TO REACH THE TOP, YOU HAVE TO MAKE THE RIGHT MOVES.

OYAK MINING METALLURGY GROUP

2018 ANNUAL REPORT

STRONG PLAYERS STAY AT THE TOP.

CONTENTS

KNOWLEDGE, TALENT, FORESIGHT AND INNOVATION

KNOWLEDGE, TALENT, FORESIGHT AND INNOVATION IS REQUIRED FOR SUCCESS IN CHESS. THE RISE TO SUCCESS IS ACHIEVED WITH KNOWLEDGE AND PROGRESSES WITH TALENT. THE IMPORTANCE OF OTHER FACTORS EMERGE AS YOU GO HIGHER. ONLY THOSE WHO CAN COMBINE THESE FEATURES CAN CLAIM THEIR PLACE AT THE TOP.

A GOOD CHESS PLAYER HAS TO LEARN CHESS THEORY, THE RULES OF THE GAME, ITS PHILOSOPHY AND TO DEVELOP A METHOD OF THINKING THAT INCLUDES THIS KNOWLEDGE. THE BASIC REQUIREMENT FOR A CHESS PLAYER SEEKING TO BE A GRANDMASTER IS TO BE ABLE TO THINK OUT OF THE BOX AND TO BE ABLE TO CALCULATE ALL VARIANTS.

FORESIGHT EMERGES WHERE THOUGHT ALONE IS NOT ENOUGH. FORESIGHT IS A FEELING THAT ALTHOUGH AN ACTION IS UNDOUBTEDLY RIGHT AND WILL HAVE POSITIVE CONSEQUENCES, IT CANNOT BE DEMONSTRATED THROUGH CONCRETE DATA. IN A SITUATION WHERE THE PLAYER CANNOT CALCULATE ALL PROBABILITIES, THEY CAN START THE MOVE BY TRUSTING THEIR FORESIGHT - BEHIND WHICH, OF COURSE, LIES A WEALTH OF KNOWLEDGE AND EXPERIENCE.

THE CHESS PLAYER SHOULD BE ABLE TO LOOK AT THE GAME FROM THE PERSPECTIVE OF THEIR OPPONENT, NOT ONLY FROM THEIR OWN POINT OF VIEW. THEY SHOULD BE ABLE TO ASSESS THE THOUGHT PROCESS AND THE POSSIBLE MOVES OF THEIR OPPONENT.

AS IMPORTANT AS THINKING CORRECTLY AND QUICKLY, CHESS PLAYERS MUST SUSTAIN BE READY TO STAY FOCUSSED ALL DAY LONG, EVEN UNDER DIFFICULT CONDITIONS.

THE BUSINESS WORLD IS LIKE A GAME OF CHESS. AS MUCH AS MAKING THE RIGHT MOVES, SUCCESS RESTS ON ESTIMATING COUNTER MOVES, TAKING A POSITION IN LINE WITH THE NEW SITUATION AND DRIVING THE OPPONENT INTO MOVIG IN THE DESIRED DIRECTION.

CORPORATE PROFILE

One of the largest industrial organizations in Turkey

The foundation of OYAK Mining Metallurgy Group, which is one of the largest industrial institutions in Turkey in terms of its total assets, were laid with the decision to establish Erdemir during a period of increasing industrialization in the country, and which entered operations in 1965.

After Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (Erdemir) was established to meet Turkey's demand for flat products, İskenderun Demir ve Çelik Fabrikaları A.Ş. (İsdemir) was commissioned in 1975 in order to meet the demand for long products and semi-products.

Erdemir, which bought İsdemir in 2002, joined OYAK group after the privatization process in 2006. Operating under OYAK Mining Metallurgy Group since 2017, the Group's domestic companies include Erdemir and İsdemir, as well as Erdemir Maden, which operates mining sites in Sivas and Malatya, Erdemir Mühendislik, which provides engineering management services to group companies, the Erdemir Çelik Servis Merkezi, which meets the sector's requirement for sized flat steel, the İsdemir Linde Gaz Ortaklığı, which produces industrial gas, and Erdemir Enerji which was established to operate in the generation of renewable energy.

Erdemir Romania, which produces silicon steel in Romania, and Erdemir Asia Pacific Pte. Co., which carries out the Group's purchasing, marketing, sales and business development activities in the Asia-Pacific region, represent OYAK Mining Metallurgy Group abroad.

The group also has two ports which are the largest in their regions, one of which is located in Ereğli and the other in İskenderun.

Providing momentum to the development of the national economy

OYAK Mining Metallurgy Group, which has chalked up a number of important turning points for Turkish industry with its activities going back more than 50 years, has added impetus to the development of the national economy by supplying raw materials to all industries, meeting the growing domestic demand by constantly improving its technology and capacity, enabling the establishment of new industries and supporting exports.

OYAK Mining Metallurgy Group is the main supplier of Turkish industry with its cold and hot rolled, galvanized/galvannealed, tin chrome coated flat steel, sheet, peak iron, billet and wire rod products. The Group adds value to a wide array of sectors such as automotive, energy, construction, pipe, shipbuilding, home appliances, machinery, heat, heavy industry and packaging where it provides basic inputs, with its products and services.

OYAK Mining Metallurgy Group, one of Turkey's largest employers, offers employement to 12,000 employees, and supports both working life and public finance by meeting the social security rights of its employees at the highest level and without disruption in line with the laws.

TOGETHER WITH ITS EMPLOYEES, CUSTOMERS, SUPPLIERS AND SHAREHOLDERS, IT IS THE GLOBAL IRON AND STEEL POWERHOUSE OF TURKEY.

12,000

OYAK MINING METALLURGY GROUP OFFERS EMPLOYEMENT TO 12,000 EMPLOYEES.

One of the three largest steel producers in the European Union

In 2017, OYAK Mining Metallurgy Group ranked 3rd among EU member states, 8th in Europe and 43rd in the world in the crude steel production ranking.

İsdemir was ranked in 7th place, Erdemir in 8th place, the Erdemir Çelik Servis Merkezi in 70th place and Erdemir Maden in 260th place in the 2017 Survey of Turkey's Top 500 Companies carried out by the İstanbul Chamber of Commerce.

Turkey's global iron and steel powerhouse

As one of the most powerful enterprises in Turkey, OYAK Mining Metallurgy Group is aware of its responsibilities with respect to sustainable development. Together with its employees, customers, suppliers and shareholders, it is the global iron and steel powerhouse of Turkey.

The Group is working to fulfil all of its responsibilities at the highest level with continuous development in production technology, energy and resource efficiency, its efforts towards minimizing the environmental impact, the innovative solutions required by the user sectors, and with the contribution to the welfare of employees to society.

Strong steps towards the future

In addition to its product diversity and quality, OYAK Mining Metallurgy Group is among the renowned and sought-after brands in national and global markets with its transparent, competitive, fast, flexible, sincere and customer-oriented service approach.

As an institution that generates the highest level of value for all of its stakeholders, the Group offers solutions to meet not only current needs but also the needs of the future, placing innovation at the heart of its culture, and will continue to move forward with firm steps towards a sustainable future.

KEY FINANCIAL INDICATORS

	Currency	2014	2015	2016	2017	2018
Net Sales Revenue	(TL million)	11,543	11,980	11,697	18,736	27,015
	(USD million)	5,279	4,406	3,875	5,140	5,598
Operating Profit Before Finance Income (Expenses)	(TL million)	2,094	1,591	2,103	4,894	7,682
	(USD million)	958	585	697	1,343	1,592
EBITDA	(TL million)	2,484	2,094	2,701	5,453	8,302
	(USD million)	1,136	770	895	1,496	1,720
Net Profit (Equity Holders of the Parent)	(TL million)	1,601	1,126	1,516	3,754	5,598
	(USD million)	732	414	502	1,030	1,160
Current Assets	(TL million)	7,372	8,000	11,063	14,842	22,512
	(USD million)	3,179	2,751	3,144	3,935	4,279
Fixed Assets	(TL million)	8,562	10,634	12,588	13,534	19,270
	(USD million)	3,692	3,658	3,577	3,588	3,663
Total Assets	(TL million)	15,934	18,634	23,651	28,376	41,782
	(USD million)	6,871	6,409	6,721	7,523	7,942
Short Term/ Current Liabilities	(TL million)	3,105	2,615	4,227	5,524	7,887
	(USD million)	1,339	900	1,201	1,465	1,499
Long Term Liabilities	(TL million)	2,518	3,481	3,765	3,623	4,640
	(USD million)	1,086	1,197	1,070	961	882
Equity Attributable to Equity Holders of the Parent	(TL million)	10,003	12,180	15,208	18,684	28,367
	(USD million)	4,314	4,189	4,321	4,954	5,392
Market Capitalization (Year-End)	(TL million)	15,610	10,640	17,990	35,070	25,270
	(USD million)	6,732	3,659	5,112	9,204	4,803

* Financial statements for prior periods are restated in order to conform to the current period financial statements.

FOCUSING ON EFFICIENCY IN 2018, OYAK MINING METALLURGY GROUP ACHIEVED STRONG OPERATING AND FINANCIAL RESULTS WITH ITS PERFORMANCE.

TL 27 BILLION

TL 27 BILLION OF TOTAL REVENUE IN 2018

Developments in the Erdemir and İsdemir Shares

Erdemir

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (Erdemir) shares have been traded on the stock exchange with the ticker symbol EREGL since the foundation of Borsa İstanbul in 1986. Erdemir is Turkey's one of the broadest publicly traded companies with a free float of 47.63% and is included in the BIST 30 index. The majority of Erdemir's shares that are traded on the Borsa İstanbul are in the hands of institutional investors.

Starting the year with an opening price of TL 10.02 on the first trading day of 2018, Ereğli completed the year with a 28% fall in its share price to TL 7.22. Despite the high dividend payments and the financial and operational achievements, Erdemir - of which around 70% of free float shares are held by foreign investors - was affected by the negative movement in the world's steel shares in the second half of the year. At the same time, there was a 21% decline in the BIST 100 index in 2018. As of the end of 2018, Erdemir had reached a market value of TL 25,270 million.

İsdemir

Shares in İskenderun Demir ve Çelik A.Ş. (İsdemir), a Group company, had been traded on the Pre-Market Trading Platform of the Borsa İstanbul under the "ISDMR" ticker since March 28, 2016. The ratio of publicly traded shares exceeded 5% after the share sales carried out by its main shareholder, Ereğli Demir ve Çelik Fabrikaları T.A.Ş., on the Borsa İstanbul. Thus since the conditions stated in the Borsa İstanbul Quotation Directive were met, the Company's shares were listed on the Star Market on April 19, 2018.

İsdemir shares, which opened at a price of TL 5.29 on the first trading day of 2018, ended the year with an increase of 7%, reaching TL 5.66. By the end of 2018, İsdemir had reached a market value of TL 16,414 million.

TL 25 BILLION

ERDEMİR'S MARKET VALUE AT THE END OF 2018 WAS TL 25,270 MILLION.

Erdemir's Shareholder Structure

Shareholder	Share (TL thousand)	%
ATAER Holding A.Ş.	1,724,982	49.29
Quoted in Stock Exchange	1,667,181	47.63
Erdemir's own shares	107,837	3.08
Grand Total	3,500,000	100.00

İsdemir's Shareholder Structure

Shareholder	Share (TL thousand)	%
Ereğli Demir ve Çelik Fabrikaları T.A.Ş.	2,751,326	94.87
Quoted in Stock Exchange	148,674	5.13
Grand Total	2,900,000	100.00

Ticker Symbols

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

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

1960

1960S

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

1961
- Excavation and construction work started for the Erdemir plant.

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

1970S

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

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

1980S

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

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

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

1990S

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

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

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

2000S

2000
- Flat steel production exceeded 3 million tons.

2001
- Erdemir Mühendislik, Yönetim ve Danışmanlık Hizmetleri A.Ş. was established.
- Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. entered operation with an annual capacity of 150 thousand tons/year in Gebze.
- Erdemir broke an export record, selling 1.1 million tons of steel products.

2002
- İsdemir was acquired.
- The LBE steel plant 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.

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

THE JOURNEY WHICH BEGAN WITH ERDEMİR MORE THAN A HALF A CENTURY AGO CONTINUES TODAY UNDER THE ROOF OF OYAK MINING METALLURGY GROUP, WHICH COMPETES HEAD TO HEAD WITH SOME OF THE WORLD'S MOST IMPORTANT COMPANIES.

2006
- Privatization process for Erdemir was completed when publicly owned shares were transferred to OYAK Group on February 27, 2006.
- Erdemir was ranked first in the Management Category in the EU Environment Awards, Turkey Program.
- The first slab was produced within the scope of modernization and transformation investments in İsdemir.

2008
- Erdemir started operations of the No. 1 "Ayşe" New Blast Furnace, which was solely the work of Erdemir engineers and workers right from the project phase through to its construction and commissioning.
- İsdemir produced its first flat hot rolled steel coil at its Hot Rolling Mill with an annual capacity of 3.5 million tons, established within the scope of modernization and transformation investments.

2010S

2011
- İsdemir's 4th blast furnace was commissioned.
- Erdemir Maden, Ekinbaşı plant started operations.
- Ersem's İskenderun facilities entered operation.

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

OYAK MINING METALLURGY GROUP HAS BEEN RESPONSIBLE FOR A NUMBER OF SIGNIFICANT TURNING POINTS IN TURKISH INDUSTRY WITH THE ACTIVITIES IT HAS CARRIED OUT, GUIDED BY MANY YEARS OF EXPERIENCE.

2013
- Erdemir's Head Office relocated to İstanbul.

2014
- Erdemir Asia Pacific Pte. Ltd. was established to carry out the procurement, marketing and sales activities in the Asia Pacific region, as a 100% Erdemir participation.
- Erdemir gave the sector its Turkey's first steel R&D center to be approved by the Republic of Turkey Ministry of Industry and Technology.
- Erdemir 2020 vision was determined.

2015
- Erdemir celebrated its 50th anniversary.
- Ersem's Manisa facilities were brought into service.
- İsdemir broke a record in liquid steel production, exceeding 5 million tons of production in Turkey.

2016
- İsdemir began to be traded on the Borsa İstanbul.
- The İsdemir Linde Gaz Ortaklığı A.Ş. was established in a 50% - 50% partnership with the German Linde Group in order to support İsdemir's industrial gas production.
- İsdemir broke a record in liquid iron production, exceeding 5 million tons of production in Turkey.

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

2018
- The 8th Air Separation Plant was commissioned by the İsdemir Linde Gaz Partnership.
- Within the scope of the extension of the life span of the Divriği Pelletizing Plant, the Ore Production and Enrichment Plant was opened for the production of pellets, by bringing the ore in Malatya Hasançelebi to Divriği.

2018

KNOWLEDGE

STEINITZ

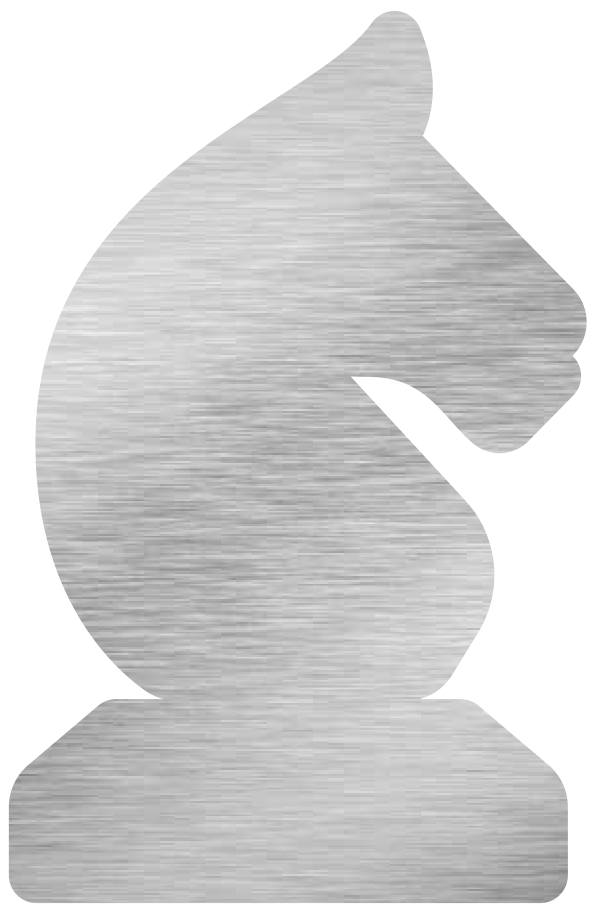
WILHELM STEINITZ
THE WORLD CHAMPION: 1886 - 1894

Along with Paul Morphy, Wilhelm Stenitz is considered to be the founder of the positional chess school. He aimed to set principles in a scientific way on how to play the game. He demonstrated that a position in chess could also be improved while defending. He argued that combined attacks could be made after improving a position after having accumulated the advantages of one side in the position. He made many contributions to the opening theory. Although he reinterpreted the principles that form the basis of modern chess, successive chess players who followed in his footsteps have set out from his principles.

KNOWLEDGE

"CHESS IS DIFFICULT, IT REQUIRES HARD WORK, DEEP THOUGHT AND DETERMINED RESEARCH."

WILHELM STEINITZ



OYAK MINING METALLURGY GROUP HAS SUCCESSFULLY REFLECTED THE KNOWLEDGE AND EXPERIENCE IT HAS GAINED OVER 50 YEARS TO ALL OF ITS ACTIVITIES.

MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Stakeholders,

Despite the strong growth in the global economy in 2018...
According to the current estimates published by the IMF in January 2019, the world economy grew by 3.7% in 2018 and exhibited a strong performance. In spite of this strong growth performance, we will remember 2018 as a year of sweeping and frequent changes in the agenda, dominated by a tense atmosphere in various parts of the world, both economically and politically.

The geopolitical developments experienced in the Middle East, the uncertainty surrounding the Brexit process, a global economic outlook shaped by the impact of the decisions taken by the central banks of developed countries, the slowdown in economic activity in China and volatility in oil prices were the main issues under the spotlight during the year.

The most important issues were the trade wars, mainly led by the USA, with expanding effects from protectionist policies increased worldwide.

Although the outlook in developed economies, which have the largest share in the world economy, contributed significantly to the strong growth performance in 2018, the increasing prominence of the risks facing developing countries affected future global growth prospects.

THE GROWTH IN THE GLOBAL STEEL DEMAND WAS DRIVEN BY A RELATIVE IMPROVEMENT IN THE ECONOMIC PERFORMANCE OF DEVELOPING COUNTRIES AND THE INFRASTRUCTURE INVESTMENTS IMPLEMENTED IN DEVELOPED COUNTRIES.

The IMF reduced its expectations for 2019 growth by 0.2%. As a result, 2019 is expected to be a relatively difficult year for the world economy and economic developments, steered in large part by the US economy, may accelerate the process of shifting the global economy to a new equilibrium.

The direction of the global steel industry will be determined by global growth.

Global steel demand continued to grow in 2018. Global steel demand grew by 3.9% in 2018, according to Worldsteel estimates, slightly higher than the rate of global economic growth. This growth was driven by a relative improvement in the economic performance of developing countries and the infrastructure investments implemented in developed countries.

Together with the demand following a strong course, production also increased. In addition to other commodity prices, steel prices have also increased. However, commodity prices declined towards the end of 2018 due to the fact that the protectionist policy measures taken in the steel industry by the USA and the EU reached a point not seen in history.

Given the current developments in the global economy, balanced market conditions are expected to shape the steel industry between 2019 and 2020. On the same assumption, Worldsteel projects that global demand will exhibit a relatively slow increase during 2019, in the order of 1%.

OYAK Mining Metallurgy Group continued its healthy and sustainable growth in 2018.

OYAK Mining Metallurgy Group (OMMG) unwaveringly maintained its activities and investments in 2018 as it strived to offer the high quality products and services needed by our country's industry with its advantages in production, competitive advantages, and its customer- and market-oriented structure.

Focusing on the successful management of price volatility, our Group continued to accelerate its performance against a background of adverse global conditions, taking the right actions at the right time and transforming them into efficiency. Raising the share of value-added products in our product portfolio and the high quality of the products and services we offer our customers provided a valuable contribution to our success.

OYAK MINING METALLURGY GROUP (OMMG) UNWAVERINGLY MAINTAINED ITS ACTIVITIES AND INVESTMENTS IN 2018 AS IT STRIVED TO OFFER THE HIGH QUALITY PRODUCTS AND SERVICES NEEDED BY OUR COUNTRY'S INDUSTRY.

In 2018, we continued our investments, undertaken to enhance our competitive advantage within the framework of our strategic objectives. Carrying out a total of USD 216 million in investment during the year, we continued our 33 investment projects at Erdemir and İsdemir as we pressed onwards in our strategic growth plan.

In 2018, we produced 9.145 million tonnes of crude steel and met about 25% of Turkey's crude steel needs. Our final product sales amounted to 8.4 million tonnes.

Our Group, which produces ever greater added value for our country's economy in its fields of activity, also continued to capture an important share in exports. In 2018, we exported 1.6 million tonnes to 200 different customers in 50 countries.

We have stepped up our R&D activities so we are better able to respond to developments in the market in a continuous and effective manner, and to produce the steel grades required by the Turkish industry. We have focused on ideas, products and system renewal projects that will create a competitive advantage in the market with new products, improved quality and size development. We have completed 30 projects at our R&D Centre and continue to work unabatedly on 31 projects.

Our Group, which prioritizes efficiency-increasing and cost-cutting, developed 18 new steel grades as a result of the work carried out at the R & D Centre in 2018, and increased the number of flat steel product grades to 479.

In 2018, this exemplary performance, which we achieved by overcoming all the difficulties, is the embodiment of the hard work, the strong sense of belonging and a love for one's country of a large family of 12,000 people.

We are ready for the future before it comes

As a group that sets itself apart with its production and service competencies on a global scale, we will continue to shape our strategies with a proactive approach, evaluate investment opportunities, take necessary action by closely monitoring the markets, and to create added value for all our stakeholders with our disciplined work based on foresight.

With our corporate competencies and the experience which we have built up over many years, as well as our vision, our efforts on the axis efficiency, our well-qualified human resources and our belief in the future of our Group, we will achieve many more successes for Turkey.

We would like to express our gratitude to our dear shareholders for their support, who have always stood with us, to our employees who always take us forward, and our customers and suppliers.

Süleyman Savaş Erdem
The Chairman of the Board of Directors

WITH OUR CORPORATE COMPETENCIES AND THE EXPERIENCE WHICH WE HAVE BUILT UP OVER MANY YEARS, AS WELL AS OUR VISION, OUR EFFORTS ON THE AXIS EFFICIENCY, OUR WELL-QUALIFIED HUMAN RESOURCES AND OUR BELIEF IN THE FUTURE OF OUR GROUP, WE WILL ACHIEVE MANY MORE SUCCESSES FOR TURKEY.

BOARD OF DIRECTORS

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

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

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

Baran Çelik
Member of the Board of Directors
(REPRESENTATIVE OFOYKA KAĞIT AMBALAJ SANAYİİ VE TİCARET A.Ş.)

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

Aslıhan Döğer
Member of the Board of Directors
(REPRESENTATIVE OFOMSAN LOJİSTİK A.Ş.)

Yunus Arıncı
Independent Member of the Board of Directors

Ali Fidan
Independent Member of the Board of Directors

Kurtuluş Bedri Varoğlu
Independent Member of the Board of Directors

MESSAGE FROM THE HEAD OF GROUP

Dear Stakeholders,

The new balance in global markets has been the most important issue determining the global outlook.

In 2018, the factors shaping the global economy were increasing protectionism in world trade, the slowdown which has taken hold in the economies of the Eurozone, uncertainties over the UK's exit from the EU, and occasional volatility in developing countries.

The increasing tendency towards protectionism in foreign trade around the World indicates a relative weakening in the economic outlook, especially for developing countries. We believe a global structure, in which various centres of power, especially the USA and the EU, focus on protecting national producers, will continue for some time - but such a situation cannot be permanent, due to the negativities that may arise in the long term.

Our country's economy posted economic growth of 6.2% in the first half of 2018, before the short-term volatility in the domestic financial markets in August weakened confidence in the economy and negatively affected consumption and investment demand. As a result, the growth rate declined to 1.6% in the third quarter of 2018, taking growth to 4.5% for the first nine months of the year.

THE COMPOSITION OF GROWTH HAS BEEN RESHAPED IN THE TURKISH ECONOMY IN 2018. THE POSITIVE COURSE IN FOREIGN DEMAND AND FLEXIBILITY AMONG EXPORTERS FOR DIVERSIFYING MARKETS MEANT NET EXPORTS REPLACED DOMESTIC DEMAND AS THE KEY DRIVER OF GROWTH.

The composition of growth has been reshaped in the Turkish economy, in which a slowdown was observed in economic activity in 2018. In this rebalancing process, the positive course in foreign demand and flexibility among exporters for diversifying markets meant net exports replaced domestic demand as the key driver of growth.

Both the foreign trade and current account deficit contracted, with exports increasing by 7% to USD 168 billion. The slowdown in domestic demand and weakening in the local currency precipitated a decline in imports, which decreased by 4.6% to USD 223 billion.

Record breaking exports for Turkey's steel industry.

Due to the exchange rate volatility in Turkey and a number of difficulties around the globe, it would be fair to say that 2018 was a difficult year for the sector. However, one cause for satisfaction was that, in spite of all the difficulties, Turkey's steel industry exhibited a positive performance in 2018.

Annual crude steel production, at over 37 million tonnes, stood slightly below last year's production.

In 2018, Turkey's steel consumption stood at 31 million tonnes, declining by 15%. The contraction in the market stemmed largely from steel consuming sectors such as the automotive, white goods and construction sectors, and as a result of the contraction in these 3 sectors, a relative slowdown was observed in domestic demand.

On the other hand, Turkey's steel exports increased in volume terms in 2018, with Turkey's exports to the EU exceeding 4 million tonnes. The protectionist measures implemented by the USA, separating our country from other countries, negatively affected Turkey's steel exports to the USA and caused a significant decline. On the other hand, a more balanced distribution was observed in exports to the MENA (Middle East & North Africa) region and EU countries. As a result, despite the decline in Turkey's steel consumption, it was a record breaking year for exports.

The right strategy, a strong performance,

In the light of the developments in the global financial markets and our sector, we at OYAK Mining Metallurgy Group determined our 2018 priority as maintaining our capacity utilization rate at the maximum level. Erdemir and İsdemir achieved a capacity utilization rate of 97% in 2018.

In 2018, we have demonstrated a strong and healthy financial and operational performance, in parallel with our targets.

As of the end of the year, our total assets had increased to TL 41,782 million, our shareholders' equity increased to TL 28,367 million and our total revenue increased to TL 27,015 million.

IN 2018, WE HAVE DEMONSTRATED A STRONG AND HEALTHY FINANCIAL AND OPERATIONAL PERFORMANCE, IN PARALLEL WITH OUR TARGETS AND, AS OF THE END OF THE YEAR, OUR TOTAL ASSETS HAD INCREASED TO TL 41,782 MILLION.

Always focused on innovation in all its aspects

Our Group, which operates in a global sector, where new dynamics are formed in every period and challenging competitive conditions remain a fact of life, believes that it is of great importance to develop new products and production technologies, to increase product quality and standards and increase efficiency.

In this respect, with our investments in the production of high value-added products, we aim to meet Turkey's current and future needs at the highest level.

The first R&D Centre approved by the Ministry, which was brought into the sector by OYAK Mining Metallurgy Group in this context, carries out studies to respond to customer expectations with innovative solutions. These studies include the manufacture of competitive, high value-added new products at affordable prices, the research of alternative raw material sources, the determination of cost-reducing alternative materials and technologies, and using raw materials and energy resources more efficiently.

While cost advantages were achieved in 2018 through the improvements made in production processes by the R&D Centre, more competitive products were introduced to the market.
In addition, the studies on the recovery of wastes generated in the production process, which is one of the most important areas of improvement in the iron and steel sector, continued successfully.

A group that has adopted sustainability from end-to-end

As OYAK Mining Metallurgy Group, we integrate the concept of sustainability in all of our work processes.

In addition to our efforts in the field of waste management and to reduce our environmental impact, we carry out continual process improvements that take energy and raw material efficiency into account. We care to provide the production and working conditions that prioritize occupational health and safety.

We believe a vital element of achieving continuous progress is employee participation and contribution. We provide improvement and cost savings in the fields of occupational health and safety, the environment, customer satisfaction, quality and operational activities through projects in which the employees reflect their knowledge and experience and share them with the management.

WITH OUR INVESTMENTS IN THE PRODUCTION OF HIGH VALUE-ADDED PRODUCTS, WE AIM TO MEET TURKEY'S CURRENT AND FUTURE NEEDS AT THE HIGHEST LEVEL.

Implemented in 2017, the İsdemir Excellence Model, which we believe to be an exemplary piece of work in the sector, aims to create a corporate culture that always seeks the best and the participation of all employees with its approach summarized in the slogan of Maximizing Financial Value by Protecting People and the Environment.

A total of 508 of 774 projects undertaken in the İsdemir Excellence Model, which also started to be implemented at Erdemir on August 15, 2018, have been completed. These projects are expected to bring in USD 92 million in annual revenue.

We are building the future together.

While we have focused on saving, efficiency, inventory and cash management, which are the unconditional requirements in competition, with a common goal of reducing costs during this period, we have continued to uninterruptedly review our core business strategies in line with market requirements, and to produce new solutions.

As a Group with experienced and knowledgeable staff, who can take quick decisions and adapt quickly to developments, we will work with all our strengths in order to manage the next process with success.

I would like to thank our team, our customers, our suppliers, who are partners in our success, and all other business partners, and our stakeholders on behalf of myself and our Board of Directors.

Yours respectfully,

Toker Özcan
Head of OYAK Mining Metallurgy Group -
Vice Chairman of the Board of Directors and
Executive Director

AS A GROUP WITH EXPERIENCED AND KNOWLEDGEABLE STAFF, WHO CAN TAKE QUICK DECISIONS AND ADAPT QUICKLY TO DEVELOPMENTS, WE WILL WORK WITH ALL OUR STRENGTHS IN ORDER TO MANAGE THE NEXT PROCESS WITH SUCCESS.

SENIOR MANAGEMENT

Toker Özcan
Deputy Chairman of the Board of Directors and Managing Director of Erdemir

Süleyman Savaş Erdem
Chairman of the Board of Directors

Başak Turgut
Chief Marketing and Sales Office and General Manager of Ersem

Mesut Keyfli
General Manager of İsdemir

İ. Kürşad Korkmaz
Chief Purchasing Officer

COMPANIES WITHIN OYAK MINING METALLURGY GROUP

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

Erdemir produces hot rolled steel, cold rolled steel, sheet, tin, chrome and galvanized coated sheet at international quality standards in its plants established in Ereğli, in Turkey's Black Sea region. The company provides basic inputs for a wide range of industries including the automotive, white goods, energy, pipe profile, rolling mill, general manufacturing, electrical-electronics, machinery, heat insulators, shipbuilding, defence, and packaging sectors.

Erdemir is Turkey's only steel sheet manufacturer, while also being home to Turkey's first steel R&D center in the Turkish steel industry to have been approved by the Ministry of Science, Industry and Technology of the Republic of Turkey and one of Turkey's biggest ports in the Black Sea region.

İskenderun Demir ve Çelik A.Ş. (İsdemir)
Founded in Hatay, part of the İskenderun region, in 1970, İsdemir is an integrated iron and steel plant with the highest liquid steel capacity in Turkey. İsdemir is Turkey's largest integrated iron and steel factory based on its long product production capacity and was the third to be established. It was transferred to Erdemir in 2002 on the condition that İsdemir would initiate production of flat products.

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

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

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

OYAK MINING METALLURGY GROUP, WHICH IS THE MAIN SUPPLIER OF TURKISH INDUSTRY, RANKED 3RD AMONG PRODUCERS IN EU MEMBER COUNTRIES, 8TH ACROSS EUROPE AND 43RD IN THE WORLD

5 MILLION TONS

ERDEMİR REACHED A CAPACITY OF APPROXIMATELY 4 MILLION TONS FOR CRUDE STEEL AND 5 MILLION TONS FOR FINAL PRODUCTS.

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

Erdemir Maden, which began ore production in Divriği, in the Sivas region, in 1938 and has continued its operations as the Iron Mines Enterprise since 1940, joined Erdemir in 2004. Erdemir Maden meets 12% of Turkey's iron ore needs with 9 iron ore fields and one manganese field which it owns and performs 32% of iron ore production.

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

Erdemir Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş.

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

Erdemir Asia Pacific Pte. Ltd.

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

İsdemir Linde Gaz Ortaklığı A.Ş.

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

Erdemir Romanya S.R.L.

Erdemir Romania, which was founded in the city of Targoviste in Romania, joined the Group in 2002. Erdemir Romania produces electrical steel (silicon flat steel), which is a key input in the electric motors, transformers and generators.

Erdemir Romania is in an important position in Europe in terms of electrical steel production, with 20% of its protection used in the Romanian domestic market, with the remaining 80% exported to various countries, mainly in Europe.

Erdemir Enerji Üretim A.Ş.

The company was established to produce renewable energy, with 100% of its capital owned by Erdemir

OYAK MINING METALLURGY GROUP IS ONE OF THE MOST WELL-KNOWN AND SOUGHT-AFTER BRANDS IN NATIONAL AND GLOBAL MARKETS WITH ITS CUSTOMER-ORIENTED SERVICE APPROACH AS WELL AS ITS PRODUCT DIVERSITY AND QUALITY.

5.8 MILLION TONS

İSDEMİR, WHICH IS AN INTEGRATED IRON AND STEEL PLANT WITH TURKEY'S HIGHEST LIQUID STEEL CAPACITY, HAS AN ANNUAL LIQUID STEEL CAPACITY OF APPROXIMATELY 5.8 MILLION TONS.

TALENT

BOTVINNIK

MIKHAIL BOTVINNIK
WORLD CHAMPION: 1948-1957,
1958-1960, 1961-1963

Botvinnik, the founder of the Soviet Chess School, which dominated world chess from the mid-twentieth century and advanced Steinitz's positional chess theory into a more dynamic and comprehensive form, played with a style which combined deep strategic ideas with unexpected tactical attacks.

Botvinnik provided significant contributions to both the opening and mid-game and end-game theory. He also drew attention to systematic tournament preparation. Botvinnik was a pioneer in the introduction of the computer into chess. He also established a chess school under his own name and trained world champions and famous great masters, notably Kasparov, at this school.

TALENT

“LIKE ALL CREATIVE ACTIVITIES, CHESS CAN ONLY EXIST THROUGH THE INTEGRATED EFFORTS OF THOSE WHO HAVE CREATIVE TALENTS AND WHO HAVE THE SKILLS TO ORGANIZE THEIR CREATIVE WORK.”

MIKHAIL BOTVINNIK

OYAK MINING METALLURGY GROUP IS ACTING IN LINE WITH ITS VISION OF BEING THE BEST IN EVERY FIELD IT OPERATES IN WITH ITS HIGHLY SKILLED AND COMMITTED - EMPLOYEES.

DEVELOPMENTS IN 2018

Four companies of OYAK Mining Metallurgy Group ranked in the ISO 500 List
İsdemir was ranked in 7th place, Erdemir in 8th place, Ersem in 70th place and Erdemir Maden in 260th place in the 2017 Survey of Turkey's Top 500 Companies conducted by the İstanbul Chamber of Industry.

8th Air Separation Plant enters production at İsdemir.
The plant, which has been built in partnership between İsdemir and Linde Gas and which has increased İsdemir's oxygen, nitrogen and argon production capacity, was commissioned in January 2018.

Erdemir Maden Hasançelebi Ore Production and Enrichment Plant commissioned.
In order to extend the lifespan of the Divriği Pelleting Plant, the investment in the production of pellets by bringing ore from the Malatya Hasançelebi area to the Divriği facilities was completed in 2018 and the plant was commissioned.

Erdemir's success in corporate governance was once again reaffirmed.
Erdemir increased its corporate governance rating score from 9.22 in 2017 to 9.27 in 2018, in compliance with the Corporate Governance Principles Compliance Report, which was first applied in 2015 and in which compliance with Corporate Governance Principles is assessed. Erdemir, which has been granted the right to be included in the Corporate Governance Index once again with the success it has demonstrated, proved itself to be a transparent, fair, responsible and accountable institution.

In the Corporate Governance Principles Compliance Rating Note, a Compliance with Corporate Governance Principles rating was given as a result of the examination of 408 criteria prepared by Kobirate Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. for "BIST First Group Companies" under the main headings of shareholders, public disclosure and transparency, stakeholders and the Board of Directors. Erdemir's score of 9.27 points demonstrates that the Company complied significantly with the Corporate Governance Principles published by The Capital Markets Board, and affirmed that any risks that may arise are largely identified and controlled. With this result, Erdemir, one of BIST First Group Companies, was again included in the BIST Corporate Governance Index in 2018.

Erdemir again qualifies for inclusion in the BIST Sustainability Index.

The parent company of the group, Erdemir, which bases all of its activities on sustainability and sustainable value generation, succeeded in qualifying for inclusion in the BIST Sustainability Index, which includes companies with a high corporate sustainability performance and which are traded in the Borsa İstanbul (BIST), once again in 2018 as it had in 2015, 2016 and 2017.

The companies in the BIST Sustainability Index, which aim to increase the understanding, knowledge and practices of sustainability in Turkey, are determined after being assessed by the criteria of the environment, biodiversity, climate change, human rights, board structure, efforts to tackle bribery, and occupational health and safety. As a result of the evaluation, 50 companies were included in the index for the period from November 2018-October 2019.

Efficiency Awards for Erdemir and İsdemir

Erdemir won the first place award in the Efficiency Awards which have been organized by the Ministry of Industry and Technology's General Directorate of Efficiency since 2014, in the Large Scale Business / Process Improvement category with the Power Plant Optimization Project. İsdemir was awarded third place in the Large-Scale Business / Sustainable Production category with its "Increasing Flat Steel Production with the Slab-Length Optimization OPEX project" in the same competition.

A clutch of awards for the "Let the Fields Be Ploughed and the Tradition Continue" project

In order to protect the Ottoman strawberry, which has become synonymous with the Ereğli region but whose production had declined in recent years, and to contribute to biodiversity, Erdemir's "Let the Fields Be Ploughed and the Tradition Continue" project received recognition in the Felis Awards organized by Mediacat in the categories of sustainability and social responsibility and finance/economy. The project also received two awards, in the sustainability communication and local values categories at the PRIDA Communication Awards organized by the Association of Communication Consultancy Companies (IDA).

ERDEMİR SUCCEEDED IN QUALIFYING FOR INCLUSION IN THE BIST SUSTAINABILITY INDEX, WHICH INCLUDES COMPANIES WITH A HIGH CORPORATE SUSTAINABILITY PERFORMANCE AND WHICH ARE TRADED IN THE BORSA İSTANBUL (BIST), ONCE AGAIN IN 2018.

Erdemir and İsdemir shared the first two places, leading the metal industry in the Platinum Global Awards.
Erdemir and İsdemir took the first two positions in the metal sector in the Platinum Global Awards where the top 100 leading companies in terms of international trade in Turkey were awarded. Erdemir was selected as the leader of the iron and steel industry in the survey of the Capital Magazine's Most Admired Companies in Turkey and also took first place in Capital Magazine's Top 500 Private Companies of Turkey survey in the "Most Profitable Companies" category.

Ersem and Erdemir awarded in the MESS OHS (Occupational Health and Safety) competitions.
With its project "Do Not Remain Unresponsive", Ersem ranked first among companies with 250-499 employees in the 2nd Golden Glove awards, organized by the Turkish Employers Association of Metal Industries (MESS) and which evaluated best practices contributing to the improvement of occupational health and safety in workplaces. The Ferroli improvement team at Erdemir's Raw Material Sampling and Preparation Laboratory won an award in the Golden Suggestion competition, where OHS suggestions submitted by blue collar employees to their workplaces and the applications they contributed to their development were awarded.

Erdemir Maden selected as "Turkey's Safest Mining Company".
The best companies of 2018 were selected at the Mining Sector Award Ceremony and Sectoral Vision Meeting based on the theme "Mining for Humanity", which brought together several companies operating in the mining industry and which was organized for the first time by the İstanbul Mineral Exporters'

LEADER

ERDEMİR AND İSDEMİR TOOK THE FIRST TWO POSITIONS IN THE METAL SECTOR IN THE PLATINUM GLOBAL AWARDS WHERE THE TOP 100 LEADING COMPANIES IN TERMS OF INTERNATIONAL TRADE IN TURKEY WERE AWARDED.

Association with the contributions of the Ministry of Energy and Natural Resources and Ministry of Trade. Erdemir Maden ranked 1st in the "Safest Mining Companies in Turkey" category.

İsdemir wins "Energy Award".
İsdemir ranked third in Energy Efficiency Projects in Industry (SEVAP-3) Category at the Energy Efficiency Project Competition (SENVER-18) held by the General Directorate of Renewable Energy (YEGM), with its project to save energy by reducing fan values in the high carbon production of the Kangal Rolling Mill.

Erdemir Romania awarded by Romania Chamber of Commerce.
Erdemir Romania received the "Number 1 in the Metallurgical Sector" award given by the Chamber of Commerce in Dambovita in 2018.

Awards for the 2017 OYAK Mining Metallurgy Group Annual Report
The Group's 2017 Annual Report was awarded on many platforms, with an honorary award in the Traditional Annual Report in the Metals Category at the ARC Awards, a Golden Award in Cover Design and a Silver Award for the Chairman's Message. The Group received the Gold Award in the category of the Best Annual Report by LACP and the Silver Award in the category of the Best Financial Report, and won a Bronze Award in the Best Printed Annual Report in the Stevie International Business Awards.

İSDEMİR RANKED THIRD AT THE ENERGY EFFICIENCY PROJECT COMPETITION HELD BY THE GENERAL DIRECTORATE OF RENEWABLE ENERGY (YEGM).

ECONOMIC AND SECTORAL ENVIRONMENT

The World Economy

Global growth continued at 3.8% in line with the average of the last 30 years.
The year 2018 turned out to be an eventful period marked by a combination of positive and negative developments in the world, Turkey and our industry. Despite the monetary tightening policies implemented by the Federal Reserve Bank in the US, along with escalating trade wars, exchange rate volatility and a depreciation in currencies, global growth continued at a rate of 3.8% - in line with the average of the last 30 years.

Despite the risks facing many countries in the world, the positive direction of those economies commanding the largest share in the global economy has played a part in this growth. However, the continued risks affecting developing countries and more pessimistic expectations regarding the global economy suggest that economic growth in 2019 will fall short of its 2018 level.

In the first half of 2018, growth projections for 2018 and 2019 for the global economy were revised down by 0.2 of a percentage point as activity in developed economies started to slow when compared to 2017.

The major risk factors that stood out in 2018 were escalating trade wars, the normalization process implemented by the European Central Bank and the Fed in the US, geopolitical developments (such as Brexit, elections and sanctions), and a slowdown in the rate of economic growth in China.

DESPITE THE ESCALATING TRADE WARS, EXCHANGE RATE VOLATILITY AND A DEPRECIATION IN CURRENCIES, GLOBAL GROWTH CONTINUED AT A RATE OF 3.8% - IN LINE WITH THE AVERAGE OF THE LAST 30 YEARS.

In the USA, where there are fears that the period of economic recovery is stuttering towards an end, interest rates are rising, corporate profits are starting to crumble and the budget deficit is rising rapidly. Although the uncertainties posed by trade wars threaten growth, USA producer and consumer confidence indices indicate that expectations remain optimistic for the coming year.

In China, the world's second largest economy, economic growth is expected to fall in a range of 6-6.5% in 2019 having declined from 6.7% in 2017 to 6.5% in 2018. The policies to be pursued by China, where growth declined to single-digit levels, in the coming period bear particular importance. In China, where government incentives work as a highly effective mechanism, the government aims to bring about a planned and controlled slowdown in its economic growth. Although China has provided significant liquidity to the market, and has implemented far-reaching infrastructure investments, a number many indicators - especially leading domestic consumption indicators - suggest that the slowdown may be deeper than what is described in the official data.

A similar slowdown is also on the cards for the European Union (EU). Economic growth in the EU - which is Turkey's largest export market - has begun to decline since the third quarter of 2017. The fact that the German economy demonstrated its slowest growth in the last five years, at 1.5% in 2018, is of critical importance for the EU.

Trade wars are expected to increase uncertainty in the global economy in 2019.
Expectations for emerging economies, which constitute another pillar of the global economy, are mired in uncertainty despite their optimism. In particular, the rise in these countries' debts in USD terms, from an amount equal to about 9% of world GDP in 2008 to 15% of world GDP in 2018 is a cause for concern. Their debt burden - amounting to USD 6 trillion - leaves developing countries highly sensitive to movements in the USD exchange rate.

On the other hand, there are some expectations that the volatility in the dollar exchange rate will decrease in 2019, with the more balanced among emerging markets once again becoming more attractive for foreign investors.

The year 2019 will be a year when the risks posed by escalating trade wars on the global economy are felt more keenly. Although the US steel industry gained some short-term benefit from the protectionist measures put in place in 2018, all economies will suffer from this situation in the long run. Therefore, in 2019, the clouds of uncertainty gathering over the global economy will only darken if such trade measures become more intense.

The developments experienced in the global economy in 2018 also affected the steel industry in a similar way. While the strong course of demand also supported steel prices along with other commodity prices, production increased on the back of increasing demand. However, the measures taken in the steel industry, especially by the USA and the EU, reached unprecedented levels, and can only negatively affect the potential for economic growth.

IN 2019, THE CLOUDS OF UNCERTAINTY GATHERING OVER THE GLOBAL ECONOMY WILL ONLY DARKEN IF THE TRADE MEASURES BECOME MORE INTENSE.

The Economy in Turkey

Turkey's economy has succeeded in posting 8 quarters of consecutive growth.
Turkey's economy grew by 7.2% in the first quarter of the year, before posting growth of 5.3% in the second quarter and continued to grow by 1.6% in the third quarter, despite the exchange rate volatility experienced in August and the developments in the global economy. After a rarely seen bout of financial volatility, Turkey succeeded in rounding off eight quarters of consecutive growth following the decline in the third quarter of 2016, which was marked by unforeseen developments.

Various indicators, which started to deteriorate in the second half of the year, suggested that the economy would contract in the last quarter of the year. In the third quarter, net foreign trade contributed significantly to growth due to the sharp contraction in imports and increase in exports, although the depletion of inventories limited the positive impact on growth. While the economy is expected to have maintained this direction in the last quarter of the year, the economy may have sustained a contraction in the fourth quarter.

The year 2018 was a record-breaking year in exports, reaching USD 168,077 million - the highest annual level ever recorded in the history of the Republic. Production in export-oriented companies was affected at a limited rate from the contraction in domestic demand by receiving support from the global economic activity.

Pressures on Turkey's economy, which emerged especially in the second half of the year, are expected to continue into the beginning of 2019, whereas fiscal discipline, a tight monetary policy and economic mobility are expected to remain below their potential levels in the upcoming year.

USD 168.8 BILLION

THE YEAR 2018 WAS A RECORD-BREAKING YEAR IN EXPORTS, REACHING USD 168,077 MILLION - THE HIGHEST ANNUAL LEVEL EVER RECORDED IN THE HISTORY OF THE REPUBLIC.

The World Steel Industry

Global steel demand continued to grow in 2018 due to infrastructure investments in developed countries and an improved economic performance in developing countries. While the strong course of demand also supported steel prices along with other commodity prices, production also increased in parallel with demand. However, the measures taken in the steel sector, especially by the US and the EU, reached unprecedented levels.

According to data released by the World Steel Association, world crude steel production increased by 4.5% YoY in 2018 to reach 1.8 billion tonnes.

The World Steel Association had expected an increase of 4% in consumption for 2018, and forecasts that global demand will grow by 1.4% in the upcoming year. An analysis of the growth rates of global steel consumption in the last five years finds that the rate of growth achieved in the early 2000s could not be sustained.

More balanced market conditions are expected to direct the steel industry in 2019 and 2020 along with the developments in the global economy. The course of the global economy appears to be supportive of an increase in world steel consumption, albeit a limited one. Steel consumption had been expected to contract in South Korea, Turkey and Mexico - which make up only 4% of world GDP - in 2018, whereas no countries are expected to exhibit a contraction in consumption in 2019.

With annual steel exports of 100 million tonnes in 2015 and 2016 due to the glut of excess capacity resulting from weakening domestic demand, China's steel exports declined by 8% YoY to 69.5 million tonnes in 2018 on the back of strong domestic demand as well as capacity and production controls. As the biggest player in the sector, China saw its growth decline to single digit levels and the policies to be undertaken in China in the coming period will have an important bearing on the extent that the country presents as much of a challenge to the sector as it has in the recent past. The Chinese steel industry, which has reduced its capacity to 150 million tonnes since 2015, is not expected to pose serious problems for the global industry, and China is not expected to pursue an aggressive export policy, provided the growth in domestic demand remains under control.

World Crude Steel Production Country Ranking

	Countries	2018 (thousand tons)	2017 (thousand tons)	% change
1.	China	928,264	870,855	6.6
2.	India	106,463	101,457	4.9
3.	Japan	104,328	104,661	-0.3
4.	USA	86,698	81,612	6.2
5.	South Korea	72,463	71,030	2.0
6.	Russia	71,680	71,490	0.3
7.	Germany	42,440	43,297	-2.0
8.	TURKEY	37,312	37,524	-0.6
9.	Brazil	34,735	34,357	1.1
10.	Iran	25,000	21,236	17.7
11.	Italy	24,475	24,068	1.7
12.	Taiwan, China	23,230	22,438	3.5
13.	Ukraine	21,100	21,332	-1.1
14.	Mexico	20,110	19,924	0.9
15.	France	15,391	15,505	-0.7
	World *	1,789,612	1,712,481	4.5

* The 64 countries supplying data to the worldsteel accounted for about 99% of total world crude steel production in 2017.

The Steel Sector in Turkey

Turkey's steel consumption, which contracted by 45% according to the average of the seven-month period after July 2018, stood at 31 million tonnes in 2018, contracting by 15% YoY. On the back of the decline in domestic demand in 2018, Turkey's total steel exports of flat and long products grew by 24%.

While Turkey's steel exports increased in volume terms in 2018, there was a shift in terms of the regional distribution. As protectionist measures were initiated by the USA, exports of flat products to the NAFTA market decreased, while exports to the EU and MENA markets increased. As a result of the decision taken at the end of 2016 for Turkish producers to carry out fair trade in flat products and the initiation of anti-dumping measures against some steel exporters, Intra-region production became insufficient to meet the intense demand for steel and Turkey's exports of steel to the EU exceeded 4 million tonnes in 2018.

In the long products sector, the additional 50% import duty imposed by the United States, placing Turkey at a more disadvantageous position than other countries, along with protectionist measures negatively affected exports from Turkey to the USA. On the other hand, exports to non-NAFTA regions - which traditionally have been to the MENA and EU regions - took on a more balanced structure. As a result, the decrease in consumption in 2018 was compensated by record-breaking exports, staving off a decline in Turkey's steel production.

TURKEY'S TOTAL STEEL EXPORTS OF FLAT AND LONG PRODUCTS ROSE BY 24% ON THE BACK OF DECLINING DOMESTIC DEMAND IN 2018.

While the year could be described as a difficult one due to the adverse conditions experienced globally and the volatility arising from the shifts in exchange rates particular to Turkey, it could also be claimed that Turkey's steel industry posted a positive performance in 2018. Steel consumption in Turkey has grown in a manner that has matched its potential in recent years. The economic decline seen since the second half of 2018, and its effects into 2019 notwithstanding, steel consumption is expected to sustain its upward trend in the coming years, driven by Turkey's strong potential arising from its demographic structure.

The critical issue for our country is that the increase in steel consumption is met through our own internal resources, not imports. At a time when even developed countries have taken serious measures to protect their steel industries, the lack of sufficient protection for Turkish producers is unsustainable. Although steel imports were affected by the decline in consumption in 2018 and exhibited some slowdown, the fact that imports maintain their share in our steel consumption, and have even increased to a certain extent, is a situation which warrants careful examination. At a time when both the construction and manufacturing sectors - the driving forces of steel consumption - have contracted, the share of imports in steel consumption would have been expected to decrease significantly. This is despite the fact that domestic steel producers are able to meet all domestic and export needs in all steel product groups, especially in terms of capacity which has increased in recent years, their long-term experience and technological competence.

The year 2019 is expected to be marked by increased protectionist measures in our sector around the world, with countries now set to pursue policies where they meet their domestic consumption through their own resources. At this point, the steps to be taken by Turkey will be of vital importance for our industry.

Expectations for 2019

Despite the risks in emerging economies, the global economy is forecasted to grow by around 3%, with Turkey's economy on course to grow by 2.3% in 2019. China is expected to maintain its economic growth at a projected rate of 6.2% in 2019, with steel exports expected to come in at around 70 million tonnes - a similar level to this year (2018).

Global capacity utilization rates are forecasted to remain near 75% as a result of the continued growth in steel production on the back of the expected 1% growth in global steel consumption. Pressure on emerging economies and steel consumption is expected to continue because of the growth rate, inflation and interest rates in the USA.

As we head into 2019, adaptation to the rapidly changing market conditions is becoming increasingly important. The most pressing issue for the sector comes from trade wars. Turkish manufacturers, who believe in fair competition within the framework of the World Trade Organization's rules, are treated unfairly in many parts of the World, but they continue their struggle.

We are witnessing increased intra region trade, due to the effects of protectionist measures. However, there has been no radical decline in trade outside the regions. Foreign trade is expected remain at similar levels in 2019.

75%

GLOBAL CAPACITY UTILIZATION RATES ARE EXPECTED TO REMAIN AT AROUND 75% IN 2019.

FORESIGHT

KASPAROV

GARRY KASPAROV
WORLD CHAMPION: 1985 - 1993
PCA (PROFESSIONAL CHESS ASSOCIATION)
WORLD CHAMPION: 1993 – 2000

Kasparov is the player with the highest rating (rating of 2851, July 1999) ever known in chess and the player who maintained the number 1 position for the longest duration. He took part in the Olympics eight times and won gold in all of them. He is the only player to have won the Chess Oscar 14 times. He is the holder of another record in all the tournaments he took part in between 1981-1990, as winner or the winner with the equivalent score.

Kasparov is a champion who has contributed to chess in different aspects. Since the 1990s, he took an interest in computers that have started to give direction to modern chess. Since 1989, he has represented people against the best computers in the world.

FORESIGHT

“THIS IS A BASIC ELEMENT, WHICH CANNOT BE MEASURED BY ANY ANALYSIS OR DEVICE, AND I BELIEVE THAT IT IS AT THE HEART OF EVERY SUCCESS - THE POWER OF FORESIGHT AND THE TALENT OF DEPLOYING IT LIKE A MASTER.”

GARRY KASPAROV

OYAK MINING METALLURGY GROUP CONTINUES ITS STEADY GROWTH THANKS TO ITS ABILITY OF FORESEEING AND PERCEIVING THE VOLATILITIES IN THE DOMESTIC AND GLOBAL MARKETS WELL, AND MANAGING RISKS EFFICIENTLY.

9.145 MILLION TONS

OYAK MINING METALLURGY GROUP PRODUCED 9.145 MILLION TONS OF CRUDE STEEL IN 2018,

OYAK MINING METALLURGY GROUP CLOSELY MONITORS DEVELOPMENTS IN THE AREAS OF NEW PRODUCT DEVELOPMENT AND TECHNOLOGY IN ORDER TO MAINTAIN ITS COMPETITIVE EDGE, AND DRAWS UP STRATEGIES WHICH WILL BEST MEET THE NEEDS OF THE FUTURE.

PRODUCTION AND SALES

OYAK Mining Metallurgy Group continues its efforts to create added value through sustainable profitable growth, increased productivity and lower costs.
Having strengthened its leading position by realizing our country's most important investment projects, OYAK Mining Metallurgy Group closely monitors developments in the areas of new product development and technology in order to maintain its competitive edge, evaluating opportunities in the markets and drawing up strategies which will best meet the needs of the future.

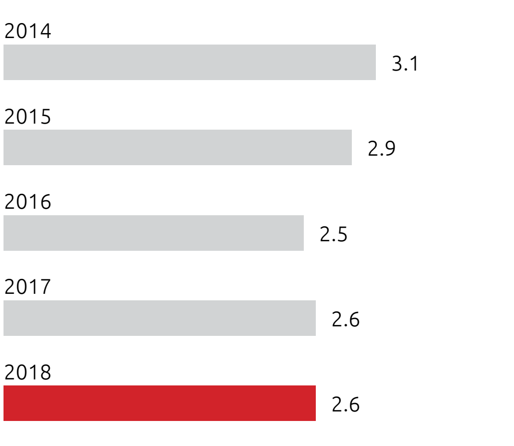
The Group performed in parallel with its targets in 2018.

A total of 9.145 million tons of crude steel produced in 2018.
OYAK Mining Metallurgy Group, which produced 9.145 million tons of crude steel in 2018, single-handedly realized approximately 25% of Turkey's crude steel production.

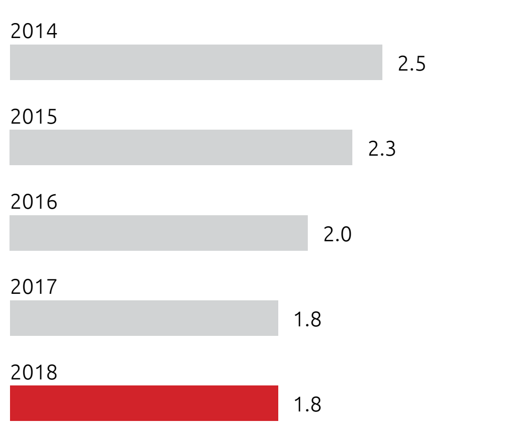
Erdemir and İsdemir achieved high capacity utilization rates of 97% in 2018.

OYAK MINING METALLURGY GROUP, WHICH CONTINUED ITS EFFORTS TO INCREASE PRODUCTIVITY AND CREATE ADDED VALUE AT LOWER COSTS, REALIZED APPROXIMATELY 25% OF CRUDE STEEL IN TURKEY ALONE.

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



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



Production by Year (thousand tons)

Production (thousand tons)	2014	2015	2016	2017	2018
Hot Metal	7,695	8,077	8,369	8,389	8,351
Ereğli	3,413	3,438	3,295	3,270	3,078
İskenderun	4,282	4,639	5,074	5,119	5,273
Liquid Steel	8,693	9,122	9,373	9,392	9,322
Ereğli	3,846	3,894	3,707	3,672	3,482
İskenderun	4,847	5,228	5,666	5,720	5,840
Crude Steel	8,493	8,930	9,185	9,203	9,145
Ereğli (Slab)	3,732	3,779	3,601	3,565	3,387
İskenderun (Slab)	3,631	3,570	4,004	4,300	4,746
İskenderun (Billet)	1,130	1,581	1,580	1,338	1,012
Flat Steel	6,954	7,400	7,071	7,713	7,743
Ereğli (Tin Plate)	255	235	249	264	225
Ereğli (Galvanized)	305	319	324	329	334
Ereğli (Cold Rolled)	1,186	1,266	1,208	1,230	1,142
Ereğli (Hot Rolled)	2,020	2,206	2,125	2,293	2,216
Ereğli (Plate)	348	334	292	346	405
İskenderun (Hot Rolled)	2,840	3,040	2,873	3,127	3,399
İskenderun (Slab-Non-Group)				124	22
Long Steel	1,153	1,563	1,572	1,328	980
Billet	589	1,022	987	688	432
Wire Rod	564	541	585	640	548
Iron Ore	2,666	2,422	2,106	1,996	1,770
Pellet	1,550	1,547	1,565	1,501	1,513
Other	1,116	875	541	495	257

7.7 MILLION TONS

OYAK MINING METALLURGY GROUP'S TOTAL FINISHED FLAT STEEL PRODUCT PRODUCTION STOOD AT 7.7 MILLION TONS.

1 MILLION TONS

THE GROUP PRODUCED 1 MILLION TONS OF FINISHED LONG PRODUCT IN 2018, INCLUDING 0.4 MILLION TONS OF BILLET AND 0.6 MILLION TONS OF WIRE ROD.

Flat Steel Production
In 2018, Erdemir produced 4.3 million tons of flat products, of which 2.6 million tons were hot rolled products and 1.7 million tons were cold rolled products, while İsdemir produced 3.4 million tons of hot rolled products. The Group's total finished flat steel product production stood at 7.7 million tons. Erdemir Romania produced 97 thousand tons of silicon flat steel in 2018.

Long Steel Production
OYAK Mining Metallurgy Group produced 1 million tons of finished long product in 2018, including 0.4 million tons of billet and 0.6 million tons of wire rod.

Iron Ore Production
In 2018, Erdemir Maden produced 1.5 million tons of pellet while total production including other products (lump ore, fine ore and pellet cake) reached nearly 1.8 million tons.

Steel Service Center
Ersem achieved sales of 1.1 million tons in 2018, including 396,000 tons of unprocessed products and 680,000 tons of processed products.

Port Services
Handling services for 26.1 million tons were provided at OYAK Mining Metallurgy Group ports in 2018, including nearly 2.2 million tons of handling to third parties. The group recorded USD 15.9 million of revenue from Port Services.

Of the 10.5 million tons of handling services carried out at the Erdemir Port, 621,000 tons was destined for third parties. The volume of handling in 2018 was the second highest recorded in the last 9 years. A total of USD 6.6 million was earned from these services.

Of the 15.6 million tons of products handled at the İsdemir Port, 1.6 million tons were provided to third parties. Total revenue from such services totaled USD 9.3 million.

Breakdown of Flat Steel Domestic Sales (%)

- Pipe Profile and Re-Rolling **51%**
- General Manufacturing Industry **19%**
- Distribution Channels **17%**
- Automotive **13%**

Breakdown of Long Steel Domestic Sales (%)

- Construction Steel and Profile Manufacturers **43%**
- High Carbon and Special Qualities **33%**
- General Manufacturing Industry **24%**

Customer portfolio continued to expand.
OYAK Mining Metallurgy Group sold 8.4 million tons of final products in 2018, with 7.5 million tons of these sales being flat and 0.9 million tons being long products. Continuing to meet the expectations of its customers at the highest level, the Group added 40 new customers to its portfolio in 2018, 14 of which were customers of long products and 26 being customers of flat products.

OYAK Mining Metallurgy Group continued to develop its product range in line with customer expectations with new grade and product development activities for end-users. In 2018, the Group added 18 new grades in its flat steel product range and 11 new grades in its long steel product range.

OYAK Mining Metallurgy Group continues to be a preferred supplier abroad as well. The Group reached 200 different customers in 50 countries, exporting 1.6 million tons of products.

CONTINUING TO MEET THE EXPECTATIONS OF ITS CUSTOMERS AT THE HIGHEST LEVEL, THE GROUP ADDED 40 NEW CUSTOMERS TO ITS PORTFOLIO IN 2018, 14 OF WHICH WERE CUSTOMERS OF LONG PRODUCTS AND 26 BEING CUSTOMERS OF FLAT PRODUCTS.

SALES (thousand tons)	2014	2015	2016	2017	2018
Flat Finished Product	6,933	7,229	7,163	7,594	7,482
Ereğli (Tin Plate)	258	244	248	267	221
Ereğli (Galvanized)	79	63	47	63	64
Ereğli (Cold Rolled)	974	926	936	919	880
Ereğli (Hot Rolled)	1,736	1,884	1,757	1,802	1,710
Ereğli (Plate)	333	311	267	343	370
İskenderun (Hot Rolled)	2,846	2,841	2,843	2,908	3,142
İskenderun (Slab)	-	-	-	123	19
Ersem (Galvanized)	221	263	272	289	259
Ersem (Cold Rolled)	256	348	357	370	327
Ersem (Hot Rolled)	230	349	436	510	490
Long Finished Product	1,163	1,552	1,587	1,364	919
Billet	625	998	999	717	395
Wire-Rod	538	554	588	647	524
Iron Ore	2,853	2,285	2,174	2,052	1,880
Pellet	1,538	1,532	1,547	1,485	1,510
Other	1,315	753	627	567	370

Notes:
- Romania is included in Ereğli Cold sales.
- Erdemir Maden sales include intra-group sales.

The main objective of the purchasing activities is to keep required product groups ready at optimum time intervals.
The purchasing conditions of raw materials and semi-finished products required for steel production processes are determined in international markets and each product has its own conditions and market formation. Purchasing activities are designed by taking into consideration the elements that cover all of these conditions. The follow-up and purchase of each product is carried out by specialized teams on the market for each product.

The continuity of integrated production is considered essential. For this purpose, keeping the product groups ready at optimum time intervals is one of the key targets of the purchasing activities. Therefore, purchasing activities include not only product procurement but also comprehensive planning and operational processes.

In line with the objectives of OYAK Mining Metallurgy Group, supply costs and stock levels are kept to a minimum, while critical material availability is ensured. In addition to raw material logistics, the logistics processes of the final products to be delivered to customers are also carried out by the purchasing unit. Nonetheless, some services, such as consultancy, personnel training and supervision, are also included among the purchasing activities.

Supporting domestic suppliers always a priority issue in group strategies
Many raw material suppliers could not provide the desired quantities of products in 2018 for various reasons, such as natural events, strikes, accidents and failures. The missing products had to be provided from alternative sources, thus ensuring the successful continuity of steel production. The relevant units of OYAK Mining Metallurgy Group, which work to a core strategy of working with a variety of suppliers, continue to seek new suppliers and minimize supply risks.

Supporting domestic suppliers has always been a priority issue among group strategies. In this context, in addition to the purchase of raw materials such as iron ore, coal and limestone, other products such as steel scrap, ferro-alloy materials, refractory products, spare parts and production machines, and some special production equipment are sourced from domestic suppliers to the maximum extent possible.

The purchasing unit is a strategic interface between production and suppliers, ensuring that the products or services to be purchased are provided on time, in the most appropriate conditions. These activities, which are not limited only to commercial elements, include planning, quality, logistics and even investment processes, so play a very important role among all integrated processes.

IN LINE WITH THE OBJECTIVES OF OYAK MINING METALLURGY GROUP, SUPPLY COSTS AND STOCK LEVELS ARE KEPT TO A MINIMUM, WHILE CRITICAL MATERIAL AVAILABILITY IS ENSURED.

SUPPORT

SUPPORTING DOMESTIC SUPPLIERS IS ALWAYS A PRIORITY ISSUE IN GROUP STRATEGIES.

OYAK Mining Metallurgy Group aims to develop value-added products by taking into consideration the expectations and needs of its customers and the desire to make a difference with its products and services. In this context, focusing on innovation and new product projects, the Group attaches tremendous importance to R&D.

Erdemir R&D Center continues its successful works as a first in its sector.
The R&D center works to manufacture competitive, high value added new products at affordable cost, to investigate sources of alternative raw materials, to determine cost-cutting alternative materials and technologies and to ensure the more efficient use of raw materials and energy resources.

As the first R&D Center in the Turkish steel sector to be approved by the Ministry of Industry and Technology, the Erdemir R&D Center successfully completed the ministry audit conducted for the 3rd activity period.

The R&D center moved from the campus located on the factory site to a separate campus, independent of the facilities, within the Ereğli region, in order to expand its laboratory infrastructure in 2018. In this new campus, two comprehensive laboratories for raw material R&D and Product Development R&D infrastructures have been established. Most of the construction work for the project has been completed and the installation of simulators and devices for R&D activities has got underway.

More competitive products introduced to the market in 2018 through improvements in production processes.
The R&D Center, which carries out its activities under four main groups - Hot Rolled Product and Process, Cold Rolled Product and Process, Steelmaking and Casting Technologies, Raw Materials and Ironmaking - completed 30 projects in 2018, and work on 31 projects continues.

THE ERDEMİR R&D CENTER - THE TURKISH STEEL INDUSTRY'S FIRST R&D CENTER TO BE APPROVED BY THE MINISTRY OF INDUSTRY AND TECHNOLOGY OF THE REPUBLIC OF TURKEY - CARRIES OUT STUDIES TO PRODUCE NEW HIGH VALUE-ADDED PRODUCTS AT LOW COST.

More competitive products are being introduced to the market by providing cost advantages through the improvements made in production processes by the R&D center. In addition, activities related to recycling of waste produced in the production processes continued.

The entire simulation infrastructure of the Erdemir R&D center is planned to be completed in 2019. Installation and assembly work on the experimental sinter simulator, for which the purchase process has been finalized, was completed in 2018. Numerous blend modeling studies will be carried out through this simulator which will enter operation shortly. At the same time, a vibrating sieve, crusher, drum, mixer, pelletizing drum and fragmentation test instruments, which form the auxiliary test equipment of the simulator, were brought into the infrastructure of the "Raw Materials and Iron Production Simulation Laboratory". In addition, the process of purchasing the Coke test oven, which will enable mass equivalence studies of Coke by-products, continues.

The installation and assembly work of the 150 kg capacity vacuum induction furnace and 350 kg capacity open induction furnace, which were purchased in melting and casting laboratories, has been completed.

Installation and commissioning of the hot-dip galvanizing simulator was carried out in 2018. This simulator is capable of coating high performance heating, annealing, cooling and hot dipping in different chemical compositions and working under the same atmospheric conditions as industrial continuous galvanization lines. With this simulator, which is actively used in existing product improvement and new product development studies, Erdemir's continuous galvanization lines will be optimized with innovative process parameters. The hot-dip galvanizing simulator will shorten

MORE COMPETITIVE PRODUCTS ARE BEING INTRODUCED TO THE MARKET BY PROVIDING COST ADVANTAGES THROUGH THE IMPROVEMENTS MADE IN PRODUCTION PROCESSES BY THE R&D CENTER. IN ADDITION, ACTIVITIES RELATED TO RECYCLING OF WASTE PRODUCED IN THE PRODUCTION PROCESSES CONTINUED.

the duration of R&D studies as well as limiting production losses by minimizing the number of trials to be performed on the field scale. Furthermore, the cold rolling simulator, for which installation work started in the last quarter of 2018, is expected to be completed in the first 6 months of 2019.

Detailed engineering works of the hot rolling simulator were completed in July 2018 and field installation work is planned to start in the first half of 2019. The equipment is scheduled to be commissioned at the end of the year.

Life Cycle Assessment work initiated.
Life Cycle Assessment work has been initiated in Erdemir's processes at the R&D center. This method will determine the environmental performances of the main production processes.

High-level laboratory equipment commissioned.
The installation of the device, which has been purchased in order to obtain more detailed analysis of the residues affecting the properties of steel (such as elemental property, size, type, type and distribution) in the steel production process and to obtain detailed information concerning steel cleaning, has been completed and analytical work has got underway. A "Spectral Analysis and X-ray Laboratory" and a "Sample Preparation Laboratory" has been established, including X-ray diffraction and X-ray fluorescence spectrometer devices, which will carry the depth and quality of the material characterization studies to higher levels. All devices have been activated.

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

Water jet, wire erosion devices and Brinell hardness devices have been added to the laboratory infrastructure for the development of high-strength heat-treatable steels and advanced high-strength steels.

On the other hand, with the provision of additional equipment and test apparatus for the devices in the metal forming laboratory, the skills related to coating and coating thickness measurements were acquired and springback tests were performed.

An experimental enamel coating system was created to determine the coating properties of Erdemir enameled steel grades, the development of new steel qualities with high coating performance for the needs of the white goods sector, and customer-oriented joint projects.

LIFE CYCLE ASSESSMENT WORK HAS GOT UNDERWAY TO DETERMINE THE ENVIRONMENTAL PERFORMANCE OF THE MAIN PRODUCTION PROCESSES IN ERDEMİR'S PROCESSES AT THE R&D CENTER.

30 PROJECTS

30 PROJECTS WERE COMPLETED IN 2018 AND 31 PROJECTS ARE CONTINUING IN THE R&D CENTER WHICH CARRIES OUT ITS ACTIVITIES UNDER FOUR MAIN GROUPS.

Training activities carried out to ensure continuous development of employees.
The Erdemir R&D Center, which places importance on the continuous development of its employees, conducts training activities in light of current technological developments. In 2018, 24 training programs were given on various technical subjects specific to the needs of employees. Employees were encouraged to continue their doctoral and postgraduate education. The R&D Center completed the year 2018 with a total of 52 employees including two employees with a doctorate, 11 doctoral students, 10 employees with a post graduate degree, five postgraduate students, 13 employees with a bachelor's degree, one associate degree student and six employees with an associate degree or high school education.

R&D Center employees participated in mining and metallurgy sector in events organized in the national/international arena during 2018, with a total of six new papers, all of which were in international events. The Erdemir R&D Center contributed to the promotion of the Group and accumulation of intellectual capital by participating in a number of events with a total of 58 papers after approval by the Ministry. Forty-six of the papers were given in international events.

Total of five registered patents/utility models in OYAK Mining Metallurgy Group
Six patents and three utility model applications were submitted in response to proposals for inventions from Group employees. Registration processes are continuing for a total of 20 applications, including nine patents/utility models, for which applications were made.

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

New products add to the range of quality products.
OYAK Mining Metallurgy Group, which places priority on enhancing productivity and cost-cutting factors in product development activities, carries out intensive activities to develop and manufacture high value-added products for a wide range of sectors including the automotive and white goods sectors.

New high-strength grades specific to the automotive sector were developed and efforts to reduce the dependence of domestic companies on imports continued in 2018.

During the year, 18 new steel grades were developed within the scope of existing and new product development activities carried out jointly by the R&D and Quality Technology departments. Nine hot, two cold and seven galvanized grades were offered for sale. The number of flat steel product grades offered for sale by OYAK Mining Metallurgy Group reached 479. Work on the development of three grades for galvanized products and one grade for cold rolled products is continuing. The total number of long product grades increased to 293 with the 11 new grades offered for sale as long products. Work to improve wear-resistant and heat treatment steels will continue intensively throughout 2019.

THE ERDEMİR R&D CENTER PROVIDES EDUCATIONAL PROGRAMS WHICH ARE KEPT UP-TO-DATE WITH ALL OF THE LATEST TECHNOLOGICAL DEVELOPMENTS. A TOTAL OF 24 TRAINING PROGRAMS WERE OFFERED TO EMPLOYEES ON DIFFERENT TECHNICAL SUBJECTS IN 2018.

18

18 NEW STEEL GRADES WERE DEVELOPED IN 2018 THROUGH THE JOINT EFFORTS OF THE R&D AND QUALITY TECHNOLOGY UNITS.

Erdemir laboratories continuing to work in accordance with TS EN ISO/IEC 17025 standard

Erdemir Test Laboratories completed their Participation in Proficiency Tests, Internal Quality Control and Measurement Uncertainty studies within the scope of the TS EN ISO / IEC 17025 standard technical requirements, related to the tests/analyses to be applied for expansion of their scope in 2019, in the TÜRKAK document renewal audit.

Following the TS EN ISO/IEC 17025 standard re-certification audit at the end of 2017, the Erdemir Calibration Center was granted the new accreditation certificate valid for a further 4 years on March 15, 2018. TÜRKAK will conduct checks every year to ascertain whether compliance with the audits has been maintained. In addition to the existing coverage, accreditation expansion audits will be carried out in the areas of Scale Calibration (Euramet cg.18) and Stove-Furnace Calibration (Euramet cg.20) during 2019.

Exploration and reserve development activities carried out at Erdemir Maden

A total of 11,871 meters of open fields and 2,603.5 meters of underground exploration and reserve development work was carried out in order to increase the existing reserves and find new reserves in Erdemir Maden's quarries in Divriği. As a result of these explorations, a total of 9,057,332 tons of new operational magnetite ore reserves were found, in addition to the existing reserves as of 2017. A total of 737.29 hectares of Geophysical (ha) (gravity + magnetic) study was carried out in the license fields in 2018. As a result of the geological, geophysical and drilling exploration studies carried out in 2018 and the new found reserves, the lifespan of the Divriği Concentration and Pelletizing Plant, which was set to end in 2026, was extended to 2029.

A geological detail survey, a geophysical survey, drilling and reserve development activities will continue in the Malatya-Hekimhan-Hasançelebi, Bingöl-Genç-Avnik, Sivas-Divriği-Ekinbaşı and Denizli-Tavas-Ulukent fields during 2019.

INNOVATION

DEEPER BLUE

DEEPER BLUE
THE WORLD CHAMPION: MAY 11, 1997

Garry Kasparov, known by many as the best player in the history of world chess, agreed to challenge himself to a game against Deeper Blue, IBM's chess computer. Kasparov, who won his first game against the computer in 1996, left the impression that a computer could never be smarter than a human.

On May 11, 1997, Deeper Blue defeated Garry Kasparov. Kasparov objected to the result, claiming there was human intervention in a move played by the computer, but it still remains unproven as to who was right.

The fact that Kasparov defeated Deeper Blue in the first game shows that even though the computer can calculate millions of moves in a second, the place of the human being is always different, since the computer cannot assess this data as well as a human being.

INNOVATION

"THE OPERATIONS PERFORMED BY THE NEXT GENERATION OF COMPUTERS CONSIST OF FOLLOWING THE ALGORITHMS THAT ARE CREATED BY PEOPLE."

FOCUSING ON INNOVATION AND NEW PRODUCT PROJECTS, OYAK MINING METALLURGY GROUP DEVELOPS VALUE ADDED PRODUCTS AND SETS ITSELF APART WITH ITS PRODUCTS AND SERVICES.

INVESTMENTS

OYAK Mining Metallurgy Group's investment activities continue in line with its strategy of continuous development.
In 2018, OYAK Mining Metallurgy Group continued work on its investments in integrated iron and steel plants with modern facilities which manufacture competitive products in line with its strategy of continuous development.

The investment activities of OYAK Mining Metallurgy Group companies are carried out by Erdemir Mühendislik. Erdemir Mühendislik, which has set out strategic goals of providing the Group with the lowest total cost of ownership and productive and innovative solutions in all projects, continues to deploy the latest technologies in its services, in line with the needs of OYAK Mining Metallurgy Group companies. Erdemir Mühendislik aims to create more value with fewer resources, and implements a project management approach in line with a "zero accident" philosophy by creating healthy and safe working environments.

In 2018, a total of 33 investments were ongoing at Erdemir and İsdemir. Six of these projects were launched in 2018 and six of them were completed in 2018.

Completed Investments

Construction of No. 4 Stove for No. 1 Blast Furnace at Erdemir
After the No. 1 Blast Furnace was renewed to production of 1,750,000 tsm / year without changing the stove capacities, the maintenance of the stoves was aimed to be taken care of gradually and a new stove was built to prevent loss of production in the No.1 Blast Furnace.

Erdemir Dynamic UPS with Diesel Generator, Dynamic UPS Distribution Panels Project
The project aims to supply the salt water needs of the critical plants and meet the minimum salt water required for electricity generation in the event of a power cut with the addition of an additional 1,000 kVA diesel generator DUPS to the salt water pumping station.

IN 2018, A TOTAL OF 33 INVESTMENTS WERE ONGOING AT ERDEMİR AND İSDEMİR. SIX OF THESE PROJECTS WERE LAUNCHED IN 2018 AND SIX OF THEM WERE COMPLETED IN 2018.

In addition, instead of the classical UPSs in the Power Plant, the project is aimed at ensuring the uninterrupted operation of the turbo blowers, turbo generators and steam boilers by purchasing a single and central DUPS with a 750 kVA diesel generator.

Erdemir CPL No. 2 Welding Machine with Side Trimmer and Scrap Cutting Unit Revamping Project
This project was aimed at preventing the risk of long-term interruption while achieving a partial capacity increase and improved edge cutting quality by renewing the Welding Machine with Side Trimmer and Scrap Cutting Unit. The project was completed in December 2018.

Erdemir New Roll Texturing Machine Project
In order to sustain production of the Cold Rolling Mill, the project, which covers the provision of a new Roll Texturing Machine in place of the previous Sarclad brand EDT Bench, was completed in 2018.

İsdemir 8th Air Separation Plant
The testing and commissioning of the 8th Air Separation Plant Project, which was built under the partnership between İsdemir and Linde, in order to increase İsdemir's oxygen, nitrogen and argon production capacity and achieve fuel savings by allowing increased oxygen injections into the blast furnaces, was completed towards the end of the year and the plant entered operation in 2018.

İsdemir Environmental Investment Projects
The Environmental Investment Package, which was established in order to support the execution policy of all processes in accordance with the law, and to create value for the stakeholders with a responsible and accountable management approach, was completed.

Ongoing Investments

Erdemir No. 2 Continuous Galvanizing Line Project
The commissioning of the "No.2 Continuous Galvanization Line" project, which is especially suitable for the automotive industry, offering high technological properties where high-quality special productions can be realized, is ongoing.

Erdemir R&D Center and Simulation Center Project
The main purpose of establishing an R&D Simulation Center is to determine the R&D projects that will create value in OYAK Mining Metallurgy Group and the continuation of these projects in order to achieve the targeted results. Raw material and product development activities will be carried out within the scope of the project.

The raw material studies are aimed at the recycling of wastes, determining lower-cost alternative materials and technologies and to develop processes. The product development studies, on the other hand, are aimed at developing new steel grades, determining the production process parameters of the new grades, designing technical suggestions for the solution of problems which may arise during the production process, and the use of new products.

Construction work within the scope of R&D Simulation Center Project, which is planned to be completed by the end of 2019, was completed. Work on the manufacturing, shipping and assembly of the simulators continues.

THE MAIN PURPOSE OF THE R&D SIMULATION CENTER IS TO DETERMINE THE R&D PROJECTS THAT WILL CREATE VALUE IN OYAK MINING METALLURGY GROUP AND THE CONTINUATION OF THESE PROJECTS IN ORDER TO ACHIEVE THE TARGETED RESULTS.

Erdemir 60 MW Turbo Generator and No. 6 Steam Boiler
The No. 6 Steam Boiler project aims to produce steam by maximizing the use of blast furnace gas more efficiently. The engineering work being undertaken by the technology provider is in progress.

A new 60 MW Turbo Generator is planned to be purchased in place of the No.1, 2, and 3 turbo generators. The new Turbo Generator is set to increase operational safety in electricity generation. The evaluation of proposals regarding the purchase continues.

Erdemir Environmental Investment Projects
At Erdemir, Environmental Investment Projects are carried out in order to carry out in all processes in accordance with the law, creating value for stakeholders, with a responsible and accountable management approach.

İsdemir Electrical Station (Electrical Arc Ladle Furnace) - Dedusting & Water Cooling Systems Modernization
Field studies and cold test studies have been carried out and work requiring production halts have been completed in the project which aims to increase the capacity of the dust collecting and water cooling system of the secondary metallurgy electric pot station in the steel mill by combining the chemical heating station (IR-UT) with the dust collecting unit.

İsdemir Slab Casting Mould Level Control System Modernization
The manufacture of equipment and shipping continues in the project which aims to replace the old system with a new electromagnetic mould level measurement and electric stopper system, and provide a more modern and safer system.

Other Projects Whose Field Applications Have Been Continuing

- Erdemir Raw Material Stocking and Blending Yard Modernization Project
- Erdemir - Modernization of Converter Slag Stopper System Project
- Erdemir Levels 1 and 2 of the modernization Completion Project for Steel Production Facilities
- Erdemir Cold Rolling Mill Picking Tandem Line (CPL-TCM) Product Range and Capacity Increase Project
- Erdemir - Surface Inspection Systems Project
- Erdemir - Energy Distribution Systems Additional Investments Project
- Erdemir - Various Fire Detection and Extinguishing Systems Project
- Erdemir New Coastal Protection Structure Project
- Erdemir No. 2 Hot Rolling Mill Quality and Sustainability Investments Project

Projects for Which the Purchasing Process Is Ongoing

Erdemir New No. 4 Coke Battery
The aim of the project is to decommission Erdemir's first and second Coke Batteries, which are about to complete their environmental and economic life, and to construct a new battery. In addition, the modernization of by-product facilities serving all batteries is also included in the project. The battery cars of the existing No. 3 Coke Battery are also planned to be renewed within the scope of this project. Purchasing work related to the project continues.

AT ERDEMİR, ENVIRONMENTAL INVESTMENT PROJECTS ARE CARRIED OUT IN ORDER TO CARRY OUT IN ALL PROCESSES IN ACCORDANCE WITH THE LAW, CREATING VALUE FOR STAKEHOLDERS, WITH A RESPONSIBLE AND ACCOUNTABLE MANAGEMENT APPROACH.

Erdemir New Wide Inspection Recoil Line Project
The aim of this investment is to carry out inspection and sorting processes for the production of steels with a width of over 1,550 mm at the No.2 Galvanizing Line, which will produce at the high surface quality required to serve the automotive sector. Purchasing work related to the project continues.

İsdemir Renovation of No. 3 Coke Battery
In view of the Group's need for coke, the Company aims to modernize the İsdemir No. 3 Coke Battery, which is currently closed. The project also aims to increase by-product sales profit and achieve energy savings by increasing electricity generation through the use of leftover coke oven gas.

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

İsdemir New Coke Gas Gasometer
Following technical studies carried out on the existing gasometer, İsdemir plans to build a "New Coke Gas Gasometer".

The project is in the process of evaluating proposals.

İsdemir South Port 1st Phase Construction Works Back Field Filler
Work on the South Port backfill continues in line with the plan submitted to the Ministry of Environment and Urbanization.

New Investments

Erdemir 2. Blast Furnace Renovation Project
In response to the need for relining of the No.2 Blast Furnace, it is aimed to renew the blast furnace at the lowest cost while keeping losses in production to a minimum.

Erdemir New Slab Grinding Machine Project
The project aims to fully meet the needs, increase production performance and reduce yield losses by eliminating the capacity shortage of the existing scarf machine in the No.2 Hot Rolling Mill.

İsdemir Steel Mill A-B Hall New 350T Crane Purchase
The aim here is prevent the loss of production in the steelworks and to ensure continuity of production in the event of failure of the two cranes which handle the charge ladles carrying liquid crude iron at the İsdemir Steel Plant.

İsdemir No.1 Blast Furnace Project
The project aims to increase sales revenues by raising volumes of the final product, achieved through an increase in the furnace volume, an increase of the production of liquid raw iron and through conversion of the increased blast furnace gas into the electricity generation, while preventing losses resulting from the relining of the No.3 Furnace.

Investment projects for which a decision to start work was taken in 2018
- Erdemir Modernization of BOF Convertors
- Ersem New Cold Slitting Line and Warehouse Investment Project

INFORMATION TECHNOLOGIES

OYAK Mining Metallurgy Group follows global technological developments closely and continues to undertake infrastructure investments to ensure that its production process is technology-intensive.

OYAK Mining Metallurgy Group deploys IT rapidly in its activities to meet its wide-ranging requirements.
The Maintenance and Workshop Management Systems renovation project was brought into service first for customers at İsdemir then for Erdemir's customers, with the aim of managing Maintenance and Workshop activities efficiently and productively, reducing the maintenance and inventory costs, improving the useful life of the facilities and contributing to the occupational health and safety.

Application and development work has got underway with the use of internal resources, both for meeting the requirements of the group's sales processes in a more flexible structure and conducting them over platforms which are safer and technologically up-to-date. The hardware substructures in which the sales and production processes are working in have been updated technologically by renewing both in the instant data center and the secondary data center, removing the problems encountered in the existing hardware.

Project work has got underway for the renewal of Erdemir's data centers which host a wide array of applications used within the Group. Emergency drills have been performed in order to be prepared for the possible interruptions in data centers and applications.

Purchasing processes were been completed in preparation for engaging one of the group companies, Erdem, in a new platform involving producing processes of its Institutional Source Planning System and work with the company has been initiated.

WITH THE PURPOSE OF MEETING THE GROUP'S SALES PROCESSES REQUIREMENTS IN A MORE FLEXIBLE STRUCTURE AND CONDUCTING THEM ON PLATFORMS WHICH ARE MORE SECURE AND TECHNOLOGICALLY UP-TO-DATE, APPLICATION DEVELOPMENT ACTIVITIES WERE INITIATED, WHICH WERE FINANCED THROUGH INTERNAL RESOURCES.

Improvements to the ISO 27001 Information Security Managing System continued as part of the information security measures. Vulnerability scans and penetration tests were carried out to determine existing conditions and awareness training was organized. Cooperation with telecommunications operators continued as part of the work to tackle cyber-attacks. Applications such as network access controlling system and patch management were brought into use and the network and security devices were updated. Secure printing has been provided by institutional printing services. By evaluating all warnings and suggestions sent by USOM (The Turkey Computer Emergency Response Team) and EMRA (Energy Market Regulatory Authority), required precautions have been taken.

By ensuring production automation systems provide services with a more secure substructure in an environment that fits IT standards, work continued on moving substructures to the data centers through their virtualization. Work towards isolating production automation systems from other systems have been carried out within the scope of cyber-security activities.

A call center and on-site support services have been provided to solve employees' problems related to IT.

Work on Information systems has been conducted correspondingly with the automation projects in the Hot Rolling Mill, Blast Furnaces, Steelmaking and Galvanizing facilities.

Along with these measures, the demands of the work units for an application which achieves savings in terms of energy, time and the workforce while providing productivity and monitoring have been met. With the aim of providing secure and uninterrupted services on a 24/7 basis, the software, substructure configuration, improvement, operation, maintenance and supporting activities for the existing services were conducted successfully.

WITH THE AIM OF ENABLING PRODUCTION AUTOMATION SYSTEMS TO SERVE WITH A MORE SECURE SUBSTRUCTURE IN AN ENVIRONMENT THAT FITS ITS STANDARDS, WORK CONTINUED ON MOVING SUBSTRUCTURES TO DATA CENTERS THROUGH THEIR VIRTUALIZATION.

SUSTAINABILITY APPROACH

OYAK Mining Metallurgy Group applies sustainable work models by integrating economic, social and environmental factors into the company's decision making mechanisms, with the purpose of creating long-lasting value for of all its shareholders.
OYAK Mining Metallurgy Group is drafting strategic plans to overcome the obstacles to providing sustainability by injecting momentum into the concept of creating shared value. It is adopting an accountable management mentality as a model institutional citizen and placing importance on open communication, innovation and continuous improvement.

While there has been a transformation from a linear economic model to innovative business lines and circular economic models that are based on technological developments, OYAK Mining Metallurgy Group is protecting its competitive power by following international developments. OYAK Mining Metallurgy Group is focused on generating permanent value in all of its work and in its future projects. It conducts its activities with an approach which is proactive and focused on productivity.

The rapid change of climate conditions, resource utilization and technology and its direct influence on the human life has highlighted the need to "leave a healthy and habitable world for future generations", which is a key item on the Group's agenda.

The global objective which lays down the foundation of the sustainability concept and draws support from the initiatives implemented by supra-national organizations such as the United Nations places emphasis on the following essential steps;

- To protect our planet and the natural environment
- To combat climate change and global warming
- To use scarce resources with optimal productivity and to prevent wastage
- To enrich the social environment and people through innovative approaches
- To sustain the vital balance in the long term

OYAK Mining Metallurgy Group considers the careful usage of all kinds of resources an essential part of respecting the environment, the Earth, humanity and future generations. Aiming to be one of the leading institutions within this framework of change, OYAK Mining Metallurgy Group structures its sustainability strategy on four basic principles:

- Integrating sustainability into all business processes, including the supply chain, sales and after-sales services,
- Reducing its environmental footprint while producing value added products,
- Providing sustainable production conditions which consider energy and raw material efficiency, and which prioritize occupational health and safety,
- Supporting continuous development in line with the feedback it receives, by creating social value for all stakeholders.

OYAK Mining Metallurgy Group aims to contribute to the sustainable development objectives.
OYAK Mining Metallurgy Group is conscious of the key role of steel in a future of productive usage of resources and is in a transition to a low-carbon economy, where it aims to contribute to the sustainable development objectives, especially the actions on climate and sustainable production and consumption objectives.

OYAK MINING METALLURGY GROUP CONSIDERS THE CAREFUL USAGE OF ALL KINDS OF RESOURCES AN ESSENTIAL PART OF RESPECTING THE ENVIRONMENT, THE EARTH, HUMANITY AND FUTURE GENERATIONS.

The Group, which takes actions with a sense of responsibility about climate change and extreme climate events, which are the two of most serious global risks, is adopting cyclical economy approach to make a difference in the efforts to tackle climate change. It is thus aiming to provide energy and equipment productivity while reducing its carbon footprint by constantly updating its facilities with new technologies.

Believing in the important role the steel sector has to play in tackling climate change, the Group's climate change policy can be summed up as follows;

- Managing the effects with an active carbon management scheme by considering the opportunities and the risks of climate change
- Undertaking investments to reduce carbon emissions and developing strong applications
- Working with suppliers and supporting them in their efforts to reduce carbon emissions
- Contributing to the sector's climate change campaign, by entering agreements with its partners, including the community and non-governmental organizations.

Water is another subject that OYAK Mining Metallurgy Group attaches importance to when protecting environmental capital. Even though it is possible to recycle 95-98% of the water used in the steel sector, the Group is conscious that water resources are at a premium due to climate change and population growth, and is implementing action plans aimed at reducing its water footprint and waste water discharge.

OYAK Mining Metallurgy Group is continuing to work towards its Sustainability Objectives to step up the widespread impact and value it has generated. The Group also conducted projects which comply with its principle producing "the best" and "most productive" throughout its range of products and services in 2018.

As a consequence of the successful performance which the Group has demonstrated in sustainability management, as in 2017, Erdemir ranked as one of the select few companies to be included in the Sustainability Index of the Borsa İstanbul in 2018. The company succeeded in maintaining its place on this platform which provides an objective consideration of its sustainability related decisions and approaches.

HUMAN RESOURCES

OYAK Mining Metallurgy Group ranks as one of the most preferred industrial enterprises by employees among in Turkey.
OYAK Mining Metallurgy Group sustained the intensive pace of its work in pursuing developmental activities while both attracting and maintaining talented individuals in 2018, as it strives to be the best in every field a business carried on with competent and committed human resources.

The Group, where approximately 67% of employees are paid on an hourly basis, has become a leading player once again among the most sought after industrial enterprises to work in, and which have the highest number of employees.

The Human Resources department has carried out one of Turkey's biggest digital transformation programs.
In 2018, OYAK Mining Metallurgy Group, which places the highest level of importance and priority on technology, brought a far-reaching Human Resources transformation program into action.

This journey begins with the aims of setting up a shared, user friendly, flexible and scalable digital substructure, the harmonization and improvement of structures, processes, and various approaches in the human resources processes. Its first outputs, the "Employee Personnel Information" and "Performance Management" systems, were put into effect at the end of 2018.

With the aforementioned systems, the source coding of which belongs fully to the Group, besides the active management of human resources processes through the correct, holistic and accessible data, important achievements have been made in relation to operational productivity.

The Group aims to bring the system and human resources process up to speed by bringing the "Selection, Positioning and Organization Management", the "Labor Grading, Wage and Fringe Benefits Management" and "Employee Development" systems into operation by the end of 2019.

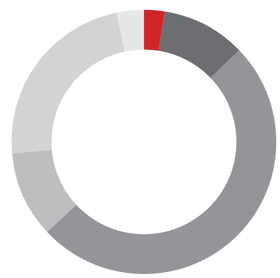
Modern applications aimed at Employee development are being stepped up.
With the aim of increasing employee's personal and providing them with opportunities to develop themselves in line with prevailing needs and ensuring they adopt the Group's

shared values, a total of 579,185 hours of training was planned in 2018, with an emphasis on the subjects of personal and professional development, management, management systems, occupational health and security. OYAK Mining Metallurgy Group, which is leading the steel sector with its learning organization structure, for the purpose of improving the intellectual capital of both employees and the Group, and ensuring that this knowledge became persistent, work has started on projects to establish a purchasing and Iron-Steel Faculty – in addition to the Sales Faculty - and raising the corporate memory up to the level of the system.

Employee Tenure

- 0-10 Years **3,467** 29.9%
- 11-20 Years **7,665** 66.0%
- 21-25 Years **284** 2.4%
- 26 Years and Over **191** 1.6%

Education Level



- Primary School and Under **317** 2.7%
- Primary School **1,181** 10.2%
- High School and Equiv. **5,846** 50.4%
- Vocational High School **1,222** 10.5%
- University **2,683** 23.1%
- Masters/Doctorate **358** 3.1%

Vocational/technical, personal development, managerial and mandatory trainigs

Şirket	Participants	Hours
Erdemir	39,915	258,372
İsdemir	36,961	211,228
Ersem	678	2,944
Erdemir Mühendislik	334	4,122
Erdemir Romania	260	7,670
Erdemir Maden	1,749	22,622

Number of Employees

- Hourly-Salaried **7,725** 66.6%
- Monthly-Salaried **3,882** 33.4%

Breakdown of Employees’ Ages

- Between 18-30 **1,109** 9.6%
- Between 31-40 **4,031** 34.7%
- Between 41-55 **6,366** 54.8%
- 56 and Over **101** 0.9%

The engineering development program, which aims to encourage young engineers to speak a common language, and the terotechnology development program, which is specialized for engineers working in the filter units, was put into practice in 2018.

With the aim of promoting a culture of occupational health and safety, by adding observation extent to the "Behavior Driven Security Management System" in 2018, activities to roll out the system to all Group Companies got underway.

Summit and seminar programs, with the participation of professionals who can speak on the "effects of digital transformations, predictions, success in world's standards, neuro-marketing" in the local and international area, have been organized with the new initiative that started in 2019 in order to improve opportunities for cooperation within the group along with the motto of a "Altogether for a Strong Future".

OYAK Mining Metallurgy Group supports the development of students with active internship programs.
The Group continued to offer internship opportunities for university and high school students in 2018. At Erdemir, internship opportunities were provided to 168 vocational high school students, 10 students at vocational colleges of higher education and 98 university students in Erdemir, and to 140 vocational high school students, 21 students of vocational colleges of higher education and 195 university students at İsdemir, as well as internship positions for 21 vocational high school students in other Group companies.

OYAK Mining Metallurgy Group views its employees as its most valuable asset. The Group seeks to enrich the social lives of its employees and their families with a range of facilities such as swimming pools, beaches, tennis courts, gyms, a stadium, cultural and healthcare centers and public housing on the Ereğli and İskenderun sites.

Encouraging employee's participation for innovation and organizational development
The participation and contributions of employees are what make constant development possible at OYAK Mining Metallurgy Group. Employees' wealth of knowledge, experiences, new ideas, kaizens, teamwork and suggestion systems are all being turned into value with the projects put into action with statistical data analysis and the establishment of an experimental design. Through this system and the various projects put in place, employees are carrying out projects which are providing improvements and cost savings in occupational health and security, customer satisfaction, quality and operational activities.
OPEX Projects continued to be carried out in 2018 with the aim of lower cost production, expanding the working life of equipment, energy savings, raw material optimization and product quality improvement. The OPEX Projects that is completed in 2018 are expected to yield a return of USD 27 million at İsdemir and USD 2 million at Erdemir.

At Erdemir and İsdemir, training on MiniTab® supported Statistical Data Analysis (İVA), Experimental Design (DoE), Statistical Modelling for the Managers (YİME) and Measurement System Analysis (MSA) continued to be provided with the aim of extending operational perfection projects. Within this framework, a total of 65 employees at İsdemir and 54 employees at Erdemir received training in 2018. In addition, training was provided to 95 Erdemir employees within the scope of Mathematical Modelling Projects.

ERDEMİR WON THE FIRST PLACE AWARD AND İSDEMİR WON THE THIRD PLACE AWARD IN THE EFFICIENCY AWARDS HANDED OUT BY THE GENERAL DIRECTORATE OF EFFICIENCY OF THE MINISTRY OF INDUSTRY AND TECHNOLOGY ON DECEMBER 18, 2018 IN TWO DIFFERENT CATEGORIES.

Employees of Erdemir and İsdemir also shared their suggestions for improvement in 2018, presenting their ideas in a wide range of subjects from occupational health and safety to environmental performance, customer satisfaction, facilitating work processes and energy saving. In 2018, a total of 36,628 suggestions were received at İsdemir of which 12,006 have been put into practice; while in Erdemir, 16,855 suggestions were tabled of which 11,749 have been put into practice. Implementing the suggestions was calculated to yield a return of USD 8 million return in İsdemir and a USD 9.5 return at Erdemir. Meanwhile 1,624 kaizen was established in İsdemir and 1,073 kaizen was completed, with a return of USD 34 million provided. At Erdemir, 1,470 kaizen was established, with 1,229 kaizen completed, yielding a return of USD 40.3 million. İsdemir provided Kaizen training for 387 employees in 2018.

Participation tools trainings was also provided to 167 employees in the scope of orientation and as an output of the performance management system. In 2018, a total of 585 Erdemir employees were trained for participation systems' tools.

In the Productivity Project Awards held by the Directorate General for Productivity of The Ministry of Industry And Technology of the Republic of Turkey on December 18, 2018, Erdemir's Power Station Optimization Project won the first prize in the "Large Scale Enterprise/ Process Improvements" category. İsdemir won third prize in the "Large Scale Enterprise/ Sustainable Production" category with its OPEX Project, entitled "Increasing Flat Product Production through Slab Height Optimization".

The IMM - İsdemir Excellence Model

The IMM - İsdemir Excellence Model was put into practice on July 13, 2017. The IMM, under its "Maximizing Financial Value by Protecting Human and Environment" program, aims to achieve competitive superiority by creating an organizational culture which is constantly seeking the best with the participation of all of its employees by using İsdemir's intellectual capital.

Fundamental values in this scope;

- Production without harming people or the environment
- Putting decent practices into practice quickly and always seeking what is better in organizational processes
- Using all resources necessary for operations productively and developing them
- Creating additional added value through an innovative approach, process and practices
- Providing participation in success for all employees
- By conveying its mission, vision, policies, values, company functions, performance criteria and objects to all employees, creating an organizational culture that is always in search of the better in embracing a continuous improvement culture and providing sustainable success.

The İsdemir Excellence Model consists of nine function groups: Total Safe Production, Total Efficient Production, Efficient Cost Management, Active Supply Management, Human Resources, Productive Energy Management, Investments, Partners and Innovative Approaches.

All function groups in the model are formed with the Function Owner, the Function Leader, the Team and the Unit Team. To achieve their aims in accordance with the performance criteria in line with the aims of each function, project based and timed teams consisting of workers paid on an hourly basis and those paid on a monthly basis are separated once their mission is completed. Thus, employees extend the depth of their specialty by working for projects outside their unit which create added value for the organization.

A total of 508 of the 774 projects constituted in this scope have been completed, raising the team's count to 768. The completed projects are projected to bring in a return of USD 92 million.

The İsdemir Perfection Model, which was put into practice in 2017, also started to be implemented in Erdemir on August 15, 2018.

OCCUPATIONAL HEALTH AND SAFETY

OYAK Mining Metallurgy Group follows good practices in the international platforms in the field of OHS.
OYAK Mining Metallurgy Group companies aim to produce without accident and in order to achieve this goal, they continuously monitor and improve the performance of OHS within the Group. Erdemir, İsdemir, Erdemir Maden and Erdemir Romania all fulfil the requirements of the TS-OHSAS 18001 Occupational Health and Safety Management System and ensure the continuity and development of the system. Group companies also follow developments and good practices in international platforms in the field of OHS.

OYAK Mining Metallurgy Group, as defined in OHS policy, works to produce accidental free steel by applying risk management to secure working environments and to protect the health of its employees, and to ensure that employees adopt a sustainable security culture.

Erdemir and İsdemir systematically conduct occupational health and safety studies in line with the decisions taken in OHS boards. The OHS board met 11 times at Erdemir and 9 times at İsdemir in 2018. Furthermore, unit OHS and sub-board meetings were held in all units of the plants each month.

In 2018, 64 announced and 43 unannounced safety inspections were performed at Erdemir while 25 announced and 79 unannounced safety inspections took place at İsdemir.

823 employees participated in İsdemir's 35th and 36th Accident Sharing Presentations. Since the systematic implementation, accident presentations were shared with 14,381 employees in 71 meetings in İsdemir. The First Accident Presentation in Erdemir was attended by 276 employees in 2018. In the OHS meetings, risk assessment cards were revised by sharing 71 work accidents in Erdemir, 15 in İsdemir, and 187 near miss events in Erdemir and 6,707 in İsdemir.

Participation in "Steel Safety Day"
Erdemir and İsdemir have been participating in the "Steel Safety Day" practice adopted by the World Steel Association (worldsteel) since 2014. In line with International Labor Organization (ILO)'s World Health and Safety Day, this practice aims to create a safer working environment in the entire steel industry.

In 2018, Erdemir and İsdemir carried out extensive audits in the plants within the scope of this application, which was implemented to strengthen awareness of the five most common causes of occupational accidents in the steel industry. After these audits, improvement plans were developed and implemented.

Table of OHS Training

Company	Number of participants	Man-Hours	Proportion of Total Training (%)	Average OHS Training Hours per Employee
Erdemir	23,341	95,446	37.56	17.68
İsdemir	30,144	145,833	69.02	30.5
Erdemir Maden	272	5,127	22.66	18.85
Ersem	295	7,626	61	16
Erdemir Romania	260	4,296	54	17
Erdemir Mühendislik	28	218	5	8

Occupational safety training for employees of both the Group's companies and its subcontractors continued in 2018 as well. In order to ensure the process security in Erdemir, procedures and work instructions were renewed within the scope of the Security Management System work consisting of 13 elements. P&ID drawings were updated in units that fall within the scope of the Regulation on the Prevention of Major Industrial Accidents and Reduction of Their Effects (Seveso). Hazardous Equipment Identification (DOW Methods and the Vade Mecum Method) studies and Hazard Identification (HazOp) studies were completed with the units.

In the context of Change Management, works on the establishment of a new furnace project in safe areas (especially with air separation plants) that do not create a domino effect with other processes were presented to investment groups. The method to ensure process security for processes outside the scope of the Seveso regulation was determined and a case study was conducted in the No.1 Hot Rolling Slab Furnaces. Internal auditor training was organized by planning the internal audits at the Security Management System.

In accordance with the Occupational Health and Safety Act No. 6331 and the Regulation on the Protection of Employees from the Dangers of Explosive Environments (ATEX 137), training was provided to more than 198 personnel in 2018 in a bid to raise the awareness of the personnel working in the units where explosion proof equipment is provided within the scope of the actions for evaluating explosive environments that may pose a risk throughout Erdemir.

ERDEMİR AND İSDEMİR SYSTEMATICALLY CONDUCT OCCUPATIONAL HEALTH AND SAFETY STUDIES IN LINE WITH THE DECISIONS TAKEN IN OHS BOARDS.

A separate Explosion Protection Document (EPD) was prepared for each of the hazardous areas where potentially explosive environments were formed in Erdemir. In order to be able to repair and maintain explosion proof electrical engines and equipment in accordance with prevailing standards, to ensure that personnel working with this equipment are competent and to be able to provide the Facility Certification Service at Erdemir in accordance with the EN 60079-19 standard, the Electrical Workshop under the Electricity Maintenance Department was certified, with Erdemir obtaining the maintenance authorization certificate for the engines and equipment.

Erdemir has contributed significantly to the safety of the facilities with training provided in the field of operation in order to prepare the Explosion Protection Documents (EPD) and the follow-up of this system. In 2018, eight personnel took part in the training on IECEx Unit 002 classification of hazardous areas, and 18 personnel took part in the IECEx Unit 001&003&005 training programs (application of basic protection principles in explosive environments, installation of explosion-proof (Ex) equipment and cable installations, and major maintenance and repair of explosion-proof (Ex) equipment).

At İsdemir, section leaders were determined within the scope of Security Management System Studies which consist of 10 sections established in order to ensure process security, and pre-evaluation was done and information was given to the unit managers. Software studies are ongoing to prepare section procedures, accident investigation, change and management of contractors.

Within the scope of İsdemir Emergency Management System, trainer and renovation of UAME (National Intervention Team) training was provided to the fire brigade team in 2018, and 121 in-unit drills were carried out.

The OHSAS 18001 Occupational Health and Safety Management Systems audit conducted since 2009 at Erdemir Maden was conducted again in 2018 and the document was extended for two and a half years. Within the scope of Occupational Health and Safety work, the physical non-conformities determined by the hazards and near-miss notifications made by the employees were eliminated.

Erdemir Maden was selected as Turkey's safest mining company in 2018, reflecting the significant progress it has achieved with its experience and approach to OHS since 2005, the year in which its underground operations were first commissioned.

ERSEM AND ERDEMİR WERE AWARDED THE GOLDEN GLOVES AND GOLDEN SUGGESTION AWARDS IN THE OHS COMPETITIONS HELD BY MESS. WITH ITS PROJECT "DO NOT REMAIN UNRESPONSIVE", ERSEM RANKED FIRST IN THE GOLDEN GLOVE AWARDS. THE FERROLI IMPROVEMENT TEAM AT ERDEMİR WON AN AWARD IN THE GOLDEN SUGGESTION COMPETITION.

SAFEST

ERDEMİR MADEN WAS SELECTED AS TURKEY'S SAFEST MINING COMPANY IN 2018 AT THE MIMING SECTOR AWARDS.

In this direction, OHS training was provided, along with high-tech OHS equipment adapted for underground use such as:

- Shelter Rooms,
- Personnel Location Positioning System,
- Seismic Monitoring System,
- Radio Communication System,
- Fire Detection, Fire Extinguishing System,
- Antistatic and Flame-Retardant Belt Conveyors,
- Respiratory Stations,
- Gas Monitoring System

Three awards for OYAK Mining Metallurgy Group in the OHS field in 2018

Ersem and Erdemir were awarded the Golden Gloves and Golden Suggestion awards in the OHS competitions held by MESS. With its project "Do Not Remain Unresponsive", Ersem ranked first in the category of companies with 250-499 employees in the 2nd Golden Glove awards, organized by the Turkish Employers Association of Metal Industries (MESS) which evaluates best practices contributing to the improvement of occupational health and safety in the workplace.

The Do Not Remain Unresponsive project focused on identifying behavior and situations with occupational safety risks, responding to such behavior and situations, sharing these reactions with managers, and halting any inappropriate situations and behaviors. The project was implemented with the aim of ensuring that employees automatically uphold the Occupational Safety Culture, maintaining the highest levels of awareness of Occupational Safety and transforming this awareness into behavior, and has achieved significant gains in the adoption of the security culture.

The Ferroli improvement team at Erdemir's Raw Material Sampling and Preparation Laboratory won an award in the Golden Suggestion competition, where the OHS suggestions submitted by the blue collar employees for their workplaces and the applications they have contributed to their development are rewarded.

The Ferroli team succeeded in reducing the OHS risks with the ferro-alloy screening machine which they designed.
In the Mining Sector Award Ceremony, organized by the İstanbul Mineral Exporters' Association with the contributions of the Ministry of Energy and Natural Resources and the Ministry of Trade, Erdemir Maden was selected as Turkey's safest Mining Company.

THE ENVIRONMENT AND ENERGY

The Environment

OYAK Mining Metallurgy Group is constantly updating its approach to protecting the environment.
OYAK Mining Metallurgy Group shapes its production activities in light of sustainability criteria. To work with a sense of responsibility to the environment, to use existing resources effectively, efficiently and correctly, to benefit from communication channels in supporting the development and awareness of all stakeholders and to improve the environmental performance in order to leave a cleaner and more habitable world for future generations are always at the heart of the corporate culture at OYAK Mining Metallurgy Group. Erdemir, İsdemir and Erdemir Romania implement the ISO 14001 Environmental Management System and provide continuity of certification.

The Environmental Performance Index, which represents the success and efficiency of the Environmental Management Process as a unique model with a single numerical indicator, stood at 91.3% in Erdemir in 2018, exceeding the target of 89.5%, and 86% at İsdemir.

In Erdemir, the Life Cycle Assessment was continued with the Directorate of R&D. The Blast Furnace Clean Production and Sinter LCA (Life Cycle Assessment) operation was completed.

OYAK Mining Metallurgy Group companies eliminate waste in a way that minimizes their impact on the environment.
In 2018, the legal requirements for Waste Water and Emissions were met and carried out by conducting necessary measurements and analysis in accordance with Environmental Legislation, Regulations and Environmental Permit obligations at Erdemir. The Organized Storage Facility Report was prepared as required by the Regulation on Organized Storage of Wastes and the Organized Storage Approval Document was submitted to the Provincial Directorate of Environment and Urbanization. At Erdemir and İsdemir, the Industrial Hazardous and non-Hazardous Waste Declaration, Packaging Waste Declaration and Waste Water Analysis were recorded in the system through the Integrated Environmental Information System.

At both Erdemir and İsdemir, levels of greenhouse gas emissions in 2017 were calculated and emission reports were uploaded

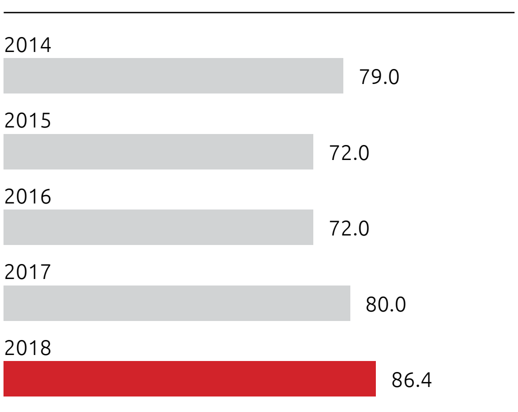
to The Greenhouse Gas Monitoring and Reporting System of Ministry of Environment and Urban Planning were approved by certifying agencies and submitted to the Ministry. In accordance with the Communiqué on Continuous Emission Measurement Systems, the Annual Validity Test (AVT) and Quality Assurance System (QAS2) measurements were carried out by accredited organizations.

As a result of the changes made in the cooling water discharge line at the Continuous Waste Water Monitoring System (WWMS) at İsdemir, inspections were carried out by officials from the Ministry of Environment and Urbanization and system approval was renewed. At İsdemir, the final report of the Determination of Clean Production Opportunities and Applicability in the Industry Project carried out in cooperation with TÜBİTAK-MAM and the Ministry of Environment and Urbanization, where the best techniques available in the sector were examined, was published in 2018.

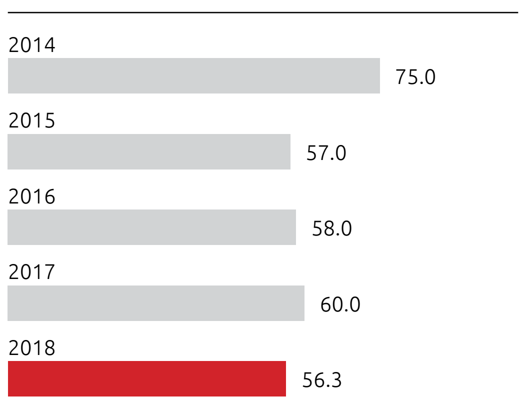
At İsdemir, within the framework of the project to eliminate the residues of Coke and reduction of Coke emissions carried out in cooperation with the Ministry of Environment and Urbanization, the United Nations Development Program (UNDP) and the United Nations Industrial Development Organization (UNIDO), oil and equipment (capacitors, transformers) containing Polyclorlubiphenyl (PCB), which may not be disposed of in Turkey, was sent abroad for disposal. The combined inspection of the facilities and activities with respect to the Environmental Law and all regulations related to the air, water, soil, waste, chemicals, sea and noise coming into force on the basis of this Law were carried out by the Hatay Environment and Urbanization Administration on October 15-16-18, 2018 and the audit was successfully finalized.

Training programs continued to raise

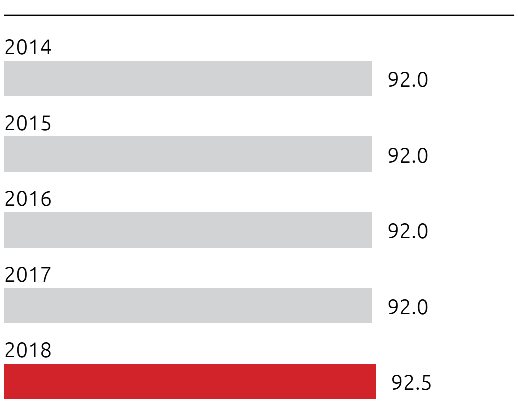
Erdemir Solid Waste Recovery Rate (%)



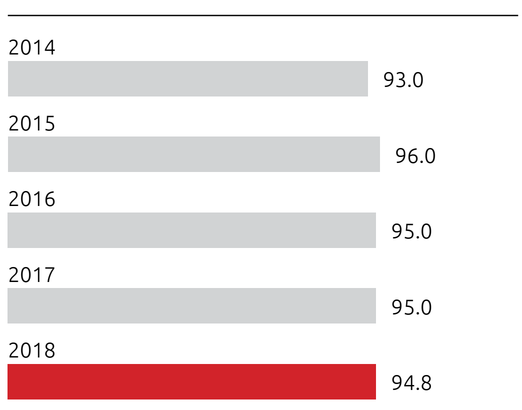
İsdemir Solid Waste Recovery Rate (%)



Rate of Recirculated Water Use at Erdemir (%)



Rate of Recirculated Water Use at İsdemir (%)



environmental awareness.
In 2018, training was given to 1,269 contractor personnel in Erdemir to raise environmental awareness, while "Zero Waste Project" training was provided for 161 people and an Environmental Awareness Event was organized in 3 schools within the scope of Social Responsibility Projects.

In İsdemir, a sectoral module including environmental impacts, recovery and importance of processes, legal obligations, climate change, sustainability, biodiversity and İsdemir practices has been developed and training on "Environmental Awareness and Environmental Management at İsdemir" started to be rolled out in a bid to rise employees' environmental awareness. Lessons and practical recycling activities aimed at raising environmental awareness were provided at the Demir Çelik Nursery School. Environmental festivals were organized in the region within the framework of June 5 World Environment Day and on World Cleanup Day on September 15. Waste collection and separation activities were organized with the participation of employees, members of the community and students in schools in the residential area.

In June 2018, Erdemir Maden started to use natural gas as fuel in its plants. Environmental legislation and environmental awareness training programs were given to employees by the Environmental Management Unit. Hazardous wastes generated by the production activities were sent to licensed companies and recovered or disposed of. Static and kinetic tests for mineral waste were completed in cooperation with Dokuz Eylül University on acid mine drainage. According to the result report, the wastes were classified as non-hazardous class-B waste.

A report on the Annex-4C Inert Mine Wastes was prepared and submitted to the Provincial Directorate within the scope of Mine Waste Regulation. The audits carried out by the Provincial Directorate of Environment and Urbanism have not yielded any negative results. Samples were taken at 6-month intervals under the supervision of the Sivas Environmental and Urban Planning Provincial Directorate for internal monitoring with regard to the quality control of underground and surface waters. The analysis carried out by the accredited laboratory determined that the values were in a normal range with no adverse environmental effects resulting from the plant activity.

Energy

OYAK Mining Metallurgy Group conducts systematic studies to minimize energy losses.
OYAK Mining Metallurgy Group implements technological innovations that increase energy efficiency and ensures that it gains the maximum benefit from side-product gases and waste heat. The group conducts systematic studies with the aim of minimizing energy losses. These measures to promote the efficient use of energy contribute to the protection of the environment and natural resources and to the Group's competitive advantage.

Erdemir and İsdemir, both Group companies, have achieved successful results in specific energy consumption, which is one of the important performance indicators in the iron and steel sector. Erdemir, İsdemir and Erdemir Romania, which have the capacity to generate almost all of the electricity they use, implement the TS ISO 50001 Energy Management System.

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

More momentum for investments focused on energy efficiency.
The savings brought about by the projects completed in 2017 and before at Erdemir such as the Power Plant Optimization Project, the High Furnaces Peak Pressure Expansion Turbines, the Installation of Additional Combustion Systems to Waste Water Boilers of Cogeneration Plants, the OG Fan Capacity Increase and the Slab Furnaces Cooling System (ECS) Optimization projects were clearly observed in 2016, 2017 and 2018.

SINCE 1982, WHEN ERDEMİR STARTED SYSTEMATIC STUDIES ON ENERGY EFFICIENCY, IT HAS ACHIEVED NEARLY 45% SAVINGS IN TERMS OF SPECIFIC ENERGY CONSUMPTION. İSDEMİR HAS ACHIEVED 40% IN ENERGY SAVINGS SINCE 2001.

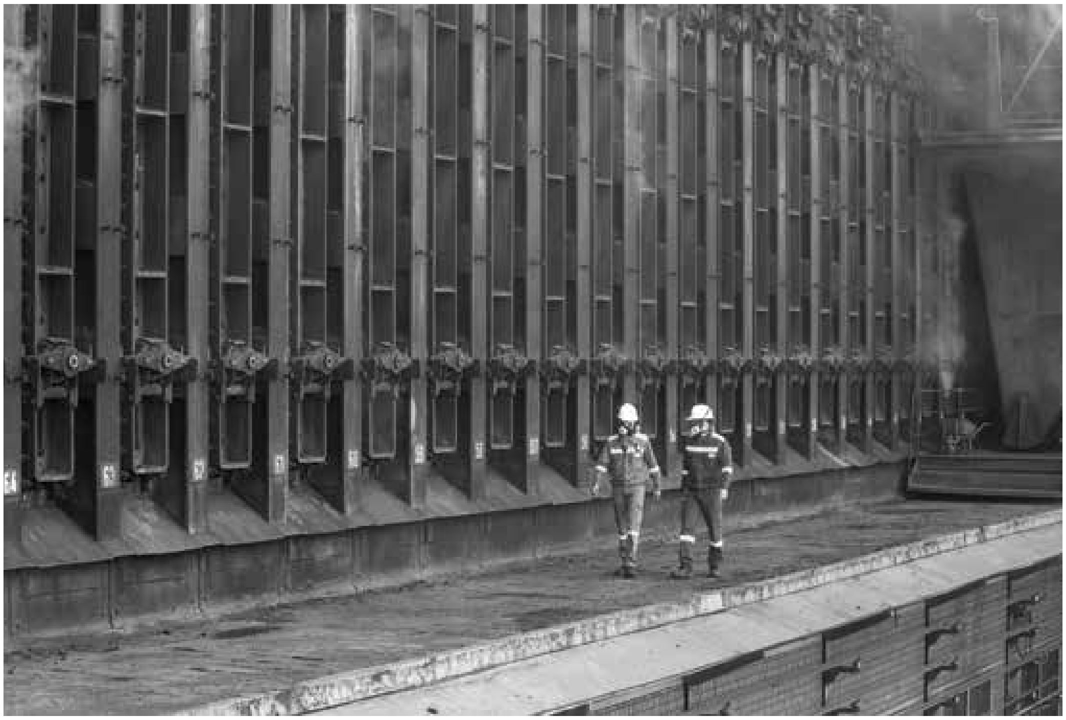
The installation of LED lighting, purchased in line with the Economic Analysis Report, in the Motor Rooms of the No. 1 Hot Rolling Mill and the No. 2 Hot Rolling Mill Slab / Stock Area, the LED conversion project in the No. 2 Hot Rolling Mill Line and No. 1 Blast Furnace were completed in Erdemir in 2016 and 2017. The Efficiency Enhancing Project (EEP) support payments for projects were realized in 2017 and 2018. In line with the recommendations of this report, the Continuous Castings, Steel Mill and No.1 Hot Rolling Mill Line Length and in 2020 No.2 Cold Rolling Mill LED Transformations will continue in 2019.

On July 6, 2018, a contract was signed with the main contractor for the Erdemir Power Plant's New Steam Boiler. The project, for which field preparations are ongoing, is expected to be completed within 26 months of the date of the contract. Studies on the 60 MW new turbo generator project are continuing. In addition, feasibility studies related to the establishment of a Waste Heat Boiler in the No.2 Hot Rolling Mill Slab Furnaces were completed and the project was found to be economical.

In İsdemir, the effects of studies such as High Furnaces Peak Pressure Expansion Turbines, Driver Applications, Power Plant Hydraulic Coupling Applications, Large Transformer Maintenance were observed in 2018. Annual natural gas and electricity consumption values were their lowest yet when compared to previous years on the basis of tons of crude steel per capita. Work is also being carried out to assess the highest level of evacuated by-product gases and waste temperatures, and positive results have been observed. In 2018, 97% of power plant steam production was achieved with byproduct gases and a record of efficiency was achieved.

The most prominent studies on energy efficiency in 2018 at İsdemir were as follows:

- Sealing for Air Leakages in Boiler Air Heaters,
- No. 3 Steam Boiler FD Fan Variable Speed Drive Application,
- Application of Variable Speed Hydraulic Coupling to Steam Boiler Feed Water Pump,
- Energy Savings of Boiler Room B Group Heat Exchangers with Serpentine Renewal,
- No. 6-7 Steam Boilers Burner Coke Gas Nozzles Replacement,
- Efficiency Optimization of Power Plant Turbo-Generators,
- Kondenstop Improvements,
- LED Lighting Conversion.



Training on energy savings, efficiency and cost management continued to be provided to employees in the fields of efficient resource utilization and energy efficiency in 2018.

This training was provided to 34 hourly-salaried, 17 monthly-salaried employees in Erdemir in 2018, bringing the number of personnel to have received the training programs since 2007 to 4,881. In 2018, a total of 51 employees received the 1-day Steam Systems Practical Training in 3 semesters. Participants practiced at the Kondenstop (Steam Trap) unit which was created to turn acquired theoretical knowledge into practice, after receiving theoretical training on the characteristics of steam, steam production, energy resources used for steam production, distribution lines, steam equipment and thermal insulation for energy recovery.

In addition, the 1-day Practical Training program on Combustion and Ignition Systems was given to 17 employees on two occasions. Participants were provided with basic instruction on combustion, combustion types, industrial combustion systems, feasible and efficient improvements in energy saving. Energy Management System adaptation training was provided to 132 newly recruited employees to raise their energy awareness.

In 2018, three engineers received Energy Management Certificate Training, taking the total number of certified engineers in Erdemir to 32. In Erdemir, a total of four personnel hold a Survey and Project Certificate.

In İsdemir, 509 people received training on “Energy Management System and Implementations at İsdemir” in 2018, primarily workers paid on an hourly basis, shift supervisors and shift superintendents. The Energy Management System Adjustment Training program was provided to 85 new employees to raise awareness of energy efficiency. Training programs covering energy consumption in Turkey and in the world, İsdemir’s energy consumption amounts, the applications for savings, efficient use of energy, actions to achieve savings and lower costs of energy are planned to continue in 2019 in a bid to increase awareness.

By the end of 2018, a total of 25 İsdemir employees who participated in the training programs provided by authorized institutions and awarded their Energy Management certificate, based on their results in the central examination, with seven employees receiving the Industrial Research Project Certificates.

In 2018, within the scope of Efficiency Project Awards organized by the Ministry of Industry and Technology, Erdemir won first prize in the process improvement category in recognition of its Power Plant Optimization Project. These awards brought Erdemir’s tally of awards received since 2001 to four first place awards, two second place awards and one third place award in the various events it has participated in. In addition, the Company also received the “Highest Efficient Thermal Power Plants” award in 2011, in the ICCI International Energy and Environment Fair and Conferences in the context of the energy awards carried out in Turkey for the first time.

İsdemir has participated in a number of competitions organized by the Ministry of Energy and Natural Resources and the related General Directorates with energy saving projects carried out between 2002-2017. İsdemir has been awarded with six first place awards, one second place award, two third place awards and two Jury Special Awards, most notably in the “Energy Efficiency in Industry Project Competition” where it was awarded in the “Increasing Energy Efficiency in Industry Projects (SEVAP-3)” category.

TRAININGS ON ENERGY SAVINGS, EFFICIENCY AND COST MANAGEMENT WERE PROVIDED TO 34 HOURLY-SALARIED, 17 MONTHLY-SALARIED EMPLOYEES IN ERDEMİR IN 2018, BRINGING THE NUMBER OF PERSONNEL TO HAVE RECEIVED THE TRAINING PROGRAMS SINCE 2007 TO 4,881.

MANAGEMENT SYSTEMS

OYAK Mining Metallurgy Group employs internationally recognized management systems.
The culture of quality in OYAK Mining Metallurgy Group is adopted by all employees and priority is placed on meeting customer expectations. The Group implements new and modern management systems in a bid to enhance customer satisfaction and comprehensively analyze the needs and expectations of stakeholders. OYAK Mining Metallurgy Group provides a major contribution to Turkey's economy, manufacturing flat steel products that meet national and international standards and offers them to the market.

The group adheres to the principles of quality, occupational health and safety, care for the environment and people-centric working, and these principles are developed and continuously improved upon in line with internationally recognized management systems and standards.

The "Erdemir and İsdemir Management Systems Policy" was revised in line with the revisions of management standards, legal requirements, the results of internal and external audits and new approaches to implementation, and was published on November 5, 2018.

OYAK MINING METALLURGY GROUP ADHERES TO THE PRINCIPLES OF QUALITY, OCCUPATIONAL HEALTH AND SAFETY, CARE FOR THE ENVIRONMENT AND PEOPLE-CENTRIC WORKING, AND THESE PRINCIPLES ARE DEVELOPED AND CONTINUOUSLY IMPROVED UPON IN LINE WITH INTERNATIONALLY RECOGNIZED MANAGEMENT SYSTEMS AND STANDARDS.

Management System Certificates of OYAK Mining Metallurgy Group Companies

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

OYAK Mining Metallurgy Group gives priority to high impact social responsibility projects.
OYAK Mining Metallurgy Group carries out projects aimed at supporting social development and meeting the expectations of society, especially in the regions where it operates. The Group develops collaborations with public institutions and non-governmental organizations in order to reach wider audiences and expand the impact of their projects, prioritizing long-term, comprehensive and high-impact social responsibility projects.

The developments related to projects carried out by the companies of OYAK Mining Metallurgy Group in the main activity areas that they determined to handle activities of contributing to society in a sustainable and more valuable way are as follows:

The ”Let the Fields Be Ploughed and the Tradition Continue” biodiversity project
In order to protect the Ottoman Strawberries, which have become synonymous with the Ereğli region but whose production has declined in recent years, in 2016 Erdemir initiated the “Let the Fields Be Ploughed and the Tradition Continue” biodiversity project in the Ereğli region, where it operates.

Erdemir cooperates with the Karadeniz Ereğli District Directorate, Zonguldak Ereğli District National Education Directorate and Ottoman Strawberry Dissolution and Producers Protection Association in the project.

The project aims to achieve the following;
- Fertile and cost efficient production of the Ottoman Strawberry in the pilot area with modern techniques by growing high quality seedlings in Ereğli
- Informing farmers in the region about modern cultivation techniques for the Ottoman Strawberry, and offering encouragement,
- Increasing the number of seedlings to increase production,
- Contributing to local employment through the spread of the Ottoman Strawberry cultivation
- The preservation of the Ottoman Strawberry

OYAK MINING METALLURGY GROUP CARRIES OUT PROJECTS IN THE MAIN ACTIVITY AREAS THAT THEY DETERMINED TO HANDLE ACTIVITIES OF CONTRIBUTING TO SOCIETY IN A SUSTAINABLE AND MORE VALUABLE WAY.

The project primarily focused on the production and reproduction of quality seedlings. Strawberry seedlings were sent to Antalya for reproduction in culture laboratories. Land determined suitable for production was made suitable for cultivation and a soil enrichment and irrigation system was established. In April 2017, Erdemir planted 5,000 strawberry seedlings, with the number of seedlings subsequently increased to 15,000, with the first fruit harvest set for 2018. Construction and renovation work was carried out to transform the disused school building in the field into a “strawberry center” containing a cold air room for the protection of the seedlings, a training room and resting areas for the farmers who would carry out the production. Agricultural equipment was purchased.

Farmers were selected to produce in the project area and the seedlings that were replicated met were planted in the soil in October 2017. The first fruit was harvested in June 2018. Meanwhile, the distribution of frigorific seedlings, which are protected in cold air, to families selected by the Food Agriculture and Livestock District Directorate was carried out and training was given to growers at strawberry cultivation center. In July 2018, seedlings were planted by the families who received the seedlings on their own land. Activities in the project area are also ongoing.

Erdemir received awards in recognition of this project in the Felis Awards organized by MediaCat magazine in the Sustainability and Social Responsibility /Finance-Economy categories and in the PRIDA Communication Awards in sustainability communication and local values categories.

Contribution to education
OYAK Mining Metallurgy group continues its free children’s plays which it started in 2009, in Ereğli, İskenderun, İstanbul and Divriği. In this context, theatrical performances were offered to pre-school and primary school pupils in 2018. Erdemir met the needs of schools in Ereğli and the surrounding areas in 2018 and supplied sheet materials for use in academic studies of higher education institutions. It also contributed to the development of the facilities of sculpture workshops at Akdeniz University and the Mimar Sinan Fine Arts University and supported the Bülent Ecevit University’s Space Team Grizu-263’s participation in the CanSat Competition - the world’s most prestigious satellite competition held in the USA.

In order to encourage children to take up reading, İsdemir helped state schools establish a reading hall and a coding class in order to contribute to technological development in education. İsdemir also sponsored various university projects such as the İskenderun Technical University Electric Car Project.

Erdemir Maden carried out efforts to address shortages at various levels at schools in Divriği and distributed school supplies to the students in need. Within the scope of OHS activities, a painting competition was held for primary and secondary school pupils. Financial support was provided for the construction of a Cultural House built on behalf of the martyr, Volkan Karatepe, in the Sivas-Kangal-Çukurçayır Village. It provided the necessary materials for the Robotic Coding Training organized under the leadership of Divriği District Council.

Social Support
Erdemir supported non-governmental organizations working for the benefit of the society, in particular the Physically Handicapped Association in Ereğli. Support was provided for furnishings in the Ereğli branch buildings of the Turkish War Invalids, Veterans, Martyrs’ Widow and Orphans Association, the Mining Martyrs Association and the Foundation for Children with Leukaemia.

İsdemir has carried out activities such as providing stationery and material support for institutions, cleaning of the schools of the lodging district, the electricity expenses, lunch for students in financial difficulty and meeting the expenses of electricity and food expenses in public institutions.

COMPREHENSIVE

OYAK MINING METALLURGY GROUP PLACES PRIORITY ON LONG-TERM, COMPREHENSIVE AND HIGH-IMPACT SOCIAL RESPONSIBILITY PROJECTS.

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: Süleyman Savaş Erdem)	Chairman of the Board of Directors	OYTAŞ İç ve Dış Ticaret A.Ş., elected as a Member of the Board of Directors on May 27, 2013 and assigned as Chairman of the Board of Directors and Managing Director effective from the same date, his Managing Director duty has been terminated as of February 2, 2018 while Chairman of the Board of Directors duty is still continuing. Ömer Muzaffer Baktır is assigned as Chairman of the Board of Directors and Managing Director serving as real person representative of OYTAŞ İç ve Dış Ticaret A.Ş. effective from January 16, 2017. Following the termination of Ömer Muzaffer Baktır's term on February 2, 2018, Süleyman Savaş Erdem has been serving as real person representative of OYTAŞ İç ve Dış Ticaret A.Ş. beginning from February 2, 2018.
OYAK PAZARLAMA HİZMET VE TURİZM A.Ş. (Representative: Toker Özcan)	Deputy Chairman of the Board of Directors- Managing Director	OYAK Pazarlama Hizmet ve Turizm A.Ş., elected as a Member of the Board of Directors on September 13, 2012 and has been serving as the Deputy Chairman of the Board of Directors and the Managing Director since February 2, 2018. Due to the end of the duty of Fatma Canlı, who had been appointed as a Member of the Board of Directors on March 9, 2010 and resigned from the membership of the Board of Directors on September 13, 2012 and who has been serving as the real person representative of OYAK Pazarlama Hizmet ve Turizm A.Ş. since this date, Toker Özcan was appointed instead of Fatma Canlı and he has been serving as the real person representative of OYAK Pazarlama Hizmet ve Turizm A.Ş. since February 2, 2018.
REPUBLIC OF TURKEY TREASURY AND FINANCE MINISTRY PRIVATIZATION ADMINISTRATION (Representative: H. Abdullah Kaya)	Member of the Board of Directors	On September 20, 2012, the Privatization Administration of Turkey (Further to the Presidential Decree no. 4 published on the Official Gazette dated July 15, 2018, its title has been changed to the Republic of Turkey Treasury and Finance Ministry Privatization Administration.) was elected as Member of the Board of Directors, a position it still holds. Since April 1, 2016 H. Abdullah Kaya has been the real person representative of the Republic of Turkey Treasury and Finance Ministry Privatization Administration.
OYKA KAĞIT AMBALAJ SANAYİİ VE TİCARET A.Ş. (Representative: Baran Çelik)	Member of the Board of Directors	OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş., elected as Member of the Board of Directors on September 12, 2012 and had been serving as the Deputy Chairman of the Board of Directors since April 1, 2016. His Deputy Chairmanship ended as of February 2, 2018, however, his membership of the Board of Directors continues. Ertuğrul Aydın, who was elected as the member of the Board of Directors on March 31, 2008, and who resigned from its membership on September 12, 2012, has served as the real person representative of OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş. since that date. Due to the end of duties of Ertuğrul Aydın on September 12, 2019, Baran Çelik was assigned as the real person representative of OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş. on September 12, 2019.
OYAK DENİZCİLİK VE LİMAN İŞLETMELERİ A.Ş. (Representative: Güliz Kaya)	Member of the Board of Directors	On September 12, 2012, OYAK Girişim Danışmanlığı A.Ş., (The trade name of OYAK Girişim Danışmanlığı A.Ş. has been changed as OYAK Denizcilik ve Liman İşletmeleri A.Ş. in the Trade Registry Gazette dated October 31, 2016.) was elected as Member of the Board of Directors, a position it still holds. Assigned on June 16, 2016, Güliz Kaya has been serving as the representative of OYAK Denizcilik ve Liman İşletmeleri A.Ş. since that date.
OMSAN LOJİSTİK A.Ş. (Representative: Aslıhan Döğer)	Member of the Board of Directors	On September 11, 2012, OMSAN Lojistik A.Ş. was elected as Member of the Board of Directors was elected as Member of the Board of Directors, a position it still holds. Ahmet Türker Anayurt has served as the real person representative of OMSAN Lojistik A.Ş. since April 1, 2016. Due to the end of duties of Ahmet Türker Anayurt on January 29, 2019, Aslıhan Döğer was assigned as the real person representative of OMSAN Lojistik A.Ş. on January 29, 2019.
Yunus Arıncı	Independent Member of the Board of Directors	Elected as Independent Member of the Board of Directors at the Ordinary General Assembly Meetings held on March 31, 2016, Yunus Arıncı is currently holding his position.
Ali Fidan	Independent Member of the Board of Directors	Elected as Independent Member of the Board of Directors at the Ordinary General Assembly Meetings held on March 31, 2017, Ali Fidan is currently holding his position.
Kurtuluş Bedri Varoğlu	Independent Member of the Board of Directors	Elected as Independent Member of the Board of Directors at the Ordinary General Assembly Meetings held on March 31, 2017, Kurtuluş Bedri Varoğlu is currently holding his position.

OYAK Mining Metallurgy Group General Managers		
Salih Cem Oral	General Manager of Ereğli Demir ve Çelik Fabrikaları T.A.Ş.	Sedat Orhan, who has served as the General Manager of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. since August 16, 2013, resigned on June 6, 2018. Salih Cem Oral was assigned as the General Manager on June 6, 2018.
Mesut Keyfli	General Manager of İskenderun Demir ve Çelik A.Ş.	Toker Özcan, who has served as the General Manager of İskenderun Demir ve Çelik A.Ş. since January 16, 2017, resigned on October 12, 2018. Mesut Keyfli was assigned as the General Manager on October 12, 2018.
Vacant	General Manager of Erdemir Mühendislik, Yönetim ve Danışmanlık Hizmetleri A.Ş.	Burak Büyükfırat, who has been serving as Acting General Manager of Erdemir Mühendislik, Yönetim ve Danışmanlık Hizmetleri A.Ş. since February 2, 2015, resigned from this position as of July 31, 2017.
Başak Turgut	General Manager of Erdemir Çelik Servis Merkezi Sanayi ve Ticaret A.Ş.	Başak Turgut, who has served as Acting General Manager of Erdemir Çelik Servis Merkezi Sanayi ve Ticaret A.Ş. since July 1, 2015, has been carrying her duty as General Manager since June 6, 2018.
Vacant	General Manager of Erdemir Romania S.R.L.	Halil Melih Türkeş who has served as General Manager of Erdemir Romania S.R.L. since January 13, 2015, resigned on March 30, 2018. Sedat Orhan, who was assigned as Acting General Manager on March 30, 2018, resigned on June 6, 2018.
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.
Vacant	General Manager of Erdemir Asia Pacific Pte.	Sukhjeet Sekhon, who has served as General Manager of Erdemir Asia Pacific PTE. LTD. since July 1, 2014, resigned on March 9, 2018.
Bora Uluğ	General Manager of İsdemir Linde Gaz Ortaklığı A.Ş.	Bora Uluğ has been serving as General Manager of İsdemir Linde Gaz Ortaklığı A.Ş. since December 15, 2016.
Vacant	General Manager of Erdemir Enerji Üretim A.Ş.	A General Manager has not been yet appointed to Erdemir Enerji Üretim A.Ş. that was established on December 26, 2018.

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. Coordinators		
İbrahim Emrah Silav	Chief Financial Management and Financial Affairs Officer	İbrahim Emrah Silav has been serving as Chief Financial Management and Financial Affairs Officer since December 1, 2017.
Başak Turgut	Chief Marketing and Sales Officer	Başak Turgut who was appointed as Acting Chief Marketing and Sales Officer on February 1, 2013, has been serving as Chief Marketing and Sales Officer since June 10, 2013.
İsmail Kürşad Korkmaz	Chief Purchasing Officer	İsmail Kürşad Korkmaz has been serving as Chief Purchasing Officer since February 21, 2017.
Can Örüng	Chief Enterprise Architect & Human Resources Officer	Can Örüng has been serving as Chief Enterprise Architect & Human Resources Officer since February 7, 2017.
Can Örüng	Chief Information Technology Officer (Acting)	Can Örüng has been serving as Acting Chief Information Technology Officer since February 21, 2017.

Assistant General Managers of Ereğli Demir ve Çelik Fabrikaları T.A.Ş.		
Ural Durusu	Executive Vice President Operations	Salih Cem Oral, who was assigned to the vacant Executive Vice President Operations position on April 11, 2018, resigned on June 6, 2018. Ural Durusu has been serving as Executive Vice President Operations since November 29, 2018.

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ("Company"), 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. In this context, the Company has adopted the concepts of "equality", "transparency", "accountability" and "responsibility", which form the basis of corporate governance in its activities, and has taken maximum care and effort to comply with the Capital Markets Law and the secondary regulations and decisions of the Capital Markets Board (CMB).

In line with the corporate governance efforts, the Company has started to operate corporate governance mechanisms in accordance with the principles since 26.06.2012. Our Company, which is included in the BIST Corporate Governance Index ("XKURY") as of 29.07.2015 and also is subject to corporate governance rating every year by the rating agency KOBİRATE, which is authorized to perform activities in Turkey in accordance with the rating methodology approved by the CMB. Corporate Governance Rating Reports are available on our Corporate Website (www.erdemir.com.tr).

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. believes in the importance of ensuring full compliance with the Principles of the Corporate Governance. In the activity period ended on December 31, 2018, the Company has continued to adopt the mandatory corporate governance principles that are included in the Corporate Governance Communiqué annexed to the relevant legislation.

The Company pays utmost attention to compliance with voluntary principles that are not fully complied yet with in the relevant legislation and there is no conflict of interest between the stakeholders so far.

For the period ended at December 31, 2018, compliance with the corporate governance principles included in the Corporate Governance Communiqué and the explanations of those who have not yet achieved compliance are included in the annual report; Corporate Governance Compliance Report and Corporate Governance Information Form and other related sections of the report.

In the future, corporate governance practices of the Company, efforts to improve our corporate governance practices, including non-mandatory principles that have not been put into practice in a limited number, will be continued.

When there is a change in the Corporate Governance Compliance Report or Corporate Governance Information Form, there will be a material event disclosure and it will be published in the interim activity reports as well.

CORPORATE GOVERNANCE COMPLIANCE REPORT

Corporate Governance Compliance Report	Company Compliance Status					Explanation
	Yes	Partial	No	Exempted	Not Applicable	
1.1. FACILITATING THE EXERCISE OF SHAREHOLDER RIGHTS						
1.1.2- Up-to-date information and disclosures which may affect the exercise of shareholder rights are available to investors at the corporate website.	X					
1.2. RIGHT TO OBTAIN AND REVIEW INFORMATION						
1.2.1 - Management did not enter into any transaction that would complicate the conduct of special audit.	X					
1.3. GENERAL ASSEMBLY						
1.3.2 - The company ensures the clarity of the General Assembly agenda, and that an item on the agenda does not cover multiple topics.	X					
1.3.7- Insiders with privileged information have informed the board of directors about transactions conducted on their behalf within the scope of the company's activities in order for these transactions to be presented at the General Shareholders' Meeting.	X					
1.3.8 - Members of the board of directors who are concerned with specific agenda items, auditors, and other related persons, as well as the officers who are responsible for the preparation of the financial statements were present at the General Shareholders' Meeting.	X					
1.3.10 - The agenda of the General Shareholders' Meeting included a separate item detailing the amounts and beneficiaries of all donations and contributions.	X					
1.3.11 - The General Shareholders' Meeting was held open to the public, including the stakeholders, without having the right to speak.					X	In 2018 fiscal year, there was no participation demand from the media.
1.4. VOTING RIGHTS						
1.4.1 - There is no restriction preventing shareholders from exercising their shareholder rights.	X					
1.4.2 - The company does not have shares that carry privileged voting rights.		X				This capital is divided into shares Group A and Group B. 1 (one) share of certificate, issued to the bearer amounting to 1 Kr (one Kuruş) is A group. The right of usufruct shall be established in favor of and to the name of Privatization Administration on the shares of A Group with all rights appertaining thereto unless otherwise decided by Supreme Board of Privatization.
1.4.3-The company withholds from exercising its voting rights at the General Shareholders' Meeting of any company with which it has cross-ownership, in case such cross-ownership provides management control.					X	No cross-shareholding relations exist in the capital of the Company.
1.5. MINORITY RIGHTS						
1.5.1 - The company pays maximum diligence to the exercise of minority rights.	X					
1.5.2 - The Articles of Association extend the use of minority rights to those who own less than one twentieth of the outstanding shares, and expand the scope of the minority rights.			X			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.

Corporate Governance Compliance Report	Company Compliance Status					Explanation
	Yes	Partial	No	Exempted	Not Applicable	
1.6. DIVIDEND RIGHT						
1.6.1 - The dividend policy approved by the General Shareholders' Meeting is posted on the company website.	X					
1.6.2 - The dividend distribution policy comprises the minimum information to ensure that the shareholders can have an opinion on the procedure and principles of dividend distributions in the future.	X					
1.6.3 - The reasons for retaining earnings, and their allocations, are stated in the relevant agenda item.	X					
1.6.4 - The board reviewed whether the dividend policy balances the benefits of the shareholders and those of the company.	X					
1.7. TRANSFER OF SHARES						
1.7.1 - There are no restrictions preventing shares from being transferred.	X					
2.1. CORPORATE WEBSITE						
2.1.1. - The company website includes all elements listed in Corporate Governance Principle 2.1.1.	X					
2.1.2 - The shareholding structure (names, privileges, number and ratio of shares, and beneficial owners of more than 5% of the issued share capital) is updated on the website at least every 6 months.	X					
2.1.4 - The company website is prepared in other selected foreign languages, in a way to present exactly the same information with the Turkish content.	X					
2.2. ANNUAL REPORT						
2.2.1 - The board of directors ensures that the annual report represents a true and complete view of the company's activities.	X					
2.2.2 - The annual report includes all elements listed in Corporate Governance Principle 2.2.2.	X					
3.1. CORPORATION'S POLICY ON STAKEHOLDERS						
3.1.1- The rights of the stakeholders are protected pursuant to the relevant regulations, contracts and within the framework of bona fides principles.	X					
3.1.3 - Policies or procedures addressing stakeholders' rights are published on the company's website.		X				Some of the policies and procedures related to the rights of stakeholders are published on the company's website.
3.1.4 - A whistleblowing programme is in place for reporting legal and ethical issues.	X					
3.1.5 - The company addresses conflicts of interest among stakeholders in a balanced manner.	X					
3.2. SUPPORTING THE PARTICIPATION OF THE STAKEHOLDERS IN THE CORPORATION'S MANAGEMENT						
3.2.1 - The Articles of Association, or the internal regulations (terms of reference/ manuals), regulate the participation of employees in management.			X			Although there is no provision in the articles of association, employees are encouraged to participate in management through internal practices.
3.2.2 - Surveys/other research techniques, consultation, interviews, observation method etc. were conducted to obtain opinions from stakeholders on decisions that significantly affect them.		X				The requests, suggestions and complaints of the stakeholders are taken and evaluated in important decisions that result in some of the stakeholders.

Corporate Governance Compliance Report	Company Compliance Status					Explanation
	Yes	Partial	No	Exempted	Not Applicable	
3.3. HUMAN RESOURCES POLICY						
3.3.1 - The company has adopted an employment policy ensuring equal opportunities, and a succession plan for all key managerial positions.		X				Although there is an employment policy providing equality of opportunity, succession planning process is in progress.
3.3.2 - Recruitment criteria are documented.	X					
3.3.3 - The company has a policy on human resources development, and organises trainings for employees.	X					
3.3.4 - Meetings have been organised to inform employees on the financial status of the company, remuneration, career planning, education and health.		X				Although some informations have been carried out from time to time, information meetings have not been conducted since some studies are ongoing.
3.3.5 - Employees, or their representatives, were notified of decisions impacting them. The opinion of the related trade unions was also taken.	X					
3.3.6 - Job descriptions and performance criteria have been prepared for all employees, announced to them and taken into account to determine employee remuneration.	X					
3.3.7 - Measures (procedures, trainings, raising awareness, goals, monitoring, complaint mechanisms) have been taken to prevent discrimination, and to protect employees against any physical, mental, and emotional mistreatment.	X					
3.3.8 - The company ensures freedom of association and supports the right for collective bargaining.	X					
3.3.9 - A safe working environment for employees is maintained.	X					
3.4. RELATIONS WITH CUSTOMERS AND SUPPLIERS						
3.4.1-The company measured its customer satisfaction, and operated to ensure full customer satisfaction.	X					
3.4.2 - Customers are notified of any delays in handling their requests.	X					
3.4.3 - The company complied with the quality standards with respect to its products and services.	X					
3.4.4 - The company has in place adequate controls to protect the confidentiality of sensitive information and business secrets of its customers and suppliers.	X					
3.5. ETHICAL RULES AND SOCIAL RESPONSIBILITY						
3.5.1 - The board of the corporation has adopted a code of ethics, disclosed on the corporate website.	X					
3.5.2-The company has been mindful of its social responsibility and has adopted measures to prevent corruption and bribery.	X					

Corporate Governance Compliance Report	Company Compliance Status					Explanation
	Yes	Partial	No	Exempted	Not Applicable	
4.1. ROLE OF THE BOARD OF DIRECTORS						
4.1.1 - The board of directors has ensured strategy and risks do not threaten the long-term interests of the company, and that effective risk management is in place.	X					
4.1.2 - The agenda and minutes of board meetings indicate that the board of directors discussed and approved strategy, ensured resources were adequately allocated, and monitored company and management performance.	X					
4.2. ACTIVITIES OF THE BOARD OF DIRECTORS						
4.2.1-The board of directors documented its meetings and reported its activities to the shareholders.	X					
4.2.2 - Duties and authorities of the members of the board of directors are disclosed in the annual report.		X				In the annual report, it is stated that the duties and authorities of the board members have been complied with the Turkish Commercial Code, but the detailed regulation is not included.
4.2.3-The board has ensured the company has an internal control framework adequate for its activities, size and complexity.	X					
4.2.4 - Information on the functioning and effectiveness of the internal control system is provided in the annual report.	X					
4.2.5 - The roles of the Chairman and Chief Executive Officer are separated and defined.	X					
4.2.7-The board of directors ensures that the Investor Relations department and the corporate governance committee work effectively. The board works closely with them when communicating and settling disputes with shareholders.	X					
4.2.8 - The company has subscribed to a Directors and Officers liability insurance covering more than 25% of the capital.		X				There is an executive liability insurance for the damages caused by the board members during their duties but the total insurance does not exceed 25% of the capital
4.3. STRUCTURE OF THE BOARD OF DIRECTORS						
4.3.9 - The board of directors has approved the policy on its own composition, setting a minimal target of 25% for female directors. The board annually evaluates its composition and nominates directors so as to be compliant with the policy.			X			The Board of Directors does not have a policy for a minimum 25% target rate for female members.
4.3.10 - At least one member of the audit committee has 5 years of experience in audit/ accounting and finance.	X					

Corporate Governance Compliance Report	Company Compliance Status					Explanation
	Yes	Partial	No	Exempted	Not Applicable	
4.4. BOARD MEETING PROCEDURES						
4.4.1-Each board member attended the majority of the board meetings in person.	X					
4.4.2 - The board has formally approved a minimum time by which information and documents relevant to the agenda items should be supplied to all board members.	X					
4.4.3 - The opinions of board members that could not attend the meeting, but did submit their opinion in written format, were presented to other members.	X					
4.4.4 - Each member of the board has one vote.	X					
4.4.5 - The board has a charter/written internal rules defining the meeting procedures of the board.	X					
4.4.6 - Board minutes document that all items on the agenda are discussed, and board resolutions include director's dissenting opinions if any.	X					
4.4.7-There are limits to external commitments of board members. Shareholders are informed of board members' external commitments at the General Shareholders' Meeting.		X				There is no restriction for the Board members to assume any other duties outside the company. The Board Members' duties outside the Company were announced to the shareholders at the General Assembly Meeting.
4.5. BOARD COMMITTEES						
4.5.5 - Board members serve in only one of the Board's committees.			X			Due to the number of Board members, each board member is assigned to more than one committee.
4.5.6 - Committees have invited persons to the meetings as deemed necessary to obtain their views.	X					
4.5.7 - If external consultancy services are used, the independence of the provider is stated in the annual report.					X	In 2018, any committee did not receive consultancy services.
4.5.8 - Minutes of all committee meetings are kept and reported to board members.	X					
4.6. FINANCIAL RIGHTS						
4.6.1-The board of directors has conducted a board performance evaluation to review whether it has discharged all its responsibilities effectively.			X			The performance of the Board of Directors was not evaluated.
4.6.4-The company did not extend any loans to its board directors or executives, nor extended their lending period or enhanced the amount of those loans, or improve conditions thereon, and did not extend loans under a personal credit title by third parties or provided guarantees such as surety in favour of them.	X					
4.6.5 - The individual remuneration of board members and executives is disclosed in the annual report.		X				Total salaries, bonuses and other benefits of the key management are shared in the annual report but not disclosed on a personal basis.

CORPORATE GOVERNANCE INFORMATION FORM

Corporate Governance Information Form

1. SHAREHOLDERS	
1.1. Facilitating the Exercise of Shareholders Rights	
The number of investor meetings (conference, seminar/etc.) organised by the company during the year	53
1.2. Right to Obtain and Examine Information	
The number of special audit request(s)	0
The number of special audit requests that were accepted at the General Shareholders' Meeting	0
1.3. General Assembly	
Link to the PDP announcement that demonstrates the information requested by Principle 1.3.1. (a-d)	https://www.kap.org.tr/ en/Bildirim/666835
Whether the company provides materials for the General Shareholders' Meeting in English and Turkish at the same time	Yes
The links to the PDP announcements associated with the transactions that are not approved by the majority of independent directors or by unanimous votes of present board members in the context of Principle 1.3.9	There was no such transaction during the year.
The links to the PDP announcements associated with related party transactions in the context of Article 9 of the Communique on Corporate Governance (II-17.1)	There is no such transaction under Article 9.
The links to the PDP announcements associated with common and continuous transactions in the context of Article 10 of the Communique on Corporate Governance (II- 17.1)	https://www.kap.org.tr/ en/Bildirim/657919
The name of the section on the corporate website that demonstrates the donation policy of the company	Investor Relations / Corporate Governance / Policies and Regulations / Donations and Contribution Policy
The relevant link to the PDP with minute of the General Shareholders' Meeting where the donation policy has been approved	https://www.kap.org.tr/tr/Bildirim/194744
The number of the provisions of the articles of association that discuss the participation of stakeholders to the General Shareholders' Meeting	None
Identified stakeholder groups that participated in the General Shareholders' Meeting, if any	There was no participation in the 2017 General Assembly except for the shareholders. However, there is no restriction on participation of stakeholders in the General Assembly.
1.4. Voting Rights	
Whether the shares of the company have differential voting rights	Yes
In case that there are voting privileges, indicate the owner and percentage of the voting majority of shares.	Privatization Administration / 0.0% / One share of certificate, issued to the bearer amounting to one kuruş
The percentage of ownership of the largest shareholder	49.29%
1.5. Minority Rights	
Whether the scope of minority rights enlarged (in terms of content or the ratio) in the articles of the association	No
If yes, specify the relevant provision of the articles of association.	-
1.6. Dividend Right	
The name of the section on the corporate website that describes the dividend distribution policy	Investor Relations / Corporate Governance / Policies and Regulations / Dividend Distribution Policy
Minutes of the relevant agenda item in case the board of directors proposed to the general assembly not to distribute dividends, the reason for such proposal and information as to use of the dividend.	-
PDP link to the related general shareholder meeting minutes in case the board of directors proposed to the general assembly not to distribute dividends	-

General Assembly Meetings

General Meeting Date	The number of information requests received by the company regarding the clarification of the agenda of the General Shareholders' Meeting	Shareholder participation rate to the General Shareholders' Meeting	Percentage of shares directly present at the GSM	Percentage of shares represented by proxy	Specify the name of the page of the corporate website that contains the General Shareholders' Meeting minutes, and also indicates for each resolution the voting levels for or against	Specify the name of the page of the corporate website that contains all questions asked in the general assembly meeting and all responses to them	The number of the relevant item or paragraph of General Shareholders' Meeting minutes in relation to related party transactions	The number of declarations by insiders received by the board of directors	The link to the related PDP general shareholder meeting notification
30/03/2018	0	68%	0.003%	68%	Investor Relations / General Assembly / Minutes of General Assembly	Investor Relations / General Assembly / The questions asked on General Assembly Meetings	-	193	https:// www.kap.org.tr/en/Bildirim/672302

2. DISCLOSURE AND TRANSPARENCY	
2.1. Corporate Website	
Specify the name of the sections of the website providing the information requested by the Principle 2.1.1.	Investor Relations / Corporate Governance, Reports and Presentations, Annual Reports, Disclosures and Announcements, General Assembly, FAQ
If applicable, specify the name of the sections of the website providing the list of shareholders (ultimate beneficiaries) who directly or indirectly own more than 5% of the shares.	Investor Relations / Corporate Governance / Ownership Structure
List of languages for which the website is available	Turkish, English
2.2. Annual Report	
The page numbers and/or name of the sections in the Annual Report that demonstrate the information requested by principle 2.2.2.	
a) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the duties of the members of the board of directors and executives conducted out of the company and declarations on independence of board members	Investor Relations / Reports and Presentations / Interim Financial Reports / Declarations of Independent Board Members
b) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on committees formed within the board structure	Investor Relations / Annual Reports / Board Of Directors Committee Operating Principles and Assessment of Committees' Effectiveness
c) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the number of board meetings in a year and the attendance of the members to these meetings	Investor Relations / Reports and Presentations / Interim Financial Reports / Number of Meetings of the Board of Directors and Attendance of the Board Members
ç) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on amendments in the legislation which may significantly affect the activities of the corporation	None
d) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on significant lawsuits filed against the corporation and the possible results thereof	Investor Relations / Annual Reports / Notes to the Consolidated Financial Statements / Provision for Lawsuits
e) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the conflicts of interest of the corporation among the institutions that it purchases services on matters such as investment consulting and rating and the measures taken by the corporation in order to avoid from these conflicts of interest	Investor Relations / Annual Reports / Other Issues
f) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the cross ownership subsidiaries that the direct contribution to the capital exceeds 5%	No cross-shareholding relations exist in the capital of the Company.
g) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on social rights and professional training of the employees and activities of corporate social responsibility in respect of the corporate activities that arises social and environmental results	Investor Relations / Annual Reports / Corporate Social Responsibility

3. STAKEHOLDERS	
3.1. Corporation's Policy on Stakeholders	
The name of the section on the corporate website that demonstrates the employee remedy or severance policy	Investor Relations / Corporate Governance / Policies and Regulations / Staff Compensation Policy
The number of definitive convictions the company was subject to in relation to breach of employee rights	176
The position of the person responsible for the alert mechanism (i.e. whistleblowing mechanism)	Ethics Committee
The contact detail of the company alert mechanism	mail: etik@ erdemiretik.com, phone : 0 850 2113000
3.2. Supporting the Participation of the Stakeholders in the Corporation's Management	
Name of the section on the corporate website that demonstrates the internal regulation addressing the participation of employees on management bodies	-
Corporate bodies where employees are actually represented	Union
3.3. Human Resources Policy	
The role of the board on developing and ensuring that the company has a succession plan for the key management positions	-
The name of the section on the corporate website that demonstrates the human resource policy covering equal opportunities and hiring principles. Also provide a summary of relevant parts of the human resource policy.	OYAK Mining Metallurgy / Career / HR Practices
Whether the company provides an employee stock ownership programme	There isn't an employee stock ownership programme
The name of the section on the corporate website that demonstrates the human resource policy covering discrimination and mistreatments and the measures to prevent them. Also provide a summary of relevant parts of the human resource policy.	Investor Relations / Corporate Governance / Code of Ethics and Business Conduct / Responsibilities to Our Employees (We have our employees use their personal rights completely and accurately. Employees are treated with integrity and fairness. We are committed to providing a secure, healthy and non-discriminative work environment. We strive to support our employees' personal development, encourage them to volunteer in appropriate social and community activities as well as try to ensure their work-life balance.)
The number of definitive convictions the company is subject to in relation to health and safety measures	16
3.5. Ethical Rules and Social Responsibility	
The name of the section on the corporate website that demonstrates the code of ethics	Investor Relations / Corporate Governance / Code of Ethics and Business Conduct
The name of the section on the company website that demonstrates the corporate social responsibility report. If such a report does not exist, provide the information about any measures taken on environmental, social and corporate governance issues.	Sustainability / CSR Policy
Any measures combating any kind of corruption including embezzlement and bribery	Erdemir Group's Board members, employees and all third parties acting on the Group's behalf should avoid any act or behavior that may bring Erdemir Group under suspicion of corruption. Regardless of being in public or private sector, accepting or giving any cash/non-cash benefit that may be in the scope of corruption is forbidden.
4. BOARD OF DIRECTORS-I	
4.2. Activity of the Board of Directors	
Date of the last board evaluation conducted	-
Whether the board evaluation was externally facilitated	No
Whether all board members released from their duties at the GSM	Yes
Name(s) of the board member(s) with specific delegated duties and authorities, and descriptions of such duties	Süleyman Savaş ERDEM - Chairman (Representatıve of Oytaş İç ve Dış Ticaret A.Ş), Toker ÖZCAN - Deputy Chairman and Managing Director (Representative of Oyak Pazarlama Hizmet ve Turizm A.Ş.)

Number of reports presented by internal auditors to the audit committee or any relevant committee to the board	4
Specify the name of the section or page number of the annual report that provides the summary of the review of the effectiveness of internal controls	Investor Relations / Annual Reports / Internal Audit System
Name of the Chairman	Süleyman Savaş ERDEM - Chairman (Representative of Oytaş İç ve Dış Ticaret A.Ş)
Name of the CEO	Salih Cem Oral
If the CEO and Chair functions are combined: provide the link to the relevant PDP announcement providing the rationale for such combined roles	CEO and Chairman are not the same person.
Link to the PDP notification stating that any damage that may be caused by the members of the board of directors during the discharge of their duties is insured for an amount exceeding 25% of the company's capital	There is an executive liability insurance for the damages caused by the board members during their duties but the total insurance does not exceed 25% of the capital.
The name of the section on the corporate website that demonstrates current diversity policy targeting women directors	-
The number and ratio of female directors within the Board of Directors	1, 11%

Composition of Board of Directors

Name, Surname of Board Member	**Whether Executive Director Or Not**	**Whether Independent Director Or Not**	**The First Election Date To Board**	**Link To PDP Notification That Includes The Independency Declaration**	**Whether the Independent Director Considered By The Nomination Committee**	**Whether She/ He is the Director Who Ceased to Satisfy The Independence or Not**	**Whether The Director Has At Least 5 Years' Experience On Audit, Accounting And/Or Finance Or Not**
OYTAŞ İç ve Dış Ticaret A.Ş. (Represented by: Süleyman Savaş ERDEM)	Non-executive	Not independent director	27/05/2013	-	Not considered	No	Yes
OYAK Pazarlama Hizmet ve Turizm A.Ş. (Represented by: Toker ÖZCAN)	Executive	Not independent director	13/09/2012	-	Not considered	No	Yes
Republic of Turkey Prime Ministry Privatization Administration (Represented by: H. Abdullah KAYA)	Non-executive	Not independent director	20/09/2012	-	Not considered	No	Yes
OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş. (Represented by: Ertuğrul AYDIN)	Non-executive	Not independent director	12/09/2012	-	Not considered	No	Yes
OYAK Denizcilik ve Liman İşletmeleri A.Ş. (Represented by: Güliz KAYA)	Non-executive	Not independent director	12/09/2012	-	Not considered	No	Yes
OMSAN Lojistik A.Ş. (Represented by: Ahmet Türker ANAYURT)	Non-executive	Not independent director	11/09/2012	-	Not considered	No	Yes
Yunus ARINCI	Non-executive	Independent director	31/03/2016	https:// www.kap.org.tr/tr/Bildirim/657887	Considered	No	Yes
Ali FİDAN	Non-executive	Independent director	31/03/2017	https:// www.kap.org.tr/tr/Bildirim/657887	Considered	No	Yes
Kurtuluş Bedri VAROĞLU	Non-executive	Independent director	31/03/2017	https:// www.kap.org.tr/tr/Bildirim/657887	Considered	No	Yes

4. BOARD OF DIRECTORS-II	
4.4. Meeting Procedures of the Board of Directors	
Number of physical board meetings in the reporting period (meetings in person)	6
Director average attendance rate at board meetings	96.29%
Whether the board uses an electronic portal to support its work or not	Yes
Number of minimum days ahead of the board meeting to provide information to directors, as per the board charter	3-5 Days
The name of the section on the corporate website that demonstrates information about the board charter	There are internal regulations in which the working principles of the Board of Directors meetings are determined, but they are not published on the corporate website.
Number of maximum external commitments for board members as per the policy covering the number of external duties held by directors	-
4.5. Board Committees	
Page numbers or section names of the annual report where information about the board committees are presented	Investor Relations / Annual Reports / Board Of Directors Committee Operating Principles and Assessment of Committees' Effectiveness
Link(s) to the PDP announcement(s) with the board committee charters	The working principles of the Committee are available on our corporate website. (Investor Relations / Corporate Governance / Policies and Regulations)

Composition of Board Committees-I				
Names Of The Board Committees	**Name Of Committees Defined As " Other" In The First Column**	**Name-Surname of Committee Members**	**Whether Committee Chair Or Not**	**Whether Board Member Or Not**
Corporate Governance Committee	-	Kurtuluş Bedri Varoğlu	Yes	Board member
Corporate Governance Committee	-	Yunus Arıncı	No	Board member
Corporate Governance Committee	-	İdil Önay Ergin	No	Not board member
Audit Committee	-	Yunus Arıncı	Yes	Board member
Audit Committee	-	Ali Fidan	No	Board member
Committee of Early Detection of Risk	-	Ali Fidan	Yes	Board member
Committee of Early Detection of Risk	-	Kurtuluş Bedri Varoğlu	No	Board member

4. BOARD OF DIRECTORS-III	
4.5. Board Committees-II	
Specify where the activities of the audit committee are presented in your annual report or website (Page number or section name in the annual report/website)	Investor Relations / Annual Reports / Board Of Directors Committee Operating Principles and Assessment of Committees' Effectiveness
Specify where the activities of the corporate governance committee are presented in your annual report or website (Page number or section name in the annual report/website)	Investor Relations / Annual Reports / Board Of Directors Committee Operating Principles and Assessment of Committees' Effectiveness
Specify where the activities of the nomination committee are presented in your annual report or website (Page number or section name in the annual report/website)	Investor Relations / Annual Reports / Board Of Directors Committee Operating Principles and Assessment of Committees' Effectiveness
Specify where the activities of the early detection of risk committee are presented in your annual report or website (Page number or section name in the annual report/website)	Investor Relations / Annual Reports / Board Of Directors Committee Operating Principles and Assessment of Committees' Effectiveness
Specify where the activities of the remuneration committee are presented in your annual report or website (Page number or section name in the annual report/website)	Investor Relations / Annual Reports / Board Of Directors Committee Operating Principles and Assessment of Committees' Effectiveness
4.6. Financial Rights	
Specify where the operational and financial targets and their achievement are presented in your annual report (Page number or section name in the annual report)	Investor Relations / Annual Reports / Other Issues
Specify the section of website where remuneration policy for executive and non-executive directors are presented.	Investor Relations / Policies and Regulations/ Compensation Policy
Specify where the individual remuneration for board members and senior executives are presented in your annual report (Page number or section name in the annual report)	Investor Relations / Annual Reports / Notes to the Consolidated Financial Statements / Related Party Disclosures / Salaries, bonuses and other benefits of the key management

Composition of Board Committees-II

Names Of The Board Committees	Name of committees defined as "Other" in the first column	The Percentage Of Non-executive Directors	The Percentage Of Independent Directors In The Committee	The Number Of Meetings Held In Person	The Number Of Reports On Its Activities Submitted To The Board
Audit Committee	-	100%	100%	4	4
Corporate Governance Committee	-	100%	66%	4	3
Committee of Early Detection of Risk	-	100%	100%	6	6

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

Under the Company's Board of Directors resolution 9544 dated April 13, 2018, and pursuant to the provisions of Capital Markets Board Corporate Governance Communiqué 11-17.1, it was resolved:

- To appoint Independent Board Members Yunus ARINCI and Ali FİDAN to serve as the Audit Committee and Yunus ARINCI to be the committee's chairman;

- To appoint Independent Board Members Kurtuluş Bedri VAROĞLU and Yunus ARINCI and Investor Relations Manager İdil ÖNAY ERGİN to serve as the Corporate Governance Committee and Kurtuluş Bedri VAROĞLU to be committee's chairman;

- To appoint Independent Board Members Ali FİDAN and Kurtuluş Bedri VAROĞLU to serve as the Early Detection of Risk Committee and Ali FİDAN to be the committee's chairman.

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

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

During 2018, the Board of Directors' committees fulfilled their duties and responsibilities as required by corporate governance principles and their own regulations and they convened in accordance with their annual meeting schedules as indicated below.

- The Audit Committee convened four times; February 2, 2018, April 26, 2018, August 16, 2018, and October 25, 2018.

- The Corporate Governance Committee convened four times; February 2, 2016, June 28, 2018, August 16, 2018, and October 25, 2018.

- Early Detection of Risk Committee convened six times; February 2, 2018, April 26, 2018, June 28, 2018, August 16, 2018, October 25, 2018, and November 29, 2018.

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

As part of their areas of responsibility;

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

- The Corporate Governance Committee's activities consisted of:
  - o Contributing to the determination and implementation processes of the Company's corporate governance principles and making solution-oriented suggestions to the Board of Directors on such matters; ascertaining whether or not corporate governance principles are being complied with at the Company and, if they are not, identifying both the reasons for and any conflicts of interest that may arise on account of such less than full compliance; making recommendations to the Board of Directors on ways to improve corporate governance practices.
  - o Overseeing the activities of the Investor Relations Department.
  - o Working on a transparent system for identifying, evaluating, and training candidates for seats on the Board of Directors and for executives with administrative responsibilities identifying policies and strategies for such a system.
  - o Regularly assessing the structure and effectiveness of the Board of Directors; making recommendations to the Board of Directors concerning possible changes in such matters.
  - o Determining and overseeing approaches, principles, and practices applicable to performance evaluations and career-planning processes of Board Members and managers under executive responsibilities.
  - o Making suggestions pertaining to principles governing the remuneration of Board Members and managers under executive responsibilities taking the Company's long-term objectives into account.

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

INTERNAL AUDIT SYSTEM

The effectiveness of the risk management, control and governance processes in Group companies is assessed through risk-oriented audits conducted by Internal Audit Department. The aim, authorities and responsibilities of the Department are determined by Internal Audit Regulations. Besides reporting directly to the Chairman & Managing Director, Internal Audit Department informs the Audit Committee, which consists of independent board members, about the audit activities and effectiveness of the internal control system at least once in a year and upon request.

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

GRC (Governance, Risk and Compliance) project which was realized in 2018 aims to increase the effectiveness of risk management, control and governance processes. "Integrated Audit System (EDS)" started to operate which includes SAP GRC Process Control, Risk Management and Audit Management modules. Thereby, the Company adopted a continuous monitoring and auditing approach which is based on data analytics in accordance with global best practices.

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

OTHER ISSUES

- Necessary arrangements are made in "Code of Ethics and Business Conduct" document in order to prevent conflicts of interest between the Company, its employees and institutions that provide services to the Company. The prevention of potential conflicts of interest between the Company and institutions providing investment advisory and rating services is assured through signed contracts. During 2018, no conflicts of interest occurred with these institutions.

- Our Company did not disclose any future expectations in 2018.

- In 2018, our Company had no significant buying or selling activity of assets, except those indicated on note 13 of consolidated financial statements for the year ended December 31, 2018.

- Under the Board of Directors' resolution no: 9597 dated January 29, 2019, and due to the end of duty of Ahmet Türker ANAYURT, who acts on behalf our Company's Board Member OMSAN Lojistik A.Ş. as its representative, it was decided that the assignment of Aslıhan DÖĞER in his place to be announced and registered in the trade registry.

Apart from the developments mentioned above, there has been no significant development since December 31, 2018.

AFFILIATED COMPANY REPORT

“During 2018, 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. Based on Board of Directors Resolution number 9600 dated February 7, 2019, decision was taken to confirm that all of the business dealings between our Company and our majority shareholder and our majority shareholder’s affiliates during 2018 took place under conditions that were consistent with market conditions and this report was prepared in accordance with true and honest accountability principles.

Within the frame of CMB’s II-17.1 Corporate Governance Communiqué, common and continuous commercial transactions executed between our company and our subsidiary İskenderun Demir ve Çelik A.Ş. exceed 10% of the total cost of sales and common and continuous commercial transactions executed between our company and our subsidiary Erdemir Çelik Servis Merkezi Sanayi ve Ticaret A.Ş. exceed 10% of the total sales revenue in 2018 and it is expected that these transactions will continue under the determined circumstances in 2019. Relevant transactions are consistent with the previous years and reasonable when compared to the market conditions.”

STATEMENT OF RESPONSIBILITY

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

BOARD OF DIRECTORS' RESOLUTION ON THE APPROVAL OF FINANCIAL STATEMENTS AND ANNUAL REPORT
RESOLUTION DATE: 07/02/2019
RESOLUTION NUMBER: 9602

We have reviewed the consolidated financial statements for the period January 1 - December 31, 2018 prepared by our Company and audited by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A member firm of Deloitte Touche Tohmatsu) in accordance with Capital Market Board's (CMB) Communiqué Serial II, No: 14.1 "Basis of Financial Reporting in Capital Markets" and Turkish Accounting Standards/ Turkish Financial Reporting Standards (TMS/TFRS) in a CMB approved format and annual report prepared in accordance with Turkish Commercial Code and CMB Communique.

We hereby present to your information and declare that we are responsible for the following disclosures:

- We have reviewed the consolidated financial statements and annual report,
- Based on the information we possess within the scope of our duties and responsibilities in our 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,
- Based on the information we possess within the scope of our duties and responsibilities in our Company, the consolidated financial statements prepared in accordance with the financial reporting standards in effect provide an honest view of the assets, liabilities, financial position and profit and loss of the Company; The annual report prepared in accordance with the Turkish Commercial Code and CMB Communique provides an accurate view of the development and performance of the business and the consolidated financial position of the Company along with the principal risks and uncertainties the Company is exposed to.

Sincerely,

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

Deloitte.

DRT Bağımsız Denetim ve
Serbest Muhasebeci
Mali Müşavirlik A.Ş.
Maslak No: 1 Plaza
Eski Büyükdere Caddesi
Maslak Mahallesi No: 1
Maslak, Sarıyer 34485
İstanbul, Türkiye
Tel : +90 (212) 366 6000
Fax : +90 (212) 366 6010
www.deloitte.com.tr
Mersis No: 0291001097600016
Ticari Sicil No: 304099

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

A) Report on the Audit of the Financial Statements

1) Opinion

We have audited the consolidated financial statements of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Turkish Financial Reporting Standards (TFRS).

2) Basis for Opinion

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

3) Key Audit Matters

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

Key Audit Matter	How the matter was addressed in the audit
Revenue recognition Revenue is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods. Due to the nature of the Group's operations, there are some goods invoiced and cash collection is completed although the Group retains physical possession. Those goods are kept at premises of the Group as of the financial reporting date. Significant risks and rewards of ownership of these goods are transferred to the buyers (Note: 23). Therefore, revenue recognition for those goods in the correct accounting period is a key matter for our audit. Please refer to notes 2.8.1 and 23 to the consolidated financial statements for the Group's disclosures on revenue recognition, including the related accounting policy.	We performed the following procedures in relation to the revenue recognition: The design and implementation of the controls on the revenue process have been evaluated. The Group's sales and delivery procedures have been analyzed. Terms of trade and delivery with respect to contracts made with customers have been examined and the timing of revenue recognition in the financial statements for the different shipment arrangements has been assessed. For substantive procedures, special emphasis is given for transactions where the goods billed but revenue has not been earned. Testing of returns in the subsequent period to ensure revenue recognized in the proper accounting period. In addition, we assessed the adequacy of the disclosures in Note 23 of the Note under TFRS

3) Key Audit Matters (cont'd)

Key Audit Matter	How the matter was addressed in the audit
Units of production depreciation calculation As explained in Note 2.8 (accounting policies) and Note 14 (notes to the financial statements), the Group perform units of production depreciation calculation method for relevant land improvements, machinery and equipment and vehicles. Units of production depreciation calculation is made for large number of assets and determining the remaining life and production capacities involve estimates. Therefore, there is risk that there may be an error on calculation of depreciation.	Procedures performed related with Units of production depreciation calculation risk are as follows: • Review of the expert report for the estimation of production capacity dated 22 February 2017. • Comparison of net book values of property, plant and equipment that are included in the report with net book values in the financial statements • Evaluation of the production capacity estimates by comparing with the estimations used in previous periods by negotiating with the Group management • Analysis of production amount of yearly production and production capacity • Recalculation of depreciation amount of the year In addition, we assessed the adequacy of the disclosures in Note 14 to property, plant and equipment under TFRS.

4) Emphasis of Matter

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. (The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.)
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

B) Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 398 of the Turkish Commercial Code No. 6102 ("TCC"), the auditor's report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Company on 7 February 2019.

In accordance with paragraph four of the Article 402 of TCC, nothing has come to our attention that may cause us to believe that the Group's set of accounts and financial statements prepared for the period 1 January-31 December 2018 does not comply with TCC and the provisions of the Company's articles of association in relation to financial reporting.

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

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

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

Volkan Becerik, SMMM
Partner

İstanbul, 7 February 2019

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2018

(Amounts are expressed in Turkish Lira ("TRY Thousand") unless otherwise indicated.)
(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 36)

ASSETS	Note	(Audited) Current Period 31 December 2018 USD'000	(Audited) Current Period 31 December 2018 TRY'000	(Audited) Previous Period 31 December 2017 USD'000	(Audited) Previous Period 31 December 2017 TRY'000
Current Assets		**4.279.144**	**22.512.149**	**3.934.814**	**14.841.725**
Cash and Cash Equivalents	4	1.645.980	8.659.336	1.865.224	7.035.440
Financial Investments	5	11.595	61.000	-	-
Financial Derivative Instruments	6	10.064	52.945	915	3.452
Trade Receivables	8	836.639	4.401.474	684.564	2.582.106
Due From Related Parties	*32*	*13.037*	*68.586*	*21.988*	*82.936*
Other Trade Receivables	*8*	*823.602*	*4.332.888*	*662.576*	*2.499.170*
Other Receivables	9	342	1.800	530	2.000
Inventories	10	1.689.853	8.890.150	1.336.066	5.039.509
Prepaid Expenses	11	17.108	90.005	14.047	52.982
Other Current Assets	20	67.563	355.439	33.468	126.236
Non Current Assets		**3.662.864**	**19.269.961**	**3.588.147**	**13.534.130**
Other Receivables	9	1.786	9.397	3.617	13.643
Financial Investments	5	1.539	8.095	3.562	13.437
Financial Derivative Instruments	6	1.226	6.448	1.298	4.896
Investments Accounted for Using Equity Method	12	27.616	145.284	-	-
Investment Properties	13	45.993	241.962	26.961	101.695
Property, Plant and Equipment	14	3.432.913	18.060.211	3.465.591	13.071.862
Intangible Assets	15	53.891	283.516	56.022	211.311
Prepaid Expenses	11	62.969	331.275	15.787	59.543
Due to Related Parties	32	*12.976*	*68.266*	-	-
Other Prepaid Expenses	11	*49.993*	*263.009*	*15.787*	*59.543*
Deferred Tax Assets	30	12.840	67.552	15.309	57.743
Other Non Current Assets	20	22.091	116.221	-	-
TOTAL ASSETS		**7.942.008**	**41.782.110**	**7.522.961**	**28.375.855**

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.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2018

(Amounts are expressed in Turkish Lira ("TRY Thousand") unless otherwise indicated.)
(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 36)

LIABILITIES	Note	(Audited) Current Period 31 December 2018 USD'000	(Audited) Current Period 31 December 2018 TRY'000	(Audited) Previous Period 31 December 2017 USD'000	(Audited) Previous Period 31 December 2017 TRY'000
Current Liabilities		**1.499.266**	**7.887.487**	**1.464.605**	**5.524.344**
Short Term Borrowings	7	694.574	3.654.083	594.801	2.243.529
Short Term Portion of Long Term Borrowings	7	202.703	1.066.402	233.890	882.211
Financial Derivative Instruments	6	408	2.144	11.064	41.734
Trade Payables	8	367.983	1.935.922	249.951	942.791
Due to Related Parties	*32*	*28.089*	*147.772*	*14.289*	*53.897*
Other Trade Payables	*8*	*339.894*	*1.788.150*	*235.662*	*888.894*
Other Payables	9	8.133	42.786	11.124	41.958
Deferred Revenue	21	52.622	276.841	39.842	150.280
Current Tax Liabilities	30	95.937	504.716	211.554	797.961
Short Term Provisions	18	38.164	200.777	35.636	134.414
Payables for Employee Benefits	17	36.016	189.476	47.175	177.938
Other Current Liabilities	20	2.726	14.340	29.568	111.528
Non Current Liabilities		**881.978**	**4.639.998**	**960.618**	**3.623.354**
Long Term Borrowings	7	266.204	1.400.475	361.804	1.364.688
Financial Derivative Instruments	6	453	2.382	453	1.707
Provisions for Employee Benefits	17	127.239	669.391	168.831	636.813
Deferred Tax Liabilities	30	487.787	2.566.196	429.417	1.619.718
Other Non Current Liabilities	20	295	1.554	113	428
EQUITY		**5.560.764**	**29.254.625**	**5.097.738**	**19.228.157**
Equity Attributable to Equity Holders of the Parent		**5.391.722**	**28.366.761**	**4.953.574**	**18.684.383**
Share Capital	22	1.818.371	3.500.000	1.818.371	3.500.000
Inflation Adjustment to Capital	22	81.366	156.613	81.366	156.613
Treasury Shares (-)	22	(60.387)	(116.232)	(60.387)	(116.232)
Share Issue Premium (Discounts)	22	55.303	106.447	55.303	106.447
Other Comprehensive Income/Expense Not to be Reclassified to Profit/ (Loss)		(47.992)	10.132.859	(55.297)	5.510.152
Revaluation Reserve of Tangible Assets		*10.760*	*51.239*	*11.107*	*33.917*
Foreign Currency Translation Reserves		*(15.685)*	*10.153.725*	*(15.685)*	*5.587.482*
Actuarial (Loss)/ Gain funds		*(43.067)*	*(72.105)*	*(50.719)*	*(111.247)*
Other Comprehensive Income/Expense to be Reclassified to Profit/ (Loss)		(56.338)	4.362.222	(38.789)	2.061.722
Cash Flow Hedging Gain (Loss)		*2.491*	*13.103*	*(4.314)*	*(16.272)*
Foreign Currency Translation Reserves		*(58.829)*	*4.349.119*	*(34.475)*	*2.077.994*
Restricted Reserves Assorted from Profit	22	805.774	2.287.528	625.450	1.567.280
Retained Earnings	22	1.635.660	2.339.334	1.497.692	2.144.646
Net Profit for the Period		1.159.965	5.597.990	1.029.865	3.753.755
Non-Controlling Interests		**169.042**	**887.864**	**144.164**	**543.774**
TOTAL LIABILITIES AND EQUITY		**7.942.008**	**41.782.110**	**7.522.961**	**28.375.855**

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.

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed in Turkish Lira ("TRY Thousand") unless otherwise indicated.)
(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 36)

	Note	(Audited) Current Period 1 January - 31 December 2018 USD'000	(Audited) Current Period 1 January - 31 December 2018 TRY'000	(Audited) Previous Period 1 January - 31 December 2017 USD'000	(Audited) Previous Period 1 January - 31 December 2017 TRY'000
Revenue	23	5.597.856	27.015.254	5.140.456	18.736.447
Cost of Sales	23	(3.860.745)	(18.631.954)	(3.698.582)	(13.480.960)
GROSS PROFIT		**1.737.111**	**8.383.300**	**1.441.874**	**5.255.487**
Marketing Expenses	25	(43.158)	(208.281)	(45.138)	(164.522)
General Administrative Expenses	25	(90.362)	(436.088)	(88.387)	(322.163)
Research and Development Expenses	25	(3.636)	(17.546)	(3.598)	(13.113)
Other Operating Income	26	54.893	264.913	66.404	242.036
Other Operating Expenses	26	(35.637)	(171.987)	(26.243)	(95.653)
OPERATING PROFIT		**1.619.211**	**7.814.311**	**1.344.912**	**4.902.072**
Income from Investing Activities	27	2.183	10.534	1.659	6.046
Expenses from Investing Activities	27	(30.673)	(148.029)	(3.958)	(14.426)
Share of Investments' Profit Accounted by Using The Equity Method	12	1.152	5.558	-	-
OPERATING PROFIT BEFORE FINANCE INCOME (EXPENSES)		**1.591.873**	**7.682.374**	**1.342.613**	**4.893.692**
Finance Income	28	212.569	1.234.773	50.836	223.607
Finance Expense	29	(59.360)	(286.470)	(44.660)	(162.783)
PROFIT BEFORE TAX		**1.745.082**	**8.630.677**	**1.348.789**	**4.954.516**
Tax (Expense) Income	30	(533.992)	(2.785.956)	(279.475)	(1.056.974)
Current Corporate Tax Expense (Income)		(480.371)	(2.527.182)	(301.685)	(1.137.927)
Deferred Tax (Expense) Income		(53.621)	(258.774)	22.210	80.953
NET PROFIT FOR THE PERIOD		**1.211.090**	**5.844.721**	**1.069.314**	**3.897.542**
Non-Controlling Interests		51.125	246.731	39.449	143.787
Equity Holders of the Parent		1.159.965	5.597.990	1.029.865	3.753.755
EARNINGS PER SHARE (TRY 1 Nominal value per share)	31		1,5994		1,0725

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.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed in Turkish Lira ("TRY Thousand") unless otherwise indicated.)
(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 36)

	Note	(Audited) Current Period 1 January - 31 December 2018 USD'000	(Audited) Current Period 1 January - 31 December 2018 TRY'000	(Audited) Previous Period 1 January - 31 December 2017 USD'000	(Audited) Previous Period 1 January - 31 December 2017 TRY'000
PROFIT FOR THE PERIOD		**1.211.090**	**5.844.721**	**1.069.314**	**3.897.542**
OTHER COMPREHENSIVE INCOME					
Not to be reclassified subsequently to profit or loss					
Increase (Decrease) in Revaluation Reserve of Tangible Assets		(369)	17.322	344	4.480
Actuarial Gain (Loss) of Defined Benefit Plans	17	10.056	51.444	(3.650)	(12.618)
Tax Effect of Actuarial Gain (Loss) of Defined Benefit Plans	30	(2.212)	(11.318)	774	2.673
Foreign Currency Translation Gain (Loss)		-	4.566.243	-	818.155
To be reclassified subsequently to profit or loss					
Gain (Loss) in Cash Flow Hedging Reserves		8.724	37.660	(8.316)	(30.663)
Tax Effect of Gain (Loss) in Cash Flow Hedging Reserves	30	(1.919)	(8.285)	1.830	6.746
Foreign Currency Translation Gain (Loss)		(22.149)	2.481.276	(7.162)	359.267
OTHER COMPRHENSIVE INCOME (LOSS)		**(7.869)**	**7.134.342**	**(16.180)**	**1.148.040**
TOTAL COMPREHENSIVE INCOME		**1.203.221**	**12.979.063**	**1.053.134**	**5.045.582**
Distribution of Total Comprehensive Income					
Non-controlling Interests		53.499	457.866	38.672	178.081
Equity Holders of the Parent		1.149.722	12.521.197	1.014.462	4.867.501

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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed in Turkish Lira ("TRY Thousand") unless otherwise indicated.)
(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 36)

						Other comprehensive income (expense) not to be reclassified subsequently to profit or loss		
(Audited)	Note	Share Capital	Inflation Adjustment to Capital	Treasury Shares (-)	Share Issue Premium / Discounts	Revaluation Reserve of Tangible Assets	Foreign Currency Translation Reserves	Actuarial Gain/(Loss) Funds
1 January 2018 (Previously reported)		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**33.917**	**5.587.482**	**(111.247)**
Effect of change in accounting principle (Note 2.2)		-	-	-	-	-	-	-
1 January 2018 (Restated)		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**33.917**	**5.587.482**	**(111.247)**
Net profit for the period		-	-	-	-	-	-	-
Other comprehensive income/(loss)		-	-	-	-	17.322	4.566.243	39.142
Total comprehensive income/(loss)		-	-	-	-	17.322	4.566.243	39.142
Dividends (*)		-	-	-	-	-	-	-
Transfers	22	-	-	-	-	-	-	-
Decrease/increase in subsidiaries due to changes in share rates not end up with lose control		-	-	-	-	-	-	-
31 December 2018		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**51.239**	**10.153.725**	**(72.105)**
(Audited)								
1 January 2017		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**29.437**	**4.769.327**	**(101.527)**
Net profit for the period		-	-	-	-	-	-	-
Other comprehensive income (loss)		-	-	-	-	4.480	818.155	(9.720)
Total comprehensive income (loss)		-	-	-	-	4.480	818.155	(9.720)
Dividends (*)		-	-	-	-	-	-	-
Transfers	22	-	-	-	-	-	-	-
31 December 2017		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**33.917**	**5.587.482**	**(111.247)**

(*) In annual General Assembly dated 30 March 2018, dividend distribution (gross dividend per share: TRY 0,84 (2017: TRY 0,41) amounting to TRY 2.940.000 thousand (31 March 2017: TRY 1.435.000 thousand) from 2017 net profit was approved. As the Company holds 3,08 % of its shares with a nominal value of TRY 1 as of 30 March 2018, dividends for treasury shares are netted off under dividends paid. The dividend payment was started at 29 May 2018. The Group paid TRY 134.157 thousand divident to non-controlling interests on İsdemir and Ermaden apart from the Equity holders of the Parent in current year (2017: TRY 86.671 thousand).

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

Other comprehensive income (expense) to be reclassified subsequently to profit or loss			Retained Earnings				
Cash Flow Hedging Gain/(Loss)	Foreign Currency Translation Reserves	Restricted Reserves Assorted from Profit	Retained Earnings	Net Profit For The Period	Equity Attributable to the Parent	Non-controlling Interests	Total Shareholders' Equity
(16.272)	**2.077.994**	**1.567.280**	**2.144.646**	**3.753.755**	**18.684.383**	**543.774**	**19.228.157**
-	-	-	(11.412)	-	(11.412)	-	(11.412)
(16.272)	**2.077.994**	**1.567.280**	**2.133.234**	**3.753.755**	**18.672.971**	**543.774**	**19.216.745**
-	-	-	-	5.597.990	5.597.990	246.731	5.844.721
29.375	2.271.125	-	-	-	6.923.207	211.135	7.134.342
29.375	2.271.125	-	-	5.597.990	12.521.197	457.866	12.979.063
-	-	-	(2.849.417)	-	(2.849.417)	(134.157)	(2.983.574)
-	-	720.248	3.033.507	(3.753.755)	-	-	-
-	-	-	22.010	-	22.010	20.381	42.391
13.103	**4.349.119**	**2.287.528**	**2.339.334**	**5.597.990**	**28.366.761**	**887.864**	**29.254.625**
8.013	**1.752.878**	**1.166.197**	**2.420.078**	**1.516.438**	**15.207.669**	**452.364**	**15.660.033**
-	-	-	-	3.753.755	3.753.755	143.787	3.897.542
(24.285)	325.116	-	-	-	1.113.746	34.294	1.148.040
(24.285)	325.116	-	-	3.753.755	4.867.501	178.081	5.045.582
-	-	-	(1.390.787)	-	(1.390.787)	(86.671)	(1.477.458)
-	-	401.083	1.115.355	(1.516.438)	-	-	-
(16.272)	**2.077.994**	**1.567.280**	**2.144.646**	**3.753.755**	**18.684.383**	**543.774**	**19.228.157**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

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

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 36)

	Note	(Audited) Current Period 1 January- 31 December 2018 USD'000	(Audited) Current Period 1 January- 31 December 2018 TRY'000	(Audited) Previous Period 1 January- 31 December 2017 USD'000	(Audited) Previous Period 1 January- 31 December 2017 TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES		**848.302**	**4.150.453**	**1.099.532**	**3.624.616**
Profit (Loss) for The Period		**1.211.090**	**5.844.721**	**1.069.314**	**3.897.542**
Adjustments to Reconcile Profit (Loss)		**733.694**	**3.749.706**	**497.182**	**1.852.283**
Adjustments for Depreciation and Amortisation Expenses	23/25	188.219	908.345	197.453	719.695
Adjustments for Impairment Loss (Reversal of Impairment Loss)		28.974	139.825	878	3.201
Adjustments for Provision (Reversal of Provision) for Receivables	8/9	*3.102*	*14.967*	*(251)*	*(914)*
Adjustments for Provision (Reversal of Provision) for Inventories	10	*5.605*	*27.048*	*1.129*	*4.115*
Adjustments for Provision (Reversal of Provision) for Property, Plant and Equipment	14	*20.267*	*97.810*	-	-
Adjustments for Provisions		51.218	249.234	37.018	135.198
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	17	*30.586*	*147.605*	*30.510*	*111.209*
Adjustments for Provision (Reversal of Provision) for Pending Claims and/or Lawsuits	18	*15.024*	*74.566*	*6.508*	*23.989*
Adjustments for Free Provision (Reversal of Provision) for Possible Risks	29	*5.608*	*27.063*	-	-
Adjustments for Interest (Income) and Expenses		(69.420)	(335.018)	(36.246)	(130.591)
Adjustments for Interest Income	28	*(97.535)*	*(470.705)*	*(56.735)*	*(206.792)*
Adjustments for Interest Expense	29	*36.718*	*177.203*	*28.901*	*105.342*
Unearned Financial Income from Credit Sales		*(8.603)*	*(41.516)*	*(8.412)*	*(29.141)*
Adjustments for Unrealised Foreign Exchange Differences		(820)	(3.959)	15.119	55.106
Adjustments for Fair Value (Gains) Losses		(5.339)	(27.834)	1.379	5.025
Adjustments for Fair Value (Gains) Losses on Financial Assets		*(61)*	*(2.364)*	-	-
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments	28/29	*(5.278)*	*(25.470)*	*1.379*	*5.025*
Adjustments for Undistributed Profits of Investments Accounted for Using Equity Method	12	(1.152)	(5.558)	-	-
Adjustments for Tax (Income) Expenses	30	533.992	2.785.956	279.475	1.056.974
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		8.022	38.715	2.106	7.675
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment	27	*8.022*	*38.715*	*2.106*	*7.675*
Changes in Working Capital		**(478.635)**	**(2.518.054)**	**(220.584)**	**(1.232.002)**
Adjustments for Decrease (Increase) in Trade Receivables		(142.081)	(747.474)	(106.572)	(555.503)
Decrease (Increase) in Trade Receivables from Related Parties		*8.951*	*47.090*	*(6.394)*	*(28.059)*
Decrease (Increase) in Trade Receivables from Third Parties		*(151.032)*	*(794.564)*	*(100.178)*	*(527.444)*
Adjustments for Decrease (Increase) in Other Receivables Related from Operations		7.055	37.116	859	(2.930)
Decrease (Increase) in Other Receivables from Operations from Third Parties		*7.055*	*37.116*	*859*	*(2.930)*
Decrease (Increase) in Derivative Financial Instruments		(9.077)	(47.753)	17.753	61.917
Adjustments for Decrease (Increase) in Inventories		(349.142)	(1.836.801)	(130.712)	(813.242)
Decrease (Increase) in Prepaid Expenses		(21.900)	(115.213)	(1.487)	(9.103)
Adjustments for Increase (Decrease) in Trade Payables		118.032	620.954	(10.073)	27.715
Increase (Decrease) in Trade Payable to Related Parties		*13.800*	*72.600*	*4.341*	*18.889*
Increase (Decrease) in Trade Payable to Third Parties		*104.232*	*548.354*	*(14.414)*	*8.826*
Adjustments for Increase (Decrease) in Other Payables Related from Operations		(14.802)	(77.872)	(1.615)	9.046
Increase (Decrease) in Other Payables to Third Parties Related from Operations		*(14.802)*	*(77.872)*	*(1.615)*	*9.046*
Increase (Decrease) in Derivative Liabilities		3.346	17.603	(4.202)	(13.445)
Adjustments for Other Increase (Decrease) in Working Capital		(70.066)	(368.614)	15.465	63.543
Decrease (Increase) in Other Assets Related from Operations		*(56.186)*	*(295.592)*	*(3.202)*	*(19.721)*
Increase (Decrease) in Other Payables Related from Operations		*(13.880)*	*(73.022)*	*18.667*	*83.264*
Cash Flows Provided by Operating Activities		**1.466.149**	**7.076.373**	**1.345.913**	**4.517.823**
Payments Related to Provisions for Employee Termination Benefits	17	(13.218)	(63.790)	(15.195)	(55.385)
Payments Related to Other Provisions	18	(8.642)	(41.703)	(11.587)	(42.232)
Income Taxes Refund (Paid)	30	(595.987)	(2.820.427)	(219.599)	(795.590)
CASH FLOWS FROM INVESTING ACTIVITIES		**(268.698)**	**(1.385.744)**	**(205.862)**	**(754.952)**
Cash Inflow Due to Share Sales of Subsidiaries' not End Up with Losing Control		9.692	42.391	-	-
Cash Ouflow Due to Share Purchases of Subsidiaries' not End Up with Losing Control		(1.512)	(8.000)	-	-
Cash Outflows Arising From Purchase of Shares or Capital Increase of Associates and/or Joint Ventures	12	(22.929)	(87.334)	(3.527)	(13.315)
Cash Outflows Arising From Purchase of Third Parties' Debt Instruments or Funds		(11.629)	(61.181)	-	-
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		1.951	9.413	1.961	7.148
Cash Inflow from Sales of Property, Plant and Equipment	14/15/27	*1.951*	*9.413*	*1.961*	*7.148*
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(196.703)	(949.288)	(208.135)	(758.633)
Cash Outflow from Purchase of Property, Plant and Equipment	14	*(194.113)*	*(936.790)*	*(205.556)*	*(749.232)*
Cash Outflow from Purchase of Intangible Assets	15	*(2.590)*	*(12.498)*	*(2.579)*	*(9.401)*
Cash Outflow from Purchase of Investment Property		(19.225)	(92.779)	-	-
Cash Advances and Debts Given		(28.343)	(238.966)	3.839	9.848
Other Cash Advances and Debts Given		*(28.343)*	*(238.966)*	*3.839*	*9.848*
CASH FLOWS FROM FINANCING ACTIVITIES		**(621.488)**	**(1.029.091)**	**(312.656)**	**(865.058)**
Cash Inflow from Borrowings		1.207.169	5.838.030	982.379	3.608.910
Cash Inflow from Loans	7	*1.207.169*	*5.838.030*	*982.379*	*3.608.910*
Cash Outflow from Repayments of Borrowings		(1.234.176)	(4.207.464)	(921.579)	(3.096.109)
Cash Outflow from Loan Repayments	7	*(1.234.176)*	*(4.207.464)*	*(921.579)*	*(3.096.109)*
Dividends Paid		(660.958)	(2.977.190)	(400.591)	(1.475.801)
Interest Paid		(39.320)	(189.758)	(29.215)	(106.485)
Interest Received		105.797	507.291	56.350	204.427
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		**(41.884)**	**1.735.618**	**581.014**	**2.004.606**
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(167.918)	(69.440)	(21.537)	434.392
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(209.802)**	**1.666.178**	**559.477**	**2.438.998**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	1.860.257	7.016.703	1.300.780	4.577.705
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	**1.650.455**	**8.682.881**	**1.860.257**	**7.016.703**

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

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

NOTE 1 - GROUP'S ORGANIZATION AND NATURE OF OPERATIONS

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

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

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

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

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

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

Name of the Company	Country of Operation	Operation	2018 Share (%)	2017 Share (%)
İskenderun Demir ve Çelik A.Ş. (*)	Turkey	Integrated Steel Production	94,87	95,07
Erdemir Madencilik San. ve Tic. A.Ş.	Turkey	Iron Ore and Pellet	90	90
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Turkey	Steel Service Center	100	100
Erdemir Mühendilik Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100	100
Erdemir Romania S.R.L.	Romania	Silicon Steel Production	100	100
Erdemir Asia Pacific Private Limited	Singapore	Trading	100	100
İsdemir Linde Gaz Ortaklığı A.Ş.	Turkey	Industrial Gas Production and Sales	50	50
Erdemir Enerji Üretim A.Ş. (**)	Turkey	Renewable Energy Production	100	-

(*) The share held in the Iskenderun Demir Çelik A.Ş.'s capital has decided to 94,87% from 95,07% after realization of the sales of shares of the Company with the value of TRY 42.391 thousand in aggregate at TRY 7,5 par value per share (total par value of TRY 5.652 thousand) on 13 April 2018 with Iskenderun Demir Çelik A.Ş.'s 95,07% share in the capital of the Company. With the change of such share ratio, since the requirements in the BIAŞ Listing Regulations have met, the shares of "ISDMR" which is formerly traded on Pre-Market Trading Platform have been started to be traded at Star Market as of 19 April 2018.

(**) A new Company called "Erdemir Enerji Üretim A.Ş." has a capital of TRY 8 million established for energy production with the % 100 capital of the Company. The Company isn't included the consolidation due to not started it's operations in 2018.

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 2018 and 31 December 2017 are as follows:

	Paid Hourly Personnel	Paid Monthly Personnel	31 December 2018 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.161	1.683	5.844
İskenderun Demir ve Çelik A.Ş.	2.980	1.744	4.724
Erdemir Madencilik San. ve Tic. A.Ş.	143	129	272
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	221	74	295
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	211	211
Erdemir Romania S.R.L.	220	40	260
Erdemir Asia Pacific Private Limited	-	1	1
	7.725	3.882	11.607

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

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 accompanying financial statements are prepared in accordance with the requirements of Capital Markets Board ("CMB") Communiqué Serial II, No: 14.1 "Basis of Financial Reporting in Capital Markets", which was published in the Official Gazette No:28676 on 13 June 2013. The accompanying financial statements are prepared based on the Turkish Accounting Standards and interpretations ("TAS") that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority ("POA") under Article 5 of the Communiqué.

The financial statements and disclosures have been prepared in accordance with the resolution of CMB dated 7 June 2013 about the "illustrations of financial statements and application guidance".

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values. (Derivative financial instruments and iron ore and silicon steel used in the production of fixed assets). Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

2.1 Basis of Presentation (cont'd)

Functional and Reporting Presentation Currency

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

Functional currency for the subsidiaries abroad

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

Presentation currency translation

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

a) The assets and liabilities on financial position as of 31 December 2018 are translated from USD Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 5,2609=US $ 1 and TRY 6,0280=EUR 1 on the balance sheet date (31 December 2017: TRY 3,7719= US $ 1, TRY 4,5155=EUR 1).
b) For the year ended 31 December 2018, income statements are translated from the 12 months average TRY 4,8260 = US $ 1 and TRY 5,6772=EUR 1 rates of 2018 January - December period (31 December 2017: TRY 3,6449 = US $ 1 TRY 4,1139 = 1 EUR).
c) Exchange differences are shown in other comprehensive income as of foreign currency translation reserve.
d) The differences between presentation of statutory and historical figures are recognised as translation differences under equity. All capital, capital measures and other measures are represented with their statutory figures, other equity accounts are represented with their historic cost figures in the accompanying financial statements.

USD amounts presented in the financial statements

The figures in USD amounts presented in the accompanying consolidated financial statements comprising the statements of financial position as of 31 December 2018 and 31 December 2017, consolidated statement of income and other comprehensive income, and consolidated statement of cash flows for the year ended 31 December 2018 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 7 February 2019 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

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

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

2.2 Restatement and errors in the accounting policies and estimates

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

Based on the changes in TFRS 9 "Financial Instruments (version 2017) and accounting principle change effective from 1 January 2018, effects from impairment of monetary assets as a result of evaluation of credit risk summarized below:

	Before change in accounting principle 31 December 2018	Effect of TFRS 9 31 December 2018	After change in accounting principle 31 December 2018
Cash and Cash Equivalents	8.708.741	(49.405)	8.659.336
Financial Investments	61.502	(502)	61.000
Deffered Tax Assets	56.572	10.980	67.552
Foreign Currency Translation Differences	4.355.526	(6.407)	4.349.119
Retained Earnings	2.350.746	(11.412)	2.339.334
Finance Expenses	(259.407)	(27.063)	(286.470)
Deffered Tax (Expense) Income	(264.728)	5.954	(258.774)

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.

The consolidated financial statements incorporate the financial statements of the Company and entities *(including structured entities)* controlled by the Company and its subsidiaries. Control is achieved when the Company;

(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)

(i) has power over the investee, (ii) is exposed, or has rights, to variable returns from its involvement with the investee; (iii) has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

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

	31 December 2018			31 December 2017		
	Functional Currency	Ownership Interest	Effective Shareholding	Functional Currency	Ownership Interest	Effective Shareholding
İsdemir	US Dollars	94,87	94,87	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
İsdemir Linde Gaz	US Dollars	50,00	50,00	US Dollars	50,00	50,00
Erdemir Enerji Üretim (*)	Turkish Lira	100,00	100,00	Turkish Lira	-	-

(*) As of 31 December 2018, non-operating joint venture Erdemir Enerji Üretim A.Ş. recognized in financial investments on financial statements since the effect on financials are not material.

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.

(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)

Classifications on statement of financial position as follows:

Account	(Previously Reported) 1 January - 31 December 2017	(Restated) 1 January - 31 December 2017	(Difference) 1 January - 31 December 2017
Other Comprehensive Income/Expense Not to be Reclassified to Profit/ (Loss)			
Foreign Currency Translation Differences [1]	(77.330)	5.510.152	5.587.482
Other Comprehensive Income/Expense to be Reclassified to Profit/ (Loss)			
Foreign Currency Translation Differences [1]	7.649.204	2.061.722	(5.587.482)
			-

[1] As of 31 December 2017 and previous periods currency translation differences amounting to TRY 5.587.482 thousand recognized in "Other Comprehensive Income/Expenses to be Reclassifed to Profit/(Loss) classified to "Other Comprehensive Income/Expenses not to be Reclassifed to Profit/(Loss)".

Account	(Previously Reported) 1 January - 31 December 2017	(Restated) 1 January - 31 December 2017	(Difference) 1 January - 31 December 2017
Revenue [1]	18.643.914	18.736.447	92.533
Other Operating Income [1] [2] [4]	277.354	242.036	(35.318)
Other Operating Expenses [3]	(110.079)	(95.653)	14.426
Income from Investing Activities [2]	-	6.046	6.046
Expenses from Investing Activities [3]	-	(14.426)	(14.426)
Finance Income [4]	286.868	223.607	(63.261)
			-

[1] Interest income from sales with maturities amounting to TRY 92.533 thousand reported in "Other Operating Income" was reclassified to "Revenue" on the profit and loss statement for the period ended 31 December 2017.

[2] Gain on sales of tangible assets amounting to TRY 5.540 thousand and rent income amounting to TRY 506 thousand from investment properties reported as "Other Operating Income" before, was reclassified to "Income from Investing Activities" on the profit and loss statement for the period ended 31 December 2017.

[3] Losses on sales of tangible assets amounting to TRY (13.310) thousand and losses on disposal of tangible assets amounting to TRY (1.116) thousand reported as "Other Operating Expenses (-)" before, was reclassified to "Expenses from Investing Activities (-)" on the profit and loss statement for the period ended 31 December 2017.

[4] Foreign exchange gains from trade receivables and payables (net) amounting to TRY 63.261 thousand reported as "Finance Income (net)" before, was reclassified to "Other Operating Income" on the profit and loss statement for the period ended 31 December 2017.

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

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

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

The Group calculates depreciation for the fixed assets by taking into account their production amounts on the basis of cash flow unit set by independent expert valuation firm and useful lives that are stated in Note 2.8.3 and 2.8.4 (Note 14, Note 15).

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 30).

2.5.3 Fair values of derivative financial instruments

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

2.5.4 Provision for doubtful receivables

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

2.5.5 Provision for inventories

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

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)

2.5.6 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 17.

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 18.

2.5.8 Impairments on Assets

The Group, performs impairment tests for assets that are subject to depreciation and amortization in case of being not possible to prevent recovery of the assets at each reporting period. Assets are grouped at the lowest levels which there are separately identifiable cash flows for evaluation of impairment (cash generating units). As a result of the impairment tests performed by the Group, additional impairment is estimated in the accompanying financial statements for the non financial assets recognized in expenses from investment activities (Note 27).

2.5.9 Impairment in financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

2.5.10 Calculation of loss allowance

When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

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.

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

2.7 Adoption of New and Revised Financial Reporting Standards

The accounting policies adopted in preparation of the interim condensed consolidated financial statements as at 31 December 2018 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 2018 summarized below.

Efffects of these standarts and interpretations on Group's financial position and performance summarized following paragraphs.

TFRS 9 Financial Instruments

(a) Classification and measurement of financial assets

In the current year, the Group has applied TFRS 9 Financial Instruments (2017 version) and the related consequential amendments to other TFRS Standards that are effective for an annual period that begins on or after 1 January 2018.

TFRS 9 introduced new requirements for:

1) The classification and measurement of financial assets and financial liabilities,
2) Impairment of financial assets, and
3) General hedge accounting.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied TFRS 9 in accordance with the transition provisions set out in TFRS 9.

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of TFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of TFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

All recognised financial assets that are within the scope of TFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

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

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

The new standards, amendments and interpretations which are effective as at 1 January 2018 are as follows (cont'd)

TFRS 9 Financial Instruments (cont'd)

(a) Classification and measurement of financial assets (cont'd)

Despite the aforegoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. See (b) below.

The directors of the Company reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of TFRS 9 has had the following impact on the Group's financial assets as regards their classification and measurement.

Group classifies its financial assets in three categories of financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit of loss. The classification of financial assets is determined considering the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The appropriate classification of financial assets is determined at the time of the purchase.

"Financial assets measured at amortised cost", are non-derivative assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Group's financial assets measured at amortised cost comprise "cash and cash equivalents", "trade receivables" and "receivables from finance sector operations". Financial assets carried at amortised cost are measured at their fair value at initial recognition and by effective interest rate method at subsequent measurements. Gains and losses on valuation of non-derivative financial assets measured at amortised cost are accounted for under the consolidated statement of income.

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

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

The new standards, amendments and interpretations which are effective as at 1 January 2018 are as follows (cont'd)

TFRS 9 Financial Instruments (cont'd)

(a) Classification and measurement of financial assets (cont'd)

"Financial assets measured at fair value through other comprehensive income", are non-derivative assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Gains or losses on a financial asset measured at fair value through other comprehensive income is recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses until the financial asset is derecognised or reclassified. When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified to retained earning.

"Financial assets measured at fair value through profit or loss", are assets that are not measured at amortised cost or at fair value through other comprehensive income. Gains and losses on valuation of these financial assets are accounted for under the consolidated statement of income.

Changes regarding the classification of financial assets in terms of TFRS 9 are summarised below.

Financial Assets	Previous Classification According to TAS 39	New Classification According to TFRS 9
Cash and cash equivalents	Borrowings and receivables	Amortised cost
Trade receivables	Borrowings and receivables	Amortised cost
Other financial assets	Borrowings and receivables	Amortised cost
Financial investments	Financial assets held for sale	Fair value differences reflected in income statement
Financial derrivative instruments	Fair value differences reflected in income statement or other comprehensive income	Fair value differences reflected in income statement or other comprehensive income

Related changes in classification do not result in changes in measurement of the financial assets and liabilities.

(b) Impairment on financial assets

"Expected credit loss model" defined in TFRS 9 "Financial Instruments" superseded the "incurred credit loss model" in TAS 39 "Financial Instruments: Recognition and Measurement" which was effective prior to 1 January 2018. Expected credit losses are a probability weighted estimate of credit losses over the expected life of the financial instrument. The calculation of expected credit loss is performed based on the past experiences and future expectations of the Group.

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

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

The new standards, amendments and interpretations which are effective as at 1 January 2018 are as follows (cont'd)

TFRS 9 Financial Instruments (cont'd)

(b) Impairment on financial assets (cont'd)

Trade receivables, receibvables from related parties and contractual assets;

- Group has preferred to apply "simplified approach" defined in TFRS 9 for the recognition of impairment losses on trade receivables, carried at amortised cost and that do not comprise of any significant finance component (those with maturity less than 12 months). In accordance with the simplified approach, Group measures the loss allowances regarding its trade receivables at an amount equal to "lifetime expected credit losses" except incurred credit losses in which trade receivables are already impaired for a specific reason.
- Group uses a provision matrix for the calculation of the expected credit losses on trade receivables. The provision matrix calculates fixed provision rates depending on the number of days that a trade receivable is past due and those provision rates are reviewed and, revised if necessary, in every reporting period. The changes in the expected credit losses on trade receivables are accounted for under "other operating income/expenses" account of the consolidated statement of income

(c) Classification and measurement of financial liabilities

A significant change introduced by TFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, TFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under TMS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

Changes regarding the classification of financial liabilities in terms of TFRS 9 are summarised below.

Financial Liabilities	Previous Classification According to TAS 39	New Classification According to TFRS 9
Borrowings	Amortised cost	Amortised cost
Trade payables	Amortised cost	Amortised cost
Other liabilities	Amortised cost	Amortised cost
Financial derrivative instruments	Fair value differences reflected in income statement or other comprehensive income	Fair value differences reflected in income statement or other comprehensive income

The application of TFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.

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

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

The new standards, amendments and interpretations which are effective as at 1 January 2018 are as follows (cont'd)

TFRS 9 Financial Instruments (cont'd)

(d) General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting.

Specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Group's risk management activities have also been introduced.

In accordance with TFRS 9's transition provisions for hedge accounting, the Group has applied the TFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 January 2018. The Group's qualifying hedging relationships in place as at 1 January 2018 also qualify for hedge accounting in accordance with TFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on 1 January 2018. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under TFRS 9's effectiveness assessment requirements.

The Group has also not designated any hedging relationships under TFRS 9 that would not have met the qualifying hedge accounting criteria under TMS 39.

Impact of application of TFRS 15 Revenue from Contracts with Customers

Impact on the Financial Statements

In the current year, the Group has applied TFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. TFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in TFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Group's consolidated financial statements are described below.

TFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position.

Accounting policies related with revenue items explained in Note 2.8.1. implementation of TFRS 15 hasn't significant effect on Company's financials and Company's performance.

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

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

The new standards, amendments and interpretations which are effective as at 1 January 2018 are as follows (cont'd)

Impact of application of TFRS 15 Revenue from Contracts with Customers (cont'd)

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

The amendments clarify the standard in respect of the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature. Changer in TFRS 2 hasn't significant effect on Company's financials.

Amendments to TMS 40 *Transfers of Investment Property*

Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The list of examples of evidence in paragraph 57(a) - (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.

Annual Improvements to TFRS Standards 2014-2016 Cycle

TMS 28: Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. Annual improvements to TFRS Standards 2014-2016 cycle have no impact on the Group's consolidated financial statements.

TFRS Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

The interpretation addresses foreign currency transactions or parts of transactions where:
- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.
- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

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

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

The new standards, amendments and interpretations which are effective as at 1 January 2018 are as follows (cont'd)

New and revised TFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, The Group has not applied the following new and revised TFRS Standards that have been issued but are not yet effective:

- TFRS 16 Leases [(1)]
- Amendments to TMS 28 *Long-term Interests in Associates and Joint Ventures* [(1)]
- IFRIC 23 *Uncertainty over Income Tax Treatments* [(1)]
- TFRS 10 and TMS 28 (amendments) *Consolidated Financial Statements Sale of Contribution of Assets between an Investor and its Associate or Joint Venture* [(1)]
- Amendments to *TMS 19 Employee Benefits Plan Amendment, Curtailment or Settlement* [(1)]
- Annual Improvements to TFRS Standards 2015-2017 Cycle *Amendments to TFRS 3 Business* [(1)]
- *Combinations, TFRS 11 Joint Arrangements*, *TMS 12 Income Taxes and TMS 23 Borrowing Costs* [(1)]

[(1)] Effective from periods on or after 1 January 2019.

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

<u>TFRS 16 Leases</u>

General impact of application of TFRS 16 Leases

TFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. TFRS 16 will supersede the current lease guidance including TMS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of TFRS 16 for the Group will be 1 January 2019.

In contrast to lessee accounting, TFRS 16 substantially carries forward the lessor accounting requirements in TMS 17.

Impact of the new definition of a lease

The Group will make use of the practical expedient available on transition to TFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with TMS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. TFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

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

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

The new standards, amendments and interpretations which are effective as at 1 January 2018 are as follows (cont'd)

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

TFRS 16 Leases (cont'd)

The Group will apply the definition of a lease and related guidance set out in TFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of TFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in TFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

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

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

TFRS Interpretation 23 Uncertainty over Income Tax Treatments

This interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under TMS 12.

TFRS 10 Consolidated Financial Statements and TMS 28 (Amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

Amendments to TMS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position).

Annual Improvements to TFRS Standards 2015-2017 Cycle

Annual Improvements to TFRS Standards 2015-2017 Cycle include amendments to TFRS 3 Business Combinations and TFRS 11 Joint Arrangements in when a party that participates in, but does not have joint control of, TMS 12 Income Taxes; income tax consequences of dividends in profit or loss, and TMS 23 Borrowing Costs in capitalized borrowing costs.

The Group assess the possible impacts of the application of the amendments on the Group's consolidated financial statements.

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

2.8 Valuation Principles Applied / Significant Accounting Policies

Accounting policies implemented during preparation of financial statemens as follows:

2.8.1 Revenue recognition

Group recognizes revenue when the goods or services is transferred to the customer and when performance obligation is fulfilled. Goods is counted to be transferred when the control belongs to the customer.

Group recognizes revenue based on the following main principles:
a) Identification of customer contracts
b) Identification of performance obligations
c) Determination of transaction price in the contract
d) Allocation of price to performance obligations
e) Recognition of revenue when the performance obligations are fulfilled

Group recognized revenue from its customers only when all of the following criteria are met:
a) The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations,
b) Group can identify each party's rights regarding the goods or services to be transferred,
c) Group can identify the payment terms for the goods or services to be transferred;
d) The contract has commercial substance,
e) It is probable that Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due.

Revenue recognized in accordance with TMS 18 untill 31 December 2017.

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

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.

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

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.

Depreciation is recognized so as to write off the cost or valuation of assets, other than freehold land and properties under construction, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

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

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

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

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 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%
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 income (expense) from investment activities.

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 recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

The Group classifies its financial assets as (a) Business model used for managing financial assets, (b) financial assets subsequently measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss based on the characteristics of contractual cash flows. The Company reclassifies all financial assets effected from the change in the business model it uses for the management of financial assets. The reclassification of financial assets is applied prospectively from the reclassification date. In such cases, no adjustment is made to gains, losses (including any gains or losses of impairment) or interest previously recognized in the financial statements.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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)

Classification of financial assets (cont'd)

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset; the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met.

(i) Amortised cost and effective interest method

Interest income on financial assets carried at amortized cost is calculated using the effective interest method. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. This income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset:

a) Credit-impaired financial assets when purchased or generated. For such financial assets, the Company applies the effective interest rate on the amortized cost of a financial asset based on the loan from the date of the recognition in the financial statements.
b) Non-financial assets that are impaired at the time of acquisition or generation but subsequently become a financial asset that has been impaired. For such financial assets, the Company applies the effective interest rate to the amortized cost of the asset in the subsequent reporting periods.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI.

Interest income is recognised in profit or loss and is included in the "finance income - interest income" line item (Note 28).

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI (see (i) to (iii) above) are measured at FVTPL. Specifically:

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy).

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)

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically,

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other gains and losses' line item;
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss in the 'other gains and losses' line item. Other exchange differences are recognised in other comprehensive income in the investments revaluation reserve;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other gains and losses' line item (and
- for equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the investments revaluation reserve.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as financial guarantee contracts. No impairment loss is recognised for investments in equity instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group utilizes a simplified approach for trade receivables, contract assets and lease receivables that does not have significant financing component and calculates the allowance for impairment against the lifetime ECL of the related financial assets.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

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)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities

Financial liabilities are classified as at FVTPL on initial recognition. On initial recognition of liabilities other than those that are recognised at FVTPL, transaction costs directly attributable to the acquisition or issuance thereof are also recognised in the fair value.

A financial liability is subsequently classified at amortized cost except:

a) Financial liabilities at FVTPL: These liabilities including derivative instruments are subsequently measured at fair value.
b) Financial liabilities arising if the transfer of the financial asset does not meet the conditions of derecognition from the financial statements or if the ongoing relationship approach is applied: When the Group continues to present an asset based on the ongoing relationship approach, a liability in relation to this is also recognised in the financial statements. The transferred asset and the related liability are measured to reflect the rights and liabilities that the Company continues to hold. The transferred liability is measured in the same manner as the net book value of the transferred asset.
c) A contingent consideration recognized in the financial statements by the entity acquired in a business combination where TFRS 3 is applied: After initial recognition, the related contingent consideration is measured as at FVTPL.

The Company does not reclassify any financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

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

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

2.8.8 Financial instruments (cont'd)

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, options and interest rate swaps. Further details of derivative financial instruments are disclosed in note 6.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both legal right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge accounting

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations as appropriate. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge).

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)

The Group designates the full change in the fair value of a forward contract (i.e. including the forward elements) as the hedging instrument for all of its hedging relationships involving forward contracts.

Note 6 sets out details of the fair values of the derivative instruments used for hedging purposes.

Movements in the hedging reserve in equity are detailed in Note 6.

Financial instruments recognized in accordance with TMS 39 untill 31 December 2017.

2.8.9 The effects of foreign exchange rate changes

Foreign currency transactions are recorded at the rates of exchange prevailing on the dates of the transactions. Assets and liabilities denominated in foreign currencies are converted at the exchange rates prevailing on the balance sheet date.

The Group records foreign currency (currencies other than the functional currency of the related company) transactions using exchange rates of the date the transaction is completed. Foreign currency monetary items are evaluated with exchange rates as of reporting date and arising foreign exchange income/expenses are recorded in consolidated statement of income. All monetary assets and liabilities are evaluated with exchange rates of the reporting date and related foreign currency translation differences are transferred to consolidated statement of income. Non-monetary foreign currency items that are recognized at cost are evaluated with historic exchange rates. Non-monetary foreign currency items that are recognized at fair value are evaluated with exchange rates of the dates their fair values are determined.

2.8.10 Earnings per share

Earnings per share, disclosed in the consolidated income statement, are determined by dividing the net income attributable to equity holders of the parent by the weighted average number of shares outstanding during the period concerned.

In Turkey, companies can increase their share capital by distributing "bonus shares" to shareholders from retained earnings. In computing earnings per share, such "bonus share" distributions are assessed as issued shares. Accordingly, the weighted-average number of shares are computed by taking into consideration of the retrospective effects of the share distributions.

2.8.11 Subsequent events

Subsequent events include all events that take place between the balance sheet date and the date of authorization for the release of the balance sheet, although the events occurred after the announcements related to the net profit/loss or even after the public disclosure of other selective financial information.

In the case that events occur requiring an adjustment, the Group adjusts the amounts recognized in its consolidated financial statements to reflect the adjustments after the balance sheet date. Post period end events that are not adjusting events are disclosed in the notes when material.

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

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

2.8.12 Provisions, contingent liabilities and contingent assets

Provisions are recognized when the Group has a present obligation as a result of a past legal or subtle event, where it is probable that the Group will be required to settle that obligation and when a reliable estimate can be made of the amount of the obligation. Contingent liabilities are assessed continuously to determine the probability of outflow of the economically beneficial assets. For contingent liabilities, when an outflow of resources embodying economic benefits are probable, provision is recognized for this contingent liability in the period when the probability has changed, except for the cases where a reliable estimate cannot be made.

When the Group's contingent liabilities' availability is possible but the amount of resources containing the economic benefits cannot be measured reliably, then the Group discloses this fact in the notes.

2.8.13 Related parties

A related party is a person or entity that is related to reporting entity, the entity that is preparing its financial statements.

(a) A person or a close member of that person's family is related to a reporting entity if that person:
- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:
- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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

2.8.13 Related parties (cont'd)

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

2.8.14 Taxation and deferred income taxes

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

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

Current tax

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

Deferred tax

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

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

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

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

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

2.8.14 Taxation and deferred income taxes (cont'd)

Deferred tax (cont'd)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in the consolidated income statement, except when they relate to the items credited or debited directly to the equity (in this case the deferred tax related to these items is also recognized directly in the equity), or where they arise from the initial accounting of a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

2.8.15 Employee benefits

According to the Turkish and Romanian law and union agreements, employee termination payments are made to employees in the case of retiring or involuntarily leaving. Such payments are considered as a part of defined retirement benefit plan in accordance with TMS19 (revised) *Employee Benefits* ("TMS 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 17.

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.

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

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

2.8.16 Government grants and incentives

Government grants and incentives are recognized at fair value when there is assurance that these grants and incentives will be received and the Group has met all conditions required. Government grants and incentives related to costs are recognized as revenue during the periods they are matched with the costs they will cover.

2.8.17 Statement of cash flows

Cash flows during the period are classified and reported as operating, investing and financing activities in the consolidated statement of cash flows.

Cash flows arising from operating activities represent the cash flows that are used in or provided by the Group's steel products and metal sales activities.

Cash flows arising from investment activities represent the cash flows that are used in or provided by the investing activities (direct investments and financial investments) of the Group.

Cash flows arising from financing activities represent the cash proceeds from the financing activities of the Group and the repayments of these funds.

Cash and cash equivalents comprises of the cash on hand, the demand deposits and highly liquid other short-term investments which their maturities are three months or less from the date of acquisition, are readily convertible to cash and are not subject to a significant risk of changes in value.

The translation difference that occurs due to translation from functional currency to presentation currency is shown as translation difference on cash flow statement.

2.8.18 Share capital and dividends

Common shares are classified as equity. Dividends on common shares are recognized in equity in the period which they are approved and declared.

2.8.19 Erdemir repurchased shares (Treasury shares)

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

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

NOTE 3 - SEGMENTAL REPORTING

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

NOTE 4 - CASH AND CASH EQUIVALENTS

As of reporting date the detail of cash and cash equivalents as follows:

	31 December 2018	31 December 2017
Cash	37	31
Banks-demand deposits	256.671	68.679
Banks-time deposits	8.402.628	6.966.730
	8.659.336	7.035.440
TFRS 9 effect	49.405	-
Time deposit interest accruals (-)	(25.860)	(18.737)
Cash and cash equivalents excluding interest accruals	8.682.881	7.016.703

The details of demand deposits are presented below:

	31 December 2018	31 December 2017
US Dollars	172.772	57.769
TRY	58.492	6.096
EURO	12.895	3.695
Romanian Lei	12.286	617
Other	226	502
	256.671	68.679

The details of time deposits in banks as follows:

	31 December 2018	31 December 2017
US Dollars	8.303.821	6.704.513
TRY	38.671	12.015
EURO	59.870	250.006
Romanian Lei	266	196
	8.402.628	6.966.730

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.

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

NOTE 5 - FINANCIAL INVESTMENTS

As of reporting date the detail of financial investments as follows:

	31 December 2018	31 December 2017
Tresuary bonds	61.502	-
TFRS 9 effect	(502)	-
	61.000	-

The Group invested in USD and TRY denominated fixed income securities which terms will be expired in 2019 issued by banks or private sector in Turkey to make profit. These fixed income securities held for collection of contractual cash flows that includes principal and interest payments related with principal amount (Note 2.8.8).

Long term financial investments:

	31 December 2018	31 December 2017
Available for sale financial assets	-	13.437
Fair value differences reflected in income statement	143	-
Investments in subsidirias	7.952	-
	8.095	13.437

As of reporting date, ratios, shares of subsidiaries and amounts and subsidiaries recognized as financial investments as follows:

Company	Ratio %	31 December 2018	Ratio %	31 December 2017
Financial investments without an active market				
Teknopark Hatay A.Ş.	5	143	5	102
Joint venture				
İsdemir Linde Gaz Ortaklığı A.Ş. (*)	50	-	50	13.335
Consolidated subsidiary				
Erdemir Enerji Üretim A.Ş. (**)	100	7.952	-	-
		8.095		13.437

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

(**) As of 31 December 2018, non-operating joint venture Erdemir Enerji Üretim A.Ş. recognized on financial investments on financial statements since the effect on financials are not material.

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

NOTE 6 - DERIVATIVE FINANCIAL INSTRUMENTS

As of reporting date the detail of financial derivative instruments as follows:

	31 December 2018		31 December 2017	
	Asset	Liability	Asset	Liability
Fair value hedging derivative financial assets				
Forward contracts for fair value hedges of currency risk of sales	34.117	226	27	9.470
Forward contracts	85	78	1.514	17
Interest rate swap contracts	5.397	-	4.159	-
Basis Swap contracts	-	2.379	-	943
	39.599	2.683	5.700	10.430
Cash flow hedging derivative financial assets				
Forward contracts for cash flow hedges of currency risk of sales	17.250	1.843	1	24.017
Interest rate swap contracts for cash flow hedges of interest rate risk of borrowings	714	-	572	12
Commodity swap contracts for cash flow hedges of price fluctuations of raw material purchases	1.830	-	2.075	8.982
	19.794	1.843	2.648	33.011
	59.393	4.526	8.348	43.441

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

NOTE 6 - DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Derivative instruments for fair value hedge

As of reporting date, the details of forward, swap and cross currency swap transactions for fair value hedge are as follows:

		Assets		Liabilities	
31 December 2018		Nominal value	Fair Value	Nominal value	Fair Value
Forward contracts for fair value hedges of currency risk of sales					
Buy USD/Sell EUR	Less than 3 months	664.473	34.107	75.031	226
Buy USD/Sell EUR	Between 3 - 6 months	1.827	10	-	-
		666.300	34.117	75.031	226
Forward contracts					
Buy USD/Sell EUR	Less than 3 months	-	-	2.766	25
Buy USD/Sell EUR	Between 3 - 6 months	-	-	5.304	53
Buy EUR/Sell USD	Less than 3 months	2.773	31	-	-
Buy EUR/Sell USD	Between 3 - 6 months	5.317	54	-	-
		8.090	85	8.070	78
Interest rate swap contracts					
USD floating interest collection /Fixed interest payment	Between 1 - 5 years	241.125	5.397	-	-
		241.125	5.397	-	-
Basis interest swap contracts					
USD basis floating interest collection / Basis floating interest payment	Between 1 - 5 years	-	-	454.655	2.379
		-	-	454.655	2.379
		915.515	39.599	537.756	2.683

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

NOTE 6 - DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Derivative instruments for fair value hedge (cont'd)

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

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 2019 and March 2020.

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

In respect of these contracts which has a nominal value of TRY 1.498.946 thousand for the purpose of hedging cash flow risk, with related deferred tax effect TRY 15.407 thousand was included in other comprehensive income/expense (31 December 2017: TRY (24.016) thousand).

In the current period, TRY 115.593 thousand resulting from the sales related forward contracts was accounted under the revenue account of the profit or loss table (31 December 2017: TRY (61.857) thousand).

NOTE 6 - DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Derivative instruments for cash flow hedge (cont'd)

Cross currency and interest rate swap contracts for cash flow hedges of interest rate and currency risk of borrowings:

Group has fixing contracts for future interest and principle payments of floating interest rate borrowings. The fair values of these contracts match the floating rate borrowings and was included in other comprehensive income. The maturities of these transactions will be completed in April 2020.

The terms and conditions of those contracts match the terms and conditions of the floating rate borrowings. As a result, no hedge ineffectiveness arises requiring recognition through profit or loss.

In respect of these contracts which has a nominal value of TRY 60.703 thousand, for the purpose of hedging cash flow risk, with related deferred tax effect TRY 714 thousand was included in other comprehensive income (31 December 2017: TRY 560 thousand).

Commodity swap cont1racts 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.

The maturities' varies until January 2019 contracts of 45 thousands tonne of iron ore has a nominal value of TRY 15.837 thousand and fair value of TRY 1.019 thousand except from deffered tax effect recognized on other comprehensive income (31 December 2017: TRY 2.075 thousand). Amounts recognized on other comprehensive income table TRY 1.019 thousand related with commodity price hedging swap contracts for raw material purchases, realized as of 31 December 2018 and capitalized on inventories.

The maturities' varies until January 2019 contracts of 4 thousands tons of coal, has a nominal value of TRY 4.320 thousand and fair value of TRY 811 thousand except from deffered tax effect recognized on other comprehensive income. Amounts recognized on other comprehensive income table TRY 811 thousand related with commodity price hedging swap contracts for raw material purchases, realized as of 31 December 2018 and capitalized on inventories.

As of 31 December 2018 TRY (3.293) thousand reflected from other comprehensive income to inventory cost thousand (31 December 2017: TRY (11.198) thousand).

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

NOTE 7 - BORROWINGS

As of reporting date details of borrowings disclosed at amortized are as follows:

	31 December 2018	31 December 2017
Short term borrowings	3.654.083	2.243.529
Current portion of long term borrowings	1.066.402	882.211
Total short term borrowings	4.720.485	3.125.740
Long term borrowings	1.400.475	1.364.688
Total long term borrowings	1.400.475	1.364.688
	6.120.960	4.490.428

As of 31 December 2018, 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 2018
No interest	TRY	-	32.284	-	32.284
Fixed	US Dollars	3,31	2.835.450	72.873	2.908.323
Fixed	EURO	2,80	12.035	32.145	44.180
Floating	US Dollars	Libor+1,64	1.743.193	1.008.245	2.751.438
Floating	EURO	Euribor+2,23	97.523	287.212	384.735
			4.720.485	1.400.475	6.120.960

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

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

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

NOTE 7 - BORROWINGS (cont'd)

	31 December 2018	31 December 2017
Within 1 year	4.720.485	3.125.740
Between 1-2 years	740.278	537.186
Between 2-3 years	242.089	487.084
Between 3-4 years	189.274	130.335
Between 4-5 years	107.370	117.133
Five years or more	121.464	92.950
	6.120.960	4.490.428

Recoincilation of net financial borrowings as follows:

	31 December 2018	31 December 2017
Opening balance	4.490.428	3.919.488
Interest expenses	177.203	105.342
Interest paid	(189.758)	(106.485)
Unrealised foreign exchange differences	(3.959)	55.106
Capitalized	16.480	4.176
Cash inflow from loans	5.838.030	3.608.910
Cash outflow from loan repayments	(4.207.464)	(3.096.109)
Closing balance	6.120.960	4.490.428

NOTE 8 - TRADE RECEIVABLES AND PAYABLES

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

	31 December 2018	31 December 2017
Short term trade receivables		
Trade receivables	4.469.265	2.599.865
Due from related parties (Note 32)	68.586	82.936
Discount on receivables (-)	-	(2.119)
Provision for doubtful trade receivables (-)	(136.377)	(98.576)
	4.401.474	2.582.106

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

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

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

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance	98.576	90.482
Provision for the period	39.863	431
Doubtful receivables collected (-)	-	(4.179)
Provision released (-)	(26.970)	(4.335)
Translation difference	24.908	16.177
Closing balance	136.377	98.576

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

As the Group provides services and products to a large number of customers, collection risk is widely distributed amongst these customers and there is no significant credit risk exposure. Therefore, the Group does not provide for any further provision beyond the doubtful receivables provisions that the Group has already provided for in the consolidated financial statements. The detail of overdue receivables included in trade receivables as of the reporting date is disclosed in the management of credit risk management (Note 33). The Group provides provision according to the balances of all unsecured receivables under legal follow up.

Group's past due but not impaired receivable amount is TRY 2.650 thousand and the maturities' of them between 0 and 30 days (Note 33).

In accordance with TFRS 9 "Financial Instruments" standart, expected credit loss measured regarding trade receivables and no significant effect ascertained on financial statements.

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

Short term trade payables	31 December 2018	31 December 2017
Trade payables	1.786.442	892.236
Due to related parties (Note 32)	147.772	53.897
Discount on trade payables (-)	-	(4.077)
Expense accruals	1.708	735
	1.935.922	942.791

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

NOTE 9 - OTHER RECEIVABLES AND PAYABLES

As of the reporting date, the details of the Group's other receivables are as follows:

Short term other receivables	31 December 2018	31 December 2017
Receivables from water system construction	1.504	1.701
Deposits and guarantees given	296	299
	1.800	2.000

Long term other receivables	31 December 2018	31 December 2017
Receivables from Privatization Authority	75.142	73.193
Receivables from water system construction	8.817	12.591
Deposits and guarantees given	580	1.052
Provision for receivables from Privatization Authority (-)	(75.142)	(73.193)
	9.397	13.643

Privatization Administration Litigation

In the litigation filed by the Company for indemnification of the payments made to the Company as per the share transfer agreement, with the File No 2015/125 E to the 19th Commercial Court of First Instance in Ankara against the Privatization Administration, the Court decided to accept the claim partially and to collect the amount of TRY 52.857 thousandwith the interest to be accrued thereon from 26 January 2012 and pay such amounts to the Company. the ruling was appealed by TR Prime Ministry Privatization Administration, where after 11th Chamber Office of the Supreme Court approved the resolution of the 19th Commercial Court of First Instance in Ankara, and such approval decision was notified to our Company. As the adjustment process against the approval decision was not eliminated, our company has continued to carry the provisions for the receivables in the financial statements in the reporting period related to this subject.

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

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance	73.193	70.236
Provision for the period	2.457	2.990
Provision released (-)	(383)	-
Other doubtful receivables collected (-)	(414)	-
Translation difference	289	(33)
Closing balance	75.142	73.193

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

NOTE 9 - OTHER RECEIVABLES AND PAYABLES (cont'd)

Privatization Administration Litigation (cont'd)

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

Short term other payables	31 December 2018	31 December 2017
Taxes payable	30.014	30.206
Deposits and guarantees received	8.897	8.745
Dividend payables to shareholders (*)	3.875	3.007
	42.786	41.958

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

NOTE 10 - INVENTORIES

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

	31 December 2018	31 December 2017
Raw materials	2.133.042	1.184.596
Work in progress	1.712.760	921.580
Finished goods	2.322.664	1.143.812
Spare parts	1.115.108	781.590
Goods in transit	1.405.980	895.153
Other inventories	548.341	341.025
Allowance for impairment on inventories (-)	(347.745)	(228.247)
	8.890.150	5.039.509

The movement of the allowance for impairment on inventories:

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance	228.247	208.787
Provision for the period	30.450	39.530
Provision released (-)	(3.402)	(35.415)
Translation difference	92.450	15.345
Closing balance	347.745	228.247

The Group has provided an allowance for the impairment on the inventories 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 23).

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

NOTE 11 - PREPAID EXPENSES

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

	31 December 2018	31 December 2017
Insurance expenses	56.359	37.495
Order advances given	17.197	3.890
Prepaid utility allowance to employees	9.718	7.608
Other prepaid expenses	6.731	3.989
	90.005	52.982

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

	31 December 2018	31 December 2017
Order advances given	225.384	54.684
Fixed asset advances given to related parties (Note 32)	68.266	-
Insurance expenses	25.409	654
Other prepaid expenses	12.216	4.205
	331.275	59.543

NOTE 12 - INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

The details of the Groups financial investments using equity method as follows:

Company	Right to vote ratio %	31 December 2018	Business segment
Joint Venture			Industrial Gas
İsdemir Linde Gaz Ortaklığı A.Ş.	50	145.284	Production and Sale

The Group's shares on assets of investments accounted for using equity method as follows:

	31 December 2018	31 December 2017
Total assets	380.489	278.444
Total liabilities	89.921	246.568
Net assets	290.568	31.876
Group's share on net assets	145.284	15.938

	31 December 2018	31 December 2017
Share capital	201.667	27.000

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

NOTE 12 - INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (cont'd)

In General Assembly dated 8 March 2018 of Isdemir Linde Gaz Ortaklığı A.Ş. it was decided that the Company's share capital increased by TRY 174.667 thousand (USD 45.857 thousand equivalent) from TRY 27.000 thousand to TRY 201.667 thousand (Isdemir's share is amunting to TRY 87.333 thousand / USD 22.929 thousand). Increased capital amound paid by shareholders on 9 March 2018.

Group's share on profit of investments accounted for using equity method as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Revenue	82.922	168
Net profit (loss) for the period	11.117	(2.060)
Group's share on net profit	5.558	(1.030)

İsdemir Linde Gaz Ortaklığı A.Ş, as an affiliate of the Group under joint management, has the right of to deduct the investment deduction where profit will occur in the upcoming years pursuant to the Resolution No 2012/3305 on Government Aids in Investments and the Cabinet Decision issued in the Official gazette on 22 February 2017. Since İsdemir Linde Gaz Ortaklığı A.Ş. was established recently and it is not yet possible for İsdemir Linde Gaz Ortaklığı A.Ş. to make a reasonable forecast for full or partial recovery of the investment deduction amount for the upcoming periods under the current conditions, the deferred tax asset of TRY 67.230 thousand (its effect in the profit or loss statement of Isdemir is TRY 33.615 thousand) is not included in the financial statements prepared as of 31 December 2018.

NOTE 13 - INVESTMENT PROPERTIES

Cost	1 January - 31 December 2018	1 January - 31 December 2017
As of 1 January	101.695	94.882
Additions	92.779	-
Current amortization (-)	(934)	-
Translation difference	48.422	6.813
As of 31 December	241.962	101.695
Book value	241.962	101.695

The fair value of the Group's investment properties is TRY 901.487 thousand (31 December 2017: TRY 558.868 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. The Group's all investment properties consist of land parcels and buildings.

For the year ended 31 December 2018, the Group generated rent income amounting to TRY 1.257 thousand (31 December 2017: TRY 506 thousand) recognized investment properties within the scope of operating leases (Note 27).

	31 December 2018	31 December 2017
General administrative expenses	934	-
	934	-

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

NOTE 14 - PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improve-ments	Buildings	Machinery and equipment	Vehicles	Furniture and Fixtures	Other Property, Plant and Equipment	Construc-tion in Progress (CIP)	Total
Cost									
Opening balance as of 1 January	218.337	3.237.524	5.025.209	21.731.205	1.233.293	614.226	219.698	811.304	33.090.796
Translation difference	80.471	1.257.353	1.996.460	8.576.399	432.678	207.447	40.590	332.714	12.924.112
Additions (*)	210	9.284	137.576	171.831	30.843	26.216	11.663	565.647	953.270
Transfers from CIP (**)	63	34.883	96.803	333.223	8.724	6.299	1.152	(491.990)	(10.843)
Disposals	(247)	(150)	(23)	(103.051)	(1.932)	(17.525)	(7.753)	(23.561)	(154.242)
Closing balance as of 31 December 2018	298.834	4.538.894	7.256.025	30.709.607	1.703.606	836.663	265.350	1.194.114	46.803.093
Accumulated Depreciation									
Opening balance as of 1 January	-	(2.356.873)	(3.636.434)	(12.753.336)	(745.586)	(325.575)	(142.179)	(58.951)	(20.018.934)
Translation difference	-	(923.000)	(1.441.366)	(5.058.592)	(240.770)	(95.196)	(25.276)	(24.201)	(7.808.401)
Charge for the period	-	(82.841)	(119.801)	(616.945)	(44.760)	(34.108)	(25.396)	-	(923.851)
Impairment (****)	-	(1.720)	(5.031)	(91.005)	-	(39)	(15)	-	(97.810)
Disposals	-	90	23	87.925	1.838	11.893	4.345	-	106.114
Closing balance as of 31 December 2018	-	(3.364.344)	(5.202.609)	(18.431.953)	(1.029.278)	(443.025)	(188.521)	(83.152)	(28.742.882)
Net book value as of 31 December 2017	218.337	880.651	1.388.775	8.977.869	487.707	288.651	77.519	752.353	13.071.862
Net book value as of 31 December 2018	298.834	1.174.550	2.053.416	12.277.654	674.328	393.638	76.829	1.110.962	18.060.211

(*) The amount of capitalized borrowing cost is TRY 16.480 thousand for the current period (31 December 2017: TRY 4.176 thousand).

(**) TRY 10.843 thousand is transferred to intangible assets (Note 15).

(***) The Group review the recoverable amount of fixed asset which is not able to generate cash flows independently. As a result of the review. For non used assets, an impairment loss of TRY (97.810) thousand is recognised that on income statement under expenses from investment activities (Not 27).

As of 31 December 2018, the Group has no collaterals or pledges upon its tangible assets.

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

NOTE 14 - PROPERTY, PLANT AND EQUIPMENT (cont'd)

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

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

(**) TRY 6.325 thousand is transferred to intangible assets (Note 15).

As of 31 December 2017, the Group has no collaterals or pledges upon its tangible assets.

The breakdown of depreciation expenses related to property, plant and equipment is as follows:

	31 December 2018	31 December 2017
Associated with cost of production	865.368	649.088
General administrative expenses	19.129	9.652
Marketing, sales and distribution expenses	36.021	25.299
Research and development expenses	3.333	2.094
	923.851	686.133

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

NOTE 15 - INTANGIBLE ASSETS

	Rights	Other Intangible Assets	Total
Cost			
Opening balance as of 1 January	465.590	22.162	487.752
Translation difference	180.358	11.228	191.586
Additions	12.061	437	12.498
Transfers from CIP	10.295	548	10.843
Net book value as of 31 December 2018	668.304	34.375	702.679
Accumulated amortization			
Opening balance as of 1 January	(256.399)	(20.042)	(276.441)
Translation difference	(98.929)	(10.852)	(109.781)
Charge for the period	(32.238)	(703)	(32.941)
Closing balance as of 31 December 2018	(387.566)	(31.597)	(419.163)
Closing balance as of 31 December 2017	209.191	2.120	211.311
Net book value as of 31 December 2018	280.738	2.778	283.516

As of 31 December 2018, the Group has no collaterals or pledges upon its intangible assets (31 December 2017: None).

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

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

NOTE 15 - INTANGIBLE ASSETS (cont'd)

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

	31 December 2018	31 December 2017
Associated with cost of production	21.716	14.256
General administrative expenses	11.053	9.249
Marketing, sales and distribution expenses	4	620
Research and development expenses	168	117
	32.941	24.242

NOTE 16 - GOVERNMENT GRANTS AND INCENTIVES

These grants and incentives can be used by all companies, which meet the related legislative requirements and those grants have no sectoral differences:

- Incentives under the jurisdiction of the research and development law (100% corporate tax exemption etc.)
- Cash supoorts from Tübitak - Teydeb, in return for research and devolopment expenditures,
- Inward processing permission certificates,
- Social Security Institution incentives
- Insurance premium employer share incentive.

Research and development incentive premiums taken or certain to be taken amounts to TRY 1.266 thousand (31 December 2017: TRY 1.348 thousand) which are accounted under income statement for the year ended 31 December 2018.

NOTE 17 - EMPLOYEE BENEFITS

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

	31 December 2018	31 December 2017
Due to personnel	153.178	113.687
Social security premiums payable	36.298	64.251
	189.476	177.938

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

	31 December 2018	31 December 2017
Provisions for employee termination benefits	530.083	511.971
Provisions for seniority incentive premium	55.351	43.468
Provision for unpaid vacations	83.957	81.374
	669.391	636.813

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

NOTE 17 - EMPLOYEE BENEFITS (cont'd)

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 2018, the amount payable consists of one month's salary limited to a maximum of TRY 5.434,42 (31 December 2017: TRY 4.732,48). As of 1 January 2019, the employee termination benefit has been updated to a maximum of TRY 6.017,60.

The employee termination benefit legally is not subject to any funding requirement.

The employee termination benefit has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. TAS 19 ("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 2018 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 2018	31 December 2017
Discount rate	%16,00	%11,50
Inflation rate	%11,30	%8,30
Salary increase	real 1,5%	real 1,5%
Maximum liability increase	%11,30	%8,30

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 2018, 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 2018, 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.

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

NOTE 17 - EMPLOYEE BENEFITS (cont'd)

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

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance	511.971	448.932
Service cost	49.971	43.762
Interest cost	67.345	46.296
Actuarial loss/(gain)	(51.444)	12.618
Termination benefits paid	(49.700)	(39.717)
Translation difference	1.940	80
Closing balance	530.083	511.971

The sensitivity analysis of the assumptions which was used for the calculation of provision for employment termination benefits as of 31 December 2018 as follows:

	Interest rate	
Change in rate	1% increase	1% decrease
Change in employee benefits liability	(39.759)	45.428

	Inflation rate	
Change in rate	1% increase	1% decrease
Change in employee benefits liability	47.028	(41.673)

According to the current labor agreement, employees completing their 5th, 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 2018	1 January - 31 December 2017
Opening balance	43.468	38.884
Service cost	4.954	4.189
Interest cost	5.859	3.883
Actuarial loss/(gain)	8.423	6.244
Termination benefits paid	(7.276)	(9.798)
Translation difference	(77)	66
Closing balance	55.351	43.468

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

NOTE 17 - EMPLOYEE BENEFITS (cont'd)

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

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance	81.374	79.603
Provision for the period	79.218	68.042
Vacation paid during the period (-)	(6.814)	(5.870)
Provisions released (-)	(68.165)	(61.207)
Translation difference	(1.656)	806
Closing balance	83.957	81.374

NOTE 18 - PROVISIONS

The Group's short term provisions are as follows:

	31 December 2018	31 December 2017
Provision for lawsuits	165.568	103.689
Penalty provision for employment shortage of disabled personnel	10.421	6.374
Provision for state right on mining activities	7.650	5.102
Provision for land occupation	7.013	11.665
Provision for the potential tax penalty	10.125	7.584
	200.777	134.414

The movement of the short term provisions is as follows:

	1 January 2018	Change for the period	Payments	Provision released	Translation difference	31 December 2018
Provision for lawsuits	103.689	80.437	(14.307)	(38.454)	34.203	165.568
Penalty provision for employment shortage of disabled personnel	6.374	4.075	-	-	(28)	10.421
Provision for state right on mining activities	5.102	8.043	(5.495)	-	-	7.650
Provision for land occupation	11.665	20.465	(21.901)	-	(3.216)	7.013
Provision for the tax penalty	7.584	-	-	-	2.541	10.125
	134.414	113.020	(41.703)	(38.454)	33.500	200.777

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

NOTE 18 - PROVISIONS (cont'd)

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

Provision for lawsuits

As of 31 December 2018 and 31 December 2017, lawsuits filed by and against the Group are as follows:

	31 December 2018	31 December 2017
Lawsuits filed by the Group	763.070	581.107
Provision for lawsuits filed by the Group	200.393	153.126

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

	31 December 2018	31 December 2017
Lawsuits filed against the Group	498.341	377.793
Provision for lawsuits filed against the Group	165.568	103.689

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

NOTE 18 - PROVISIONS (cont'd)

Provision for lawsuits (cont'd)

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

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

CMB, prepared the Company's consolidated financial statements as of 31 December 2005, which had been prepared according to the TFRS, 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 TFRS 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 TFRS after December 31, 2005, it would also have to present the comparative consolidated financial statements in accordance with TFRS based on "TFRS 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 "TFRS 3: Business Combinations". Therefore, the net profit for the periods ended December 31, 2018 and December 31, 2017 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 TFRS. Privatization Administration, who has a usufruct right over 1 (one) equity share among the Company shares it transferred to Ataer Holding A.Ş., filed a lawsuit at 1 May 2006 the 3th Commercial Court of Ankara against the aforementioned General Assembly decision, and claimed that, dividend distribution decision must be abolished and TRY 35.673 thousand allegedly unpaid dividend must be paid to itself (E. 2006/218). The Court rejected the case on 23 October 2008; Privatization Administration appealed this rejection on 7 January 2009. Court of Appeals' 11th Chamber reversed this rejection judgment on 30 November 2010; this time the Company appealed the Chamber's decision on 18 February 2011. However, the Chamber rejected the Company's appeal on 14 July 2011. The case file, sent back to 3th Commercial Court of Ankara once again. The case was dismissed at the hearing held on 26 June 2015. Decision of the local court has been reversed by the Supreme Court 11th Civil Chamber with the decision dated 24 May 2017 and 2015/15771 Docket; 2017/3040 Decision number. The decision of reversal has been notified to the Company on 2 August 2017. Erdemir has applied for revision of the decision against the Supreme Court 11th Civil Chamber's decision dated 24 May 2017 and 2015/15771 Docket; 2017/3040 Decision number. Conclusion of the application for revision of the decision is expected.

NOTE 18 - PROVISIONS (cont'd)

Provision for lawsuits (cont'd)

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 2018 and 31 December 2017.

Enerjia Metal Maden Sanayi ve Ticaret A.Ş. initiated a debt collection proceeding that might end with a bankruptcy judgment against the Company based on the Export Protocol No. 69187 of 2 July 2009 and "Additional Terms to the Erdemir-Enerjia Export Protocol No. 68197" drafted by and between Enerjia and the Company. However the process stopped upon the Company's objection to Enerjia's request, and that led Enerjia to file a lawsuit against the Company before the 7th Commercial Court of Ankara on 27 March 2010 claiming that the objection should be overruled and USD 68.312.520 should be paid to itself (E. 2010/259). The Court dismissed the case, in favor of the Company, on 23 June 2011.

Enerjia appealed this rejection. 23rd Chamber of the Court of Appeals accepted this rejection on 6 April 2012 (E. 2011/2915, K.2012/2675) and after this, the case file was sent back to the 7th Commercial Court of Ankara and received case file number E. 2013/17. The case file was sent to the 4th Commercial Court of Ankara due to the case shall seen by delegation according to the regulatory framework regarding the commercial courts. The Court has dismissed the case at the hearing held on 9 September 2015. Decision of the local court has been approved by the Supreme Court 23th Civil Chamber with the decision dated 07.05.2018 and 2017/2657 Docket; 2018/2943 Decision number. The decision of approval has been notified to our Company on 26 June 2018. Enerjia has applied for revision of the decision. Conclusion of the application for revision of the decision is expected. No possible material cash outflow expected according to the evaluations of Company management and expert's reports, as a result no provision recognised on financial statements for related lawsuit.

Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.). located at Illinois state of United States of America and the Company executed a contract in 2008. The company fulfilled all its performances arisen from this contract in January and February in 2009.

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

It is learnt through a notified made to the Company on 31 October 2012 that Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.) filed an action for compensation at amount of USD 4.800 thousand together with accessory against the Company before Ankara 14. 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 continued on file no. 2013/63 in Karadeniz Ereğli 2nd Civil Court of First Instance. At the hearing of the ongoing case dated 28 November 2017, Kdz. Ereğli 2. Civil Court of First Instance has decided to partially accept the case against our Company. Our company has applied for the appeal against the decision. A provision amounting to TRY 42.810 thousand recognised on financial statements for related lawsuit.

NOTE 18 - PROVISIONS (cont'd)

Provision for state right on mining activities

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

Land occupation

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

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

Tax Penalty Provision

As a result of the comprehensive corporate tax audit carried out by the relevant tax administration for the period 2009-2014 for one of the Group's subsidiaries, Erdemir Romania SRL in Romania, a total payment of TRY 10.125 thousand (RON 7.579 thousand) was notified for all tax and tax penalties. Provision was recognised for the amount to be paid in the accompanying financial statements.

Resolution of Constitutional Court on Electric and Coal Gas Tax

The claims filed every month for refunding of taxes paid and deduction thereof from Electric and Coal Gas Tax collected by the Municipality on the Electric and Coal Gas consumption quantity produced by the Company in the facilities and used for industrial production of the Company were concluded in the court of first instance and the Council of State against the company. Thereafter, the Company used its right on 16 March 2015 to apply the Constitutional Court individually. In the General Assembly Resolution adopted by the Constitutional Court notified to the Company on 27 December 2018, it is stated that the property rights of the Company were violated, and retrial was decided for the applicable claims to eliminate the consequences of the violation of the property rights.

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

NOTE 19 - COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	31 December 2018	31 December 2017
Letters of guarantees received	3.378.056	1.976.567
	3.378.056	1.976.567

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

	31 December 2018	31 December 2017
A. Total CPM given for the Company's own legal entity	103.870	116.263
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	221.267	176.335
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	-	-
	325.137	292.598

TRY 221.267 thousand of total CPM given in favor of subsidiaries is related with financial borrowings stated in Note 7. As of 31 December 2018, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2017: 0%).

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

	31 December 2018	31 December 2017
US Dollars	221.267	70.205
TRY	79.155	180.249
EURO	24.715	42.144
	325.137	292.598

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

NOTE 20 - 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 2018	31 December 2017
Other VAT receivable	172.096	67.269
Deferred VAT	160.040	26.431
Prepaid taxes and funds	2.345	2.146
Other current assets	20.958	30.390
	355.439	126.236

Other non-current assets

	31 December 2018	31 December 2017
Other VAT receivable	116.221	-
	116.221	-

Other current liabilities

	31 December 2018	31 December 2017
VAT payable	10.552	106.512
Other current liabilities	3.788	5.016
	14.340	111.528

Other non-current liabilities

	31 December 2018	31 December 2017
Other non-current liabilities	1.554	428
	1.554	428

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

NOTE 21 - DEFERRED INCOME

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

	31 December 2018	31 December 2017
Advances received	266.047	142.980
Deferred income	10.794	7.300
	276.841	150.280

NOTE 22 - EQUITY

As of reporting date the capital structure is as follows:

Shareholders	(%)	31 December 2018	(%)	31 December 2017
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 share	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 consists of 350.000.000.000 lots of shares (31 December 2017: 350.000.000.000 lots). The nominal value of each share is 1 Kr (Turkish cent) (31 December 2017: 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.

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

NOTE 22 - EQUITY (cont'd)

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" Erdemir, as of 31 December 2018, holds its own shares with a nominal value of TRY 107.837 thousand (31 December 2017: TRY 107.837 thousand). Erdemir's own shares have been reclassified with its inflation adjusted value in the consolidated balance sheet as a deduction under equity.

Other Equity Items	31 December 2018	31 December 2017
Share Premium	106.447	106.447
Revaluation Reserves of Tangible Assets	51.239	33.917
Cash Flow Hedging Reserves	13.103	(16.272)
Foreign Currency Translation Reserves	14.502.844	7.665.476
Actuarial (Loss)/ Gain Fund	(72.105)	(111.247)
Restricted Reserves Assorted from Profit	2.287.528	1.567.280
- Legal Reserves	*2.287.528*	*1.567.280*
Retained Earnings	2.339.334	2.144.646
	19.228.390	11.390.247

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

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

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

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

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

NOTE 22 - EQUITY (cont'd)

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate for the publicly-held subsidiaries. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of incorporation. In addition, dividend can be distributed by fixed or variable installments and advance dividend can be paid in accordance with profit on interim financial statements of the Company.

In accordance with the Turkish Commercial Code (TCC), unless the required reserves and the dividend for shareholders as determined in the article of association or in the dividend distribution policy of the company are set aside, no decision may be made to set aside other reserves, to transfer profits to the subsequent year or to distribute dividends to the holders of usufruct right certificates, to the members of the board of directors or to the employees; and no dividend can be distributed to these persons unless the determined dividend for shareholders is paid in cash.

Inflation adjustments to issued capital and historical amount of extraordinary reserves can be used as an internal source of capital increase, dividend distribution in cash or the net off from prior period losses. In case of usage of the inflation adjustment differences in dividend distribution in cash, it is subject to corporate tax.

Other sources which might be used in dividend distribution, except the net profit for the period, in statutory books of the Company are equal to TRY 109.042 thousand as of 31 December 2018 (31 December 2017: TRY 182.726 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 TFRS 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.

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

NOTE 22 - EQUITY (cont'd)

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 TMS-19 "Employee Benefits" does not permit the actuarial gain /loss considered in the calculation of provision for employee termination benefits to be accounted for under the statement of income. The gains and losses arising from the changes in the actuarial assumption have been accounted for by "Actuarial (Loss)/Gain Funds" under the equity. The funds for actuarial gains/ (losses) in the employee termination benefits is not in a position to be reclassified under profit and loss.

As it stated in Note 2.1, foreign currency translation reserve arises from expressing the assets and liabilities of the Group's foreign operations in reporting currency TRY by using exchange rates prevailing on the balance sheet date. Exchange differences arising, if any, are recognized under translation reserve in equity.

NOTE 23 - SALES AND COST OF SALES

The Group derives its revenue from the transfer of goods at a point in time in the following major product lines. The amount of performance obligations in the ongoing contracts of the Group will be eligible for recognition in the future is TRY 266.047 thousand. The Company planning to recognize related revenue amount as a revenue in a year.

	1 January - 31 December 2018	1 January - 31 December 2017
Sales Revenue		
Domestic sales	20.998.266	15.812.158
Export sales	5.355.325	2.480.404
Other revenues [*]	687.965	403.195
Interest income from sales with maturities	151.322	92.533
Sales returns (-)	(23.075)	(37.610)
Sales discounts (-)	(154.549)	(14.233)
	27.015.254	18.736.447
Cost of sales (-)	(18.631.954)	(13.480.960)
Gross profit	8.383.300	5.255.487

[*]The total amount of by product exports in other revenues is TRY 257.751 thousand (31 December 2017: TRY 191.125 thousand).

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

NOTE 23 - SALES AND COST OF SALES (cont'd)

The detail of cost of sales for the periods 1 January - 31 December 2018 and 1 January - 31 December 2017 is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Raw material usage	(14.069.003)	(9.805.665)
Personnel costs	(1.590.098)	(1.457.439)
Energy costs	(872.028)	(671.070)
Depreciation and amortization expenses	(837.703)	(672.664)
Manufacturing overheads	(464.170)	(412.100)
Other cost of goods sold	(284.382)	(209.234)
Non-operating costs (*)	(77.096)	(25.368)
Freight costs for sales delivered to customers	(329.314)	(199.017)
Allowance expenses for impairment on inventories (Note 10)	(30.450)	(39.530)
Inventory provision released (Note 10)	3.402	35.415
Other	(81.112)	(24.288)
	(18.631.954)	(13.480.960)

(*) 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 (77.096) thousand, has been accounted directly under cost of sales (31 December 2017: TRY (25.368) thousand).

NOTE 24 - RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

The detail of marketing, sales and distribution expenses according to their nature for the periods 1 January - 31 December 2018 and 1 January - 31 December 2017 is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Marketing, sales and distribution expenses (-)	(208.281)	(164.522)
General administrative expenses (-)	(436.088)	(322.163)
Research and development expenses (-)	(17.546)	(13.113)
	(661.915)	(499.798)

NOTE 25 - OPERATING EXPENSES ACCORDING TO THEIR NATURE

The detail of marketing, sales and distribution expenses according to their nature for the periods 1 January - 31 December 2018 and 1 January - 31 December 2017 is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Personnel expenses (-)	(88.530)	(81.242)
Depreciation and amortization (-)	(36.025)	(25.919)
Service expenses (-)	(83.726)	(57.361)
	(208.281)	(164.522)

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

NOTE 25 - OPERATING EXPENSES ACCORDING TO THEIR NATURE (cont'd)

The detail of general administrative expenses for the periods 1 January - 31 December 2018 and 1 January - 31 December 2017 is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Personnel expenses (-)	(183.535)	(174.144)
Depreciation and amortization (-)	(31.116)	(18.901)
Service expenses (-)	(162.976)	(122.408)
Tax, duty and charges (-)	(17.899)	(7.624)
Provision for doubtful receivables (net)	(40.562)	914
	(436.088)	(322.163)

The detail of research and development expenses for the periods 1 January - 31 December 2018 and 1 January - 31 December 2017 is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Personnel expenses (-)	(10.502)	(8.475)
Depreciation and amortization (-)	(3.501)	(2.211)
Other (-)	(3.543)	(2.427)
	(17.546)	(13.113)

NOTE 26 - OTHER INCOME/(EXPENSES) FROM OPERATING ACTIVITIES

The detail of other operating income for the periods 1 January - 31 December 2018 and 1 January - 31 December 2017 is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Other operating income		
Foreign exchange gain from trade receivables and payables (net)	129.773	63.261
Discount income	2.896	9.210
Provisions released	38.454	47.001
Service income	19.597	16.514
Maintenance repair and rent income	14.989	11.816
Warehouse income	7.252	4.771
Indemnity and penalty detention income	14.476	2.968
Insurance indemnity income	11.130	45.398
Lawsuit income	326	7.496
Overdue interest income	7.802	1.521
Income related collections from tax office	-	7.931
Other income and gains	18.218	24.149
	264.913	242.036

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

NOTE 27 -INCOME/(EXPENSES) FROM INVESMENT ACTIVITIES

The detail of other operating expenses for the periods 1 January - 31 December 2018 and 1 January - 31 December 2017 is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Other operating expenses (-)		
Provision expenses	(84.512)	(48.734)
Discount expenses	(8.368)	(6.342)
Lawsuit compensation expenses	(7.456)	(4.738)
Port facility pre-licence expenses	(20.572)	(6.443)
Donation expenses	(4.351)	(2.573)
Service expenses	(8.991)	(7.058)
Stock exchange registration expenses	(2.265)	(1.396)
Rent expenses	(4.290)	(1.631)
Penalty expenses	(12.794)	(1.345)
Interest expenses from purchases with maturities	(367)	-
Other expenses and losses	(18.021)	(15.393)
	(171.987)	(95.653)

The detail of income from investment activities for the periods 1 January - 31 December 2018 and 1 January - 31 December 2017 is as follows:

Income From Investment Activities	1 January - 31 December 2018	1 January - 31 December 2017
Income from sales on tangible assets	9.277	5.540
Rent income from investment properties	1.257	506
	10.534	6.046

The detail of expenses from investment activities for the periods 1 January - 31 December 2018 and 1 January - 31 December 2017 is as follows:

Expenses From Investment Activities (-)	1 January - 31 December 2018	1 January - 31 December 2017
Loss on sales of tangible assets	(27.486)	(95)
Loss on disposal of tangible assets	(20.506)	(13.215)
Impairment of property, plant and equipment (Note 14)	(97.810)	-
Expenses from investment properties	(2.227)	(1.116)
	(148.029)	(14.426)

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

NOTE 28 - FINANCE INCOME

The breakdown of finance income for the periods 1 January - 31 December 2018 and 1 January - 31 December 2017 is as follows:

Finance income	1 January - 31 December 2018	1 January - 31 December 2017
Interest income on bank deposits	470.705	206.792
Foreign exchange gains (net)	735.209	16.588
Interest income from financial investments	2.568	-
Fair value differences of derivative financial instruments (net)	25.470	-
Other financial income	821	227
	1.234.773	223.607

NOTE 29 - FINANCE EXPENSES

The breakdown of finance expenses for the periods 1 January - 31 December 2018 and 1 January - 31 December 2017 is as follows:

Finance expenses (-)	1 January - 31 December 2018	1 January - 31 December 2017
Interest expenses on borrowings	(177.203)	(105.342)
Interest cost of employee benefits	(73.204)	(50.179)
Fair value differences of derivative financial instruments (net)	-	(5.025)
Allowance for impairment on financial assets (Note 2.2)	(27.063)	-
Other financial expenses	(9.000)	(2.237)
	(286.470)	(162.783)

During the period, the interest expenses of TRY 16.480 thousand have been capitalized as part of the Group's property, plant and equipment (31 December 2017: TRY 4.176 thousand).

NOTE 30 - TAX ASSETS AND LIABILITIES

	31 December 2018	31 December 2017
Corporate tax payable:		
Current corporate tax provision	2.527.182	1.137.927
Prepaid taxes and funds (-)	(2.022.466)	(339.966)
	504.716	797.961

	1 January - 31 December 2018	1 January - 31 December 2017
Taxation:		
Current corporate tax expense	2.527.182	1.137.927
Deferred tax (income) / expense	258.774	(80.953)
	2.785.956	1.056.974

NOTE 30 - TAX ASSETS AND LIABILITIES (cont'd)

Corporate tax

The Group, except its subsidiaries in Romania and Singapore, is subject to Turkish corporate taxes in force. The necessary provisions are allocated in the consolidated financial statements for the estimated liabilities based on the Group's results for the year. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the consolidated financial statements, have been calculated on a separate-entity basis.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective corporate tax rate in Turkey is 22%, 16% in Romania and 17% in Singapore as of 31 December 2018 (31 December 2017: in Turkey 20%, in Romania 16%, in Singapore 17%).

The total amount of the corporate tax paid by the Group in 2018 is TRY 2.820.427 thousand (31 December 2017: TRY 795.590 thousand).

In Turkey, advance tax returns are filed on a quarterly basis. The temporary tax of 2018 has been calculated over the corporate earnings using the rate 22%, during the temporary taxation period. (31 December 2017: 20%).

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

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

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

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

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes on dividends distributed, except for the dividends distributed to fully fledged taxpayer companies receiving and declaring these dividends and to Turkish branches of foreign companies. The rate of %15 income withholding tax applied to all companies in the since 22 July 2006 by the decision of the Council of Ministers, numbered 2006/10731. Undistributed dividends incorporated in share capital are not subject to the income withholding taxes.

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 30 - TAX ASSETS AND LIABILITIES (cont'd)

Investment allowance application

With the decision numbered 2006/95, which was taken during the meeting of the Constitutional Court on 15 October 2009, the phrase "only related to the years 2006, 2007 and 2008…" which was a part of the Temporary Article 69 of the Income Tax Law was cancelled and the cancellation became effective from the date the decision has been published in the Official Gazette on 8 January 2010. According to the decision, the investment incentive amount outstanding that cannot be deducted from 2008 taxable income previously, will be deducted from taxable income of the subsequent profitable years.

Regarding the cancellation decision taken by the Constitutional Court, an amendment was made in the 69th article in Income Tax Regulation using the regulation numbered 6009 and dated 23 July 2010. Consequently, in compliance with the cancellation decision of the Constitutional Court, the year limitation has been abolished and investment allowance has been limited to 25% of the profit. As limitation of investment allowance to 25% of the profit by regulation numbered 6009 is found to be contrary to law by the Constitutional Court, the Constitutional Court cancelled the regulation and stayed an execution. Corporate tax ratio of 30% in the previous regulation for the ones who benefit from investment allowance has been decreased to the effective corporate tax with the amendment made (31 December 2017: 22%).

Deferred tax

The Group recognizes deferred tax assets and liabilities based upon the temporary differences arising between its taxable statutory financial statements and its financial statements prepared in accordance with the CMB's Communiqué on Accounting Standards. These differences usually result in the recognition of revenue and expenses in different reporting periods for the CMB regulations and tax purposes.

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

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 30 - TAX ASSETS AND LIABILITIES (cont'd)

Deferred tax assets:	31 December 2018	31 December 2017
Provisions for employee benefits	137.095	129.580
Investment incentive	-	66.046
Provision for lawsuits	29.747	22.383
Fair value adjustment of the derivative financial instruments	-	7.717
Inventories	88.971	19.170
Provision for other doubtful receivables	16.531	14.639
Tangible and intangible assets	17.416	16.039
Other	69.407	47.082
	359.167	322.656
Deferred tax liabilities:		
Tangible and intangible assets	(2.729.613)	(1.832.586)
Fair values of the derivative financial instruments	(11.721)	-
Amortized cost adjustment on loans	(11.075)	(4.994)
Inventories	(96.070)	(34.872)
Other	(9.332)	(12.179)
	(2.857.811)	(1.884.631)
	(2.498.644)	(1.561.975)

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 2018	31 December 2017
Deferred tax assets	67.552	57.743
Deferred tax (liabilities)	(2.566.196)	(1.619.718)
	(2.498.644)	(1.561.975)

Movements of deferred tax asset / (liability)

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance	(1.561.975)	(1.542.789)
Effects of change in acounting policy	3.218	-
Deferred tax (expense)/income	(258.774)	80.953
The amount in comprehensive income	(19.603)	9.419
Translation difference	(661.510)	(109.558)
Closing balance	(2.498.644)	(1.561.975)

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

NOTE 30 - TAX ASSETS AND LIABILITIES (cont'd)

Reconciliation of tax provision is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Profit before tax	8.630.677	4.954.516
Statutory tax rate	22%	20%
Calculated tax expense according to effective tax rate	(1.898.749)	(990.903)
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	(11.196)	(4.252)
- Adjustment effect of rates subjected to corporate tax and deffered tax	(111.100)	(5.387)
- Effect of currency translation to non taxable assets	(763.368)	(123.270)
- Investment incentive	-	66.942
- Effect of the different tax rates due to foreign subsidiaries	(1.543)	(104)
Total tax expense reported in the statement of income	(2.785.956)	(1.056.974)

As of 1 January - 31 December 2018 and 2017, the details of the tax gains/(losses) of the other comprehensive income/ (expense) are as follows:

	1 January -31 December 2018		
Other comprehensive income/(loss)	Amount before tax	Tax income/ (expense)	Amount after tax
Change in revaluation reserves of fixed assets	17.322	-	17.322
Change in actuarial (loss)/gain	51.444	(11.318)	40.126
Change in cash flow hedging reserves	37.660	(8.285)	29.375
Change in foreign currency translation reserves	7.047.519	-	7.047.519
	7.153.945	(19.603)	7.134.342

	1 January -31 December 2017		
Other comprehensive income/(loss)	Amount before tax	Tax income/ (expense)	Amount after tax
Change in revaluation reserves of fixed assets	4.480	-	4.480
Change in actuarial (loss)/gain	(12.618)	2.673	(9.945)
Change in cash flow hedging reserves	(30.663)	6.746	(23.917)
Change in foreign currency translation reserves	1.177.422	-	1.177.422
	1.138.621	9.419	1.148.040

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

NOTE 31 - EARNINGS PER SHARE

	1 January - 31 December 2018	1 January- 31 December 2017
Number of shares outstanding	350.000.000.000	350.000.000.000
Net profit attributable to equity holders - TRY thousand	5.597.990	3.753.755
Profit per share with 1 TRY nominal value TRY %	1,5994 / %159,94	1,0725 / %107,25

NOTE 32 - RELATED PARTY DISCLOSURES

The immediate parent and ultimate controlling parent of the Group are Ataer Holding A.Ş. and Ordu Yardımlaşma Kurumu respectively (Note 1).

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

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

Due from related parties (short term)	31 December 2018	31 December 2017
OYAK Renault Otomobil Fab. A.Ş.(2)	53.806	59.622
Bolu Çimento Sanayi A.Ş.(1)	3.776	7.507
Adana Çimento Sanayi T.A.Ş. (1)	8.525	10.195
İsdemir Linde Gaz Ortaklığı A.Ş.(3)	724	3.820
Other	1.755	1.792
	68.586	82.936

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

Prepaid expenses to related parties (long term)	31 December 2018	31 December 2017
OYAK Konut İnşaat A.Ş.(1)	509	-
OYAK Savunma ve Güvenlik Sistemleri A.Ş.(1)	67.757	-
	68.266	-

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

NOTE 32 - RELATED PARTY DISCLOSURES (cont'd)

Prepaid expenses generally related with purchasing of safety equipments and tangible assets.

Due to related parties (short term)	31 December 2018	31 December 2017
Omsan Lojistik A.Ş.[1]	24.447	14.466
Omsan Denizcilik A.Ş.[1]	2.863	11.696
OYAK Pazarlama Hizmet ve Turizm A.Ş.[1]	12.053	7.846
OYAK Savunma ve Güvenlik Sistemleri A.Ş.[1]	15.484	8.156
OYAK Denizcilik ve Liman İşletmeleri A.Ş.[1]	7.067	7.322
OYAK Grup Sigorta ve Reasürans Brokerliği A.Ş. [1]	74.262	1.980
Other	11.596	2.431
	147.772	53.897

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

On 21 December 2018, issued loan amount by the Group's related party OYAK Anker Bank is EUR 2.000 thousand. The loan used has floating interest and the maturity date is 21 March 2019. On 21 September 2018, the Group purchased bond amounting to TRY 35.470 thousand from it's related party Hektaş Ticaret A.Ş..The financial asset purchased by the Group has a floating interest once every 3 months and the maturity of 20 September 2019.

Major sales to related parties	1 January - 31 December 2018	1 January - 31 December 2017
OYAK Renault Otomobil Fab. A.Ş.[2]	305.221	223.492
Adana Çimento Sanayi T.A.Ş.[1]	27.521	20.527
Bolu Çimento Sanayi A.Ş.[1]	10.531	9.635
Aslan Çimento A.Ş.[1]	2.572	2.320
OYAK Denizcilik ve Liman İşletmeleri A.Ş.[1]	15.882	11.245
Mardin Çimento Sanayi ve Ticaret A.Ş.[1]	1.046	1.104
Omsan Lojistik A.Ş.[1]	1.356	1.101
İsdemir Linde Gaz Ortaklığı A.Ş.[3]	49.642	3.341
Other	2.332	1.612
	416.103	274.377

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

[1] Subsidiaries of the parent company

[2] Joint venture of the parent company

[3] Joint venture of subsidiary

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

NOTE 32 - RELATED PARTY DISCLOSURES (cont'd)

Major purchases from related parties	1 January - 31 December 2018	1 January - 31 December 2017
Omsan Denizcilik A.Ş.[(1)]	171.129	125.918
OYAK Pazarlama Hizmet ve Turizm A.Ş.[(1)]	104.398	89.863
Omsan Lojistik A.Ş.[(1)]	203.566	96.159
OYAK Savunma ve Güvenlik Sistemleri A.Ş.[(1)]	58.278	40.845
Omsan Logistica SRL[(1)]	16.342	13.346
OYAK Denizcilik ve Liman İşletmeleri A.Ş.[(1)]	121.671	55.565
OYAK Grup Sigorta ve Reasürans Brokerliği A.Ş. [(1)]	97.830	7.324
İsdemir Linde Gaz Ortaklığı A.Ş.[(3)]	77.229	-
Ordu Yardımlaşma Kurumu	9.268	9.280
Omsan Havacilik A.Ş.[(1)]	14.422	829
OYAK Elektrik Enerjisi Toptan Satış A.Ş.[(1)]	29.004	-
Diğer	13.397	11.223
	916.534	450.352

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

(1) Subsidiaries of the parent company

(2) Joint venture of the parent company

(3) Joint venture of subsidiary

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

The period end balances are un-secured and their collections will be done in cash. As of 31 December 2018, the Group provides no provision for the receivables from related parties (31 December 2017: None).

Salaries, bonuses and other benefits of the key management:

For the year ended 31 December 2018, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 21.509 thousand (31 December 2017: TRY 26.741 thousand).

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

NOTE 33 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

Additional information about financial instruments

(a) Capital risk management

The Group manages its capital through the optimization of the debt and the equity balance that minimizes the financial risk.

Through the forecasts regularly prepared by the Group, the future capital amount, debt to equity ratio and similar ratios are forecasted and required precautions are taken to strengthen the capital.

The capital structure of the Group consists of debt which includes the financial liabilities disclosed in Note 7, cash and cash equivalents and equity attributable to equity holders of the parent company, comprising issued capital, reserves and retained earnings as disclosed in Note 22.

The Group's Board of Directors analyze the capital structure in regular meetings. During these analyses, the Board of Directors also evaluates the risks associated with each class of capital together with the cost of capital. The Group, by considering the decisions of the Board of Directors, aims to balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the redemption of existing debt.

As of 31 December 2018 and 31 December 2017 the net (credit) debt /equity ratio is as follows:

	Note	31 December 2018	31 December 2017
Total financial liabilities	7	6.120.960	4.490.428
Less: Cash and cash equivalents	4	8.659.336	7.035.440
Net (credit) debt		(2.538.376)	(2.545.012)
Total adjusted equity (*)		29.313.627	19.355.676
Total resources		26.775.251	16.810.664
Net (credit) debt/Total adjusted equity ratio		-9%	-13%
Distribution of net (credit) debt/ total adjusted equity		-9/109	-15/115

(*)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".

(c) Financial risk management objectives

The Group manages its financial instruments through a separate treasury function which was established for that purpose. The developments are followed on a real time basis. The Group's corporate treasury function manages the financial instruments through daily regular meetings by evaluating the domestic and international markets and by considering the daily cash inflows and outflows in accordance with the policies and regulations issued by the Group Risk Management Unit. At the end of each day, each Group company prepares a "daily cash report" and Group Risk Management Unit calculates daily for cash and cash equivalents. The information included therein is consolidated by the treasury function and used to determine the cash management strategies. Additionally, the Group's annual payment schedules are followed through the weekly reports and annual cash management is followed by the monthly reports.

NOTE 33 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(c) Financial risk management objectives (cont'd)

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 arisng from any customer.

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

NOTE 33 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(e) Credit risk management (cont'd)

Credit risk of financial instruments	Receivables					
	Trade Receivables		Other Receivables			Derivative
31 December 2018	Related Party	Other Party	Related Party	Other Party	Bank Deposits	financial instruments
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	68.586	4.332.888	-	11.197	8.659.299	59.393
- Secured part of the maximum credit risk exposure via collateral etc.	-	3.971.736	-	-	-	-
	-	-	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	68.586	4.330.238	-	11.197	8.659.299	59.393
	-	-	-	-	-	-
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	-	2.650	-	-	-	-
- secured part via collateral etc.	-	-	-	-	-	-
	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	136.377	-	75.142	-	-
- Impairment (-)	-	(136.377)	-	(75.142)	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
- Not overdue (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-

(*) The factors that increase credibility such as guarantees received are not taken into account in determination of amount.

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

NOTE 33 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(e) Credit risk management (cont'd)

Credit risk offinancial instruments	Receivables					
	Trade Receivables		Other Receivables			
31 December 2017	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)	82.936	2.499.170	-	15.643	7.035.409	8.348
- Secured part of the maximum credit risk exposure via collateral etc.	-	2.113.550	-	-	-	-
	-	-	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	82.936	2.462.615	-	15.643	7.035.409	8.348
	-	-	-	-	-	-
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-
	-		-			
C. Net book value of financial assets that are overdue but not impaired	-	36.555	-	-	-	-
- secured part via collateral etc.	-	-	-	-	-	-
	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	98.576	-	73.193	-	-
- Impairment (-)	-	(98.576)	-	(73.193)	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
- Not overdue (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-

[*]The factors that increase credibility such as guarantees received are not taken into account in determination of amount.

NOTE 33 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(e) Credit risk management (cont'd)

In order to minimise credit risk, the Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group monitors the credibility of the parties with whom they perform transactions and also takes into account the credit rating of the related instruments when making the investment preference. The credit rating information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Before accepting any new customer, credit limits by customer are determined and defined after the assessment of the potential customer's credit quality.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. In order to minimize the credit risk, the Group has performed credit ratings considering the default risks of the counterparties and categorized the related parties.

The Group's current credit risk rating methodology includes the following categories:

Category	Description	Basis for recongizing expected credit losses
Secured receivables	Consist of secured receivables	Not generating credit losses
Recoverable receivables	The counterparty has a low risk of default and secured	Not generating credit losses
Doubtful or past due receivables	Amount is past due or there has been a significant	100% allowance for unsecured receivables
Write off	There is evidence indicating the asset is credit-impaired	Amount is written off

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

NOTE 33 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(f) Foreign currency risk management

As of 31 December 2018 and 31 December 2017, 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 2018				
		TRY (Total in reporting currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	RON (Original currency)
1.	Trade Receivables	963.794	71.325	142.855	-	24.355
2a.	Monetary financial assets	216.789	130.934	12.133	171	9.766
2b.	Non- monetary financial assets	-	-	-	-	-
3.	Other	390.865	389.161	12	27.534	252
4.	**CURRENT ASSETS (1+2+3)**	**1.571.448**	**591.420**	**155.000**	**27.705**	**34.373**
5.	Trade receivables	-	-	-	-	-
6a.	Monetary financial assets	8.095	8.095	-	-	-
6b.	Non- monetary financial assets	-	-	-	-	-
7.	Other	321.954	164.785	22.223	487.162	35
8.	**Non-current assets (5+6+7)**	**330.049**	**172.880**	**22.223**	**487.162**	**35**
9.	**Total assets (4+8)**	**1.901.497**	**764.300**	**177.223**	**514.867**	**34.408**
10.	Trade payables	583.245	457.703	20.063	3.597	3.323
11.	Financial liabilities	141.843	32.284	18.175	-	-
12a.	Other monetary financial liabilities	1.082.601	1.064.602	667	-	10.864
12b.	Other non-monetary financial liabilities	-	-	-	-	-
13.	**Current liabilities (10+11+12)**	**1.807.689**	**1.554.589**	**38.905**	**3.597**	**14.187**
14.	Trade payables	-	-	-	-	-
15.	Financial liabilities	319.358	-	52.979	-	-
16a.	Other monetary financial liabilities	653.342	650.794	-	-	1.980
16b.	Other non-monetary financial liabilities	-	-	-	-	-
17.	**Non-current liabilities (14+15+16)**	**972.700**	**650.794**	**52.979**	**-**	**1.980**
18.	**Total liabilities (13+17)**	**2.780.389**	**2.205.383**	**91.884**	**3.597**	**16.167**
19.	**Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)**	**(714.873)**	**-**	**(118.592)**	**-**	**-**
19a.	Off-balance sheet foreign currency derivative financial assets	-	-	-	-	-
19b.	Off-balance sheet foreign currency derivative financial liabilities	714.873	-	118.592	-	-
20.	**Net foreign currency asset/liability position (9-18+19)**	**(1.593.765)**	**(1.441.083)**	**(33.253)**	**511.270**	**18.241**
21.	**Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)**	**(1.591.711)**	**(1.995.029)**	**63.104**	**(3.426)**	**17.954**
22.	Fair value of derivative financial instruments used in foreign currency hedge	49.219	-	8.165	-	-
23.	Hedged foreign currency assets	714.873	-	118.592	-	-
24.	Hedged foreign currency liabilities	-	-	-	-	-
25.	Exports	5.613.076				
26.	Imports	13.809.566				

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

NOTE 33 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(f) Foreign currency risk management (cont'd)

		31 December 2017				
		TRY (Total in reporting currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	RON (Original currency)
1.	Trade Receivables	400.354	47.969	75.455	208	4
2a.	Monetary financial assets	272.343	17.528	56.033	200	3
2b.	Non- monetary financial assets	-	-	-	-	-
3.	Other	156.535	155.013	337	-	-
4.	**Current assets (1+2+3)**	**829.232**	**220.510**	**131.825**	**408**	**6**
5.	Trade receivables	-	-	-	-	-
6a.	Monetary financial assets	-	-	-	-	-
6b.	Non- monetary financial assets	-	-	-	-	-
7.	Other	48.402	22.182	4.491	191.111	-
8.	**Non-current assets (5+6+7)**	**48.402**	**22.182**	**4.491**	**191.111**	**-**
9.	**Total assets (4+8)**	**877.634**	**242.692**	**136.316**	**191.519**	**6**
10.	Trade payables	326.770	282.292	7.856	206.922	50
11.	Financial liabilities	406.475	198.808	45.990	-	-
12a.	Other monetary financial liabilities	1.328.564	1.324.145	979	-	-
12b.	Other non-monetary financial liabilities	-	-	-	-	-
13.	**Current liabilities (10+11+12)**	**2.061.809**	**1.805.245**	**54.825**	**206.922**	**50**
14.	Trade payables	-	-	-	-	-
15.	Financial liabilities	308.573	-	68.336	-	-
16a.	Other monetary financial liabilities	620.791	620.791	-	-	-
16b.	Other non-monetary financial liabilities	-	-	-	-	-
17.	**Non-current liabilities (14+15+16)**	**929.364**	**620.791**	**68.336**	**-**	**-**
18.	**Total liabilities (13+17)**	**2.991.173**	**2.426.036**	**123.161**	**206.922**	**50**
19.	**Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)**	**(304.620)**	**-**	**(67.461)**	**-**	**-**
19a.	Off-balance sheet foreign currency derivative financial assets	-	-	-	-	-
19b.	Off-balance sheet foreign currency derivative financial liabilities	304.620	-	67.461	-	-
20.	**Net foreign currency asset/liability position (9-18+19)**	**(2.418.159)**	**(2.183.344)**	**(54.306)**	**(15.403)**	**(43)**
21.	**Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)**	**(2.318.476)**	**(2.360.539)**	**8.327**	**(206.514)**	**(43)**
22.	Fair value of derivative financial instruments used in foreign currency hedge	(9.443)	-	(2.091)	-	-
23.	Hedged foreign currency assets	304.620	-	67.461	-	-
24.	Hedged foreign currency liabilities	-	-	-	-	-
25.	Exports	2.671.529				
26.	Imports	9.620.585				

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

NOTE 33 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(f) Foreign currency risk management (cont'd)

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

As of 31 December 2018 asset and liability balances are translated by using the following exchange rates: TRY 5,2609 = US $ 1,TRY 6,0280 = EUR 1 and TRY 0,0475= JPY 1 (31 December 2017: TRY 3,7719 = US $ 1,TRY 4,5155 = EUR 1 and TRY 0,0334= JPY 1).

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2018	Appreciation of foreign currency	Depreciation of foreign currency
1- TRY net asset/liability	(144.108)	144.108
2- Hedged portion from TRY risk (-)	-	-
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(144.108)	144.108
5- RON net asset/liability	2.347	(2.347)
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- RON net effect (5+6+7)	2.347	(2.347)
9- Euro net asset/liability	51.442	(51.442)
10- Hedged portion from Euro risk (-)	(71.487)	71.487
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	(20.045)	20.045
13- Jap. Yen net asset/liability	2.431	(2.431)
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	2.431	(2.431)
TOTAL (4+8+12+16)	(159.375)	159.375

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

NOTE 33 - NATURE AND LEVEL OF RISKS DERIVED FROM 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 2017	Appreciation of foreign currency	Depreciation of foreign currency
1- TRY net asset/liability	(218.334)	218.334
2- Hedged portion from TRY risk (-)	23.266	(23.266)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(195.068)	195.068
5- RON net asset/liability	-	-
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- RON Dollars net effect (5+6+7)	-	-
9- Euro net asset/liability	5.940	(5.940)
10- Hedged portion from Euro risk (-)	(30.462)	30.462
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	(24.522)	24.522
13- Jap. Yen net asset/liability	(48)	48
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(48)	48
TOTAL (4+8+12+16)	(219.638)	219.638

(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 33 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(g) Interest rate risk management (cont'd)

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 2018	31 December 2017
Floating interest rate financial instruments		
Financial liabilities	3.136.173	2.388.577

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 12.611 thousand.

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and loating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

As the critical terms of the interest rate swap contracts and their corresponding hedged items are the same, the Group performs a qualitative assessment of effectiveness and it is expected that the value of the interest rate swap contracts and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying interest rates. The main source of hedge ineffectiveness in these hedge relationships is the effect of the counterparty and the Group's own credit risk on the fair value of the interest rate swap contracts, which is not reflected in the fair value of the hedged item attributable to the change in interest rates. No other sources of ineffectiveness emerged from these hedging relationships.

Interest rate swap contract assets and liabilities are included in Note 6.

(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.

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

NOTE 33 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(h) Liquidity risk management (cont'd)

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.

31 December 2018

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	6.120.960	6.374.418	1.665.280	3.196.581	1.371.859	140.698
Trade payables	1.935.922	1.935.922	1.935.922	-	-	-
Other financial liabilities (*)	431.997	431.997	431.997	-	-	-
Total liabilities	**8.488.879**	**8.742.337**	**4.033.199**	**3.196.581**	**1.371.859**	**140.698**
Derivative financial liabilities						
Derivative cash inflows	59.393	2.578.421	1.169.126	1.092.584	316.711	-
Derivative cash outflows	(4.526)	(2.646.058)	(1.107.857)	(1.069.485)	(468.716)	-
	54.867	(67.637)	61.269	23.099	(152.005)	-

(*) Only the financial liabilities under other payables and liabilities are included.

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

NOTE 33 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(h) Liquidity risk management (cont'd)

31 December 2017

Contractual maturity analysis	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Borrowings from banks	4.490.428	4.645.182	1.148.427	2.040.381	1.325.130	131.244
Trade payables	942.791	946.868	946.868	-	-	-
Other financial liabilities (*)	268.419	268.419	268.419	-	-	-
Total liabilities	**5.701.638**	**5.860.469**	**2.363.714**	**2.040.381**	**1.325.130**	**131.244**
Derivative financial liabilities						
Derivative cash inflows	8.348	1.935.602	739.147	838.705	357.750	-
Derivative cash outflows	(43.441)	(2.407.663)	(856.187)	(1.015.794)	(535.682)	-
	(35.093)	(472.061)	(117.040)	(177.089)	(177.932)	-

(*) Only the financial liabilities under other payables and liabilities are included.

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

NOTE 34 - FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES)

Categories of the financial instruments and their fair values

31 December 2018	Cash and cash equivalent	Loans and receivables	Available for sale financial assets	Financial assets/ liabilities at amortized cost	Derivative financial instruments through other comprehensive income/loss	Derivative financial instruments through profit/loss	Carrying value	Not
Financial Assets								
Cash and cash equivalents	-	-	-	8.659.336	-	-	8.659.336	4
Trade receivables	-	-	-	4.401.474	-	-	4.401.474	8
Financial investments	-	-	-	61.000	-	8.095	69.095	5
Other financial assets	-	-	-	11.197	-	-	11.197	9
Derivative financial instruments	-	-	-	-	19.794	39.599	59.393	6
Financial Liabilities								
Financial liabilities	-	-	-	6.120.960	-	-	6.120.960	7
Trade payables	-	-	-	1.935.922	-	-	1.935.922	8
Other liabilities	-	-	-	431.997	-	-	431.997	9/17/20
Derivative financial instruments	-	-	-	-	1.843	2.683	4.526	6
31 December 2017								
Financial Assets								
Cash and cash equivalents	7.035.440	-	-	-	-	-	7.035.440	4
Trade receivables	-	2.582.106	-	-	-	-	2.582.106	8
Financial investments	-	-	13.437	-	-	-	13.437	5
Other financial assets	-	15.643	-	-	-	-	15.643	9
Derivative financial instruments	-	-	-	-	2.648	5.700	8.348	6
Financial Liabilities								
Financial liabilities	-	-	-	4.490.428	-	-	4.490.428	7
Trade payables	-	-	-	942.791	-	-	942.791	8
Other liabilities	-	-	-	268.419	-	-	268.419	9/17/20
Derivative financial instruments	-	-	-	-	33.011	10.430	43.441	6

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

NOTE 34 - FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (cont'd)

Categories of the financial instruments and their fair values (cont'd)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Estimated fair values of financial instruments have been determined by the Group by using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data. Accordingly, estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange.

The following methods and assumptions are used to estimate the fair values of financial instruments:

Financial assets

Financial assets that are carried at cost value including cash and cash equivalents are assumed to reflect their fair values due to their short term nature.

The carrying value of receivables, with related impairments are assumed to reflect their fair values.

Financial liabilities

Fair values of short term borrowings and trade payables are assumed to approximate their carrying values due to their short term nature.

Fair values of long term financial liabilities are assumed to approximate their carrying values due to mostly they have floating interest rates and repricing at short term.

Financial asset and liabilities at fair value		Fair value level as of reporting date		
	31 December 2018	Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Financial assets held for trading	-	-	-	-
Derivative financial assets	39.599	-	39.599	-
Derivative financial liabilities	(2.683)	-	(2.683)	-
			-	
Financial assets and liabilities at fair value through other comprehensive income/expense				
			-	
Derivative financial assets	19.794	-	19.794	-
Derivative financial liabilities	(1.843)	-	(1.843)	-
Total	54.867	-	54.867	-

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

NOTE 34 - FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (cont'd)

Financial asset and liabilities at fair value		Fair value level as of reporting date		
	31 December 2017	Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Financial assets held for trading	-	-	-	-
Derivative financial assets	5.700	-	5.700	-
Derivative financial liabilities	(10.430)	-	(10.430)	-
			-	
Financial assets and liabilities at fair				
			-	
Derivative financial assets	2.648	-	2.648	-
Derivative financial liabilities	(33.011)	-	(33.011)	-
Total	(35.093)	-	(35.093)	-

First Level: Quoted (non adjusted) prices in active markets for identical assets or liabilities.

Second Level: Other valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Third Level: Valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

NOTE 35 - SUBSEQUENT EVENTS

None.

NOTE 36 - 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, 2018, 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 ("TFRS") 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 TFRS.

CONTACT INFORMATION

OYAK MINING METALLURGY GROUP
Barbaros Mahallesi Ardıç Sok. No: 6, 34746
Ataşehir/İSTANBUL-TURKEY
Tel: +90 216 578 80 00
Fax: +90 216 469 48 10
E-mail: grupiletisim@erdemir.com.tr
Web: www.erdemirgrubu.com.tr

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş.
Uzunkum Caddesi No: 7, 67330
Karadeniz Ereğli/ZONGULDAK-TURKEY
Tel: +90 372 323 25 00
Fax: +90 372 333 15 00
E-mail: iletisim@erdemir.com.tr
Web: www.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
E-mail: info@isdemir.com.tr
Web: www.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
E-mail: ermaden@erdemirmaden.com.tr
Web: www.erdemirmaden.com.tr

ERDEMİR ÇELİK SERVİS MERKEZİ SAN. VE TİC. A.Ş.
Gebze Organize Sanayi Bölgesi 700. Sok. No: 724
Gebze/KOCAELİ-TURKEY
Tel: +90 262 679 27 27
Fax: +90 262 679 27 97
E-mail: info@ersem.com.tr
Web: www.ersem.com.tr

ERDEMİR MÜHENDİSLİK YÖNETİM VE DANIŞMANLIK HİZMETLERİ A.Ş.
Barbaros Mah. Ardıç Sok. No: 6, 34746
Ataşehir/İSTANBUL-TURKEY
Tel: +90 216 578 80 00
Fax: +90 216 469 48 37
E-mail: erdemirmuhendislik@erdemir.com.tr
Web: www.muhendislikerdemir.com.tr

ERDEMİR ROMANIA S.R.L.
18, Soseaua Gaesti, Targoviste 130087
Dambovita/ROMANIA
Tel: +40 245 60 71 00
Fax: +40 245 60 60 70
E-mail: office@erdemir.ro
Web: www.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

İSDEMİR LINDE GAZ ORTAKLIĞI A.Ş.
Karşı Mahalle Şehit Yüzbaşı Ali Oğuz Bulvarı No: 1
Payas/HATAY-TURKEY
Tel: +90 326 758 41 00
Fax: +90 326 758 3991

ERDEMİR ENERJİ ÜRETİM A.Ş.
Barbaros Mah. Ardıç Sok. No: 6, 34746
Batı Ataşehir/İSTANBUL-TURKEY
Tel: +90 216 578 80 00
Fax: +90 216 469 48 07
Web: www.erdemirenerji.com.tr

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