

**(CONVENIENCE TRANSLATION OF CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH - SEE NOTE 17)**

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

**CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS FOR THE PERIOD 1 JANUARY - 30 JUNE 2016 AND
REVIEW REPORT**

(Convenience Translation into English of Independent Auditor's Review Report Originally Issued in Turkish)

Review Report on the Interim Condensed Consolidated Financial Information

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

Introduction

We have reviewed the accompanying condensed consolidated financial information of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ("the Company") and its subsidiaries (all together referred to as "the Group") as of June 30, 2016, which comprise the consolidated statement of financial position and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, the consolidated statement of cash flows for the six-month-period then ended and its explanatory disclosures. The Company management is responsible for the preparation and fair presentation of this interim condensed financial information in accordance with Turkish Accounting Standards 34 - Interim Financial Reporting ("TAS 34"). Our responsibility is to express a conclusion on this interim condensed financial information based on our review.

Scope of a Review

We conducted our review in accordance with the Standard on Review Engagements (SRE) 2410, "Limited Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed interim financial information consists of making inquiries, primarily of persons responsible for financial reporting process, and applying analytical and other review procedures. A review of condensed interim financial information is substantially less in scope than an independent audit performed in accordance with the Independent Auditing Standards of Turkey and the objective of which is to express an opinion on the financial statements. Consequently, a review on the condensed interim financial information does not provide assurance that the audit firm will be aware of all significant matters which would have been identified in an audit. Accordingly, we do not express an audit opinion.

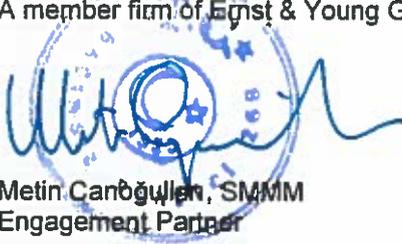
Conclusion

Based on our review, nothing has come to our attention which may cause us to believe that the accompanying interim condensed consolidated financial information are not prepared, in all material respects, in accordance with TAS 34.

Emphasis of Matter

We draw attention to the matter in Note 7 to the accompanying interim condensed consolidated financial statements. The court cases related to Capital Market Board's ("CMB") claim that the Company had prepared its December 31, 2005 financial statements in accordance with International Financial Reporting Standards instead of Communiqué Serial XI, No:25 on "Accounting Standards in Capital Markets" without taking the permission of the CMB in prior years were concluded against the Company at Council of State and such conclusions declared to the Company via notifications sent in July 2012. On August 1, 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 February 17, 2014. However, lawsuit filed by the Privatization Administration ("PA") of The Turkish Republic is at the stage of appeal at the Supreme Court and is pending as of the date of our review report. However, this matter is not basis for our review conclusion.

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



Metin Canoğlu, SMMM
Engagement Partner

August 10, 2016
Istanbul, Turkey

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(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 30 JUNE 2016

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

	Note	(Reviewed)	(Reviewed)	(Audited)	(Audited)
		Current Period 30 June 2016 USD'000	Current Period 30 June 2016 TRY'000	Previous Period 31 December 2015 USD'000	Previous Period 31 December 2015 TRY'000
ASSETS					
Current Assets		2.627.508	7.602.955	2.751.401	7.999.975
Cash and Cash Equivalents		1.041.156	3.012.688	1.009.321	2.934.703
Financial Derivative Instruments		11.015	31.873	15.286	44.445
Trade Receivables		495.212	1.432.945	561.504	1.632.629
<i>Due From Related Parties</i>	3	<i>13.849</i>	<i>40.073</i>	<i>14.834</i>	<i>43.130</i>
<i>Other Trade Receivables</i>		<i>481.363</i>	<i>1.392.872</i>	<i>546.670</i>	<i>1.589.499</i>
Other Receivables		732	2.118	712	2.069
Inventories	4	1.023.206	2.960.748	1.113.595	3.237.890
Prepaid Expenses		24.455	70.764	18.143	52.754
Other Current Assets		31.732	91.819	32.840	95.485
Non Current Assets		3.632.658	10.511.460	3.657.490	10.634.515
Other Receivables		5.205	15.061	5.183	15.069
Financial Investments		27	78	27	79
Financial Derivative Instruments		8.092	23.414	14.639	42.564
Investment Properties		26.961	78.015	24.670	71.731
Property, Plant and Equipment	5	3.509.377	10.154.734	3.530.218	10.264.461
Intangible Assets	5	58.090	168.090	59.453	172.865
Prepaid Expenses		15.309	44.299	15.112	43.939
Deferred Tax Assets	10	9.597	27.769	8.188	23.807
TOTAL ASSETS		6.260.166	18.114.415	6.408.891	18.634.490

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

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 30 JUNE 2016

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

	Note	(Reviewed)	(Reviewed)	(Audited)	(Audited)
		Current Period 30 June 2016 USD'000	Current Period 30 June 2016 TRY'000	Previous Period 31 December 2015 USD'000	Previous Period 31 December 2015 TRY'000
LIABILITIES					
Current Liabilities		982.862	2.844.010	899.513	2.615.423
Short Term Borrowings	6	214.858	621.714	8.353	24.286
Short Term Portion of Long Term Borrowings	6	421.686	1.220.191	360.179	1.047.256
Financial Derivative Instruments		8.917	25.802	6.705	19.495
Trade Payables		164.766	476.767	200.235	582.203
<i>Due to Related Parties</i>	3	<i>8.158</i>	<i>23.606</i>	<i>9.159</i>	<i>26.630</i>
<i>Other Trade Payables</i>		<i>156.608</i>	<i>453.161</i>	<i>191.076</i>	<i>555.573</i>
Other Payables		14.498	41.952	11.583	33.680
Deferred Revenue		43.191	124.978	32.115	93.377
Current Tax Liabilities	10	30.598	88.538	74.896	217.769
Short Term Provisions	7	38.219	110.590	150.298	437.007
Payables for Employee Benefits	8	34.398	99.534	41.168	119.700
Other Current Liabilities		11.731	33.944	13.981	40.650
Non Current Liabilities		1.167.372	3.377.906	1.197.164	3.480.875
Long Term Borrowings	6	604.356	1.748.765	654.960	1.904.361
Financial Derivative Instruments		988	2.859	7.345	21.355
Provisions for Employee Benefits	8	195.524	565.769	173.997	505.915
Deferred Tax Liabilities	10	366.362	1.060.106	360.711	1.048.802
Other Non Current Liabilities		142	407	151	442
EQUITY		4.109.932	11.892.499	4.312.214	12.538.192
Equity Attributable to Equity Holders of the Parent		3.991.853	11.550.826	4.189.170	12.180.429
Share Capital	11	1.818.371	3.500.000	1.818.371	3.500.000
Inflation Adjustment to Capital		81.366	156.613	81.366	156.613
Treasury Shares (-)		(60.387)	(116.232)	(60.387)	(116.232)
Share Issue Premium (Discounts)		55.303	106.447	55.303	106.447
Other Comprehensive Income/Expense Not to be Reclassified to Profit/ (Loss)		(42.341)	(98.682)	(36.155)	(80.580)
<i>Revaluation Reserve of Tangible Assets</i>		<i>12.690</i>	<i>27.206</i>	<i>12.623</i>	<i>27.215</i>
<i>Actuarial (Loss)/ Gain funds</i>		<i>(55.031)</i>	<i>(125.888)</i>	<i>(48.778)</i>	<i>(107.795)</i>
Other Comprehensive Income/Expense to be Reclassified to Profit/ (Loss)		(28.517)	3.934.479	(31.483)	4.010.257
<i>Cash Flow Hedging Gain (Loss)</i>		<i>(117)</i>	<i>(340)</i>	<i>(754)</i>	<i>(2.192)</i>
<i>Foreign Currency Translation Reserves</i>		<i>(28.400)</i>	<i>3.934.819</i>	<i>(30.729)</i>	<i>4.012.449</i>
Restricted Reserves Assorted from Profit		516.714	1.166.197	441.058	950.831
Retained Earnings		1.486.278	2.420.078	1.506.960	2.527.180
Net Profit for the Period		165.066	481.926	414.137	1.125.913
Non-Controlling Interests		118.079	341.673	123.044	357.763
TOTAL LIABILITIES AND EQUITY		6.260.166	18.114.415	6.408.891	18.634.490

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

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2016

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

	Note	(Reviewed) Current Period		(Reviewed) Current Period		(Reviewed) Previous Period		(Reviewed) Previous Period	
		1 January - 30 June 2016	30 June 2016	1 January - 30 June 2016	30 June 2016	1 January - 30 June 2015	30 June 2015	1 April - 30 June 2015	1 April - 30 June 2015
		USD'000	TRY'000	USD'000	TRY'000	USD'000	TRY'000	USD'000	TRY'000
Revenue	12	1.796.621	5.245.415	2.668.633	2.668.633	2.369.070	6.066.005	3.170.264	3.170.264
Cost of Sales	12	(1.536.150)	(4.484.943)	(2.155.046)	(2.155.046)	(1.898.660)	(4.861.520)	(2.557.101)	(2.557.101)
GROSS PROFIT		260.471	760.472	513.587	513.587	470.410	1.204.485	613.163	613.163
Marketing Expenses	13	(23.940)	(69.895)	(36.338)	(36.338)	(25.179)	(64.470)	(33.276)	(33.276)
General Administrative Expenses	13	(49.315)	(143.979)	(74.115)	(74.115)	(53.468)	(136.904)	(70.382)	(70.382)
Research and Development Expenses	13	(1.872)	(5.465)	(3.100)	(3.100)	(1.887)	(4.832)	(2.856)	(2.856)
Other Operating Income	13	46.505	135.777	34.938	34.938	52.748	135.060	90.757	90.757
Other Operating Expenses	13	(17.604)	(51.399)	(27.667)	(27.667)	(25.307)	(64.799)	(34.806)	(34.806)
OPERATING PROFIT		214.245	625.511	407.305	407.305	417.317	1.068.540	562.600	562.600
Finance Income	14	27.749	81.017	7.803	7.803	109.824	281.205	64.482	64.482
Finance Expense	14	(28.897)	(85.229)	1.351	1.351	(141.830)	(349.839)	(81.411)	(81.411)
PROFIT BEFORE TAX		213.097	621.299	416.459	416.459	385.311	999.906	545.671	545.671
Tax (Expense) Income	10	(42.033)	(121.861)	(85.113)	(85.113)	(73.156)	(200.632)	(92.511)	(92.511)
Current Corporate Tax Expense (Income)		(33.014)	(95.529)	(80.559)	(80.559)	(105.856)	(284.361)	(131.543)	(131.543)
Deferred Tax (Expense) Income		(9.019)	(26.332)	(4.554)	(4.554)	32.700	83.729	39.032	39.032
NET PROFIT FOR THE PERIOD		171.064	499.438	331.346	331.346	312.155	799.274	453.160	453.160
Non-Controlling Interests		5.998	17.512	13.365	13.365	7.864	20.137	11.473	11.473
Equity Holders of the Parent		165.066	481.926	317.981	317.981	304.291	779.137	441.687	441.687
EARNINGS PER SHARE			0,1377	0,0909	0,0909		0,2226		0,1262
(TRY 1 Nominal value per share)									

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(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2016

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

	(Reviewed) Current Period 1 January - 30 June 2016 USD'000	(Reviewed) Current Period 1 January - 30 June 2016 TRY'000	Current Period 1 April - 30 June 2016 TRY'000	(Reviewed) Previous Period 1 January - 30 June 2015 USD'000	(Reviewed) Previous Period 1 January - 30 June 2015 TRY'000	Previous Period 1 April - 30 June 2015 TRY'000
PROFIT (LOSS) FOR THE PERIOD	171,064	499,438	331,346	312,155	799,274	453,160
OTHER COMPREHENSIVE INCOME						
Not to be reclassified subsequently to profit or loss						
Increase (Decrease) in Revaluation Reserve of Tangible Assets	67	(9)	512	213	4,073	1,470
Actuarial Gain (Loss) of Defined Benefit Plans	(8,002)	(23,154)	(23,154)	87	226	226
Tax Effect of Actuarial Gain (Loss) of Defined Benefit Plans	1,600	4,631	4,631	(17)	(45)	(45)
To be reclassified subsequently to profit or loss						
Gain (Loss) in Cash Flow Hedging Reserves	860	2,802	18,875	(1,121)	(1,739)	(23,478)
Tax Effect of Gain (Loss) in Cash Flow Hedging Reserves	(172)	(560)	(3,775)	224	347	4,695
Foreign Currency Translation Gain (Loss)	2,498	(79,527)	233,338	(15,394)	1,585,867	301,051
OTHER COMPREHENSIVE INCOME/ (EXPENSE)	(3,149)	(95,817)	230,427	(16,008)	1,588,729	283,919
TOTAL COMPREHENSIVE INCOME (LOSS)	167,915	403,621	561,773	296,147	2,388,003	737,079
Distribution of Total Comprehensive Income						
Non-controlling Interests	6,070	15,575	19,438	5,811	62,737	19,717
Equity Holders of the Parent	161,845	388,046	542,335	290,336	2,325,266	717,362

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

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2016

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

	Other comprehensive income (expense) not to be reclassified subsequently to profit or loss				Other comprehensive income (expense) to be reclassified subsequently to profit or loss			Retained Earnings				Total Shareholders' Equity		
	Share Capital	Inflation Adjustment to Capital	Treasury Shares (-)	Share Issue Premium / Discounts	Re-valuation Reserve of Tangible Assets	Accrual Gain/(Loss) Funds	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
(Reviewed)														
1 January 2016	3,500,000	156,613	(116,232)	106,447	27,215	(107,795)	(2,192)	4,012,449	950,831	2,527,180	1,125,913	12,180,429	357,763	12,538,192
Net profit for the period	-	-	-	-	-	-	-	-	-	-	481,926	481,926	17,512	499,438
Other comprehensive income/(loss)	-	-	-	-	(9)	(18,093)	1,852	(77,630)	-	-	-	(93,880)	(1,937)	(95,817)
Total comprehensive income/(loss)	-	-	-	-	(9)	(18,093)	1,852	(77,630)	-	-	481,926	388,046	15,575	403,621
Dividends (*)	-	-	-	-	-	-	-	-	-	(1,017,649)	-	(1,017,649)	(31,665)	(1,049,314)
Transfers	-	-	-	-	-	-	-	-	215,366	910,547	(1,125,913)	-	-	-
30 June 2016	3,500,000	156,613	(116,232)	106,447	27,206	(125,888)	(340)	3,934,819	1,166,197	2,420,078	-81,926	11,550,826	341,673	11,892,499
(Reviewed)														
1 January 2015	3,500,000	156,613	(116,232)	106,447	24,151	(125,714)	7,160	1,616,002	617,355	2,616,106	1,601,415	10,003,303	307,004	10,310,307
Net profit for the period	-	-	-	-	-	-	-	-	-	-	779,137	779,137	20,137	799,274
Other comprehensive income/(loss)	-	-	-	-	-4,073	188	(1,270)	1,543,138	-	-	-	1,546,129	42,600	1,588,729
Total comprehensive income/(loss)	-	-	-	-	-4,073	188	(1,270)	1,543,138	-	-	779,137	2,325,266	62,737	2,388,003
Dividends (*)	-	-	-	-	-	-	-	-	-	(1,356,865)	-	(1,356,865)	(52,240)	(1,409,105)
Transfers	-	-	-	-	-	-	-	-	333,476	1,267,939	(1,601,415)	-	-	-
30 June 2015	3,500,000	156,613	(116,232)	106,447	28,224	(125,526)	5,890	3,159,140	950,831	2,527,180	779,137	10,971,704	317,501	11,289,205

(*) Annual General Assembly dated 31 March 2016, dividend distribution (gross dividend per share: TRY 0,3000 (2015: TRY 0,4000) amounting to TRY 1,050,000 thousand (31 March 2015: TRY 1,400,000 thousand) from 2015 net profit was approved. As the Company holds 3,08% of its shares with a nominal value of TRY 1 as of 31 March 2016, dividends for treasury shares are netted off under dividends paid. The dividend payment was completed at 25 May 2016. The Group accrued TRY 31,665 thousand dividend to non-controlling interests on Isdemir and Ermaden and paid TRY 30,804 thousand apart from the Equity holders of the Parent in current year (2015: TRY 52,240 thousand).

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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

CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2016

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

	Note	(Reviewed)	(Reviewed)	(Reviewed)	(Reviewed)
		Current Period 1 January- 30 June 2016	Current Period 1 January- 30 June 2016	Previous Period 1 January- 30 June 2015	Previous Period 1 January- 30 June 2015
		USD'000	TRY'000	USD'000	TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES		277.470	886.837	800.903	2.122.786
Profit (Loss) for The Period		171.064	499.438	312.155	799.274
Adjustments to Reconcile Profit (Loss)		161.277	469.998	198.338	521.169
Adjustments for Depreciation and Amortisation Expenses	5/12	110.192	321.716	102.744	263.077
Adjustments for Impairment Loss (Reversal of Impairment Loss)		(3.701)	(10.806)	1.882	4.820
Adjustments for Provision (Reversal of Provision) for Receivables		754	2.201	1.122	2.873
Adjustments for Provision (Reversal of Provision) for Inventories	4	(4.455)	(13.007)	760	1.947
Adjustments for Provisions		7.563	22.080	24.416	62.520
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	8	20.916	61.068	21.388	54.765
Adjustments for Provision (Reversal of Provision) for Pending Claims and/or Lawsuits	7	(13.353)	(38.988)	3.028	7.755
Adjustments for Interest (Income) and Expenses		(920)	(2.689)	12.471	31.934
Adjustments for Interest Income	14	(18.005)	(52.567)	(17.642)	(45.172)
Adjustments for Interest Expense	14	16.930	49.428	26.505	67.867
Unearned Financial Income from Credit Sales		155	450	3.608	9.239
Adjustments for Unrealised Foreign Exchange Differences		1.375	4.013	(2.624)	(6.718)
Adjustments for Fair Value (Gains) Losses		4.537	13.246	2.049	5.246
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments	14	4.537	13.246	2.049	5.246
Adjustments for Tax (Income) Expenses		42.033	121.861	73.156	200.632
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		198	577	(15.756)	(40.342)
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment		198	577	1.078	2.762
Adjustments for Losses (Gains) on Disposal of Investment Properties		-	-	(16.834)	(43.104)
Changes in Working Capital		129.122	373.625	394.225	1.059.008
Adjustments for Decrease (Increase) in Trade Receivables		65.888	190.653	186.552	501.136
Decrease (Increase) in Trade Receivables from Related Parties		1.056	3.057	(3.239)	(8.700)
Decrease (Increase) in Trade Receivables from Third Parties		64.832	187.596	189.791	509.836
Adjustments for Decrease (Increase) in Other Receivables Related from Operations		(918)	(2.656)	4.335	11.646
Decrease (Increase) in Other Receivables from Operations from Third Parties		(918)	(2.656)	4.335	11.646
Decrease (Increase) in Derivative Financial Instruments		10.818	31.303	5.634	15.134
Adjustments for Decrease (Increase) in Inventories		92.482	267.605	183.857	493.895
Decrease (Increase) in Prepaid Expenses		(2.433)	(7.041)	288	774
Adjustments for Increase (Decrease) in Trade Payables		(35.469)	(102.633)	(7.754)	(20.830)
Increase (Decrease) in Trade Payable to Related Parties		(1.045)	(3.024)	3.090	8.301
Increase (Decrease) in Trade Payable to Third Parties		(34.424)	(99.609)	(10.844)	(29.131)
Adjustments for Increase (Decrease) in Other Payables Related from Operations		(3.855)	(11.155)	(10.418)	(27.986)
Increase (Decrease) in Other Payables to Third Parties Related from Operations		(3.855)	(11.155)	(10.418)	(27.986)
Increase (Decrease) in Derivative Liabilities		(7.484)	(21.656)	(1.158)	(3.110)
Adjustments for Other Increase (Decrease) in Working Capital		10.093	29.205	32.889	88.349
Decrease (Increase) in Other Assets Related from Operations		1.267	3.666	(1.466)	(3.939)
Increase (Decrease) in Other Payables Related from Operations		8.826	25.539	34.355	92.288
Cash Flows Provided by Operating Activities		461.463	1.343.061	904.718	2.379.481
Payments Related to Provisions for Employee Termination Benefits	8	(8.250)	(24.085)	(8.824)	(22.593)
Payments Related to Other Provisions	7	(98.431)	(287.379)	(4.410)	(11.292)
Income Taxes Refund (Paid)	10	(77.312)	(224.760)	(90.581)	(222.780)
CASH FLOWS FROM INVESTING ACTIVITIES		(91.072)	(265.782)	(56.279)	(145.059)
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		1.910	5.576	4.321	11.063
Cash Inflow from Sales of Property, Plant and Equipment	5/13	1.910	5.576	4.321	11.063
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(88.747)	(259.105)	(67.956)	(174.001)
Cash Outflow from Purchase of Property, Plant and Equipment	5	(88.222)	(257.573)	(67.035)	(171.643)
Cash Outflow from Purchase of Intangible Assets	5	(525)	(1.532)	(921)	(2.358)
Cash Inflow from Sales of Investment Property		-	-	14.967	38.324
Cash Advances and Debts Given		(4.235)	(12.253)	(7.611)	(20.445)
Other Cash Advances and Debts Given		(4.235)	(12.253)	(7.611)	(20.445)
CASH FLOWS FROM FINANCING ACTIVITIES		(153.748)	(423.014)	(544.724)	(1.418.882)
Cash Inflow from Borrowings		569.124	1.646.819	881.786	2.368.743
Cash Inflow from Loans		569.124	1.646.819	881.786	2.368.743
Cash Outflow from Repayments of Borrowings		(353.373)	(1.022.541)	(873.683)	(2.346.957)
Cash Outflow from Loan Repayments		(353.373)	(1.022.541)	(873.683)	(2.346.957)
Dividends Paid		(369.900)	(1.048.454)	(539.373)	(1.407.850)
Interest Paid		(17.610)	(51.412)	(30.843)	(77.990)
Interest Received		18.011	52.574	17.389	45.172
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		32.650	118.041	199.900	558.845
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(815)	(40.056)	47.330	451.762
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		31.835	77.985	247.230	1.010.607
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		1.009.321	2.934.703	943.038	2.186.810
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		1.041.156	3.012.688	1.190.268	3.197.417

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2016

(Amounts are expressed in thousands of 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 Ataç Holding A.Ş. and Ordu Yardımlaşma Kurumu (OYAK/Armed Forces Pension Fund), respectively.

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

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

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

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

Name of the Company	Country of Operation	Operation	30June 2016 Share %	31December 2015 Share %
İskenderun Demir ve Çelik A.Ş.	Turkey	Steel Production	95,07	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 Mühendislik Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100	100
Erdemir Romania S.R.L.	Romania	Silicon Steel Production	100	100
Erdemir Asia Pacific Private Limited	Singapore	Trading	100	100

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2016

(Amounts are expressed in thousands of 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 30 June 2016 and 31 December 2015 are as follows:

	Paid Hourly Personnel	Paid Montly Personnel	30 June 2016 Personnel
Ereğli Demir ve Çelik Fab. T.A.Ş.	4.472	1.773	6.245
İskenderun Demir ve Çelik A.Ş.	3.323	1.777	5.100
Erdemir Madencilik San. ve Tic. A.Ş.	126	125	251
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	218	89	307
Erdemir Mühendislik Yönetim ve Danışmanlık Hiz	-	232	232
Erdemir Romania S.R.L.	215	50	265
Erdemir Asia Pacific Private Limited	-	4	4
	<u>8.354</u>	<u>4.050</u>	<u>12.404</u>
	Paid Hourly Personnel	Paid Montly Personnel	31 December 2015 Personnel
Ereğli Demir ve Çelik Fab. T.A.Ş.	4.530	1.797	6.327
İskenderun Demir ve Çelik A.Ş.	3.446	1.816	5.262
Erdemir Madencilik San. ve Tic. A.Ş.	128	127	255
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	215	87	302
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	240	240
Erdemir Romania S.R.L.	218	50	268
Erdemir Asia Pacific Private Limited	-	5	5
	<u>8.537</u>	<u>4.122</u>	<u>12.659</u>

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

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

The Group’s condensed consolidated financial statements and disclosures have been prepared in accordance with the communiqué numbered II-14,1 “Communiqué on the Principles of Financial Reporting In Capital Markets” (“the Communiqué”) announced by the Capital Markets Board (“CMB”) (hereinafter will be referred to as “the CMB Accounting Standards”) on 13 June 2013 which is published on Official Gazette numbered 28676. The financial statements are prepared on cost basis, except the derivative financial instruments and iron ore and silicon steel used in the production of fixed assets carried on fair value measured at business at acquisition date.

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

In accordance with the Turkish Accounting Standard No: 34 “Interim Financial Reporting”, entities are allowed to prepare a complete or condensed set of interim financial statements. In this respect, the Group has preferred to prepare condensed interim consolidated financial statements in the interim period. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2015.

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2016

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

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.1 Basis of Presentation (cont’d)

Functional and reporting currency

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

Functional currency for the subsidiary abroad

The functional currency of the foreign subsidiaries Erdemir Asia Pacific Private Limited “EAPPL” and Erdemir Romania S.R.L is US Dollars and EUR respectively.

Presentation currency translation

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

- a) The assets and liabilities on financial position as of 30 June 2016 are translated from USD Dollars into TRY using the Central Bank of Turkey’s exchange rate which is TRY 2,8936=US \$ 1 and TRY 3,2044=EUR 1 on the balance sheet date (31 December 2015: TRY 2,9076= US \$ 1, TRY 3,1776=EUR 1).
- b) For the six months period ended 30 June 2016, income statements are translated from the average TRY 2,9196 = US \$ 1 and TRY 3,2569=EUR 1 rates of 2016 January - June period (30 June 2015: TRY 2,5605 = US \$ 1 TRY 2, 8577 = 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 condensed interim financial statements

The figures in USD amounts presented in the accompanying condensed interim consolidated financial statements comprising the statements of financial position as of 30 June 2016 and 31 December 2015, consolidated statement of income and other comprehensive income and consolidated statement of cash flows for the interim period ended 30 June 2016 represent the consolidated financial statements prepared according to USD reporting currency within the frame of functional currency change that the Company has made, which is effective as of July 1, 2013, prepared in accordance with the TAS 21-Effects of Changes in Foreign Exchange Rates.

Going concern

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

Approval of the consolidated financial statements

The condensed interim consolidated financial statements have been approved and authorized to be published on 10 August 2016 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2016**

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

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

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

The Group’s condensed interim consolidated financial statements are presented in accordance with the “2016 TAS taxonomy” announced by the Public Oversight Authority (POA) 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.

Reclassification of balance sheet is as follows:

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

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

2.3 Adoption of New and Revised Financial Reporting Standards

The accounting policies adopted in the preparation of the condensed interim consolidated financial statements as of 30 June 2016 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and IFRIC interpretations effective as of 1 January 2016 summarized below.

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

- TFRS 11 Acquisition of an Interest in a Joint Operation (Amendment)
- TAS 16 and TAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to TAS 16 and TAS 38)
- TAS 16 Property, Plant and Equipment and TAS 41 Agriculture (Amendment) – Bearer Plants
- TAS 27 Equity Method in Separate Financial Statements (Amendments to TAS 27)
- TFRS 10 and TAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)
- TFRS 10, TFRS 12 and TAS 28: Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 and IAS 28)
- TAS 1: Disclosure Initiative (Amendments to TAS 1)
- TFRS 14: Regulatory Deferral Accounts

The amendments did not have an impact on the financial position or performance of the Group.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2016**

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

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.3 Adoption of New and Revised Financial Reporting Standards (cont’d)

Annual Improvements to TFRSs - 2012-2014 Cycle

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

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

Standards issued but not yet effective and not early adopted:

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

- TFRS 9 Financial Instruments – Classification and measurement

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

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

Annual Improvements – 2010–2012 Period

- IFRS 13 Fair Value Measurement

Annual Improvements – 2011–2013 Period

- IFRS 15 Revenue from Contracts with Customers
- Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Amendment)
- IFRS 9 Financial Instruments - Final standard (2014)

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2016

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

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.3 Adoption of New and Revised Financial Reporting Standards (cont’d)

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

Annual Improvements – 2011–2013 Period (cont’d)

- IFRS 16 Leases
- IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)
- IAS 7 Statement of Cash Flows (Amendments)
- IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)

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

2.4 Summary of Significant Accounting Policies

The condensed interim consolidated financial statements for the six months period ended 30 June 2016 have been prepared in accordance with TAS 34. The accounting policies used in the preparation of these condensed interim consolidated financial statements for the period ended 30 June 2016 are consistent with those used in the preparation of annual consolidated financial statements for the year ended 31 December 2015. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2015.

There has been no change in total ownership interests and effective interests of the subsidiaries, included in the scope of consolidation as of 30 June 2016, from the interests reported as of 31 December 2015.

2.5 Restatement and errors in the accounting policies and estimates

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

The accounting policies, estimations and assumptions used in the preparation of these condensed interim consolidated financial statements for the period ended 30 June 2016 are consistent with those used in the preparation of annual consolidated financial statements for the year ended 31 December 2015.

2.6 Segment Reporting

The operations of the Group in 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.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts are expressed in thousands of Turkish Lira (“TRY Thousand”) unless otherwise indicated.)

NOTE 3 –RELATED PARTY DISCLOSURES

The immediate parent and ultimate controlling parties 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:

<u>Due from related parties (short term)</u>	30 June 2016	31 December 2015
Oyak Renault Otomobil Fab. A.Ş. ⁽²⁾	27.936	30.868
Bolu Çimento Sanayi A.Ş. ⁽¹⁾	6.261	6.060
Adana Çimento Sanayi T.A.Ş. ⁽¹⁾	5.100	6.068
Other	776	134
	<u>40.073</u>	<u>43.130</u>

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

<u>Due to related parties (short term)</u>	30 June 2016	31 December 2015
Omsan Lojistik A.Ş. ⁽¹⁾	6.411	6.286
Omsan Denizcilik A.Ş. ⁽¹⁾	5.373	6.162
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	6.528	8.954
Oyak Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	3.450	3.542
Other	1.844	1.686
	<u>23.606</u>	<u>26.630</u>

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

<u>Major sales to related parties</u>	1 January - 30 June 2016	1 January - 30 June 2015
Oyak Renault Otomobil Fab. A.Ş. ⁽²⁾	71.986	72.818
Adana Çimento Sanayi T.A.Ş. ⁽¹⁾	7.035	9.822
Bolu Çimento Sanayi A.Ş. ⁽¹⁾	7.017	9.004
Aslan Çimento A.Ş. ⁽¹⁾	-	994
Other	2.297	1.740
	<u>88.335</u>	<u>94.378</u>

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

⁽¹⁾ Subsidiaries of the parent company

⁽²⁾ Joint venture of the parent company

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts are expressed in thousands of Turkish Lira (“TRY Thousand”) unless otherwise indicated.)

NOTE 3 –RELATED PARTY DISCLOSURES (cont’d)

<u>Major purchases from related parties</u>	1 January - 30 June 2016	1 January - 30 June 2015
Omsan Denizcilik A.Ş. ⁽¹⁾	40.696	37.903
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	32.228	30.685
Omsan Lojistik A.Ş. ⁽¹⁾	29.897	16.063
Oyak Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	15.224	14.635
Omsan Logistica SRL ⁽¹⁾	4.183	4.498
Other	6.100	4.413
	<u>128.328</u>	<u>108.197</u>

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

⁽¹⁾ Subsidiaries of the parent company

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

The period end balances are un-secured and their collections will be in cash. As of 30 June 2016, the Group provides no provision for the receivables from related parties (31 December 2015: None).

Salaries, bonuses and other benefits of the key management:

For the six months period ended 30 June 2016, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 15.144 thousand (30 June 2015: TRY 17.088 thousand).

NOTE 4 – INVENTORIES

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

	30 June 2016	31 December 2015
Raw materials	750.160	730.302
Work in progress	450.521	473.829
Finished goods	671.727	890.682
Spare parts	653.655	603.435
Goods in transit	306.780	409.524
Other inventories	282.655	298.551
Allowance for impairment on inventories (-)	(154.750)	(168.433)
	<u>2.960.748</u>	<u>3.237.890</u>

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts are expressed in thousands of Turkish Lira (“TRY Thousand”) unless otherwise indicated.)

NOTE 4 – INVENTORIES (cont’d)

The movement of the allowance for impairment on inventories:

	1 January - 30 June 2016	1 January - 30 June 2015
Opening balance	168.433	111.752
Provision for the period	16.496	9.762
Provision released (-)	(29.503)	(7.815)
Translation difference	(676)	17.556
Closing balance	<u>154.750</u>	<u>131.255</u>

The Group has provided an allowance for the impairment on the inventories of finished goods, work in progress and raw materials within the scope of aging reports and for slow moving inventories in the cases when their net realizable values are lower than their costs. The provision released has been recognized under cost of sales (Note 12).

NOTE 5 – TANGIBLE AND INTANGIBLE ASSETS

The movement of tangible assets for the periods 1 January – 30 June 2016 and 1 January – 30 June 2015 is as follows:

	30 June 2016	30 June 2015
<u>Opening balance as of 1 January</u>		
Cost	24.664.476	19.371.670
Accumulated depreciation	(14.400.015)	(11.139.097)
Net book value	<u>10.264.461</u>	<u>8.232.573</u>
Net book value at the begin.of the period	10.264.461	8.232.573
Additions (*)	260.381	173.284
Disposals (-)	(6.153)	(11.677)
<i>Cost of disposals</i>	(16.350)	(56.447)
<i>Accumulated depreciation of disposals</i>	10.197	44.770
Transfers to intangible assets	(3.871)	(14)
Transfers to investment properties (**)	(6.689)	-
Currency translation difference	(47.956)	1.285.996
<i>Cost currency translation difference</i>	(117.358)	2.994.296
<i>Accumulated depreciation currency translation difference</i>	69.402	(1.708.300)
Current period depreciation (-)	(305.439)	(262.881)
Net book value at the end of the period	<u>10.154.734</u>	<u>9.417.281</u>
<u>Closing balance as of</u>		
Cost	24.780.589	22.482.789
Accumulated depreciation	(14.625.855)	(13.065.508)
Net book value	<u>10.154.734</u>	<u>9.417.281</u>

(*) The amount of capitalized borrowing cost is TRY 2.808 thousand for the current period (30 June 2015: TRY 353 thousand).

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NOTE 5 – TANGIBLE AND INTANGIBLE ASSETS (cont’d)

(**) Lands of Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. on Kırkkale transfers to investment properties according to decision taken, on board meeting dated 18 April 2016.

As of balance sheet date, the Group has no collaterals or pledges upon its tangible assets. (30 June 2015: None).

The movement of intangible assets for the periods 1 January – 30 June 2016 and 1 January – 30 June 2015 is as follows:

	30 June 2016	30 June 2015
<u>Opening balance as of 1 January</u>		
Cost	348.133	262.231
Accumulated amortisation	(175.268)	(126.888)
Net book value	172.865	135.343
Net book value at the begin.of the period	172.865	135.343
Additions	1.532	1.070
Disposals (-)	-	(2.148)
<i>Cost disposals</i>	-	(4.119)
<i>Accumulated depreciation disposals</i>	-	1.971
Transfers from tangible assets	3.871	14
Currency translation difference	(779)	20.719
<i>Cost currency translation difference</i>	(1.659)	39.673
<i>Accumulated depreciation currency translation difference</i>	880	(18.954)
Current period amortisation (-)	(9.399)	(7.363)
Net book value at the end of the period	168.090	147.635
<u>Closing balance end of period</u>		
Cost	351.877	298.869
Accumulated amortisation	(183.787)	(151.234)
Net book value	168.090	147.635

As of balance sheet date, the Group has no collaterals or pledges upon its intangible assets. (30 June 2015: None).

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

	30 June 2016	30 June 2015
Associated with cost of production	296.948	256.237
General administrative expenses	7.153	4.897
Marketing expenses	10.107	8.768
Research and development expenses	630	342
	314.838	270.244

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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NOTE 6 – BORROWINGS

Breakdown of borrowings is as follows:

	30 June 2016	31 December 2015
Short term borrowings	621.714	24.286
Current portion of long term borrowings	1.220.191	1.047.256
Total short term borrowings	1.841.905	1.071.542
Long term borrowings	1.748.765	1.904.361
Total long term borrowings	1.748.765	1.904.361
	3.590.670	2.975.903

As of 30 June 2016, the breakdown of the Group’s loans with their original currency and their weighted average interest rates is presented as follows:

Interest Type	Type of Currency	Weighted Average Rate of Interest (%)	Short Term Portion	Long Term Portion	30 June 2016
No interest	TRY	-	53.518	-	53.518
Fixed	TRY	9,65	59.944	-	59.944
Fixed	US Dollars	2,21	428.721	96.383	525.104
Fixed	EURO	2,82	5.530	75.424	80.954
Floating	US Dollars	Libor+2	1.158.286	1.223.194	2.381.480
Floating	EURO	Euribor+1,47	100.610	336.612	437.222
Floating	Japanese Yen	JPY Libor+0,22	35.296	17.152	52.448
			1.841.905	1.748.765	3.590.670

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

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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NOTE 6 – BORROWINGS (cont’d)

Breakdown of loan repayment is as follows:

	30 June 2016	31 December 2015
Within 1 year	1.841.905	1.071.542
Between 1-2 years	622.114	921.923
Between 2-3 years	485.677	488.184
Between 3-4 years	391.051	328.902
Between 4-5 years	161.315	163.914
Five years or more	88.608	1.438
	<u>3.590.670</u>	<u>2.975.903</u>

NOTE 7 – PROVISIONS

The Group’s short term provisions are as follows:

	30 June 2016	31 December 2015
Provision for lawsuits	95.400	88.280
Provision for termination fee of long term contract	-	218.070
Penalty prov. for employment shortage of disabled pers.	5.428	5.434
Provision for state right on mining activities	1.298	2.589
Provision for land occupation	8.464	122.634
	<u>110.590</u>	<u>437.007</u>

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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NOTE 7 – PROVISIONS (cont'd)

The movement of the provisions is as follows:

	1 January 2016	Change for the period	Payments	Provision released	Translation difference	30 June 2016
Provision for lawsuits	88.280	18.913	(3.778)	(6.684)	(1.331)	95.400
Provision for termination fee of long term contract	218.070	-	(218.970)	-	900	-
Penalty prov. for employment shortage of disabled pers.	5.434	1.950	(610)	(1.334)	(12)	5.428
Provision for state right on mining activities	2.589	1.298	(2.589)	-	-	1.298
Provision for land occupation	122.634	8.565	(61.432)	(61.696)	393	8.464
	437.007	30.726	(287.379)	(69.714)	(50)	110.590

	1 January 2015	Change for the period	Payments	Provision released	Translation difference	30 June 2015
Provision for lawsuits	102.234	16.505	(5.146)	(16.106)	7.861	105.348
Penalty prov. for employment shortage of disabled pers.	5.223	2.129	(2.548)	(493)	44	4.355
Provision for state right on mining activities	4.484	1.452	(3.598)	(886)	-	1.452
Provision for civil defense fund	10.099	175	-	-	1	10.275
Provision for land occupation	112.488	4.979	-	-	52	117.519
	234.528	25.240	(11.292)	(17.485)	7.958	238.949

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NOTE 7 – PROVISIONS (cont’d)

Provision for lawsuits

As of 30 June 2016 and 31 December 2015, lawsuits filed by and against the Group are as follows:

	30 June 2016	31 December 2015
Lawsuits filed by the Group	483.750	474.468
Provision for lawsuits filed by the Group	54.832	54.849

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

	30 June 2016	31 December 2015
Lawsuits filed against the Group	297.411	293.156
Provision for lawsuits filed against the Group	95.400	210.914

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

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

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

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NOTE 7 – PROVISIONS (cont’d)

Provision for lawsuits (cont’d)

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

Had the Company started to prepare its consolidated financial statements in accordance with IFRS after 31 December 2005, it would also have to present the comparative consolidated financial statements in accordance with IFRS based on “IFRS 1: First-time adoption of International Financial Reporting Standards” and the previously recognized negative goodwill would be transferred directly to retained earnings on 1 January 2005 instead of recognizing in the consolidated income statement in accordance with “IFRS 3: Business Combinations”. Therefore, the net profit for the periods ended 30 June 2016 and 30 June 2015 will not be affected from the above mentioned disputes.

Company’s Shareholders’ General Assembly, which was held at 30 March 2006, decided dividend distribution according to the consolidated financial statements as of 31 December 2005, which was prepared according to IFRS. Privatization Administration, who has a usufruct right over 1 (one) equity share among the Company shares it transferred to Ataer Holding A.Ş., filed a lawsuit at 1 May 2006 the 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. The case is at the stage of appeal.

The Company, based on the above mentioned reasons, doesn’t expect for the possible effects of changes in the net profit for the year ended 31 December 2005 due to the lawsuits mentioned above to have any impact in the accompanying consolidated financial statements as of 30 June 2016 and 31 December 2015.

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.

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NOTE 7 – PROVISIONS (cont’d)

Provision for lawsuits (cont’d)

However the process stopped upon the Company’s objection to Enerjia’s request, and that led Enerjia to file a lawsuit against the Company before the 7th Commercial Court of Ankara on 27 March 2010 claiming that the objection should be overruled and USD 68.312.520 should be paid to itself (E. 2010/259). The Court dismissed the case, in favor of the Company, on 23 June 2011. Enerjia appealed this rejection. 23rd Chamber of the Court of Appeals accepted this rejection on 6 April 2012 (E. 2011/2915, K.2012/2675) and after this, the case file was sent back to the 7th Commercial Court of Ankara and received case file number E. 2013/17. The case file was sent to the 4th Commercial Court of Ankara due to the case shall seen by delegation according to the regulatory framework regarding the commercial courts. The Court has dismissed the case at the hearing held on 9 September 2015. The case is at the stage of appeal. No possible material cash outflow expected according to the evaluations of Company management and expert’s reports, as a result no provision recognised on financial statements for related lawsuit.

An action of debt was instituted by Bor-San Isı Sistemleri Üretim ve Pazarlama A.Ş. against our company at the 3rd Civil Court of Kdz. Ereğli on 17 April 2013 under file no 2013/253 Esas claiming for the compensation of the loss arising from the sales contract of TRY 18 thousand, reserving the rights for surplus. The Company was informed from the amendment petition, which was served to the company on 1 November 2013 that the plaintiff pleaded from the court to raise the claim to TRY 10,838 thousand as assessed by the expert opinion submitted to the court. The Company contested to the expert opinion and the amendment petition within the statutory period. The court has given the judgment of dismissal on 11 March 2014. The plaintiff, Bor-San Isı Sistemleri Üretim ve Pazarlama A.Ş. has appealed against the judgment. Upon the reversal of judgment, the Company appealed the decision of Supreme Court of Appeal. The rejection decision of Supreme Court of Appeal has been notified to the Company on 28 January 2015. The case ongoing with the Kdz. Ereğli Civil Court of First Instance 3rd has dismissed at the hearing held on 9 September 2015. The case is at the stage of appeal.

Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.) located at Illinois state of United States of America and the Company executed a contract in 2008. The company fulfilled all its performances arisen from this contract in January and February in 2009. Corus International Trading Ltd. Co. sold to third parties the products supplied from our company but thereafter alleged that they directed claim to some compensation and that these claims must be covered by Erdemir. Parties could not reach an exact agreement about this matter and then Corus International Trading Ltd. Co filed an action for compensation at amount of USD 4.800 thousand together with accessory against the Company in Illinois State District Court of USA. It is learnt through a notified made to the Company on 21 July 2010. After the subject case is dismissed by the court from jurisdiction aspect; this time a lawsuit is re-filed by Tata Steel International (North America) Ltd.) in Texas State District Court. This case is also dismissed by the court from jurisdiction aspect.

It is learnt through a notified made to the Company on 31 October 2012 that Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.) filed an action for compensation at amount of TRY 8.669 thousand (USD 4.800 thousand) together with accessory against the Company before Ankara 14th Commercial Court of First Instance. As a result of adjudication made; the court adjudged to dismiss the case on procedural grounds because of non-competence and to send the file to commissioned and competent Karadeniz Ereğli Commercial Court of First Instance in Duty when the judgment becomes definite and in case of request. The case still continues on file no. 2013/63 in Karadeniz Ereğli 2nd Civil Court of First Instance. Date of next hearing of the case is 17 November 2016.

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NOTE 7 – PROVISIONS (cont’d)

Provision for lawsuits (cont’d)

The company has been notified about tax and loss of tax penalty amounting to TRY 8.740 thousand within the scope of stamp tax inspection for the years of 2010, 2011 and 2012. The company filed a case about cancellation of related tax and loss of tax penalty notifications. No possible material cash outflow expected according to the evaluations of Company management and no provision recognised on financial statements for related lawsuit.

Provision for termination fee of long term contract

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

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

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

Despite the termination process of finalizing the protocol signed in the period after the reporting date as described above, The Company has considered the termination cost as constructive obligation since the Management has taken a decision towards termination process related to the contract as of December 31, 2015 as well as an expectation is also formed by the supplier regarding the termination of aforementioned agreement and cash flows can be estimated in a trustable manner as of December 31, 2015 even if the termination process is concluded with the protocol after 31 December 2015. As a result, the payment of TRY 218.070 thousand (equivalent to USD 75.000 thousand) provision recognised under statement of financial position was completed equivalent to TRY 218.970 thousand (equivalent to USD 75.000 thousand).

Provision for state right on mining activities

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

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NOTE 7 – PROVISIONS (cont’d)

Provision for land occupation

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

The company filed a case in Zonguldak Tax Court on the date 23 May 2012 on the grounds that it is against the law that the property tax value that had been determined by Karadeniz Ereğli Municipality in the year 2009 in respect of the whole of the factory area had been calculated over the market value that had been designated for Uzunkum Street that is used only as a postal address; that it is required to undertake a separate value designation for the property tax of the immovable properties within the factory area; that the property tax should be designated over different tax values for the factory areas that are located within a certain region independent from the streets and by-lanes of the county and that are different in terms of their values. The court ruled on the date 5th June 2013 that there are no legal grounds for taking the market value for Uzunkum Street as the basis for designating the tax value for the whole factory. As for the land occupation to be deposited, during the court case and after in respect of the designation of the new property tax market values and in respect of dividing the factory area depending on different tax zones the company had recognised TRY 122.634 thousand provision (USD 42.177 thousand) as against the case for the period between 1st July 2011 and 31st December 2015 over the minimum values on the basis of current property tax values of the relevant dates.

The company had been served on the date 9th March 2016 with the notifications for land occupation with an amount of TRY 93.156 thousand. In accordance with the provisions of the 11th article of the General Communique of National Estate with the series number 336, under circumstances where no objection had been raised against the deposits of land occupation payment and under circumstances where there is an cash payment; there is a right to make use of a discount to the rate of a total 35 %. As a result, with reference to the said provision, the method of cash payment without raising an objection had been decided upon by the administration of the company and TRY 61.432 thousand (equivalent to USD 21.045 thousand) had been paid to Karadeniz Ereğli District Fiscal Office. TRY 61.696 thousand (equivalent to USD 21.132 thousand) provision for land occupation released under operating income (Note 13).

In current period, amounting to TRY 8.464 thousand land occupation provision recognised on balance sheet, considering property fair values presented land occupation notifications issued March 2016 and yearly probable increases.

NOTE 8 – EMPLOYEE BENEFITS

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

	30 June 2016	31 December 2015
Due to personnel	65.233	93.459
Social security premiums payable	34.301	26.241
	<u>99.534</u>	<u>119.700</u>

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NOTE 8 – EMPLOYEE BENEFITS (cont’d)

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

	30 June 2016	31 December 2015
Provisions for employee termination benefits	448.262	404.699
Provisions for seniority incentive premium	35.390	28.289
Provision for unpaid vacations	82.117	72.927
	<u>565.769</u>	<u>505.915</u>

According to the articles of Turkish Labor Law in force, there is an obligation to pay the legal employee termination benefits to each employee whose employment contracts are ended properly entitling them to receive employee termination benefits. Also, in accordance with the effective laws of the Social Insurance Act No: 506 No: 2422 on 6 March 1981 and No: 4447 on 25 August 1999 and with the amended Article 60 of the related Act, it is obliged to pay the employees their legal employee termination benefits, who are entitled to terminate.

As of 30 June 2016, the amount payable consists of one month’s salary limited to a maximum of TRY 4.092,53 (31 December 2015: TRY 3.828,37). As of 1 July 2016, the employee termination benefit has been updated to a maximum of TRY 4.297,21.

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 30 June 2016 has been calculated by an independent actuary. The actuarial assumptions used in the calculation of the present value of the future probable obligation are as follows:

	30 June 2016	31 December 2015
Discount rate	9,20%	10,70%
Inflation rate	6,70%	7,75%
Salary increase	real 1.5%	real 1.5%
Maximum liability increase	6,70%	7,75%

Discount rates are determined considering the expected duration of the retirement obligations and the currency in which the obligations will be paid. In calculations as of 30 June 2016, a fixed discount rate is used. Long term inflation estimates are made using an approach consistent with discount rate estimates and long term inflation rate fixed over years is used.

The anticipated rate of resignation which do not result in the payment of employee benefits is also considered in the calculation. The anticipated rate of resignation is assumed to be related with the past experience, therefore past experiences of employees are analyzed and considered in the calculation. In the actuarial calculation as of 30 June 2016, the anticipated rate of resignation is considered to be inversely proportional to the past experience. The anticipated rate of resignation is between 2%-0% for the employees with past experience between 0-15 years or over.

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NOTE 8 – EMPLOYEE BENEFITS (cont’d)

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

	1 January - 30 June 2016	1 January - 30 June 2015
Opening balance	404.699	393.478
Service cost	20.087	20.323
Interest cost	20.654	14.894
Actuarial loss/(gain)	23.154	(226)
Termination benefits paid	(20.214)	(18.655)
Translation difference	(118)	256
Closing balance	448.262	410.070

The sensitivity analysis of the assumptions which was used for the calculation of provision for employment termination benefits as of 30 June 2016 as follows:

	Discount rate	
Rate	1% increase	1% decrease
Change in employee benefits liability	(40.410)	47.140
	Inflation rate	
Rate	1% increase	1% decrease
Change in employee benefits liability	43.521	(38.080)

According to the current labor agreement, employees completing their 10th, 15th and 20th service years receive seniority incentive premium payments.

The movement of the provision for seniority incentive premium is as follows:

	1 January - 30 June 2016	1 January - 30 June 2015
Opening balance	28.289	25.389
Service cost	1.654	2.506
Interest cost	1.489	1.030
Actuarial loss/(gain)	5.487	3.299
Termination benefits paid	(1.511)	(1.390)
Translation difference	(18)	66
Closing balance	35.390	30.900

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

	1 January - 30 June 2016	1 January - 30 June 2015
Opening balance	72.927	68.857
Provision for the period	30.349	31.062
Vacation paid during the period (-)	(2.360)	(2.548)
Provisions released (-)	(18.652)	(18.349)
Translation difference	(147)	816
Closing balance	82.117	79.838

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NOTE 9 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	30 June 2016	31 December 2015
Letters of guarantees received	1.520.720	1.514.383
	<u>1.520.720</u>	<u>1.514.383</u>

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

	30 June 2016	31 December 2015
A. Total CPM given for the Company's own legal entity	108.756	105.891
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	616.854	787.106
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	-	-
D. Other CPM given	-	-
i. Total CPM given in favour of parent entity	-	-
ii. Total CPM given in favour of other Group companies out of the scope of clause B and C	-	-
iii. Total CPM given in favour of other 3rd parties out of the scope of clause C	-	-
	<u>725.610</u>	<u>892.997</u>

As of 30 June 2016, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2015: 0%). Total CPM given in favor of subsidiaries consolidated on line-by-line basis amounting to TRY 725.610 thousand has been given as collateral for financial liabilities explained in Note 6.

The breakdown of the Group's collaterals, pledges and mortgages according to their original currency is as follows:

	30 June 2016	31 December 2015
US Dollars	429.328	514.969
TRY	108.836	140.257
EURO	159.841	206.288
Japanese Yen	27.605	31.483
	<u>725.610</u>	<u>892.997</u>

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NOTE 10 – TAX ASSETS AND LIABILITIES

	30 June 2016	31 December 2015
<u>Corporate tax payable:</u>		
Current corporate tax provision	95.529	472.407
Prepaid taxes and funds (-)	(6.991)	(254.638)
	<u>88.538</u>	<u>217.769</u>
	1 January - 30 June 2016	1 January - 30 June 2015
<u>Taxation:</u>		
Current corporate tax expense	95.529	284.361
Deferred tax (income) / expense	26.332	(83.729)
	<u>121.861</u>	<u>200.632</u>

Corporate tax

The effective corporate tax rate in Turkey is 20%, 16% in Romania and 17% in Singapore as of 30 June 2016 (31 December 2015: in Turkey 20%, in Romania 16%, in Singapore 17%). The total amount of the corporate tax paid by the Group in 2016 is TRY 224.760 thousand (30 June 2015: TRY 222.780 thousand).

Deferred tax

Tax rate used in the calculation of deferred tax assets and liabilities (excluding land) are 20% for the subsidiaries in Turkey, 16% for the subsidiary in Romania and 17% for the subsidiary in Singapore (31 December 2015: in Turkey 20%, in Romania 16%, in Singapore 17%). Deferred tax related with the temporary differences arising from land parcels is calculated with the tax rate of 5% (31 December 2015: 5%).

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

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NOTE 10 – TAX ASSETS AND LIABILITIES (cont’d)

	30 June 2016	31 December 2015
Deferred tax assets:		
Carry forward tax losses	27.916	2.316
Provisions for employee benefits	113.152	101.179
Investment incentive	9.722	10.532
Provision for lawsuits	19.080	42.183
Provision for termination fee of long term contract	-	43.614
Inventories	8.816	7.491
Provision for other doubtful receivables	13.921	13.479
Tangible and intangible assets	14.248	11.227
Other	32.674	29.857
	<u>239.529</u>	<u>261.878</u>
Deferred tax liabilities:		
Tangible and intangible assets	(1.247.964)	(1.250.788)
Fair values of the derivative financial instruments	(6.033)	(9.232)
Amortized cost adjustment on loans	(3.762)	(3.472)
Inventories	(2.991)	(17.625)
Other	(11.116)	(5.756)
	<u>(1.271.866)</u>	<u>(1.286.873)</u>
	<u>(1.032.337)</u>	<u>(1.024.995)</u>

The Group has deferred tax assets resulting from carried tax losses, expired within one year amounting to TRY 24.654 thousand and within three years amounting to TRY 3.262 thousand.

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

In the financial statements which are prepared according to the TAS, of 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.

	30 June 2016	31 December 2015
Deferred tax assets	27.769	23.807
Deferred tax (liabilities)	(1.060.106)	(1.048.802)
	<u>(1.032.337)</u>	<u>(1.024.995)</u>

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NOTE 10 – TAX ASSETS AND LIABILITIES (cont’d)

Deferred tax asset/(liability) movements is as follows:

	1 January - 30 June 2016	1 January - 30 June 2015
Opening balance	(1.024.995)	(626.229)
Deferred tax (expense)/income	(26.332)	83.729
The amount in comprehensive (expense)/income	4.071	302
Translation difference	14.919	(371.676)
Closing balance	<u>(1.032.337)</u>	<u>(913.874)</u>

Reconciliation of tax provision is as follows:

	1 January - 30 June 2016	1 January - 30 June 2015
Profit before tax	621.299	999.906
Statutory tax rate	20%	20%
Calculated tax expense acc. to effective tax rate	124.260	199.981
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	6.757	4.025
- Effect of currency translation to non taxable assets	(7.342)	6.556
- Effect of non-taxable adjustments	(1.732)	1.162
- Effect of the different tax rates due to foreign subsidiaries	(82)	(211)
Total tax exp. in reported in the consolidate stat. of income	<u>121.861</u>	<u>200.632</u>

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NOTE 11 – EQUITY

As of 30 June 2016 and 31 December 2015, the capital structure is as follows:

<u>Shareholders</u>	<u>(%)</u>	<u>30 June</u>		<u>31 December</u>	
		<u>2016</u>	<u>(%)</u>	<u>2015</u>	
Ataer Holding A.Ş.	49,29	1.724.982	49,29	1.724.982	
Quoted in Stock Exchange	47,63	1.667.181	47,63	1.667.181	
Erdemir's own shares	3,08	107.837	3,08	107.837	
Historical capital	100,00	3.500.000	100,00	3.500.000	
Effect of inflation		156.613		156.613	
Restated capital		3.656.613		3.656.613	
Treasury shares		(116.232)		(116.232)	
		<u>3.540.381</u>		<u>3.540.381</u>	

The Company is subject to registered capital limit. The board of directors may, at any time it may think necessary, increase the capital by means of issuing bearer shares each with a nominal value of 1 Kr (one Kurus) up to the amount of the registered capital, which is 7.000.000.000 in accordance with the requirements as set forth herein.

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

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NOTE 12 – SALES AND COST OF SALES (cont'd)

	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
<u>Sales Revenue</u>				
Domestic sales	4.567.370	2.292.619	5.479.711	2.820.935
Export sales	612.811	341.208	499.665	314.632
Other revenues (*)	77.495	39.956	101.853	44.092
Sales returns (-)	(6.599)	(3.038)	(10.839)	(6.453)
Sales discounts (-)	(5.662)	(2.112)	(4.385)	(2.942)
	5.245.415	2.668.633	6.066.005	3.170.264
<u>Cost of sales (-)</u>	<u>(4.484.943)</u>	<u>(2.155.046)</u>	<u>(4.861.520)</u>	<u>(2.557.101)</u>
Gross profit	760.472	513.587	1.204.485	613.163

(*)The total amount of by product exports in other revenues is TRY 3.143 thousand (30 June 2015: TRY 25.582 thousand).

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NOTE 12 – SALES AND COST OF SALES (cont'd)

The breakdown of cost of goods sales for the periods 1 January – 30 June 2016 and 1 January – 30 June 2015 is as follows:

	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
Raw material usage	(2.896.324)	(1.343.148)	(3.427.944)	(1.787.488)
Personnel costs	(630.285)	(325.798)	(588.765)	(312.866)
Energy costs	(379.371)	(184.222)	(345.632)	(180.590)
Depreciation and amortization expenses	(303.826)	(149.438)	(249.070)	(137.863)
Factory overheads	(174.588)	(90.454)	(152.367)	(83.673)
Other cost of goods sold	(26.725)	(12.247)	(40.404)	(20.032)
Non-operating costs (*)	(7.410)	(7.410)	(6.461)	(1.543)
Freight costs for sales delivered to customers	(64.611)	(34.443)	(38.541)	(21.880)
Inventory write-downs within the period (Note 4)	(16.496)	(11.604)	(9.762)	(5.369)
Reversal of inventory write-downs (Note 4)	29.503	10.918	7.815	1.545
Other	(14.810)	(7.200)	(10.389)	(7.342)
	(4.484.943)	(2.155.046)	(4.861.520)	(2.557.101)

(*) 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 (7.410) thousand, has been accounted directly under cost of goods sold (30 June 2015: TRY (6.461) thousand).

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NOTE 13 – OPERATING EXPENSES AND OTHER OPERATING INCOME/(EXPENSES)

The breakdown of marketing expenses according to their nature for the periods 1 January – 30 June 2016 and 1 January – 30 June 2015 is as follows:

	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
Personnel expenses (-)	(37.428)	(19.690)	(35.364)	(18.725)
Depreciation and amortization(-)	(10.107)	(5.123)	(8.768)	(4.648)
Service expenses (-)	(22.360)	(11.525)	(20.338)	(9.903)
	<u>(69.895)</u>	<u>(36.338)</u>	<u>(64.470)</u>	<u>(33.276)</u>

The breakdown of general administrative expenses for the periods 1 January – 30 June 2016 and 1 January – 30 June 2015 is as follows:

	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
Personnel expenses (-)	(81.454)	(43.414)	(75.461)	(38.314)
Depreciation and amortization (-)	(7.153)	(3.687)	(4.897)	(2.563)
Service expenses (-)	(49.812)	(24.544)	(50.409)	(26.677)
Tax, duty and charges (-)	(3.723)	(1.903)	(3.708)	(2.145)
Provision for doubtful receivables (-)	(1.837)	(567)	(2.429)	(683)
	<u>(143.979)</u>	<u>(74.115)</u>	<u>(136.904)</u>	<u>(70.382)</u>

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NOTE 13 – OPERATING EXPENSES AND OTHER OPERATING INCOME/(EXPENSES) (cont'd)

The breakdown of other operating income for the periods 1 January – 30 June 2016 and 1 January – 30 June 2015 is as follows:

	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
<u>Other operating income</u>				
Provisions released for land occupation	61.696	(568)	-	-
Interest income from sales with maturities	29.276	14.182	31.096	15.081
Discount income	4.971	941	13.066	7.492
Provisions released	8.018	5.459	17.970	6.326
Service income	6.384	2.583	8.347	5.032
Maintenance repair and rent income	5.387	3.328	6.523	4.672
Warehouse income	2.168	1.368	1.832	859
Indemnity and penalty detention income	1.101	572	799	460
Insurance indemnity income	1.131	827	3.595	3.529
Gain on sale of tangible assets	243	195	263	167
Gain on sale of investment properties	-	-	43.104	43.104
Other income and gains	15.402	6.051	8.465	4.035
	<u>135.777</u>	<u>34.938</u>	<u>135.060</u>	<u>90.757</u>

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NOTE 13 – OPERATING EXPENSES AND OTHER OPERATING INCOME/(EXPENSES) (cont'd)

The breakdown of other operating expenses for the periods 1 January – 30 June 2016 and 1 January – 30 June 2015 is as follows:

	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
<u>Other operating expenses (-)</u>				
Provision expenses	(20.863)	(11.625)	(20.148)	(9.142)
Discount expenses	(5.029)	(1.487)	(17.850)	(8.462)
Lawsuit compensation expenses	(2.816)	(1.310)	(1.881)	(1.071)
Port facility pre-licence expenses	(2.566)	(1.294)	(2.872)	(806)
Donation expenses	(1.579)	(575)	(903)	(575)
Service expenses	(2.613)	(1.770)	(1.504)	(913)
Loss on disposal of tangible assets	(820)	(236)	(3.025)	(2.484)
Stock exchange registration expenses	(1.042)	(1.042)	(959)	(959)
Rent expenses	(683)	(380)	(1.018)	(856)
Penalty expenses	(477)	(223)	(2.372)	(1.321)
Other expenses and losses	(12.911)	(7.725)	(12.267)	(8.217)
	<u>(51.399)</u>	<u>(27.667)</u>	<u>(64.799)</u>	<u>(34.806)</u>

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NOTE 14 – FINANCIAL INCOME / (EXPENSES)

The breakdown of financial income for the periods 1 January – 30 June 2016 and 1 January – 30 June 2015 is as follows:

<u>Financial incomes</u>	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
Interest income on bank deposits	52.567	27.797	45.172	28.000
Foreign exchange gains (net)	19.731	19.731	236.033	36.482
Foreign exchange gain from deferred tax base	8.719	(39.725)	-	-
	<u>81.017</u>	<u>7.803</u>	<u>281.205</u>	<u>64.482</u>

The breakdown of financial expense for the periods 1 January – 30 June 2016 and 1 January – 30 June 2015 is as follows:

<u>Financial expenses (-)</u>	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
Interest expenses on borrowings	(49.428)	(22.133)	(67.867)	(29.555)
Foreign exchange loss (net)	-	47.289	-	-
Interest cost of employee benefits	(22.143)	(11.086)	(15.924)	(8.009)
Foreign exchange loss from deferred tax base	-	-	(259.650)	(47.664)
Fair value differences of derivative financial instruments (net)	(13.246)	(12.502)	(5.246)	4.404
Other financial expenses	(412)	(217)	(1.152)	(587)
	<u>(85.229)</u>	<u>1.351</u>	<u>(349.839)</u>	<u>(81.411)</u>

During the period, the interest expenses of TRY 2.808 thousand have been capitalized as part of the Group's property, plant and equipment (1 January - 30 June 2015: TRY 353 thousand).

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NOTE 15 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

Additional information about financial instruments

Foreign currency risk management

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). Foreign currency position table represents foreign currencies other than each entity's functional currency. As of 30 June 2016, the foreign currency position of the Group in terms of original currency is calculated as it as follows:

	30 June 2016			
	TRY (Total in currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)
1. Trade Receivables	224.116	41.805	56.462	-
2a. Monetary financial assets	124.287	102.475	5.769	1.344
2b. Non- monetary financial assets	-	-	-	-
3. Other	139.554	138.356	340	-
4. Current assets (1+2+3)	487.957	282.636	62.571	1.344
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	31.331	20.902	2.214	109.650
8. Non-current assets (5+6+7)	31.331	20.902	2.214	109.650
9. Total assets (4+8)	519.288	303.538	64.785	110.994
10. Trade payables	295.708	262.511	6.196	404.252
11. Financial liabilities	257.867	113.460	33.834	1.278.515
12a. Other monetary financial liabilities	267.487	262.906	1.429	-
12b. Other non-monetary financial liabilities	82.792	82.792	-	-
13. Current liabilities (10+11+12)	903.854	721.669	41.459	1.682.767
14. Trade payables	-	-	-	-
15. Financial liabilities	429.188	-	128.584	609.325
16a. Other monetary financial liabilities	552.643	552.643	-	-
16b. Other non-monetary financial liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	981.831	552.643	128.584	609.325
18. Total liabilities (13+17)	1.885.685	1.274.312	170.043	2.292.092
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	(412.751)	(32.891)	(118.543)	-
19a. Off-balance sheet foreign currency derivative financial assets	117.547	28.533	27.779	-
19b. Off-balance sheet foreign currency derivative financial liabilities	530.298	61.424	146.322	-
20. Net foreign currency asset/liability position (9-18+19)	(1.779.148)	(1.003.665)	(223.801)	(2.181.098)
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(1.454.490)	(1.047.240)	(107.812)	(2.290.748)
22. Fair value of derivative financial instruments used in foreign currency hedge	4.358	-	1.360	-
23. Hedged foreign currency assets	530.298	61.424	146.322	-
24. Hedged foreign currency liabilities	117.547	28.533	27.779	-
25. Exports	615.954	-	-	-
26. Imports	2.316.142	-	-	-

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NOTE 15 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

Foreign currency risk management (cont'd)

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). As of 31 December 2015, the foreign currency position of the Group in terms of original currency is calculated as it as follows:

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 17)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2016

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

NOTE 15 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

Foreign currency risk management (cont'd)

The following table shows the Group's sensitivity to a 10% (+/-) change in the TRY, USD, EUR and Japanese Yen. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates.

As of 30 June 2016 asset and liability balances are translated by using the following exchange rates: TRY 2,8936 = US \$ 1, TRY 3,2044 = EUR 1 and TRY 0,0281 = JPY 1 (31 December 2015: TRY 2,9076 = US \$ 1, TRY 3,1776 = EUR 1 and TRY 0,0224 = JPY 1)

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency	Depreciation of foreign currency
30 June 2016		
1- TRY net asset/liability	(97.077)	97.077
2- Hedged portion from TRY risk (-)	2.853	(2.853)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(94.224)	94.224
5- US Dollars net asset/liability	-	-
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- US Dollars net effect (5+6+7)	-	-
9- Euro net asset/liability	(33.729)	33.729
10- Hedged portion from Euro risk (-)	8.902	(8.902)
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	(24.827)	24.827
13- Jap. Yen net asset/liability	(6.140)	6.140
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(6.140)	6.140
TOTAL (4+8+12+16)	(125.191)	125.191

In addition to the Group's foreign currency sensitivity to a 10% (+/-) change in TRY, TRY 151.764 thousand of income / (TRY (121.555) thousand expense) will occur due to the (decrease) / increase in deferred tax base. (31 December 2015: TRY 155.806 thousand income / TRY (127.478 thousand expense).

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2016**

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

NOTE 15 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

Foreign currency risk management (cont’d)

31 December 2015	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency	Depreciation of foreign currency
1- TRY net asset/liability	(142.106)	142.106
2- Hedged portion from TRY risk (-)	6.818	(6.818)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(135.288)	135.288
5- US Dollars net asset/liability	-	-
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- US Dollars net effect (5+6+7)	-	-
9- Euro net asset/liability	(8.327)	8.327
10- Hedged portion from Euro risk (-)	8.842	(8.842)
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	515	(515)
13- Jap. Yen net asset/liability	(7.040)	7.040
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(7.040)	7.040
TOTAL (4+8+12+16)	(141.813)	141.813

NOTE 16 – SUBSEQUENT EVENTS

None.

NOTE 17 - OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION

Convenience translation to English:

As of 30 June 2016, the accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying financial statements differ from International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board with respect to the application of inflation accounting, certain reclassifications and also for certain disclosures requirement of the POA/CMB. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with IFRS.