AND LIABILITIES (cont'd)

As of 1 January - 31 December 2015 and 2014, the details of the tax gains/(losses) of the other comprehensive income/(expense) are as follows:

	1 January - 31 December 2015		
Other comprehensive income/(loss) in the current period	**Amount before tax**	**Tax income/ (expense)**	**Amount after tax**
Change in revaluation reserves of fixed assets	3.064	-	3.064
Change in actuarial (loss)/gain	22.930	(4.586)	18.344
Change in cash flow hedging reserves	(12.078)	2.416	(9.662)
Change in foreign currency translation reserves	2.462.935	-	2.462.935
	2.476.851	(2.170)	2.474.681

	1 January - 31 December 2014		
Other comprehensive income/(loss) in the current period	**Amount before tax**	**Tax income/ (expense)**	**Amount after tax**
Change in revaluation reserves of fixed assets	896	-	896
Change in actuarial (loss)/gain	(75.386)	15.077	(60.309)
Change in cash flow hedging reserves	20.842	(4.168)	16.674
Change in foreign currency translation reserves	792.010	-	792.010
	738.362	10.909	749.271

NOTE 28 - EARNINGS PER SHARE

	1 January - 31 December 2015	**1 January- 31 December 2014**
Number of shares outstanding	350.000.000.000	350.000.000.000
Profit for the period attributable to equity holders - TRY thousand	1.125.913	1.601.415
Profit per share with 1 TRY nominal value TRY %	0,3217/32,17%	0,4575/45,75%

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

NOTE 29 - RELATED PARTY TRANSACTIONS

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 2015	31 December 2014
Oyak Renault Otomobil Fab. A.Ş.[2]	30.868	27.886
Bolu Çimento Sanayi A.Ş.[1]	6.060	3.887
Adana Çimento Sanayi T.A.Ş. [1]	6.068	4.071
Other	134	565
	43.130	36.409

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

Due to related parties (short term)	31 December 2015	31 December 2014
Omsan Lojistik A.Ş.[1]	6.286	3.306
Omsan Denizcilik A.Ş.[1]	6.162	4.982
Oyak Pazarlama Hizmet ve Turizm A.Ş.[1]	8.954	5.361
Oyak Savunma ve Güvenlik Sistemleri A.Ş.[1]	3.542	2.876
Other	1.686	1.804
	26.630	18.329

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

[1] Subsidiaries of the parent company

[2] Joint venture

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

NOTE 29 - RELATED PARTY DISCLOSURES (cont'd)

Major sales to related parties	1 January - 31 December 2015	1 January - 31 December 2014
Oyak Renault Otomobil Fab. A.Ş.[2]	147.533	128.005
Adana Çimento Sanayi T.A.Ş.[1]	20.700	19.262
Bolu Çimento Sanayi A.Ş.[1]	18.973	16.929
Aslan Çimento A.Ş.[1]	1.209	2.652
Other	3.455	3.662
	191.870	170.510

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 2015	1 January - 31 December 2014
Omsan Denizcilik A.Ş.[1]	66.838	110.485
Oyak Pazarlama Hizmet ve Turizm A.Ş.[1]	61.441	42.422
Omsan Lojistik A.Ş.[1]	41.235	32.243
Oyak Savunma ve Güvenlik Sistemleri A.Ş.[1]	31.701	30.539
Omsan Logistica SRL [1]	8.524	7.758
Other	12.836	7.018
	222.575	230.465

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

[1] Subsidiaries of the parent company

[2] Joint venture

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

The period end balances are un-secured and their collections will be done in cash. As of 31 December 2015, the Group provides no provision for the receivables from related parties (31 December 2014: None).

Salaries, bonuses and other benefits of the key management:

For the year ended 31 December 2015, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 22.083 thousand (31 December 2014: TRY 18.448 thousand).

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

NOTE 30 - 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 6, 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 20.

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, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

As of 31 December 2015 and 31 December 2014 the net debt/equity ratio is as follows:

	Note	31 December 2015	31 December 2014
Total financial liabilities	6	2.975.903	3.413.734
Less: Cash and cash equivalents	4	2.934.703	2.186.810
Net debt		41.200	1.226.924
Total adjusted equity (*)		12.648.179	10.428.861
Total resources		12.689.379	11.655.785
Net debt/Total adjusted equity ratio		0%	12%
Distribution of net debt/total adjusted equity		0/100	11/89

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

(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".

NOTE 30 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(c) Financial risk management objectives

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

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

(d) Market risk

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

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

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

(e) Credit risk management

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

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

NOTE 30 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Credit risk management (cont'd)

Credit risk of financial instruments

	Receivables					
	Trade Receivables		Other Receivables			
31 December 2015	**Related Party**	**Other Party**	**Related Party**	**Other Party**	**Bank Deposits**	**Derivative financial instruments**
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	43.130	1.589.499	-	17.138	2.934.675	87.009
- Secured part of the maximum credit risk exposure via collateral etc.	-	1.443.837	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	43.130	1.589.499	-	17.138	2.934.675	87.009
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	-	-	-	-	-
- secured part via collateral etc.	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	77.993	-	67.397	-	-
- Impairment (-)	-	(77.993)	-	(67.397)	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
- Not overdue (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-

(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 2015

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

NOTE 30 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Credit risk management (cont'd)

Credit risk of financial instruments

	Receivables					
	Trade Receivables		Other Receivables			
31 December 2014	**Related Party**	**Other Party**	**Related Party**	**Other Party**	**Bank Deposits**	**Derivative financial instruments**
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	36.409	1.720.451	-	27.538	2.186.783	92.312
- Secured part of the maximum credit risk exposure via collateral etc.	-	1.659.676	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	36.409	1.712.411	-	27.538	2.186.783	92.312
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	-	8.040	-	-	-	-
- secured part via collateral etc.	-	8.040	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	62.107	-	62.403	-	-
- Impairment (-)	-	(62.107)	-	(62.403)	-	-
- 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.

Trade receivables that are overdue but not impaired amounting to TRY 8.040 thousand, are past due up to 1-30 days and secured with guarantees.

(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 2015

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

NOTE 30 - 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 2015 and 31 December 2014, stated in Note 2.8.9 the foreign currency position of the Group in terms of original currency is calculated as it as follows:

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

(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 2015

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

NOTE 30 - 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 2014			
	TRY (Total in reporting currency)	**TRY (Original currency)**	**EURO (Original currency)**	**Jap. Yen (Original currency)**
1. Trade Receivables	105.778	19.224	30.458	7.433
2a. Monetary financial assets	382.516	370.877	3.608	6.603
2b. Non- monetary financial assets	-	-	-	-
3. Other	105.294	105.193	36	-
4. Current assets (1+2+3)	**593.588**	**495.293**	**34.103**	**14.036**
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	36.867	31.348	1.956	-
8. Non-current assets (5+6+7)	**36.867**	**31.348**	**1.956**	**-**
9. Total assets (4+8)	**630.455**	**526.642**	**36.059**	**14.036**
10. Trade payables	254.101	230.220	4.047	533.504
11. Financial liabilities	555.509	426.430	36.904	1.203.596
12a. Other monetary financial liabilities	633.869	632.979	316	-
12b. Other non-monetary financial liabilities	127.120	127.120	-	-
13. Current liabilities (10+11+12)	**1.570.599**	**1.416.750**	**41.267**	**1.737.100**
14. Trade payables	-	-	-	-
15. Financial liabilities	399.791	166.194	66.750	2.183.187
16a. Other monetary financial liabilities	483.582	483.582	-	-
16b. Other non-monetary financial liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	**883.373**	**649.776**	**66.750**	**2.183.187**
18. Total liabilities (13+17)	**2.453.972**	**2.066.525**	**108.017**	**3.920.287**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	**(578.049)**	**(335.054)**	**(86.147)**	**-**
19a. Off-balance sheet foreign currency derivative financial assets	326.618	208.885	41.739	-
19b. Off-balance sheet foreign currency derivative financial liabilities	904.667	543.939	127.886	-
20. Net foreign currency asset/liability position (9-18+19)	**(2.401.566)**	**(1.874.938)**	**(158.104)**	**(3.906.251)**
21. Net foreign currency asset/liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**(1.838.558)**	**(1.549.305)**	**(73.950)**	**(3.906.251)**
22. Fair value of derivative financial instruments used in foreign currency hedge	66.168	18.777	16.801	-
23. Hedged foreign currency assets	904.667	543.939	127.886	-
24. Hedged foreign currency liabilities	326.618	208.885	41.739	-
25. Exports	1.370.112			
26. Imports	5.301.714			

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

NOTE 30 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

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

As of 31 December 2015 asset and liability balances are translated by using the following exchange rates: TRY 2,9076 = US $ 1, TRY 3,1776 = EUR 1 and TRY 0,0241= JPY 1 (31 December 2014: TRY 2,3189 = US $ 1, TRY 2,8207 = EUR 1 and TRY 0,0193= JPY 1)

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2015	**Appreciation of foreign currency**	**Depreciation of foreign currency**
1- TRY net asset/liability	(142.106)	142.106
2- Hedged portion from TRY risk (-)	6.818	(6.818)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(135.288)	135.288
5- US Dollars net asset/liability	-	-
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- US Dollars net effect (5+6+7)	-	-
9- Euro net asset/liability	(8.327)	8.327
10- Hedged portion from Euro risk (-)	8.842	(8.842)
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	515	(515)
13- Jap. Yen net asset/liability	(7.040)	7.040
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(7.040)	7.040
TOTAL (4+8+12+16)	**(141.813)**	**141.813**

In addition to the Group's foreign currency sensitivity to a 10% (+/-) change in TRY, TRY 154.606 thousand of income/(TRY (62.935) thousand expense) will occur due to the decrease/(increase) in deferred tax base. (31 December 2014: TRY 166.866 thousand income/ TRY (56.859 thousand expense).

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

NOTE 30 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2014	**Appreciation of foreign currency**	**Depreciation of foreign currency**
1- TRY net asset/liability	(153.988)	153.988
2- Hedged portion from TRY risk (-)	20.889	(20.889)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(133.099)	133.099
5- US Dollars net asset/liability	64	(64)
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- US Dollars net effect (5+6+7)	64	(64)
9- Euro net asset/liability	(20.297)	20.297
10- Hedged portion from Euro risk (-)	11.773	(11.773)
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	(8.524)	8.524
13- Jap. Yen net asset/liability	(8.108)	8.108
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(8.108)	8.108
TOTAL (4+8+12+16)	**(149.667)**	**149.667**

(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 30 - 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 2015	**31 December 2014**
Floating interest rate financial instruments		
Financial liabilities	2.643.675	2.567.340

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 4.088 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.

(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 2015

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

NOTE 30 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(h) Liquidity risk management (cont'd)

31 December 2015

Contractual maturity analysis	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Borrowings from banks	2.975.903	3.123.556	110.099	1.017.556	1.994.004	1.897
Trade payables	582.203	585.289	585.289	-	-	-
Other financial liabilities (*)	190.530	190.530	190.530	-	-	-
Total liabilities	**3.748.636**	**3.899.375**	**885.918**	**1.017.556**	**1.994.004**	**1.897**
Derivative financial liabilities						
Derivative cash inflows	87.009	1.059.166	256.585	488.588	313.993	-
Derivative cash outflows	(40.850)	(1.005.664)	(248.513)	(478.460)	(278.691)	-
	46.159	**53.502**	**8.072**	**10.128**	**35.302**	**-**

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

(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 2015

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

NOTE 30 - 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 2014

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	3.413.734	3.578.406	1.194.804	878.607	1.402.728	102.267
Trade payables	417.579	419.370	419.370	-	-	-
Other financial liabilities (*)	154.888	154.888	154.888	-	-	-
Total liabilities	**3.986.201**	**4.152.664**	**1.769.062**	**878.607**	**1.402.728**	**102.267**
Derivative financial liabilities						
Derivative cash inflows	92.312	1.299.858	662.798	275.636	361.424	-
Derivative cash outflows	(29.935)	(1.481.913)	(647.187)	(293.993)	(540.733)	-
	62.377	**(182.055)**	**15.611**	**(18.357)**	**(179.309)**	**-**

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

(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 2015

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

NOTE 31 - 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 2015	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	2.934.703	-	-	-	-	-	2.934.703	4
Trade receivables	-	1.632.629	-	-	-	-	1.632.629	7
Financial investments	-	-	79	-	-	-	79	
Other financial assets	-	17.138	-	-	-	-	17.138	8
Derivative financial instruments	-	-	-	-	23.265	63.744	87.009	5
Financial Liabilities								
Financial liabilities	-	-	-	2.975.903	-	-	2.975.903	6
Trade payables	-	-	-	582.203	-	-	582.203	7
Other liabilities	-	-	-	190.530	-	-	190.530	8/15/18
Derivative financial instruments	-	-	-	-	26.750	14.100	40.850	5
31 December 2014								
Financial Assets								
Cash and cash equivalents	2.186.810	-	-	-	-	-	2.186.810	4
Trade receivables	-	1.756.860	-	-	-	-	1.756.860	7
Financial investments	-	-	63	-	-	-	63	
Other financial assets	-	27.538	-	-	-	-	27.538	8
Derivative financial instruments	-	-	-	-	21.740	70.572	92.312	5
Financial Liabilities								
Financial liabilities	-	-	-	3.413.734	-	-	3.413.734	6
Trade payables	-	-	-	417.579	-	-	417.579	7
Other liabilities	-	-	-	154.888	-	-	154.888	8/15/18
Derivative financial instruments	-	-	-	-	12.940	16.995	29.935	5

(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 2015

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

NOTE 31 - 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.

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

NOTE 31 - FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (cont'd)

Additional information about financial instruments (cont'd)

Financial liabilities (cont'd)

Financial asset and liabilities at fair value		**Fair value level as of reporting date**		
	31 December 2015	**Level 1**	**Level 2**	**Level 3**
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	63.744	-	63.744	-
Derivative financial liabilities	(14.100)	-	(14.100)	-
			-	
Financial assets and liabilities at fair value through other comprehensive income/expense				
			-	
Derivative financial assets	23.265	-	23.265	-
Derivative financial liabilities	(26.750)	-	(26.750)	-
Total	46.159	-	46.159	-

Financial asset and liabilities at fair value		**Fair value level as of reporting date**		
	31 December 2014	**Level 1**	**Level 2**	**Level 3**
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	70.572	-	70.572	-
Derivative financial liabilities	(16.995)	-	(16.995)	-
Financial assets and liabilities at fair				
Derivative financial assets	21.740	-	21.740	-
Derivative financial liabilities	(12.940)	-	(12.940)	-
Total	62.377	-	62.377	-

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.

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

NOTE 32 - SUBSEQUENT EVENTS

A letter of intent was signed for a 50:50 partnership with the German technology company The Linde Group in order to establish a new air separation unit in İskenderun that will supply the additional industrial gases required for our subsidiary İsdemir's production and to reduce the costs with an effective and efficient management. With this new unit to start its operations in less than 20 months thanks to this agreement, which is the first international joint venture of Erdemir Group in its 50-years of history, İsdemir's oxygen production capacity and nitrogen production capacity will increase by 14% and 45%, respectively.

NOTE 33 - ADDITIONAL INFORMATION FOR CASH FLOW STATEMENTS

Details of changes in working capital for the periods between 1 January - 31 December 2015 and 1 January - 31 December 2014 are as follows:

	1 January- 31 December 2015	1 January- 31 December 2014
Current trade receivables	570.000	102.712
Inventories	829.687	412.375
Other short term receivables/current assets	17.518	(58)
Other long term receivables/non current assets	46.164	28.129
Current trade payables	58.614	(130.540)
Other short term payables/liabilities	(78.333)	30.885
Other long term payables/liabilities	(8.554)	10.472
	1.435.096	453.975

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, 2015, 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.

CONTACT INFORMATION

ERDEMİR GROUP
Barbaros Mahallesi Ardıç Sk No:6
34746 Ataşehir/İSTANBUL/TURKEY
Tel : +90 216 578 80 00
Fax : +90 216 469 48 10
Web : www.erdemirgrubu.com.tr
e-mail : grupiletisim@erdemir.com.tr

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş.
Uzunkum Caddesi No: 7
67330 Kdz. Ereğli/ZONGULDAK/TURKEY
Tel : +90 372 323 25 00
Fax : +90 372 333 15 00
Web : www.erdemir.com.tr
e-mail : iletisim@erdemir.com.tr

İSKENDERUN DEMİR VE ÇELİK A.Ş.
Karşı Mahalle Şehit Yüzbaşı Ali Oğuz Bulvarı
No:1 Payas HATAY/TURKEY
Tel : +90 326 758 40 40
Fax : +90 326 758 53 51- 758 38 38
Web : www.isdemir.com.tr
e-mail : info@isdemir.com.tr

ERDEMİR MADENCİLİK SAN. VE TİC. A.Ş.
Cürek Yolu 5. km Divriği/SİVAS/TURKEY
Tel : +90 346 419 11 21(5 lines)
Fax : +90 346 419 11 50
Web : www.erdemirmaden.com.tr
e-mail : ermaden@erdemirmaden.com.tr

ERDEMİR ÇELİK SERVİS MERKEZİ SAN. VE TİC. A.Ş.
Gebze Organize Sanayi Bölgesi
700. Sk. No: 724
Gebze/KOCAELİ/TURKEY
Tel : +90 262 679 27 27
Fax : +90 262 679 27 97
Web : www.ersem.com.tr
e-mail : info@ersem.com.tr

ERDEMİR MÜHENDİSLİK YÖNETİM VE DANIŞMANLIK HİZMETLERİ A.Ş.
Barbaros Mah. Ardıç Sk. No:6
34746 Ataşehir/İSTANBUL/TURKEY
Tel : +90 216 578 83 19
Fax : +90 216 469 48 37
Web : www.muhendislikerdemir.com.tr
e-mail : erdemirmuhendislik@erdemir.com.tr

ERDEMİR ROMANIA SRL
18, Soseaua Gaesti, Targoviste
130087 Dambovita/ROMANIA
Tel : +40 245 60 71 00
Fax : +40 245 60 60 70
Web : www.erdemir.ro
e-mail : office@erdemir.ro

ERDEMİR ASIA PACIFIC PTE LTD
10 Science Park Rood
#03-11 The Alpha Singapore 117684
Tel : +65 6883 00 57 - 59
e-mail : singapore@erdemir.com.tr

♻ This report has been published using recycled paper and environment-friendly technologies.

100% recyclable Erdemir steel is used in this report.

Produced by Tayburn
Tel: (90 212) 227 04 36
www.tayburnkurumsal.com

www.erdemirgrubu.com.tr