(CONVENIENCE TRANSLATION OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH - SEE NOTE 18)

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 30 JUNE 2018 AND AUDITOR'S REVIEW REPORT

Deloitte.

DRT Bağımsız Denetim ve
Serbest Muhasebeci
Mali Müşavirlik A.Ş.
Maslak no1 Plaza
Eski Büyükdere Caddesi
Maslak Mahallesi No:1
Maslak, Sarıyer 34485
İstanbul, Türkiye

Tel : +90 (212) 366 6000
Fax : +90 (212) 366 6010
www.deloitte.com.tr

Mersis No: 0291001097600016
Ticari Sicil No : 304099

(CONVENIENCE TRANSLATION OF THE REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION ORIGINALLY ISSUED IN TURKISH)

REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

To the General Assembly of
Ereğli Demir ve Çelik Fabrikaları T.A.Ş.

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ("the Company") and its subsidiaries (together will be referred as "the Group") as of 30 June 2018 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended. Group management is responsible for the preparation and presentation of this consolidated interim financial information in accordance with Turkish Accounting Standards 34 "Interim Financial Reporting" ("TAS 34"). Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with Independent Auditing Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Independent Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information is not prepared, in all material respects, in accordance with TAS 34 "Interim Financial Reporting".

Deloitte.

Emphasis of Matter

We would like to draw attention to the matter in Note 8 to the accompanying consolidated financial statements. The court cases related to Capital Market Board's ("CMB") claim that the Company had prepared its 31 December 2005 financial statements in accordance with International Financial Reporting Standards instead of Communique Serial XI, No: 25 on "Accounting Standards in Capital Markets" without taking the permission of the CMB in prior years were concluded against the Company at Council of State and such conclusions declared to the Company via notifications sent in July 2012. On 1 August 2012, the Company applied to the Administrative Court to remove the conflicting decisions of this court, but the Administrative Court decided to reject the application by the notification made on 17 February 2014. For the lawsuit filed by the Republic of Turkey Prime Ministry Privatization Administration ("PA") decision of the local court has been reversed by the Supreme Court 11th Civil Chamber with the decision dated 24 May 2017 and 2015/15771 Docket; 2017/3040 Decision number. The decision of reversal has been notified to the Company on 2 August 2017. The Company has applied for rectification. Legal process is ongoing as of the date of audit report and our conclusion is not qualified in respect of this matter.

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

Volkan Becerik
Partner

İstanbul, 16 August 2018

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

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 30 JUNE 2018

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

ASSETS	Note	(Reviewed) Current Period 30 June 2018 USD'000	(Reviewed) Current Period 30 June 2018 TRY'000	(Audited) Previous Period 31 December 2017 USD'000	(Audited) Previous Period 31 December 2017 TRY'000
Current Assets		**3.907.890**	**17.822.713**	**3.934.814**	**14.841.725**
Cash and Cash Equivalents		1.487.150	6.782.447	1.865.224	7.035.440
Financial Derivative Instruments		18.989	86.604	915	3.452
Trade Receivables		799.022	3.644.100	684.564	2.582.106
Due From Related Parties	*3*	*20.307*	*92.613*	*21.988*	*82.936*
Other Trade Receivables		*778.715*	*3.551.487*	*662.576*	*2.499.170*
Other Receivables		463	2.111	530	2.000
Inventories	4	1.514.469	6.907.041	1.336.066	5.039.509
Prepaid Expenses		20.527	93.618	14.047	52.982
Other Current Assets		67.270	306.792	33.468	126.236
Non Current Assets		**3.641.499**	**16.607.785**	**3.588.147**	**13.534.130**
Other Receivables		2.881	13.141	3.617	13.643
Financial Investments		27	124	3.562	13.437
Financial Derivative Instruments		1.721	7.847	1.298	4.896
Investments Accounted by Using Equity Method	5	27.032	123.285	-	-
Investment Properties		42.176	192.353	26.961	101.695
Property, Plant and Equipment	6	3.468.081	15.816.876	3.465.591	13.071.862
Intangible Assets	6	54.099	246.728	56.022	211.311
Prepaid Expenses		31.410	143.253	15.787	59.543
Due to Related Parties	*3*	*5.538*	*25.256*	-	-
Other Prepaid Expenses		*25.872*	*117.997*	*15.787*	*59.543*
Deferred Tax Assets	11	14.072	64.178	15.309	57.743
TOTAL ASSETS		**7.549.389**	**34.430.498**	**7.522.961**	**28.375.855**

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

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

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 30 JUNE 2018

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

LIABILITIES	Note	(Reviewed) Current Period 30 June 2018 USD'000	(Reviewed) Current Period 30 June 2018 TRY'000	(Audited) Previous Period 31 December 2017 USD'000	(Audited) Previous Period 31 December 2017 TRY'000
Current Liabilities		**1.537.838**	**7.013.616**	**1.464.605**	**5.524.344**
Short Term Borrowings	7	580.881	2.649.223	594.801	2.243.529
Short Term Portion of Long Term Borrowings	7	208.905	952.751	233.890	882.211
Financial Derivative Instruments		2.906	13.254	11.064	41.734
Trade Payables		385.879	1.759.881	249.951	942.791
Due to Related Parties	*3*	*12.339*	*56.275*	*14.289*	*53.897*
Other Trade Payables		*373.540*	*1.703.606*	*235.662*	*888.894*
Other Payables		12.345	56.303	11.124	41.958
Deferred Revenue		53.653	244.695	39.842	150.280
Current Tax Liabilities	11	200.414	914.027	211.554	797.961
Short Term Provisions	8	39.202	178.787	35.636	134.414
Payables for Employee Benefits	9	30.036	136.983	47.175	177.938
Other Current Liabilities		23.617	107.712	29.568	111.528
Non Current Liabilities		**995.863**	**4.541.834**	**960.618**	**3.623.354**
Long Term Borrowings	7	338.958	1.545.887	361.804	1.364.688
Financial Derivative Instruments		579	2.639	453	1.707
Provisions for Employee Benefits	9	147.038	670.596	168.831	636.813
Deferred Tax Liabilities	11	509.192	2.322.271	429.417	1.619.718
Other Non Current Liabilities		96	441	113	428
EQUITY		**5.015.688**	**22.875.048**	**5.097.738**	**19.228.157**
Equity Attributable to Equity Holders of the Parent		**4.869.332**	**22.207.560**	**4.953.574**	**18.684.383**
Share Capital	12	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)		(38.238)	(60.920)	(39.612)	(77.330)
Revaluation Reserve of Tangible Assets		*10.890*	*43.072*	*11.107*	*33.917*
Actuarial (Loss)/ Gain funds		*(49.128)*	*(103.992)*	*(50.719)*	*(111.247)*
Other Comprehensive Income/Expense to be Reclassified to Profit/ (Loss)		(58.793)	11.423.176	(54.474)	7.649.204
Cash Flow Hedging Gain (Loss)		*8.705*	*39.703*	*(4.314)*	*(16.272)*
Foreign Currency Translation Reserves		*(67.498)*	*11.383.473*	*(50.160)*	*7.665.476*
Restricted Reserves Assorted from Profit		805.774	2.287.528	625.450	1.567.280
Retained Earnings		1.635.660	2.334.445	1.497.692	2.144.646
Net Profit for the Period		630.276	2.576.503	1.029.865	3.753.755
Non-Controlling Interests		**146.356**	**667.488**	**144.164**	**543.774**
TOTAL LIABILITIES AND EQUITY		**7.549.389**	**34.430.498**	**7.522.961**	**28.375.855**

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

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

CONDENSED CONSOLIDATED STATEMENTS OF INCOME FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2018

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

	Note	(Reviewed) Current Period 1 January - 30 June 2018 USD'000	(Reviewed) Current Period 1 January - 30 June 2018 TRY'000	Current Period 1 April - 30 June 2018 TRY'000	(Reviewed) Previous Period 1 January - 30 June 2017 USD'000	(Reviewed) Previous Period 1 January - 30 June 2017 TRY'000	Previous Period 1 April - 30 June 2017 TRY'000
Revenue	13	2.844.825	11.629.361	6.209.492	2.453.865	8.919.801	4.705.760
Cost of Sales	13	(1.922.122)	(7.857.444)	(4.125.125)	(1.778.325)	(6.464.211)	(3.532.903)
GROSS PROFIT		**922.703**	**3.771.917**	**2.084.367**	**675.540**	**2.455.590**	**1.172.857**
Marketing Expenses	14	(22.479)	(91.892)	(49.899)	(22.216)	(80.755)	(40.931)
General Administrative Expenses	14	(50.703)	(207.269)	(96.243)	(44.425)	(161.485)	(80.454)
Research and Development Expenses		(1.932)	(7.899)	(3.956)	(1.685)	(6.124)	(3.431)
Other Operating Income	14	21.966	89.795	58.751	36.651	133.227	33.942
Other Operating Expenses	14	(16.946)	(69.275)	(44.974)	(16.645)	(60.503)	(24.137)
OPERATING PROFIT		**852.609**	**3.485.377**	**1.948.046**	**627.220**	**2.279.950**	**1.057.846**
Income from Investing Activities		99	404	272	196	714	264
Expenses from Investing Activities		(5.582)	(22.820)	(11.904)	(2.745)	(9.977)	(4.352)
Share of Investments' Profit Accounted by Using The Equity Method	5	568	2.322	951	-	-	-
OPERATING PROFIT BEFORE FINANCE INCOME (EXPENSES)		**847.694**	**3.465.283**	**1.937.365**	**624.671**	**2.270.687**	**1.053.758**
Finance Income	15	148.388	719.423	612.683	23.966	87.115	42.889
Finance Expense	15	(24.736)	(101.118)	(50.060)	(37.108)	(153.623)	(110.886)
PROFIT BEFORE TAX		**971.346**	**4.083.588**	**2.499.988**	**611.529**	**2.204.179**	**985.761**
Tax (Expense) Income	11	(313.829)	(1.395.726)	(920.712)	(107.931)	(373.600)	(85.292)
Current Corporate Tax Expense (Income)		(238.629)	(1.088.314)	(700.708)	(146.428)	(513.538)	(213.003)
Deferred Tax (Expense) Income		(75.200)	(307.412)	(220.004)	38.497	139.938	127.711
NET PROFIT FOR THE PERIOD		**657.517**	**2.687.862**	**1.579.276**	**503.598**	**1.830.579**	**900.469**
Non-Controlling Interests		27.241	111.359	66.020	16.830	61.178	33.085
Equity Holders of the Parent		630.276	2.576.503	1.513.256	486.768	1.769.401	867.384
EARNINGS PER SHARE			0,7361	0,4324		0,5055	0,2478
(TRY 1 Nominal value per share)							

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

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

CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2018

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

	Note	(Reviewed) Current Period 1 January - 30 June 2018 USD'000	(Reviewed) Current Period 1 January - 30 June 2018 TRY'000	Current Period 1 April - 30 June 2018 TRY'000	(Reviewed) Previous Period 1 January - 30 June 2017 USD'000	(Reviewed) Previous Period 1 January - 30 June 2017 TRY'000	Previous Period 1 April - 30 June 2017 TRY'000
PROFIT FOR THE PERIOD		**657.517**	**2.687.862**	**1.579.276**	**503.598**	**1.830.579**	**900.469**
OTHER COMPREHENSIVE INCOME							
Not to be reclassified subsequently to profit or loss							
Increase (Decrease) in Revaluation Reserve of Tangible Assets		(230)	9.155	6.613	333	1.016	(889)
Actuarial Gain (Loss) of Defined Benefit Plans	9	2.082	9.493	9.493	(4.403)	(15.440)	(15.440)
Tax Effect of Actuarial Gain (Loss) of Defined Benefit Plans	11	(458)	(2.089)	(2.089)	881	3.088	3.088
To be reclassified subsequently to profit or loss							
Gain (Loss) in Cash Flow Hedging Reserves		16.691	71.762	86.816	(7.733)	(26.949)	(17.327)
Tax Effect of Gain (Loss) in Cash Flow Hedging Reserves	11	(3.672)	(15.785)	(19.097)	1.547	5.390	3.466
Foreign Currency Translation Gain (Loss)		(13.373)	3.843.549	2.877.095	(1.230)	(70.512)	(575.845)
OTHER COMPRHENSIVE INCOME (LOSS)		**1.040**	**3.916.085**	**2.958.831**	**(10.605)**	**(103.407)**	**(602.947)**
TOTAL COMPREHENSIVE INCOME		**658.557**	**6.603.947**	**4.538.107**	**492.993**	**1.727.172**	**297.522**
Distribution of Total Comprehensive Income							
Non-controlling Interests		31.226	237.062	165.758	16.882	59.427	17.468
Equity Holders of the Parent		627.331	6.366.885	4.372.349	476.111	1.667.745	280.054

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

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2018

(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				
(Reviewed)	Share Capital	Inflation Adjustment to Capital	Treasury Shares (-)	Share Issue Premium / Discounts	Revaluation Reserve of Tangible Assets	Actuarial 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	**Total Shareholders ' Equity**
1 January 2018 (Previously reported)	**3.500.000**	**156.613**	**(116.232)**	**106.447**	**33.917**	**(111.247)**	**(16.272)**	**7.665.476**	**1.567.280**	**2.144.646**	**3.753.755**	**18.684.383**	**543.774**	**19.228.157**
Effect of change in accounting principle	-	-	-	-	-	-	-	-	-	(11.412)	-	**(11.412)**	-	**(11.412)**
1 January 2018 (Restated)	**3.500.000**	**156.613**	**(116.232)**	**106.447**	**33.917**	**(111.247)**	**(16.272)**	**7.665.476**	**1.567.280**	**2.133.234**	**3.753.755**	**18.672.971**	**543.774**	**19.216.745**
Net profit for the period	-	-	-	-	-	-	-	-	-	-	2.576.503	**2.576.503**	111.359	**2.687.862**
Other comprehensive income/(loss)	-	-	-	-	9.155	7.255	55.975	3.717.997	-	-	-	**3.790.382**	125.703	**3.916.085**
Total comprehensive income/(loss)	-	-	-	-	9.155	7.255	55.975	3.717.997	-	-	2.576.503	**6.366.885**	237.062	**6.603.947**
Dividends (*)	-	-	-	-	-	-	-	-	-	(2.849.417)	-	**(2.849.417)**	(134.157)	**(2.983.574)**
Transfers	-	-	-	-	-	-	-	-	720.248	3.033.507	(3.753.755)	-	-	-
Decrease/increase in subsidiaries due to changes in share rates not end up with lose control	-	-	-	-	-	-	-	-	-	17.121	-	**17.121**	20.809	**37.930**
30 June 2018	**3.500.000**	**156.613**	**(116.232)**	**106.447**	**43.072**	**(103.992)**	**39.703**	**11.383.473**	**2.287.528**	**2.334.445**	**2.576.503**	**22.207.560**	**667.488**	**22.875.048**
(Reviewed)														
1 January 2017	**3.500.000**	**156.613**	**(116.232)**	**106.447**	**29.437**	**(101.527)**	**8.013**	**6.522.205**	**1.166.197**	**2.420.078**	**1.516.438**	**15.207.669**	**452.364**	**15.660.033**
Net profit for the period	-	-	-	-	-	-	-	-	-	-	1.769.401	**1.769.401**	61.178	**1.830.579**
Other comprehensive income/(loss)	-	-	-	-	716	(12.012)	(22.151)	(68.209)	-	-	-	**(101.656)**	(1.751)	**(103.407)**
Total comprehensive income/(loss)	-	-	-	-	716	(12.012)	(22.151)	(68.209)	-	-	1.769.401	**1.667.745**	59.427	**1.727.172**
Dividends (*)	-	-	-	-	-	-	-	-	-	(1.390.787)	-	**(1.390.787)**	(48.069)	**(1.438.856)**
Transfers	-	-	-	-	-	-	-	-	326.644	1.189.794	(1.516.438)	-	-	-
30 June 2017	**3.500.000**	**156.613**	**(116.232)**	**106.447**	**30.153**	**(113.539)**	**(14.138)**	**6.453.996**	**1.492.841**	**2.219.085**	**1.769.401**	**15.484.627**	**463.722**	**15.948.349**

(*) At the Ordinary General Meeting held on March 30, 2018, it has been approved to distribute net profit of 2017 amounting to TRY 2.940.000 thousand (gross dividend per share: TRY 0,84 (2017: TRY 0,41)) (31 March 2017: TRY 1.435.000 thousand). As the Company holds 3,08% of its own shares with a nominal value of TRY 1 as of 30 March 2018, dividends for treasury shares are netted off under dividends paid. The dividend payment started at 29 May 2018. The Group paid TRY 134.157 thousand dividend to non-controlling interests on İsdemir and Erdemir Maden apart from the Equity holders of the Parent in current year (2017: TRY 48.069 thousand).

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2018

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

	Note	(Reviewed) Current Period 1 January- 30 June 2018 USD'000	(Reviewed) Current Period 1 January- 30 June 2018 TRY'000	(Reviewed) Previous Period 1 January- 30 June 2017 USD'000	(Reviewed) Previous Period 1 January- 30 June 2017 TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES		**590.547**	**1.052.192**	**344.106**	**1.277.329**
Profit (Loss) for The Period		**657.517**	**2.687.862**	**503.598**	**1.830.579**
Adjustments to Reconcile Profit (Loss)		**403.674**	**1.764.691**	**220.513**	**782.513**
Adjustments for Depreciation and Amortisation Expenses	6/13	93.394	381.783	98.675	358.685
Adjustments for Impairment Loss (Reversal of Impairment Loss)		12.052	49.282	(2.969)	(10.790)
Adjustments for Provision (Reversal of Provision) for Receivables		*7.262*	*29.704*	*(625)*	*(2.271)*
Adjustments for Provision (Reversal of Provision) for Inventories	4	*1.989*	*8.129*	*(2.344)*	*(8.519)*
Adjustments for Provision (Reversal of Provision) for Property, Plant and Equipment	6	*2.801*	*11.449*	-	-
Adjustments for Provisions		23.499	97.735	20.391	74.120
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	9	*19.082*	*78.006*	*19.226*	*69.885*
Adjustments for Provision (Reversal of Provision) for Pending Claims and/or Lawsuits	8	*8.229*	*34.359*	*1.165*	*4.235*
Adjustments for Free Provision (Reversal of Provision) for Possible Risks		*(3.812)*	*(14.630)*	-	-
Adjustments for Interest (Income) and Expenses		(33.638)	(137.505)	(15.289)	(55.902)
Adjustments for Interest Income	15	*(42.378)*	*(173.235)*	*(22.916)*	*(83.300)*
Adjustments for Interest Expense	15	*16.932*	*69.215*	*14.138*	*51.393*
Unearned Financial Income from Credit Sales		*(8.192)*	*(33.485)*	*(6.511)*	*(23.995)*
Adjustments for Unrealised Foreign Exchange Differences		(6.475)	(26.471)	10.213	37.124
Adjustments for Fair Value (Gains) Losses		(1.164)	(4.758)	(1.050)	(3.815)
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments	15	*(1.164)*	*(4.758)*	*(1.050)*	*(3.815)*
Adjustments for Undistributed Profits of Investments Accounted for Using Equity Method	5	(568)	(2.322)	-	-
Adjustments for Tax (Income) Expenses	11	313.829	1.395.726	107.931	373.600
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		2.745	11.221	2.611	9.491
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment		*2.745*	*11.221*	*2.611*	*9.491*
Changes in Working Capital		**(209.514)**	**(2.381.673)**	**(192.324)**	**(674.501)**
Adjustments for Decrease (Increase) in Trade Receivables		(110.437)	(1.068.669)	7.424	26.036
Decrease (Increase) in Trade Receivables from Related Parties		*1.681*	*(9.677)*	*(4.436)*	*(15.558)*
Decrease (Increase) in Trade Receivables from Third Parties		*(112.118)*	*(1.058.992)*	*11.860*	*41.594*
Adjustments for Decrease (Increase) in Other Receivables Related from Operations		3.902	(797)	(721)	(2.529)
Decrease (Increase) in Other Receivables from Operations from Third Parties		*3.902*	*(797)*	*(721)*	*(2.529)*
Decrease (Increase) in Derivative Financial Instruments		(18.497)	(86.103)	15.088	52.915
Adjustments for Decrease (Increase) in Inventories		(174.342)	(1.899.592)	(121.122)	(424.788)
Decrease (Increase) in Prepaid Expenses		(13.116)	(71.921)	(12.877)	(45.162)
Adjustments for Increase (Decrease) in Trade Payables		135.928	817.090	(94.586)	(331.723)
Increase (Decrease) in Trade Payable to Related Parties		*(1.950)*	*2.378*	*(1.575)*	*(5.523)*
Increase (Decrease) in Trade Payable to Third Parties		*137.878*	*814.712*	*(93.011)*	*(326.200)*
Adjustments for Increase (Decrease) in Other Payables Related from Operations		(16.816)	(30.707)	(4.175)	(14.642)
Increase (Decrease) in Other Payables to Third Parties Related from Operations		*(16.816)*	*(30.707)*	*(4.175)*	*(14.642)*
Increase (Decrease) in Derivative Liabilities		9.823	48.970	(3.503)	(12.286)
Adjustments for Other Increase (Decrease) in Working Capital		(25.959)	(89.944)	22.148	77.678
Decrease (Increase) in Other Assets Related from Operations		*(33.802)*	*(180.556)*	*(4.146)*	*(14.539)*
Increase (Decrease) in Other Payables Related from Operations		*7.843*	*90.612*	*26.294*	*92.217*
Cash Flows Provided by Operating Activities		**851.677**	**2.070.880**	**531.787**	**1.938.591**
Payments Related to Provisions for Employee Termination Benefits	9	(8.918)	(36.454)	(7.821)	(28.429)
Payments Related to Other Provisions	8	(2.443)	(9.986)	(3.727)	(13.550)
Income Taxes Refund (Paid)	11	(249.769)	(972.248)	(176.133)	(619.283)
CASH FLOWS FROM INVESTING ACTIVITIES		**(145.087)**	**(602.306)**	**(78.596)**	**(284.342)**
Cash Inflow Due to Share Sales of Subsidiaries' not End Up with Losing Control		10.349	42.391	-	-
Cash Outflows Arising From Purchase of Shares or Capital Increase of Associates and/or Joint Ventures		(22.929)	(87.333)	(3.527)	(12.371)
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		85	345	354	1.285
Cash Inflow from Sales of Property, Plant and Equipment		*85*	*345*	*354*	*1.285*
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(108.390)	(443.087)	(68.349)	(248.447)
Cash Outflow from Purchase of Property, Plant and Equipment	6	*(107.770)*	*(440.551)*	*(67.866)*	*(246.691)*
Cash Outflow from Purchase of Intangible Assets	6	*(620)*	*(2.536)*	*(483)*	*(1.756)*
Cash Outflow from Purchase of Investment Property		*(15.215)*	*(62.197)*	-	-
Cash Advances and Debts Given		(8.987)	(52.425)	(7.074)	(24.809)
Other Cash Advances and Debts Given		*(8.987)*	*(52.425)*	*(7.074)*	*(24.809)*
CASH FLOWS FROM FINANCING ACTIVITIES		**(692.944)**	**(2.199.921)**	**(500.048)**	**(1.818.798)**
Cash Inflow from Borrowings		501.987	2.003.115	365.012	1.280.133
Cash Inflow from Loans		*501.987*	*2.003.115*	*365.012*	*1.280.133*
Cash Outflow from Repayments of Borrowings		(560.359)	(1.331.867)	(487.690)	(1.710.423)
Cash Outflow from Loan Repayments		*(560.359)*	*(1.331.867)*	*(487.690)*	*(1.710.423)*
Dividends Paid		(660.400)	(2.976.747)	(391.142)	(1.438.856)
Interest Paid		(15.437)	(63.104)	(14.993)	(54.500)
Interest Received		41.265	168.682	28.765	104.848
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		**(247.484)**	**(1.750.035)**	**(234.538)**	**(825.811)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(130.590)	1.497.042	(3.808)	(25.864)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(378.074)**	**(252.993)**	**(238.346)**	**(851.675)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		1.865.224	7.035.440	1.303.396	4.586.911
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**1.487.150**	**6.782.447**	**1.065.050**	**3.735.236**

(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 Ataer 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 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	2018 Share %	2017 Share %
İskenderun Demir ve Çelik A.Ş.	Turkey	Integrated Steel Production	94,87	95,07
Erdemir Madencilik San. ve Tic. A.Ş.	Turkey	Iron Ore and Pellet	90	90
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Turkey	Steel Service Center	100	100
Erdemir 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
İsdemir Linde Gaz Ortaklığı A.Ş.	Turkey	Industrial Gas Production and Sale	50	50

(*)The share held in the Iskenderun Demir Çelik A.Ş.'s capital has decided to 94,87% from 95,07% after realization of the sales of shares of the Company with the value of TRY 42.390.615 in aggregate at TRY 7,5 par value per share (total par value of TRY 5.652.082) on 13 April 2018 with Iskenderun Demir Çelik A.Ş.'s 95,07% share in the capital of the Company. With the change of such share ratio, since the requirements in the BISAS Listing Regulations have met, the shares of "ISDMR" which is formerly traded on Pre-Market Trading Platform have been started to be traded at Star Market as of 19 April 2018.

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

(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 2018 and 31 December 2017 are as follows:

	Paid Hourly Personnel	Paid Monthly Personnel	30 June 2018 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.230	1.681	5.911
İskenderun Demir ve Çelik A.Ş.	3.012	1.774	4.786
Erdemir Madencilik San. ve Tic. A.Ş.	146	128	274
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	236	77	313
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	219	219
Erdemir Romania S.R.L.	218	41	259
Erdemir Asia Pacific Private Limited	-	1	1
	7.842	3.921	11.763

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

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

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

The 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 and put in place by public oversight, accounting and auditing standards authority ("POA") in line with (TAS) (hereinafter TAS will be referred to as "the Turkish 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 5^{th} of the CMB Reporting Standards, companies should apply Turkish Accounting Standards/Turkish Financial Reporting Standards and its interpretations issued by the Public Oversight Accounting and Auditing Standards Authority of Turkey ("POA").

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

2.1 Basis of Presentation (cont'd)

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 2017.

<u>Functional and reporting currency</u>

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

Functional currency for the subsidiaries abroad

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

<u>Presentation currency translation</u>

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 US Dollars for the Company, İsdemir, Ersem, EAPPL; in EUR for Erdemir Romania, have been translated in TRY as the following method:

a) The assets and liabilities on financial position as of 30 June 2018 are translated from US Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 4,5607 =US $ 1 and TRY 5,3092=EUR 1 on the balance sheet date (31 December 2017: TRY 3,7719= US $ 1, TRY 4,5155=EUR 1).
b) For the six months period ended 30 June 2018, income statements are translated from the average TRY 4,0879 = US $ 1 and TRY 4,9438=EUR 1 rates of 2018 January - June period (30 June 2017: TRY 3,6350 = US $ 1 TRY 3,9306 = 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.

<u>USD amounts presented in the condensed interim financial statements</u>

The figures in USD amounts presented in the accompanying condensed interim consolidated financial statements comprising the statements of financial position as of 30 June 2018 and 31 December 2017, condensed consolidated statement of income and other comprehensive income and consolidated statement of cash flows for the interim period ended 30 June 2018 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.

(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)

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 16 August 2018 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

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

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

Reclassification of profit and loss statement is as follows**:**

Account	(Previously Reported) 1 January - 30 June 2017	(Restated) 1 January - 30 June 2017	(Difference) 1 January - 30 June 2017
Revenue (1)	8.875.459	8.919.801	44.342
Other Operating Income (1) (2) (4)	141.452	133.227	(8.225)
Other Operating Expenses (-) (3)	(70.480)	(60.503)	9.977
Income from Investing Activities (2)	-	714	714
Expenses from Investing Activities (-) (3)	-	(9.977)	(9.977)
Finance Expenses (-) (4)	(116.792)	(153.623)	(36.831)
			-

(1) Interest income from sales with maturities amounting to TRY 44.342 thousand reported in "Other Operating Income" was reclassified to "Revenue" on the profit and loss statement for the six months period ended 30 June 2017.
(2) Gain on sales of tangible assets amounting to TRY 462 thousand and rent income amounting to TRY 252 thousand from investment properties reported as "Other Operating Income" before, was reclassified to "Income from Investing Activities" on the profit and loss statement for the six months period ended 30 June 2017.
(3) Losses on sales of tangible assets amounting to TRY (24) thousand and losses on disposal of tangible assets amounting to TRY (9.953) thousand reported as "Other Operating Expenses (-)" before, was reclassified to "Expenses from Investing Activities (-)" on the profit and loss statement for the six months period ended 30 June 2017.
(4) Foreign exchange gains from trade receivables and payables (net) amounting to TRY 36.831 thousand reported as "Finance Expenses (-)" before, was reclassified to "Other Operating Income" on the profit and loss statement for the six months period ended 30 June 2017.

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

2.3 Adoption of New and Revised Financial Reporting Standards

The accounting policies adopted in preparation of the interim condensed consolidated financial statements as at 30 June 2018 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of 1 January 2018 summarized below.

i) The new standards, amendments and interpretations which are effective as at 1 January 2018 are as follows

TFRS 15 Revenue from Contracts with Customers

In September 2016, POA issued TFRS 15 Revenue from Contracts with Customers. The new standard issued includes the clarifying amendments to IFRS 15 made by IASB in April 2016. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). TFRS 15 effective date is 1 January 2018. The standard did not have a significant impact on the financial position or performance of the Group.

TFRS 9 Financial Instruments

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

The impact of standard on all three aspects of TFRS 9 is as follows:

Classification and Measurement of Financial Assets:

There is no significant impact on the Group's balance sheet or equity on applying the classification and measurement requirements of TFRS 9. The Group continues measuring at fair value all financial assets currently held at fair value.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under TFRS 9. Therefore, reclassification for these instruments is not required.

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

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

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

TFRS 9 Financial Instruments (cont'd)

Impairment*:*

TFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group applied the simplified approach and recorded lifetime expected losses on all financial assets. As a result of recognition of the impairment, loss allowance is increased by TRY 14.630 thousand with corresponding related decrease in the deferred tax liability of TRY 3.218 thousand.

Hedge accounting*:*

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under TFRS 9. As TFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of TFRS 9 will not have a significant impact on Group's financial statements.

TFRS 4 Insurance Contracts (Amendments)

In December 2017, POA issued amendments to TFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. These amendments are applied for annual periods beginning on or after 1 January 2018. The amendments are not applicable for the Group and did not have an impact on the financial position or performance of the Group.

TFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation issued by POA on 19 December 2017 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

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

The interpretation is effective for annual reporting periods beginning on or after 1 January 2018. The interpretation did not have a significant impact on the financial position or performance of the Group.

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

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

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

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

In December 2017, POA issued amendments to TFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments, provide requirements on the accounting for:

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

These amendments are applied for annual periods beginning on or after 1 January 2018. The amendments are not applicable for the Group and did not have an impact on the financial position or performance of the Group.

TAS 40 Investment Property: Transfers of Investment Property (Amendments)

In December 2017, POA issued amendments to TAS 40 'Investment Property '. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. These amendments are applied for annual periods beginning on or after 1 January 2018. The amendments are not applicable for the Group and did not have an impact on the financial position or performance of the Group.

Annual Improvements to TFRSs - 2014-2016 Cycle

In December 2017, POA issued Annual Improvements to TFRS Standards 2014–2016 Cycle, amending the following standards:

- TFRS 1 First-time Adoption of International Financial Reporting Standards: This amendment deletes the short-term exemptions about some TFRS 7 disclosures, IAS 19 transition provisions and IFRS 10 Investment Entities. These amendments are applied for annual periods beginning on or after 1 January 2018.

- TAS 28 Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying TFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are applied for annual periods beginning on or after 1 January 2018.

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

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

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

ii) 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 16 Leases

In April 2018, POA has published a new standard, TFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. TFRS 16 supersedes TAS 17 'Leases' and related interpretations and is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

Amendments to TAS 28 Investments in Associates and Joint Ventures (Amendments)

In December 2017, POA issued amendments to TAS 28 *Investments in Associates and Joint Ventures*. The amendments clarify that a company applies TFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

TFRS 9 Financial Instruments excludes interests in associates and joint ventures accounted for in accordance with TAS 28 Investments in Associates and Joint Ventures. In this amendment, POA clarified that the exclusion in TFRS 9 applies only to interests a company accounts for using the equity method. A company applies TFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures.

The amendments are effective for annual periods beginning on or after 1 January 2019, with early application permitted.

Overall, the Group expects no significant impact on its statement of financial position and equity.

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

In December 2017, POA postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. The Group will wait until the final amendment to assess the impacts of the changes.

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

2.4 Summary of Significant Accounting Policies

The condensed interim consolidated financial statements for the six months period ended 30 June 2018 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 2018 are consistent with those used in the preperation of annual consolidated financial statements for the year ended 31 December 2017. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2017.

As explained in Note 1 there has been change in total ownership interests and effective interests of the subsidiaries, included in the scope of consolidation as of 30 June 2018, from the interests reported as of 31 December 2017.

Effects of Changes in Accounting Principles

This note discloses the effects of the implementation of TFRS 9 Financial Instruments over the Group's financial statements and the new accounting policies that the Group has begun to implement as of 1 January 2018, unlike prior periods.

TFRS 9 Financial Instruments

Classification and Measurement

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

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

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

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

2.4 Summary of Significant Accounting Policies (cont'd)

TFRS 9 Financial Instruments (cont'd)

Classification and Measurement (cont'd)

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

Changes regarding the classification of financial assets and liabilities in terms of TFRS 9 are summarised below. Related changes in classification do not result in changes in measurement of the financial assets and liabilities.

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

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

Impairment

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

Trade Receivables

Group has preferred to apply "simplified approach" defined in TFRS 9 for the recognition of impairment losses on trade receivables, carried at amortised cost and that do not comprise of any significant finance component (those with maturity less than 12 months). In accordance with the simplified approach, Group measures the loss allowances regarding its trade receivables at an amount equal to "lifetime expected credit losses" except incurred credit losses in which trade receivables are already impaired for a specific reason.

NOT 2 – KONSOLİDE FİNANSAL TABLOLARIN SUNUMUNA İLİŞKİN ESASLAR (devamı)

2.4 Summary of Significant Accounting Policies (cont'd)

<u>TFRS 9 Financial Instruments (cont'd)</u>

Trade Receivables (cont'd)

Group uses a provision matrix for the calculation of the expected credit losses on trade receivables. The provision matrix calculates fixed provision rates depending on the number of days that a trade receivable is past due and those provision rates are reviewed and, revised if necessary, in every reporting period. The changes in the expected credit losses on trade receivables are accounted for under "other operating income/expenses" account of the consolidated statement of income

First time adoption of TFRS 9 "Financial Instruments" Standard

Group applied TFRS 9 "Financial Instruments" which superseded TAS 39 "Financial Instruments: Recognition and Measurement" as of 1 January 2018 and accounted retrospectively in the consolidated financial statements within the transition exemption defined in the related Standard's paragraph numbered 7.2.15. In accordance with the mentioned exemption, the cumulative effect of initially applying this Standard is recognised in "adjustments related to changes in accounting policies" account under retained earnings of the annual reporting period that includes the date of initial application. Under this transition method, no restatement has been required in the comparative information of the consolidated financial statements.

TFRS 15 - Revenue from Contracts with Customers Standard

Revenue Recognition

Group recognises revenue based on the following five principles in accordance with the TFRS 15 - "Revenue from Contracts with Customers" standard effective from 1 January 2018.

- Identification of customer contracts
- Identification of performance obligations
- Determination of the transaction price in the contracts
- Allocation of transaction price to the performance obligations
- Recognition of revenue when the performance obligations are satisfied

Group evaluates each contracted obligation separately and respective obligations, which are committed to deliver the goods or perform services, are determined as separate performance obligations. Group determines at contract inception whether the performance obligation is satisfied over time or at a point in time. When the Group transfers control of a good or service over time, and therefore satisfies a performance obligation over time, then the revenue is recognised over time by measuring the progress towards complete satisfaction of that performance obligation.

When a performance obligation is satisfied by transferring promised goods or services to a customer, the Group recognises the revenue as the amount of the transaction price that is allocated to that performance obligation. The goods or services are transferred when the control of the goods or services is delivered to the customers.

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

NOT 2 – KONSOLİDE FİNANSAL TABLOLARIN SUNUMUNA İLİŞKİN ESASLAR (devamı)

2.4 Summary of Significant Accounting Policies (cont'd)

TFRS 15 - Revenue from Contracts with Customers Standard (cont'd)

Revenue Recognition (cont'd)

Following indicators are considered while evaluating the transfer of control of the goods and services:

- Presence of Group's collection right of the consideration for the goods or services,
- Customer's ownership of the legal title on goods or services,
- Physical transfer of the goods or services,
- Customer's ownership of significant risks and return,
- Customer's acceptance of goods or services.

If Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less, the promised amount of consideration for the effects of a significant financing component is not adjusted. On the other hand, when the contract effectively constitutes a financing component, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognised on an accrual basis as other operating income.

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.

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

	Before change in accounting principle 1 January 2018	After change in accounting principle 1 January 2018	Difference 1 January 2018
Cash and Cash Equivalents	7.035.440	7.020.810	(14.630)
Deffered Tax Asset	57.743	60.961	3.218
Retained Earnings	5.898.401	5.886.989	(11.412)

(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)

2.6 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.

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:

Due from related parties (short term)	30 June 2018	31 December 2017
OYAK Renault Otomobil Fab. A.Ş.[2]	74.386	59.622
Bolu Çimento Sanayi A.Ş.[1]	5.541	7.507
Adana Çimento Sanayi T.A.Ş. [1]	9.476	10.195
İsdemir Linde Gaz Ortaklığı A.Ş.[3]	315	3.820
Other	2.895	1.792
	92.613	82.936

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

Due to related parties (short term)	30 June 2018	31 December 2017
Omsan Lojistik A.Ş.[1]	17.363	14.466
Omsan Denizcilik A.Ş.[1]	7.970	11.696
OYAK Pazarlama Hizmet ve Turizm A.Ş.[1]	11.758	7.846
OYAK Savunma ve Güvenlik Sistemleri A.Ş.[1]	5.555	8.156
OYAK Denizcilik ve Liman İşletmeleri A.Ş.[1]	9.884	7.322
OYAK Grup Sigorta ve Reasürans Brokerliği A.Ş. [1]	648	1.980
Other	3.097	2.431
	56.275	53.897

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

(1) Subsidiaries of the parent company
(2) Joint venture of the parent company
(3) Joint venture of the subsidiary

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

NOTE 3 –RELATED PARTY DISCLOSURES (cont'd)

The details of prepaid expenses between the Group and other related parties are disclosed below:

Prepaid expenses to related parties (long term)	30 June 2018	31 December 2017
OYAK Konut İnşaat A.Ş.[1]	441	-
OYAK Savunma ve Güvenlik Sistemleri A.Ş.[1]	24.815	-
	25.256	-

Prepaid expenses to related parties arise from tangible assets advances.

Major sales to related parties	1 January - 30 June 2018	1 January - 30 June 2017
OYAK Renault Otomobil Fab. A.Ş.[2]	152.219	110.820
Adana Çimento Sanayi T.A.Ş.[1]	13.040	9.887
Bolu Çimento Sanayi A.Ş.[1]	5.919	5.398
Aslan Çimento A.Ş.[1]	1.100	1.116
OYAK Denizcilik ve Liman İşletmeleri A.Ş.[1]	1.203	142
İsdemir Linde Gaz Ortaklığı A.Ş.[3]	20.921	-
Other	2.360	1.844
	196.762	129.207

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

Major purchases from related parties	1 January - 30 June 2018	1 January - 30 June 2017
Omsan Denizcilik A.Ş.[1]	70.975	49.253
OYAK Pazarlama Hizmet ve Turizm A.Ş.[1]	53.641	45.145
Omsan Lojistik A.Ş.[1]	88.610	42.139
OYAK Savunma ve Güvenlik Sistemleri A.Ş.[1]	20.735	18.278
Omsan Logistica SRL[1]	7.777	7.105
OYAK Denizcilik ve Liman İşletmeleri A.Ş.[1]	46.722	11.335
OYAK Grup Sigorta ve Reasürans Brokerliği A.Ş. [1]	3.817	-
İsdemir Linde Gaz Ortaklığı A.Ş.[3]	31.681	-
Ordu Yardımlaşma Kurumu	175.746	3.419
Omsan Havacilik A.Ş.[1]	11.927	398
OYAK Elektrik Enerjisi Toptan Satış A.Ş.[1]	6.662	-
Diğer	6.504	6.137
	524.797	183.209

The major purchases from related parties are generally due to the purchase of tangible assets and service transactions.

(1) Subsidiaries of the parent company
(2) Joint venture of the parent company
(3) Joint venture of the subsidiary

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

NOTE 3 –RELATED PARTY DISCLOSURES (cont'd)

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. For the six months period ended 30 June 2018, the Group provides no provision for the receivables from related parties (31 December 2017: None).

Salaries, bonuses and other benefits of the key management:

For the six months period ended 30 June 2018, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 13.462 thousand (30 June 2017: TRY 16.750 thousand).

NOTE 4 – INVENTORIES

As of the 30 June 2018, the details of the Group's inventories are as follows:

	30 June 2018	31 December 2017
Raw materials	1.253.221	1.184.596
Work in progress	1.370.698	921.580
Finished goods	1.804.123	1.143.812
Spare parts	962.971	781.590
Goods in transit	1.347.152	895.153
Other inventories	453.875	341.025
Allowance for impairment on inventories (-)	(284.999)	(228.247)
	6.907.041	5.039.509

The movement of the allowance for impairment on inventories:

	1 January - 30 June 2018	1 January - 30 June 2017
Opening balance	228.247	208.787
Provision for the period	8.842	15.536
Provision released (-)	(713)	(24.055)
Translation difference	48.623	(299)
Closing balance	284.999	199.969

The Group has provided an allowance for the impairment on the inventories of finished goods, work in progress and raw materials within the scope of aging reports in the cases when their net realizable values are lower than their costs or for slow moving inventories. The provision released has been recognized under cost of sales (Note 13).

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

NOTE 5 – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

İsdemir Linde Gas Partnership A.Ş. has been established through 50%-50% partnership with the German Linde Group in order to supply the additional industrial gases required for our subsidiary İsdemir's production and to reduce the costs with an effective and efficient management. Isdemir Linde Gaz Ortaklığı A.Ş, recognized by using the equity pick-up method is not included in the consolidation as of the reporting period.

The detail of the investments accounted for using equity method is follows:

Company	Right to vote ratio %	Effective shareholder ratio %	30 June 2018	Business segment
Joint Venture				
İsdemir Linde Gaz Ortaklığı A.Ş.	50	47	123.285	Industrial Gas Production and Sale

Group's share on net assets of investments accounted for using equity method is follows:

	30 June 2018	31 December 2017
Total assets	310.658	278.444
Total liabilities	64.088	246.568
Net assets	246.570	31.876
Group's share on net assets	123.285	15.938

By reason of Isdemir Linde Gaz Ortaklığı A.Ş. not functioning, and that the financial statements weren't affected significantly, recognized in financial investments on consolidated financial statements of 2017.

	30 June 2018	31 December 2017
Share capital	201.667	27.000

In General Assembly dated 8 March 2018 of Isdemir linde Gaz A.Ş. it was decided that the Company's share capital increased by TRY 174.666.600 (USD 45.857.492 equivalent) from TRY 27.000.000 to TRY 201.666.600. Increased capital amound paid by shareholders on 9 March 2018.

Group's share on profit of investments accounted for using equity method as follows:

	1 January – 30 June 2018	1 January – 30 June 2017
Revenue	34.117	-
Net profit (loss) for the period	4.644	(163)
Group's share on net profit	2.322	(82)

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

NOTE 5 – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (cont'd)

İsdemir Linde Gaz Ortaklığı A.Ş, as an affiliate of the Group under joint management, has the right of to deduct the investment deduction where profit will occur in the upcoming years pursuant to the Resolution No 2012/3305 on Government Aids in Investments and the Cabinet Decision issued in the Official gazette on 22 February 2017. Since İsdemir Linde Gaz Ortaklığı A.Ş. was established recently and it is not yet possible for İsdemir Linde Gaz Ortaklığı A.Ş. to make a reasonable forecast for full or partial recovery of the investment deduction amount for the upcoming periods under the current conditions, the deferred tax asset of TRY 67.230 thousand (its effect in the profit or loss statement of Isdemir is TRY 33.615 thousand) is not included in the financial statements prepared as of 30 June 2018.

NOTE 6 – TANGIBLE AND INTANGIBLE ASSETS

The movement of tangible assets for the periods 1 January – 30 June 2018 and 1 January – 30 June 2017 is as follows:

	30 June 2018	30 June 2017
Opening balance as of 1 January		
Cost	33.090.796	30.252.777
Accumulated depreciation	(20.018.934)	(18.100.805)
Net book value	13.071.862	12.151.972
Net book value at the beginning of the period	13.071.862	12.151.972
Additions (*)	447.096	247.925
Disposals (-)	(11.566)	(10.776)
Cost of disposals	*(76.659)*	*(37.389)*
Accumulated depreciation of disposals	*65.093*	*26.613*
Transfers to intangible assets	(3.760)	(4.663)
Currency translation difference	2.717.327	(35.566)
Cost currency translation difference	*6.848.827*	*(100.359)*
Accumulated depreciation currency translation difference	*(4.131.500)*	*64.793*
Current period depreciation (-)	(392.634)	(341.660)
Impairment (-)	(11.449)	-
Net book value at the end of the period	15.816.876	12.007.232
Closing balance end of period		
Cost	40.306.300	30.358.291
Accumulated depreciation	(24.489.424)	(18.351.059)
Net book value	15.816.876	12.007.232

(*) The amount of capitalized borrowing cost is TRY 6.545 thousand for the current period (30 June 2017: TRY 1.234 thousand).

As of 30 June 2018, the Group has no collaterals or pledges upon its tangible assets (30 June 2017: None).

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

NOTE 6 – TANGIBLE AND INTANGIBLE ASSETS (cont'd)

The movement of intangible assets for the periods 1 January – 30 June 2018 and 1 January – 30 June 2017 is as follows:

	30 June 2018	30 June 2017
Opening balance as of 1 January		
Cost	487.752	439.937
Accumulated amortisation	(276.441)	(234.458)
Net book value	211.311	205.479
Net book value at the beginning of the period	211.311	205.479
Additions	2.536	1.756
Transfers from tangible assets	3.760	4.663
Currency translation difference	42.962	(487)
Cost currency translation difference	*101.144*	*(1.458)*
Accumulated depreciation currency translation difference	*(58.182)*	*971*
Current period amortisation (-)	(13.841)	(12.002)
Net book value at the end of the period	246.728	199.409
Closing balance end of period		
Cost	595.192	444.898
Accumulated amortisation	(348.464)	(245.489)
Net book value	246.728	199.409

As of 30 June 2018, the Group has no collaterals or pledges upon its intangible assets (30 June 2017:None).

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

	1 January – 30 June 2018	1 January – 30 June 2017
Associated with cost of production	377.799	330.288
General administrative expenses	12.409	9.265
Marketing expenses	14.890	13.090
Research and development expenses	1.377	1.019
	406.475	353.662

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

NOTE 7 – BORROWINGS

Breakdown of borrowings is as follows:

	30 June 2018	31 December 2017
Short term borrowings	2.649.223	2.243.529
Current portion of long term borrowings	952.751	882.211
Total short term borrowings	3.601.974	3.125.740
Long term borrowings	1.545.887	1.364.688
Total long term borrowings	1.545.887	1.364.688
	5.147.861	4.490.428

As of 30 June 2018, the breakdown of the Group's loans with their original currency and 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 2018
No interest	TRY	-	38.976	-	38.976
Fixed	US Dollars	2,73	1.985.141	79.726	2.064.867
Fixed	EURO	2,84	10.750	33.043	43.793
Floating	US Dollars	Libor+1,63	1.491.566	1.144.092	2.635.658
Floating	EURO	Euribor+2,25	75.541	289.026	364.567
			3.601.974	1.545.887	5.147.861

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

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

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

NOTE 7 – BORROWINGS (cont'd)

Breakdown of loan repayment is as follows:

	30 June 2018	31 December 2017
Within 1 year	3.601.974	3.125.740
Between 1-2 years	695.499	537.186
Between 2-3 years	420.692	487.084
Between 3-4 years	163.207	130.335
Between 4-5 years	125.558	117.133
Five years or more	140.931	92.950
	5.147.861	4.490.428

NOTE 8 – PROVISIONS

The Group's short term provisions are as follows:

	30 June 2018	31 December 2017
Provision for lawsuits	137.735	103.689
Penalty provision for employment shortage of disabled personnel	8.201	6.374
Provision for state right on mining activities	2.794	5.102
Provision for land occupation	21.139	11.665
Provision for the potential tax penalty	8.918	7.584
	178.787	134.414

As of 30 June 2018 and 31 December 2017, lawsuits filed by and against the Group are as follows:

	30 June 2018	31 December 2017
Lawsuits filed by the Group	669.707	581.107
Provision for lawsuits filed by the Group	115.171	79.933

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

	30 June 2018	31 December 2017
Lawsuits filed against the Group	441.964	377.793
Provision for lawsuits filed against the Group	137.735	103.689

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

NOTE 8 – PROVISIONS (cont'd)

The movement of the provisions is as follows:

	1 January 2018	Change for the period	Payments	Provision released	Translation difference	30 June 2018
Provision for lawsuits	103.689	34.040	(4.082)	(14.542)	18.630	137.735
Penalty provision for employment shortage of disabled personnel	6.374	1.799	-	-	28	8.201
Provision for state right on mining activities	5.102	3.188	(5.496)	-	-	2.794
Provision for land occupation	11.665	9.874	(408)	-	8	21.139
Provision for the tax penalty	7.584	-	-	-	1.334	8.918
	134.414	48.901	(9.986)	(14.542)	20.000	178.787

	1 January 2017	Change for the period	Payments	Provision released	Translation difference	30 June 2017
Provision for lawsuits	105.448	26.822	(3.614)	(35.724)	82	93.014
Penalty provision for employment shortage of disabled personnel	7.488	2.016	-	-	(14)	9.490
Provision for state right on mining activities	2.650	2.484	(2.560)	(90)	-	2.484
Provision for land occupation	16.602	8.518	-	-	(56)	25.064
Provision for the tax penalty	13.398	209	(7.376)	-	493	6.724
	145.586	40.049	(13.550)	(35.814)	505	136.776

NOTE 8 – PROVISIONS (cont'd)

Provision for lawsuits

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

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

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

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 2018 and 31 December 2017 will not be affected from the above mentioned disputes.

NOTE 8 – PROVISIONS (cont'd)

Provision for lawsuits (cont'd)

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

The Company, based on the above mentioned reasons, doesn't expect for the possible effects of changes in the net profit for the year ended 31 December 2005 due to the lawsuits mentioned above to have any impact in the accompanying consolidated financial statements as of 30 June 2018 and 31 December 2017.

Enerjia Metal Maden Sanayi ve Ticaret A.Ş. initiated a debt collection proceeding that might end with a bankruptcy judgment against the Company based on the Export Protocol No. 69187 of 2 July 2009 and "Additional Terms to the Erdemir-Enerjia Export Protocol No. 68197" drafted by and between Enerjia and the Company. However the process stopped upon the Company's objection to Enerjia's request, and that led Enerjia to file a lawsuit against the Company before the 7th Commercial Court of Ankara on 27 March 2010 claiming that the objection should be overruled and USD 68.312.520 should be paid to itself (E. 2010/259). The Court dismissed the case, in favor of the Company, on 23 June 2011.

Enerjia appealed this rejection. 23rd Chamber of the Court of Appeals accepted this rejection on 6 April 2012 (E. 2011/2915, K.2012/2675) and after this, the case file was sent back to the 7th Commercial Court of Ankara and received case file number E. 2013/17. The case file was sent to the 4th Commercial Court of Ankara due to the case shall seen by delegation according to the regulatory framework regarding the commercial courts. The Court has dismissed the case at the hearing held on 9 September 2015. Decision of the local court has been approved by the Supreme Court 23th Civil Chamber with the decision dated 07 May 2018 and 2017/2657 Docket; 2018/2943 Decision number. The decision of approval has been notified to our Company on 26 June 2018. Result of the application for revision of the decision is expected. No possible material cash outflow expected according to the evaluations of Company management and expert's reports, as a result no provision recognised on financial statements for related lawsuit.

An action of debt was instituted by Bor-San Isı Sistemleri Üretim ve Pazarlama A.Ş. against our Company of Kdz. Ereğli on 17 April 2013 for the compensation of the loss arising from the sales contract has been dismissed in favor of the Company at the stages of appeal and revision of decision.

NOTE 8 – PROVISIONS (cont'd)

Provision for lawsuits (cont'd)

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

It is learnt through a notified made to the Company on 31 October 2012 that Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.) filed an action for compensation at amount of USD 4.800 thousand together with accessory against the Company before Ankara 14th Commercial Court of First Instance. As a result of adjudication made; the court adjudged to dismiss the case on procedural grounds because of non-competence and to send the file to commissioned and competent Karadeniz Ereğli Commercial Court of First Instance in Duty when the judgment becomes definite and in case of request. The case continued on file no. 2013/63 in Karadeniz Ereğli 2nd Civil Court of First Instance. At the hearing of the ongoing case dated 28 November 2017, Kdz. Ereğli 2. Civil Court of First Instance has decided to partially accept the case against our Company. Our company has applied for the appeal against the decision. A provision amounting to TRY 36.668 thousand recognised on financial statements for related lawsuit.

Provision for state right on mining activities

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

Land occupation

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

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

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

NOTE 8 – PROVISIONS (cont'd)

Tax Penalty Provision

As a result of the comprehensive corporate tax audit carried out by the relevant tax administration for the period 2009-2014 for one of the Group's subsidiaries, Erdemir Romania SRL in Romania, a total payment of TRY 8.918 thousand (RON 7.579 thousand) was notified for all tax and tax penalties. Provision recognised in the accompanying financial statements for the amount to be paid.

NOTE 9 – EMPLOYEE BENEFITS

Short term payables of the employee termination benefits of the Group is as follows:

	30 June 2018	31 December 2017
Due to personnel	59.122	113.687
Social security premiums payable	77.861	64.251
	136.983	177.938

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

	30 June 2018	31 December 2017
Provisions for employee termination benefits	525.780	511.971
Provisions for seniority incentive premium	48.047	43.468
Provision for unpaid vacations	96.769	81.374
	670.596	636.813

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 2018, the employee termination benefit has been updated to a maximum of TRY 5.001,76 (31 December 2017: TRY 4.732,48). As of 1 July 2018 the employee termination benefit has been increased to TRY 5.434,42.

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 2018 has been calculated by an independent actuary.

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

NOTE 9 – EMPLOYEE BENEFITS (cont'd)

The actuarial assumptions used in the calculation of the present value of the future probable obligation are as follows:

	30 June 2018	31 December 2017
Discount rate	%15,90	%11,50
Inflation rate	%12,30	%8,30
Salary increase	real 1,5%	real 1,5%
Maximum liability increase	%12,30	%8,30

Discount rates are determined considering the expected duration of the retirement obligations and the currency in which the obligations will be paid. In calculations as of 30 June 2018, a fixed discount rate is used. Long term inflation estimates are made using an approach consistent with discount rate estimates and long term inflation rate fixed over years is used.

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

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

	1 January - 30 June 2018	1 January - 30 June 2017
Opening balance	511.971	448.932
Service cost	22.839	22.511
Interest cost	27.678	23.228
Actuarial loss/(gain)	(9.493)	15.440
Termination benefits paid	(27.773)	(22.660)
Translation difference	558	(397)
Closing balance	525.780	487.054

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

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

NOTE 9 – EMPLOYEE BENEFITS (cont'd)

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

	1 January - 30 June 2018	1 January - 30 June 2017
Opening balance	43.468	38.884
Service cost	2.236	2.023
Interest cost	2.351	1.954
Actuarial loss/(gain)	4.874	885
Termination benefits paid	(4.377)	(2.125)
Translation difference	(505)	12
Closing balance	48.047	41.633

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

	1 January - 30 June 2018	1 January - 30 June 2017
Opening balance	81.374	79.603
Provision for the period	34.644	37.972
Vacation paid during the period (-)	(4.304)	(3.644)
Provisions released (-)	(16.616)	(18.688)
Translation difference	1.671	(513)
Closing balance	96.769	94.730

NOTE 10 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	30 June 2018	31 December 2017
Letters of guarantees received	2.885.429	1.976.567
	2.885.429	1.976.567

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

NOTE 10 – COMMITMENTS AND CONTINGENCIES (cont'd)

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

	30 June 2018	31 December 2017
A. Total CPM given for the Company's own legal entity	126.722	116.263
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	42.924	176.335
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	-	-
D. Other CPM given	-	-
i. Total CPM given in favour of parent entity	-	-
ii. Total CPM given in favour of other Group companies out of the scope of clause B and C	-	-
iii. Total CPM given in favour of other 3rd parties out of the scope of clause C	-	-
	169.646	292.598

Total CPM given by the Group in favor of subsidiaries consolidated on line-by-line basis amounting to TRY 42.924 thousand has been given as collateral for financial liabilities explained in Note 7. As of 30 June 2018, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2017: 0%).

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

	30 June 2018	31 December 2017
US Dollars	42.924	70.205
TRY	104.954	180.249
EURO	21.768	42.144
	169.646	292.598

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

NOTE 11 – TAX ASSETS AND LIABILITIES

Group's income tax payable as follows:

	30 June 2018	31 December 2017
Corporate tax payable:		
Current corporate tax provision	1.088.314	1.137.927
Prepaid taxes and funds (-)	(174.287)	(339.966)
	914.027	797.961

	1 January - 30 June 2018	1 January - 30 June 2017
Taxation:		
Current corporate tax expense	1.088.314	513.538
Deferred tax (income) / expense	307.412	(139.938)
	1.395.726	373.600

Corporate tax

The effective corporate tax rate in Turkey is 22%, 16% in Romania and 17% in Singapore as of 30 June 2018 (31 December 2017: in Turkey 20%, in Romania 16%, in Singapore 17%). The total amount of the corporate tax paid by the Group in 2018 is TRY 972.248 thousand (30 June 2017: TRY 619.283 thousand).

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

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

Deferred tax

Deferred tax assets and liabilities (excluding land) tax rate used for calculating corporate tax for the subsidiaries in Turkey in accordance with the additional provisional Article 10 of Corporate Tax Law; corporate tax rate will be 22% for the corporate earnings to be obtained in the taxation periods of 2018, 2019, 2020 and 20% for the following years. The effective corporate tax rate is 17% in Singapore and 16% in Romania as of 30 June 2018 (31 December 2017: in Turkey 22%, in Romania 16%, in Singapore 17). The deferred tax on the temporary timing differences arising from land is calculated with the 10% tax rate (31 December 2017: 10%).

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

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

NOTE 11 – TAX ASSETS AND LIABILITIES (cont'd)

	30 June 2018	31 December 2017
Deferred tax assets:		
Provisions for employee benefits	138.221	129.580
Investment incentive	664	66.046
Provision for lawsuits	26.288	22.383
Fair values of the derivative financial instruments	60	7.717
Inventories	34.389	19.170
Provision for other doubtful receivables	16.364	14.639
Tangible and intangible assets	17.238	16.039
Other	37.829	47.082
	271.053	322.656
Deferred tax liabilities:		
Tangible and intangible assets	(2.341.588)	(1.832.586)
Fair values of the derivative financial instruments	(19.388)	-
Amortized cost adjustment on loans	(5.827)	(4.994)
Inventories	(153.094)	(34.872)
Other	(9.249)	(12.179)
	(2.529.146)	(1.884.631)
	(2.258.093)	(1.561.975)

In the financial statements which are prepared according to the TAS, of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its affiliates that are separate taxpayer entities, the net deferred tax assets and liabilities of the related companies are classified separately within the accounts of deferred tax assets and liabilities of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its subsidiaries' consolidated financial statements. The temporary differences disclosed above besides the deferred tax asset and liabilities, have been prepared on the basis of the gross values and show the net deferred tax position.

Presentation of deffered tax assets/(liabilities) on financial statements as follows:

	30 June 2018	31 December 2017
Deferred tax assets	64.178	57.743
Deferred tax (liabilities)	(2.322.271)	(1.619.718)
	(2.258.093)	(1.561.975)

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

NOTE 11 – TAX ASSETS AND LIABILITIES (cont'd)

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

	1 January - 30 June 2018	1 January - 30 June 2017
Opening balance	(1.561.975)	(1.542.789)
Effects of change in acounting policy (Note 2.5)	3.218	-
Deferred tax (expense)/income	(307.412)	139.938
The amount in comprehensive income	(17.874)	8.478
Translation difference	(374.050)	1.245
Closing balance	(2.258.093)	(1.393.128)

Reconciliation of tax provision is as follows:

	1 January - 30 June 2018	1 January - 30 June 2017
Profit before tax	4.083.588	2.204.179
Statutory tax rate	22%	20%
Calculated tax expense according to effective tax rate	(898.389)	(440.836)
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	(9.126)	(6.803)
- Effect of currency translation not subject to tax	(488.210)	29.001
- Investment incentive	664	44.988
- Effect of the different tax rates due to foreign subsidiaries	(665)	50
Total tax expense reported in the statement of income	(1.395.726)	(373.600)

NOTE 12 – EQUITY

As of 30 June 2018 and 31 December 2017, the capital structure is as follows:

Shareholders	(%)	30 June 2018	(%)	31 December 2017
Ataer Holding A.Ş.	49,29	1.724.982	49,29	1.724.982
Quoted in Stock Exchange	47,63	1.667.181	47,63	1.667.181
Erdemir's own shares	3,08	107.837	3,08	107.837
Historical capital	100,00	3.500.000	100,00	3.500.000
Effect of inflation		156.613		156.613
Restated capital		3.656.613		3.656.613
Treasury shares		(116.232)		(116.232)
		3.540.381		3.540.381

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

NOTE 13 – SALES AND COST OF SALES

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Sales Revenue				
Domestic sales	9.426.280	4.886.049	7.154.274	3.683.490
Export sales	1.848.787	1.110.293	1.518.732	910.641
Other revenues (*)	311.512	190.578	210.971	94.045
Interest income from sales with maturities	55.778	29.259	44.342	21.324
Sales returns (-)	(4.832)	(2.553)	(3.439)	(2.754)
Sales discounts (-)	(8.164)	(4.134)	(5.079)	(986)
	11.629.361	6.209.492	8.919.801	4.705.760
Cost of sales (-)	(7.857.444)	(4.125.125)	(6.464.211)	(3.532.903)
Gross profit	3.771.917	2.084.367	2.455.590	1.172.857

(*)The total amount of by product exports in other revenues is TRY 135.891 thousand (30 June 2017: TRY 91.208 thousand).

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

NOTE 13 – SALES AND COST OF SALES (cont'd)

The breakdown of cost of goods sales for the periods 1 January – 30 June 2018 and 1 January – 30 June 2017 is as follows:

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Raw material usage	(5.894.134)	(3.084.409)	(4.747.746)	(2.613.894)
Personnel costs	(730.270)	(382.552)	(698.409)	(380.798)
Energy costs	(351.909)	(179.855)	(330.907)	(161.824)
Depreciation and amortization expenses	(353.107)	(185.686)	(335.311)	(170.359)
Manufacturing overheads	(206.710)	(112.369)	(133.325)	(78.420)
Other cost of goods sold	(136.222)	(87.358)	(89.438)	(46.538)
Non-operating costs (*)	(19.088)	(12.416)	(12.357)	(10.953)
Freight costs for sales delivered to customers	(124.004)	(59.760)	(107.966)	(61.710)
Allowance expenses for impairment on inventories (Note 4)	(8.842)	(3.424)	(15.536)	(2.616)
Inventory provision released (Note 4)	713	687	24.055	1.849
Other	(33.871)	(17.983)	(17.271)	(7.640)
	(7.857.444)	(4.125.125)	(6.464.211)	(3.532.903)

(*) Due to the planned/ unplanned halt production of plant of the Group's, operations were suspended temporarily in the current period. As a result of this, unallocated overheads, TRY (19.088) thousand, has been accounted directly under cost of goods sold (30 June 2017: TRY (12.357) thousand).

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

NOTE 14 – OPERATING EXPENSES ACCORDING TO THEIR NATURE

The breakdown of marketing expenses according to their nature for the periods 1 January – 30 June 2018 and 1 January – 30 June 2017 is as follows:

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Personnel expenses (-)	(43.275)	(22.698)	(41.011)	(21.482)
Depreciation and amortization(-)	(14.890)	(8.170)	(13.090)	(6.329)
Service expenses (-)	(33.727)	(19.031)	(26.654)	(13.120)
	(91.892)	(49.899)	(80.755)	(40.931)

The breakdown of general administrative expenses according to their nature for the periods 1 January – 30 June 2018 and 1 January – 30 June 2017 is as follows:

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Personnel expenses (-)	(89.839)	(45.647)	(89.883)	(46.511)
Depreciation and amortization (-)	(12.409)	(7.292)	(9.265)	(4.619)
Service expenses (-)	(66.979)	(35.329)	(60.316)	(31.051)
Tax, duty and charges (-)	(8.338)	(5.708)	(4.292)	(1.855)
Provision for doubtful receivables (-)	(29.704)	(2.267)	2.271	3.582
	(207.269)	(96.243)	(161.485)	(80.454)

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

NOTE 14 – OPERATING EXPENSES ACCORDING TO THEIR NATURE (cont'd)

The breakdown of other operating income for the periods 1 January – 30 June 2018 and 1 January – 30 June 2017 is as follows:

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Other operating income				
Foreign exchange gain from trade receivables and payables (net)	32.951	20.167	36.831	(9.524)
Discount income	2.543	190	5.299	(974)
Provisions released	14.542	11.001	35.724	26.149
Service income	7.849	4.241	7.112	3.884
Maintenance repair and rent income	3.799	111	5.750	2.877
Warehouse income	2.072	1.213	4.111	1.782
Indemnity and penalty detention income	1.825	1.034	1.248	839
Insurance indemnity income	5.720	5.443	19.751	4.981
Lawsuit income	122	74	7.060	(42)
Overdue interest income	2.199	2.199	135	135
Other income and gains	16.173	13.078	10.206	3.835
	89.795	58.751	133.227	33.942

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

NOTE 14 – OPERATING EXPENSES ACCORDING TO THEIR NATURE (cont'd)

The breakdown of other operating expenses for the periods 1 January – 30 June 2018 and 1 January – 30 June 2017 is as follows:

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Other operating expenses (-)				
Provision expenses	(35.839)	(27.765)	(29.047)	(14.878)
Discount expenses	(4.931)	(658)	(7.267)	136
Lawsuit compensation expenses	(2.332)	(1.379)	(2.380)	(570)
Port facility pre-licence expenses	(6.137)	(4.478)	(3.260)	(1.581)
Donation expenses	(1.933)	(1.457)	(1.404)	(999)
Service expenses	(4.254)	(1.494)	(3.404)	(1.769)
Stock exchange registration expenses	(1.919)	(75)	(1.248)	19
Rent expenses	(902)	(540)	(911)	(445)
Penalty expenses	(390)	(83)	(952)	(416)
Interest expenses from purchases with maturities	(311)	(311)	-	-
Other expenses and losses	(10.327)	(6.734)	(10.630)	(3.634)
	(69.275)	(44.974)	(60.503)	(24.137)

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

NOTE 15 – FINANCE INCOME AND EXPENSES

The breakdown of financial income for the periods 1 January – 30 June 2018 and 1 January – 30 June 2017 is as follows:

Finance income	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Interest income on bank deposits	173.235	94.230	83.300	41.095
Foreign exchange gains (net)	541.209	513.561	-	-
Fair value differences of derivative financial instruments (net)	4.758	4.758	3.815	1.794
Other financial income	221	134	-	-
	719.423	612.683	87.115	42.889

The breakdown of financial expenses for the periods 1 January – 30 June 2018 and 1 January – 30 June 2017 is as follows:

Finance expenses (-)	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Interest expenses on borrowings	(69.215)	(37.558)	(51.393)	(23.606)
Foreign exchange loss (net)	-	-	(75.749)	(73.989)
Interest cost of employee benefits	(30.029)	(15.145)	(25.182)	(12.649)
Fair value differences of derivative financial instruments (net)	-	3.523	-	-
Other financial expenses	(1.874)	(880)	(1.299)	(642)
	(101.118)	(50.060)	(153.623)	(110.886)

During the period, the interest expenses of TRY 6.545 thousand have been capitalized as part of the Group's property, plant and equipment (1 January - 30 June 2017: TRY 1.234 thousand).

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

NOTE 16 – 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 2018, the foreign currency position of the Group in terms of original currency is calculated as it as follows:

	30 June 2018				
	TRY (Total in currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	RON (Original currency)
1. Trade Receivables	902.845	48.629	154.180	193	29.237
2a. Monetary financial assets	605.870	266.918	61.361	253	2.045
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	388.230	384.725	241	8.372	1.660
4. CURRENT ASSETS (1+2+3)	**1.896.945**	**700.272**	**215.782**	**8.818**	**32.942**
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	124	124	-	-	-
6b. Non- monetary financial assets	-	-	-	-	-
7. Other	125.024	43.014	13.280	273.368	232
8. Non-current assets (5+6+7)	**125.148**	**43.138**	**13.280**	**273.368**	**232**
9. Total assets (4+8)	**2.022.093**	**743.410**	**229.062**	**282.186**	**33.174**
10. Trade payables	451.410	396.328	8.328	131.805	2.810
11. Financial liabilities	125.268	38.976	16.253	-	-
12a. Other monetary financial liabilities	1.509.701	1.473.319	3.562	-	15.419
12b. Other non-monetary financial liabilities	-	-	-	-	-
13. Current liabilities (10+11+12)	**2.086.379**	**1.908.623**	**28.143**	**131.805**	**18.229**
14. Trade payables	-	-	-	-	-
15. Financial liabilities	322.070	-	60.663	-	-
16a. Other monetary financial liabilities	654.197	653.005	-	-	1.052
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. Non-current liabilities (14+15+16)	**976.267**	**653.005**	**60.663**	**-**	**1.052**
18. Total liabilities (13+17)	**3.062.646**	**2.561.628**	**88.806**	**131.805**	**19.281**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	**(1.740.307)**	**250.404**	**(374.955)**	**-**	**-**
19a. Off-balance sheet foreign currency derivative financial assets	292.929	250.404	8.010	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	2.033.236	-	382.965	-	-
20. Net foreign currency asset/liability position (9-18+19)	**(2.780.860)**	**(1.567.814)**	**(234.699)**	**150.381**	**13.893**
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**(1.553.807)**	**(2.245.957)**	**126.735**	**(131.359)**	**12.001**
22. Fair value of derivative financial instruments used in foreign currency hedge	85.128	-	16.034	-	-
23. Hedged foreign currency assets	2.033.236	-	382.965	-	-
24. Hedged foreign currency liabilities	292.929	250.404	8.010	-	-
25. Exports	1.984.678				
26. Imports	5.670.927				

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

NOTE 16 – 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 2017, the foreign currency position of the Group in terms of original currency is calculated as it as follows:

	31 December 2017			
	TRY (Total in currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)
1. Trade Receivables	400.354	47.969	75.455	208
2a. Monetary financial assets	272.343	17.528	56.033	200
2b. Non- monetary financial assets	-	-	-	-
3. Other	156.535	155.013	337	-
4. Current assets (1+2+3)	**829.232**	**220.510**	**131.825**	**408**
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	48.402	22.182	4.491	191.111
8. Non-current assets (5+6+7)	**48.402**	**22.182**	**4.491**	**191.111**
9. Total assets (4+8)	**877.634**	**242.692**	**136.316**	**191.519**
10. Trade payables	326.770	282.292	7.856	206.922
11. Financial liabilities	406.475	198.808	45.990	-
12a. Other monetary financial liabilities	1.328.564	1.324.145	979	-
12b. Other non-monetary financial liabilities	-	-	-	-
13. Current liabilities (10+11+12)	**2.061.809**	**1.805.245**	**54.825**	**206.922**
14. Trade payables	-	-	-	-
15. Financial liabilities	308.573	-	68.336	-
16a. Other monetary financial liabilities	620.791	620.791	-	-
16b. Other non-monetary financial liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	**929.364**	**620.791**	**68.336**	**-**
18. Total liabilities (13+17)	**2.991.173**	**2.426.036**	**123.161**	**206.922**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	**(1.398.078)**	**232.660**	**(361.142)**	**-**
19a. Off-balance sheet foreign currency derivative financial assets	232.660	232.660	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	1.630.738	-	361.142	-
20. Net foreign currency asset/liability position (9-18+19)	**(3.511.617)**	**(1.950.684)**	**(347.987)**	**(15.403)**
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**(2.318.476)**	**(2.360.539)**	**8.327**	**(206.514)**
22. Fair value of derivative financial instruments used in foreign currency hedge	(31.961)	-	(7.078)	-
23. Hedged foreign currency assets	1.630.738	-	361.142	-
24. Hedged foreign currency liabilities	232.660	232.660	-	-
25. Exports	2.671.529			
26. Imports	9.620.585			

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

NOTE 16 – 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, RON, 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 2018 asset and liability balances are translated by using the following exchange rates: TRY 4,5607 = US $ 1,TRY 5,3092 = EUR 1, TRY 0,0411= JPY 1 and TRY 1,1329 = RON (31 December 2017: TRY 3,7719 = US $ 1,TRY 4,5155 = EUR 1,TRY 0,0334= JPY 1 and TRY 0,9637 = RON).

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
30 June 2018	Appreciation of foreign currency	Depreciation of foreign currency
1- TRY net asset/liability	(181.822)	181.822
2- Hedged portion from TRY risk (-)	25.040	(25.040)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(156.782)	156.782
5- RON net asset/liability	1.574	(1.574)
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- RON Dollars net effect (5+6+7)	1.574	(1.574)
9- Euro net asset/liability	74.465	(74.465)
10- Hedged portion from Euro risk (-)	4.253	(4.253)
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	78.718	(78.718)
13- Jap. Yen net asset/liability	618	(618)
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	618	(618)
TOTAL (4+8+12+16)	**(75.872)**	**75.872**

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

NOTE 16 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

Foreign currency risk management (cont'd)

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2017	Appreciation of foreign currency	Depreciation of foreign currency
1- TRY net asset/liability	(218.334)	218.334
2- Hedged portion from TRY risk (-)	23.266	(23.266)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(195.068)	195.068
5- RON net asset/liability	-	-
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- RON Dollars net effect (5+6+7)	-	-
9- Euro net asset/liability	5.940	(5.940)
10- Hedged portion from Euro risk (-)	-	-
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	5.940	(5.940)
13- Jap. Yen net asset/liability	(48)	48
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(48)	48
TOTAL (4+8+12+16)	**(189.176)**	**189.176**

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

NOTE 16 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Categories of the financial instruments and their fair values

30 June 2018	Loans and receivables	Available for sale financial assets	Financial liabilities at amortized cost	Derivative financial instruments through other comprehensive income/loss	Derivative financial instruments through profit/loss	Carrying value
Financial Assets						
Cash and cash equivalents	-	-	6.782.447	-	-	6.782.447
Trade receivables	-	-	3.644.100	-	-	3.644.100
Financial investments	-	-	-	-	124	124
Other financial assets	-	-	15.252	-	-	15.252
Derivative financial instruments	-	-	-	54.233	40.218	94.451
Financial Liabilities						
Financial liabilities	-	-	5.147.861	-	-	5.147.861
Trade payables	-	-	1.759.881	-	-	1.759.881
Other liabilities	-	-	309.077	-	-	309.077
Derivative financial instruments	-	-	-	13.255	2.638	15.893
31 December 2017						
Financial Assets						
Cash and cash equivalents	7.035.440	-	-	-	-	7.035.440
Trade receivables	2.582.106	-	-	-	-	2.582.106
Financial investments	-	13.437	-	-	-	13.437
Other financial assets	15.643	-	-	-	-	15.643
Derivative financial instruments	-	-	-	2.648	5.700	8.348
Financial Liabilities						
Financial liabilities	-	-	4.490.428	-	-	4.490.428
Trade payables	-	-	942.791	-	-	942.791
Other liabilities	-	-	268.419	-	-	268.419
Derivative financial instruments	-	-	-	33.011	10.430	43.441

Management considered that net book value of financial assets reflects their fair values.

NOTE 17 – SUBSEQUENT EVENTS

Between 30 June 2018 and 16 August 2018, buying foreign currency rate announced by Central Bank of Turkey increased from 4,5607 to 6,1360.

NOTE 18 – 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 2018, the accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying financial statements differ from International Financial Reporting Standards ("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.