(CONVENIENCE TRANSLATION INTO ENGLISH OF THE INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH - SEE NOTE 33)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016 AND INDEPENDENT AUDITORS' REPORT

Building a better
working world

Güney Bağımsız Denetim ve
SMMM AŞ
Maslak Mahallesi Eski Büyükdere
Caddesi No.27 Daire: 54-57-59
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(Convenience translation into English of the Independent Auditors' Report and Financial Statements originally issued in Turkish)

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors of İskenderun Demir ve Çelik A.Ş.;

Report on Financial Statements

We have audited the accompanying statement of financial position of İskenderun Demir ve Çelik A.Ş. (the Company) as at 31 December 2016 and the related statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and explanatory notes.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of financial statements in accordance with the Turkish Accounting Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA") of Turkey and for such internal controls as management determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error and/or fraud.

Independent Auditors' Responsibility

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

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

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

Building a better working world

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Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of İskenderun Demir ve Çelik A.Ş. as at 31 December 2016 and their financial performance and cash flows for the year then ended in accordance with the Turkish Accounting Standards.

Reports on Other Responsibilities Arising From Regulatory Requirements

1) In accordance with paragraph 4, Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January – 31 December 2016 and financial statements are not in compliance with the code and provisions of the Company's articles of association in relation to financial reporting.

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

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

Ethem Kutucular, SMMM
Engagement Partner

21 February 2017
İstanbul, Turkey

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İSKENDERUN DEMİR VE ÇELİK A.Ş.

STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2016

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

ASSETS	Note	(Audited) Current Period 31 December 2016 USD'000	(Audited) Current Period 31 December 2016 TRY'000	(Audited) Previous Period 31 December 2015 USD'000	(Audited) Previous Period 31 December 2015 TRY'000
Current Assets		**1.317.624**	**4.636.984**	**912.203**	**2.652.319**
Cash and Cash Equivalents	4	3.998	14.069	3.721	10.819
Financial Derivative Instruments	6	9.060	31.885	7.718	22.441
Trade Receivables	8	171.129	602.240	153.295	445.720
Due From Related Parties	*29*	*97.890*	*344.496*	*103.260*	*300.239*
Other Trade Receivables	*8*	*73.239*	*257.744*	*50.035*	*145.481*
Other Receivables	9	583.183	2.052.335	258.941	752.897
Due From Related Parties	*28*	*582.695*	*2.050.619*	*258.298*	*751.026*
Other Receivables	*9*	*488*	*1.716*	*643*	*1.871*
Inventories	10	543.110	1.911.311	478.785	1.392.115
Prepaid Expenses	11	4.115	14.483	8.433	24.520
Other Current Assets	18	3.029	10.661	1.310	3.807
Non Current Assets		**2.079.992**	**7.319.905**	**2.138.188**	**6.216.997**
Other Receivables	9	3.639	12.808	4.827	14.036
Financial Investments	5	35	122	27	79
Financial Derivative Instruments	6	-	-	13.982	40.655
Property, Plant and Equipment	12	2.025.995	7.129.883	2.063.629	6.000.209
Intangible Assets	13	46.917	165.111	47.873	139.195
Prepaid Expenses	11	3.406	11.981	7.850	22.823
TOTAL ASSETS		**3.397.616**	**11.956.889**	**3.050.391**	**8.869.316**

The functional currency of the Company is USD Dollars. The details of the translation to presentation currency of TRY explained in Note 2.1.

LIABILITIES	Note	(Audited) Current Period 31 December 2016 USD'000	(Audited) Current Period 31 December 2016 TRY'000	(Audited) Previous Period 31 December 2015 USD'000	(Audited) Previous Period 31 December 2015 TRY'000
Current Liabilities		**558.784**	**1.966.469**	**321.328**	**934.292**
Short Term Borrowings	7	147.572	519.335	3.183	9.256
Short Term Portion of Long Term Borrowings	7	145.639	512.534	114.252	332.199
Financial Derivative Instruments	6	5.312	18.693	6.181	17.972
Trade Payables	8	116.814	411.091	83.200	241.912
Due to Related Parties	*29*	*19.376*	*68.188*	*8.808*	*25.611*
Other Trade Payables	*8*	*97.438*	*342.903*	*74.392*	*216.301*
Other Payables	9	4.776	16.807	4.589	13.344
Deferred Revenue	19	5.233	18.416	7.506	21.825
Current Tax Liabilities	27	88.720	312.225	70.999	206.438
Short Term Provisions	16	7.274	25.599	8.536	24.819
Payables for Employee Benefits	15	20.808	73.228	16.051	46.671
Other Current Liabilities	18	16.636	58.541	6.831	19.856
Non Current Liabilities		**427.656**	**1.505.009**	**460.830**	**1.339.911**
Long Term Borrowings	7	102.715	361.476	168.450	489.786
Financial Derivative Instruments	6	67	237	7.326	21.300
Provisions for Employee Benefits	15	66.198	232.965	70.637	205.385
Deferred Tax Liabilities	27	258.676	910.331	214.417	623.440
EQUITY		**2.411.176**	**8.485.411**	**2.268.233**	**6.595.113**
Share Capital	20	1.474.105	2.900.000	1.474.105	2.900.000
Inflation Adjustment to Capital	20	85	164	85	164
Other Comprehensive Income/Expense Not to be Reclassified to Profit/ (Loss)		(18.698)	(48.758)	(19.061)	(51.765)
Actuarial (Loss)/ Gain Funds	*20*	*(18.698)*	*(48.758)*	*(19.061)*	*(51.765)*
Other Comprehensive Income/Expense to be Reclassified to Profit/ (Loss)		(2.118)	3.542.758	(4.148)	2.105.316
Cash Flow Hedging Gain (Loss)	*20*	*(2.118)*	*(7.454)*	*(4.148)*	*(12.060)*
Foreign Currency Translation Reserves	*20*	*-*	*3.550.212*	*-*	*2.117.376*
Restricted Reserves Assorted from Profit	20	94.473	240.817	68.101	165.142
Retained Earnings	20	550.972	907.581	537.563	901.013
Net Profit for the Period		312.357	942.849	211.588	575.243
TOTAL LIABILITIES AND EQUITY		**3.397.616**	**11.956.889**	**3.050.391**	**8.869.316**

The functional currency of the Company is USD Dollars. The details of the translation to presentation currency of TRY explained in Note 2.1.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Note	(Audited) Current Period 1 January - 31 December 2016 USD'000	(Audited) Current Period 1 January - 31 December 2016 TRY'000	(Audited) Previous Period 1 January - 31 December 2015 USD'000	(Audited) Previous Period 1 January - 31 December 2015 TRY'000
Revenue	21	2.143.670	6.470.668	2.176.182	5.916.385
Cost of Sales	21	(1.663.061)	(5.019.949)	(1.839.395)	(5.000.763)
GROSS PROFIT		**480.609**	**1.450.719**	**336.787**	**915.622**
Marketing, Sales and Distribution Expenses (-)	23	(23.015)	(69.470)	(21.834)	(59.360)
General Administrative Expenses (-)	23	(36.698)	(110.774)	(40.533)	(110.198)
Research and Development Expenses (-)		(228)	(689)	(45)	(122)
Other Operating Income	24	13.977	42.191	28.357	77.093
Other Operating Expenses (-)	24	(13.302)	(40.153)	(17.653)	(47.992)
OPERATING PROFIT		**421.343**	**1.271.824**	**285.079**	**775.043**
Finance Income	25	69.792	210.666	94.962	258.172
Finance Expense (-)	26	(46.398)	(95.629)	(41.577)	(99.622)
PROFIT BEFORE TAX		**444.737**	**1.386.861**	**338.464**	**933.593**
Tax Expense	27	(132.380)	(444.012)	(126.876)	(358.350)
Current Corporate Tax Expense		(88.720)	(312.225)	(70.999)	(206.438)
Deferred Tax Expense		(43.660)	(131.787)	(55.877)	(151.912)
NET PROFIT FOR THE PERIOD		**312.357**	**942.849**	**211.588**	**575.243**
EARNINGS PER SHARE			0,3251		0,1984
(TRY 1 Nominal value per share)					

The functional currency of the Company is USD Dollars. The details of the translation to presentation currency of TRY explained in Note 2.1.

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Note	(Audited) Current Period 1 January - 31 December 2016 USD'000	(Audited) Current Period 1 January - 31 December 2016 TRY'000	(Audited) Previous Period 1 January - 31 December 2015 USD'000	(Audited) Previous Period 1 January - 31 December 2015 TRY'000
PROFIT FOR THE PERIOD		**312.357**	**942.849**	**211.588**	**575.243**
OTHER COMPREHENSIVE INCOME					
Not to be reclassified subsequently to profit or loss					
Actuarial Gain/(Loss) of Defined Benefit Plans		454	3.759	3.723	10.819
Tax Effect of Actuarial Gain/(Loss) of Defined Benefit Plans	27	(91)	(752)	(745)	(2.164)
To be reclassified subsequently to profit or loss					
Change in Cash Flow Hedging Reserves		2.538	5.758	(2.084)	(7.883)
Tax Effect of Change in Cash Flow Hedging Reserves	27	(508)	(1.152)	417	1.577
Change in Foreign Currency Translation Reserves		-	1.432.836	-	1.348.649
PERIOD		**2.393**	**1.440.449**	**1.311**	**1.350.998**
TOTAL COMPREHENSIVE INCOME FOR THE		**314.750**	**2.383.298**	**212.899**	**1.926.241**

The functional currency of the Company is USD Dollars. The details of the translation to presentation currency of TRY explained in Note 2.1.

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

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

				Other comprehensive income (expense) not to be reclassified subsequently to profit or loss	Other comprehensive income (expense) to be reclassified subsequently to profit or loss			Retained Earnings		
(Audited)	Note	Share Capital	Inflation Adjustment to Capital	Actuarial (Loss)/ Gain Funds	Cash Flow Hedging Gain (Loss)	Foreign Currency Translation Reserves	Restricted Reserves Assorted from Profit	Retained Earnings	Net Profit For The Period	Total Shareholders' Equity
1 January 2016		**2.900.000**	**164**	**(51.765)**	**(12.060)**	**2.117.376**	**165.142**	**901.013**	**575.243**	**6.595.113**
Net profit for the period		-	-	-	-	-	-	-	942.849	942.849
Other comprehensive income/(loss)		-	-	3.007	4.606	1.432.836	-	-	-	1.440.449
Total comprehensive income/(loss)		-	-	3.007	4.606	1.432.836	-	-	942.849	2.383.298
Dividends (*)		-	-	-	-	-	-	(493.000)	-	(493.000)
Transfers		-	-	-	-	-	75.675	499.568	(575.243)	-
31 December 2016	20	**2.900.000**	**164**	**(48.758)**	**(7.454)**	**3.550.212**	**240.817**	**907.581**	**942.849**	**8.485.411**
(Audited)										
1 January 2015		**2.900.000**	**164**	**(60.420)**	**(5.754)**	**768.727**	**38.913**	**900.231**	**997.011**	**5.538.872**
Net profit for the period		-	-	-	-	-	-	-	575.243	575.243
Other comprehensive income/(loss)		-	-	8.655	(6.306)	1.348.649	-	-	-	1.350.998
Total comprehensive income/(loss)		-	-	8.655	(6.306)	1.348.649	-	-	575.243	1.926.241
Dividends (*)		-	-	-	-	-	-	(870.000)	-	(870.000)
Transfers		-	-	-	-	-	126.229	870.782	(997.011)	-
31 December 2015	20	**2.900.000**	**164**	**(51.765)**	**(12.060)**	**2.117.376**	**165.142**	**901.013**	**575.243**	**6.595.113**

(*) In annual General Assembly dated 31 March 2016, the dividend distribution (gross dividend per share: TRY 0,1700 (2015: TRY 0,3000) amounting to TRY 493.000 thousand (30 March 2015: TRY 870.000 thousand) from 2015 net profit was approved. The dividend payment started at 25 May 2016 and 770 thousand TRY has not been received by shareholders on balance sheet date.

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Note	(Audited) Current Period 1 January - 31 December 2016 USD'000	(Audited) Current Period 1 January - 31 December 2016 TRY'000	(Audited) Previous Period 1 January - 31 December 2015 USD'000	(Audited) Previous Period 1 January - 31 December 2015 TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES		492.947	1.523.523	633.008	1.766.992
Profit (Loss) for The Period		312.357	942.849	211.588	575.243
Adjustments to Reconcile Profit (Loss)		290.997	922.794	285.052	788.384
Adjustments for Depreciation and Amortisation Expenses	21/23	117.225	353.844	106.628	289.890
Adjustments for Impairment Loss (Reversal of Impairment Loss)		6.491	19.589	8.884	24.153
Adjustments for Provision (Reversal of Provision) for Receivables	8 9	*1.268*	*3.826*	*4.456*	*12.114*
Adjustments for Provision (Reversal of Provision) for Inventories	10	*2.336*	*7.050*	*4.428*	*12.039*
Adjustments for Provision (Reversal of Provision) for Property, Plant and Equipment	13	*2.887*	*8.713*	-	-
Adjustments for Provisions		16.357	49.374	15.538	42.244
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	15	*15.635*	*47.193*	*13.452*	*36.573*
Adjustments for Provision (Reversal of Provision) for Pending Claims and or Lawsuits	16	*722*	*2.181*	*2.086*	*5.671*
Adjustments for Interest (Income) and Expenses		11.445	34.547	21.603	58.731
Adjustments for Interest Income	25	*(1)*	*(4)*	*(1)*	*(3)*
Adjustments for Interest Expense	26	*11.290*	*34.080*	*20.598*	*56.000*
Unearned Financial Income from Credit Sales		*156*	*471*	*1.006*	*2.734*
Adjustments for Unrealised Foreign Exchange Differences		(4.647)	(14.028)	2.379	6.468
Adjustments for Fair Value (Gains) Losses		11.746	35.456	3.144	8.548
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments	26	*11.746*	*35.456*	*3.144*	*8.548*
Adjustments for Tax (Income) Expenses	27	132.380	444.012	126.876	358.350
Changes in Working Capital		(33.415)	(117.593)	172.682	502.090
Adjustments for Decrease (Increase) in Trade Receivables		(19.513)	(68.671)	76.451	222.289
Decrease (Increase) in Trade Receivables from Related Parties		*(12.576)*	*(44.257)*	*33.628*	*97.776*
Decrease (Increase) in Trade Receivables from Third Parties		*(6.937)*	*(24.414)*	*42.823*	*124.513*
Adjustments for Decrease (Increase) in Other Receivables Related from Operations		4.490	15.800	9.499	27.620
Decrease (Increase) in Other Receivables from Operations from Third Parties		*4.490*	*15.800*	*9.499*	*27.620*
Decrease (Increase) in Derivative Financial Instruments		12.640	44.482	1.568	4.559
Adjustments for Decrease (Increase) in Inventories		(66.827)	(235.178)	96.003	279.137
Decrease (Increase) in Prepaid Expenses		8.990	31.639	203	591
Adjustments for Increase (Decrease) in Trade Payables		33.613	118.294	6.969	20.263
Increase (Decrease) in Trade Payable to Related Parties		*12.098*	*42.577*	*1.146*	*3.331*
Increase (Decrease) in Trade Payable to Third Parties		*21.515*	*75.717*	*5.823*	*16.932*
Adjustments for Increase (Decrease) in Other Payables Related from Operations		187	658	(537)	(1.561)
Increase (Decrease) in Other Payables to Third Parties Related from Operations		*187*	*658*	*(537)*	*(1.561)*
Increase (Decrease) in Derivative Liabilities		(17.336)	(61.010)	(2.835)	(8.243)
Adjustments for Other Increase (Decrease) in Working Capital		10.341	36.393	(14.639)	(42.565)
Decrease (Increase) in Other Assets Related from Operations		*(1.948)*	*(6.854)*	*(2.357)*	*(6.854)*
Increase (Decrease) in Other Payables Related from Operations		*12.289*	*43.247*	*(12.282)*	*(35.711)*
Cash Flows Provided by Operating Activities		569.939	1.748.050	669.322	1.865.717
Payments Related to Provisions for Employee Termination Benefits	15	(5.278)	(15.931)	(9.042)	(24.581)
Payments Related to Other Provisions	16	(715)	(2.158)	(619)	(1.683)
Income Taxes Refund (Paid)		(70.999)	(206.438)	(26.653)	(72.461)
CASH FLOWS FROM INVESTING ACTIVITIES		(81.363)	(245.599)	(97.781)	(265.838)
Cash Outflows Arising From Purchase of Shares or Capital Increase of Associates and/or Joint Ventures		(8)	(26)	-	-
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		42	126	4.207	11.437
Cash Inflow from Sales of Property, Plant and Equipment	12 13 24	*42*	*126*	*4.207*	*11.437*
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(81.397)	(245.699)	(101.988)	(277.275)
Cash Outflow from Purchase of Property, Plant and Equipment	12	*(80.820)*	*(243.956)*	*(100.187)*	*(272.379)*
Cash Outflow from Purchase of Intangible Assets	13	*(577)*	*(1.743)*	*(1.801)*	*(4.896)*
CASH FLOWS FROM FINANCING ACTIVITIES		(392.588)	(1.290.630)	(502.670)	(1.359.645)
Cash Inflow from Borrowings		316.796	1.114.870	342.516	995.900
Cash Inflow from Loans		*316.796*	*1.114.870*	*342.516*	*995.900*
Cash Outflow from Repayments of Borrowings		(203.318)	(715.516)	(675.145)	(1.963.053)
Cash Outflow from Loan Repayments		*(203.318)*	*(715.516)*	*(675.145)*	*(1.963.053)*
Decrease in Other Payables to Related Parties		(324.398)	(1.141.620)	178.812	519.914
Dividends Paid		(171.588)	(517.939)	(333.106)	(869.595)
Interest Paid		(10.080)	(30.425)	(15.747)	(42.811)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		18.996	(12.706)	32.557	141.509
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(18.719)	15.956	(29.903)	(133.164)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		277	3.250	2.654	8.345
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		3.721	10.819	1.067	2.474
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		3.998	14.069	3.721	10.819

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

NOTE 1 – COMPANY'S ORGANIZATION AND NATURE OF OPERATIONS

İskenderun Demir ve Çelik A.Ş. ("the Company") registered in 12 November 1968 and published at 19 November 1968 in the trade registry gazette. The Company established in 3 October 1970 in the southern of Turkey on the Mediterranean coast in the distance of 17 km from İskenderun in Payas region. The principal activities of the Company are production and sale of iron products, flat and long steel products and their by-products. The Company's main products are billet,slab,coil,plate,wire rod and by-products are coke,benzol,ammonium sulphate and slag.

The Company had become an affiliated company of the Turkish Iron and Steel Administration with the decision no 93/T-85 dated September 10, 1993 of Supreme Planning Committee.Then with the decision no 98/20 of Privatization Committee dated March 2, 1998, the Company was transferred to Turkish Privatization Administration.Ultimately, shares of the Company were transferred to Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ("Erdemir") in 31 January 2002 by the Turkish Privatization Administration with the decision no 2001/08 which dated February 8, 2001. The immediate parent of Ereğli Demir ve Çelik Fabrikaları T.A.Ş is Ataer Holding A.Ş. The ultimate controlling party is Ordu Yardımlaşma Kurumu.

The main operations of the subsidiary company and the share percentage of the İsdemir for the company are as follows:

Name of the Company	Country of Operation	Operation	2016 Share %	2015 Share %
Teknopark Hatay A.Ş.	Turkey	R&D Centre	5	5
İsdemir Linde Gaz Ortaklığı A.Ş.	Turkey	Energy	50	-

As of 18 November 2016, İsdemir Linde Gaz Ortaklığı A.Ş. has been established through 50%-50% partnership with the Linde Gaz A.Ş. in order to supply the additional industrial gases required for the Company's production and to reduce the costs with an effective and efficient management. Isdemir Linde Gaz Ortaklığı A.Ş, which will be recognised by using the equity pick-up method is not included in the financial statements as of the reporting period, by reason of not functioning yet, and that the financial statements are not affected significantly (Note 5).

The registered address of the Company is Karayılan Beldesi, 31319 İskenderun/HATAY.

The number of the personnel employed by the Company as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016 Personnel	31 December 2015 Personnel
Paid Hourly Personnel	3.286	3.446
Paid Monthly Personnel	1.742	1.816
	5.028	5.262

NOTE 2 – BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Basis of Presentation

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

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

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

Functional and Reporting Currency

TRY is accepted as the Company's functional and presentation currency until 30 June 2013. Due to changes in sale and collection policies of Company, the functional currency changed from TRY to US Dollars in accordance with TAS 21 ("The Effects of Foreign Exchange Rates") starting from the 1 July 2013. Therefore the Company's functional currency is US Dollars as of 31 December 2016 and 31 December 2015.

Presentation currency translation

Presentation currency of the financial statements is TRY. According to IAS 21 ("The Effects of Changes in Foreign Exchange Rates") financial statements that are prepared in USD Dollars for the Company have been translated in TRY as the following method:

a) The assets and liabilities on financial position as of 31 December 2016 are translated from USD Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 3,5192=US $ 1 and TRY 3,7099=EUR 1 on the balance sheet date (31 December 2015: TRY 2,9076= US $ 1, TRY 3,1776=EUR 1).
b) For the twelve months period ended 31 December 2016, income statements are translated from the average TRY 3,0185 = US $ 1 and TRY 3,3377=EUR 1 rates of 2016 January - December period (31 December 2015: TRY 2,7187 = US $ 1 TRY 3,0181 = 1 EUR).
c) Exchange differences are shown in other comprehensive income as of foreign currency translation reserve.
d) The differences between presentation of statutory and historical figures are recognised as translation differences under equity. All capital, capital measures and other measures are represented with their statutory figures, other equity accounts are represented with their historic cost figures in the accompanying financial statements.

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

2.1 Basis of Presentation (cont'd)

USD amounts presented in the financial statements

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

Going concern

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

Approval of the financial statements

The financial statements have been approved and authorized to be published on 07 February 2017 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

2.2 Changes in Accounting Estimates and Errors

The changes in accounting estimates affecting the current period are recognized in the current period, the changes in accounting estimates affecting both in the current and future periods, prospectively. Where there are no transition requirements for any changes or optional significant changes in accounting policies and identified accounting errors, those are applied retrospectively and prior period financial statements are restated accordingly.

2.3 Comparative Information and Restatement of Financial Statements with Prior Periods

The Company's 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 Company's financial statements are prepared in comparison with the previous period in order to allow for the determination of the financial position and performance trends in accordance with a new illustrative financial statements and guidance that has been effective from the interim periods ended after 30 June 2013.

Reclassifications at financial position are as follows:

Account	(Previously Reported) 1 January- 31 December 2015	(Restated) 1 January- 31 December 2015	(Difference) 1 January- 31 December 2015
Finance Expense [(1)]	(312.680)	(99.622)	213.058
Deferred Tax (Expense)/Income [(1)]	61.146	(151.912)	(213.058)
			-

(1) Foreign exchange loss from deferred tax base amounting to TRY 213.058 thousand which were reported under "Finance Expense" was reclassified to "Deferred Tax (Expense) Income" on the statement of income for the year ended 31 December 2015.

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

2.4 Significant Judgments and Estimates of the Company on Application of Accounting Policies

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

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

The Company calculates depreciation for the fixed assets by taking into account their production amounts and useful lives that are stated in Note 2.7.3 and 2.7.4 (Note 12, Note 13).

2.4.2 Deferred tax

The Company recognizes deferred tax on the temporary timing differences between the carrying amounts of assets and liabilities in the financial statements prepared in accordance with TAS and statutory financial statements which is used in the computation of taxable profit. The related differences are generally due to the timing difference of the tax base of some income and expense items between financial statements prepared in accordance with statutory and TAS (Note 27).

2.4.3 Fair values of derivative financial instruments

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

2.4.4 Provision for doubtful receivables

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

2.4.5 Provision for inventories

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

2.4.6 Provisions for employee benefits

Actuarial assumptions about discount rates, inflation rates, future salary increases and employee turnover rates are made to calculate the Company's provision for employee benefits. The details related with the defined benefit plans are stated in Note 15.

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

2. 4 Significant Judgments and Estimates of the Company on Application of Accounting Policies (cont'd)

2.4.7 Provision for lawsuits

Provision for lawsuits is evaluated by the Company Management based on opinions of Company's Legal Council and legal consultants. The Company Management determines the amount of provisions based on best estimates. As of the balance sheet date, the provision for lawsuits is stated in Note 16.

2.4.8 Impairments on Assets

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

2.5 Offsetting

Financial assets and liabilities are offset and the net amounts are reported with their net values in the balance sheet where either there is a legally enforceable right to offset the recognized amounts or there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.6 Adoption of New and Revised Financial Reporting Standards

The accounting policies adopted in preparation of the financial statements as at 31 December 2016 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 2016. The effects of these standards and interpretations on the Company's financial position and performance have been disclosed in the related paragraphs.

The new standards, amendments and interpretations which are effective as at 1 January 2016 are as follows:

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

  TFRS 11 is amended to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in TFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in TFRS 3 and other TFRSs except for those principles that conflict with the guidance in this TFRS. In addition, the acquirer shall disclose the information required by TFRS 3 and other TFRSs for business combinations. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

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

  The amendments to TAS 16 and TAS 38, have prohibited the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for intangible assets. The amendments did not have an impact on the financial position or performance of the Company.

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

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

The new standards, amendments and interpretations which are effective as at 1 January 2016 are as follows: (cont'd):

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

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

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

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

  - At cost
  - In accordance with IFRS 9, Or
  - Using the equity method defined in TAS 28

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

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

  Amendments issued to TFRS 10 and TAS 28, to address the acknowledged inconsistency between the requirements in TFRS 10 and TAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in TFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors' interests in that former subsidiary. The amendment did not have an impact on the financial position or performance of the Company.

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

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

The new standards, amendments and interpretations which are effective as at 1 January 2016 are as follows: (cont'd):

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

  In February 2015, Amendments issued to TFRS 10, TFRS 12 and TAS 28, to address the following issues that have arisen in applying the investment entities exception under TFRS 10 Consolidated Financial Statements; i) the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value, ii) only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value, iii) the amendments to TAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendment did not have an impact on the financial position or performance of the Company.

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

  The amendments issued to TAS 1. Those amendments include narrow-focus improvements in the following five areas: Materiality, Disaggregation and subtotals, Notes structure, Disclosure of accounting policies, Presentation of items of other comprehensive income (OCI) arising from equity accounted investments. The amendment did not have an impact on the financial position or performance of the Company.

Annual Improvements to TFRSs - 2012-2014 Cycle

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

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – clarifies that changes in methods of disposal (through sale or distribution to owners) would not be considered a new plan of disposal, rather it is a continuation of the original plan

- IFRS 7 Financial Instruments: Disclosures – clarifies that the assessment of servicing contracts that includes a fee for the continuing involvement of financial assets in accordance with IFRS 7; the offsetting disclosure requirements do not apply to condensed interim financial statements,

- IAS 19 Employee Benefits – clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located.

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

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

Annual Improvements to TFRSs - 2012-2014 Cycle (cont'd)

- IAS 34 Interim Financial Reporting –clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report.

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

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 financial statements are as follows. The Company will make the necessary changes if not indicated otherwise, which will be affecting the financial statements and disclosures, when the new standards and interpretations become effective.

- 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 January 1, 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

- 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, with early application permitted by applying all requirements of the standard.

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

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

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

- TFRS 9 Financial Instruments (cont'd)

  Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard. The Company has performed a high-level impact assessment of TFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional supportable information being made available to the Company in the future. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

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

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

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

  In December 2015, the IASB 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.

Annual Improvements – 2010–2012 Cycle

- IFRS 13 Fair Value Measurement

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

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

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

Annual Improvements – 2011–2013 Cycle

- IFRS 16 Leases

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

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

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

- IAS 7 Statement of Cash Flows (Amendments)

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

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

  The IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions.

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

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

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

- IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments) (cont'd)

  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 to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

- IFRS 4 Insurance Contracts (Amendments)

  In September 2016, the IASB issued amendments to IFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will:

  a) Give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 Financial instruments is applied before the new insurance contracts Standard is issued; and
  b) Give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 Financial instruments until 2021. The entities that defer the application of IFRS 9 Financial instruments will continue to apply the existing financial instruments Standard—IAS 39.

  These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

- IAS 40 Investment Property: Transfers of Investment Property (Amendments)

  The IASB issued amendments to IAS 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 to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

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

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

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

- IFRIC 22 Foreign Currency Transactions and Advance Consideration

  The interpretation 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. Earlier application is permitted.

Annual Improvements to IFRSs - 2014-2016 Cycle

The IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle, amending the following standards:

- IFRS 1 First-time Adoption of International Financial Reporting Standards: This amendment deletes the short-term exemptions about some IFRS 7 disclosures, IAS 19 transition provisions and IFRS 10 Investment Entities. These amendments are to be applied for annual periods beginning on or after 1 January 2018.
- IFRS 12 Disclosure of Interests in Other Entities: This amendment clarifies that an entity is not required to disclose summarised financial information for interests in subsidiaries, associates or joint ventures that is classified, or included in a disposal company that is classified, as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. These amendments are to be applied for annual periods beginning on or after 1 January 2017.
- IAS 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 IFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

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

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

2.7 Valuation Principles Applied / Significant Accounting Policies

Valuation principles and accounting policies used in the preparation of the financial statements are as follows:

2.7.1 Revenue recognition

Revenue is measured at the fair value of the received or receivable amount. The estimated customer returns, rebates, and other similar allowances are deducted from this amount.

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- The Company transfers the significant risks and benefits of the ownership of the goods to the buyer;
- The Company retains neither a continuing managerial involvement usually associated with ownership nor effective control over the goods sold;
- The amount of revenue is measured reliably;
- It is probable that economic benefits associated with the transaction will flow to the Company and
- The costs incurred or to be incurred due to the transaction are measured reliably.

Dividend and interest revenue

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

The Company's dividend income from equity investments is recognized when shareholders can get dividends.

Rental income

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

2.7.2 Inventories

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

2.7.3 Property, plant and equipment

Property, plant and equipment purchased before 30 June 2013 are disclosed in the financial statements at their indexed historical cost for inflation effects as at 30 June 2013, on the other hand the purchases made in 30 June 2013 and in later periods are presented at their historical cost, less depreciation and impairment loss.

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

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

2.7.3 Property, plant and equipment (cont'd)

Except for land and construction in progress, other tangible assets are depreciated according to straight-line basis or units of production method basis using the expected useful lives and production amounts of the assets.

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

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

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

	Rates
Buildings	2-16%
Land improvements	2-33% and units of production level
Machinery and equipment	3-50% and units of production level
Vehicles	5-25% and units of production level
Furniture and fixtures	5-33%
Other tangible fixed assets	5-25%

2.7.4 Intangible assets

Intangible assets purchased before 30 June 2013 are recognized at their acquisition cost indexed for inflation effects as at 30 June 2013, on the other hand the purchases made in and after 30 June 2013 are recognized at acquisition cost less any amortization and impairment loss. Intangible assets are amortized principally on a straight-line basis over their estimated useful lives and production amounts. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, and any changes in the estimate are accounted for on a prospective basis.

The amortization rates of the intangible assets are stated below:

	Rates
Rights	2-33%

2.7.5 Impairment of assets

Assets subject to depreciation and amortization are tested for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of net selling price and value in use.

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

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

2.7.5 Impairment of assets (cont'd)

Recoverable amounts are estimated for individual assets (for the cash-generating unit). Non-financial assets that are impaired are evaluated for reversal of impairment amount at each reporting date.

2.7.6 Borrowing costs

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

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

2.7.7 Financial Instruments

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

Financial assets

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

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

Effective interest method

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

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

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

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

2.7.7 Financial Instruments (cont'd)

Financial assets (cont'd)

Available for sale financial assets

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

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

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

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

Receivables

Trade receivables and other receivables are initially recognized at their fair value. Subsequently, receivables are measured at amortized cost using the effective interest method.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For receivables, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the income statement under general administrative expenses.

With the exception of available for sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized in respect of available for sale equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in the statement of comprehensive income.

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

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

2.7.7 Financial Instruments (cont'd)

Financial assets (cont'd)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three-months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value.

Financial liabilities

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Other financial liabilities

Other financial liabilities are initially accounted at fair value, net of transaction costs.

Subsequently other financial liabilities are accounted at amortized cost using the effective interest method, with interest expense recognized on an effective interest rate basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating the interest expense to the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount.

Derivative financial instruments and hedge accounting

Derivatives are initially recognized at cost of acquisition and are subsequently accounted to their fair value at the end of each reporting period. The method of recognizing the result of gain or loss is dependent on the nature of the item being hedged.

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

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

2.7.7 Financial Instruments (cont'd)

Derivative financial instruments and hedge accounting (cont'd)

On the date a derivative contract is entered into, the Company designates certain derivatives as either a hedge of the fair value of a recognized asset or liability (fair value hedge) or a hedge from changes that could affect the statement of income due to a specific risk in cash flow of a forecasted transaction (cash flow hedge). Fair value of the Company's interest swap contracts is determined by valuation methods depending on analyzable market data.

Changes in the fair value of the derivatives that are designated and qualified as cash flow hedges and that are highly effective, are recognized in equity as hedging reserve. Where the forecasted transaction or firm commitment results in the recognition of an asset or a liability, the gains and losses previously booked under equity are transferred from equity and included in the initial measurement of the cost of acquisition of the asset or liability. Otherwise, amounts booked under equity are transferred to the statement of income and classified as revenue or expense in the period in which the hedged item affects the statement of income.

When the hedging instrument expires, is sold, or when a hedge no longer meets the criteria for hedge than hedge accounting is terminated. Any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the committed or forecasted transaction ultimately is recognized in the statement of income. However, if the hedged transaction is not realized, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss of the current period.

The Company measures the derivative financial instruments held for fair value hedge purpose with their fair values and recognizes them in the income statement under financial income/(expense).

2.7.8 The Effects of Foreign Exchange Rate Changes

The Company's financial statements are enclosed with the functional currency. The Company's financial position and operating results are enclosed with the Turkish Lira ("TRY") which is presentation currency of the financial statements.

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

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

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

2.7.9 Subsequent Events

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

In the case that events occur requiring an adjustment, the Company adjusts the amounts recognized in its financial statements to reflect the adjustments after the balance sheet date.

2.7.10 Provisions, Contingent Liabilities and Contingent Assets

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

2.7.11 Related Parties

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

(a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

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

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

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

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

2.7.12 Taxation and Deferred Income Taxes

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

Current tax

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

Deferred tax

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

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

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

2.7.12 Taxation and Deferred Income Taxes (cont'd)

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in the income statement, except when they relate to the items credited or debited directly to the equity (in this case the deferred tax related to these items is also recognized directly in the equity), or where they arise from the initial accounting of a business combination.

2.7.13 Employee Benefits

According to the Turkish law and union agreements, employee termination payments are made to employees in the case of retiring or involuntarily leaving. Such payments are considered as a part of defined retirement benefit plan in accordance with TAS 19 (revised) "Employee Benefits" ("TAS 19").

The termination indemnities accounted in the balance sheet and seniority incentive premium in accordance with the union agreements in force represent the present value of the residual obligation. Actuarial gains and losses, on the other hand, are recognized in the statement of other comprehensive income.

The Company makes certain assumptions about discount rates, inflation rates, future salary increases and employee turnover rates in calculation of provisions for employee benefits. The present value of employee benefits is calculated by an independent actuary and some changes are done in accounting assumptions used in calculations. The impact of the changes in assumptions is recognized in the statement of income. The details related with the defined benefit plans are stated in Note 14.

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

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

2.7.14 Government Grants and Incentives

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

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

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

2.7.15 Statement of Cash Flows

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

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

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

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

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

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

2.7.16 Share Capital and Dividends

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

NOTE 3 – SEGMENTAL REPORTING

The segments with similar economic characteristics have been combined into a single operating segment considering the nature of the products and the production processes, methods to allocate the products and the type of customers or to provide services.

NOTE 4 – CASH AND CASH EQUIVALENTS

The detail of cash and cash equivalents as of 31 December 2016 and 31 December 2015 is as follows:

	31 December 2016	31 December 2015
Banks – demand deposits	14.069	10.819
	14.069	10.819

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

The breakdown of demand deposits is presented below:

	31 December 2016	31 December 2015
US Dollars	12.737	6.060
TRY	903	1.327
EURO	325	3.406
GB Pound	87	6
Other	17	20
	14.069	10.819

NOTE 5 – FINANCIAL INVESTMENTS

Long term financial investments:

	31 December 2016	31 December 2015
Available for sale financial assets	122	79
	122	79

As of 31 December 2016 and 31 December 2015, ratios and amounts of subsidiaries of İskenderun Demir ve Çelik A.Ş. which is a subsidiary of the Company are as followings:

Company	Ratio %	31 December 2016	Ratio %	31 December 2015
Financial investments without an active market				
Teknopark Hatay A.Ş.	5	95	5	79
Joint venture				
İsdemir Linde Gaz Ortaklığı A.Ş. (*)	50	27	50	-
		122		79

(*) Since the impact of financial statements of İsdemir Linde Gaz Ortaklığı A.Ş., which has an assets of TRY 605 thousand and is not active as of the reporting period, is immaterial on the financial statements, it has not been consolidated and carried at cost.

NOTE 6 – FINANCIAL DERIVATIVE INSTRUMENTS

The detail of financial derivative instruments as of 31 December 2016 and 31 December 2015 is as follows:

	31 December 2016		31 December 2015	
	Asset	Liability	Asset	Liability
Fair value hedging derivative financial assets				
Cross currency swap contracts	22.642	133	52.859	-
Interest rate swap contracts	-	-	55	14.015
Basis swap contracts	-	237	-	-
	22.642	370	52.914	14.015
Cash flow hedging derivative financial assets				
Cross currency swap contracts for cash flow hedges of currency risk of borrowings	9.243	18.389	-	24.188
Interest rate swap contracts for cash flow hedges of interst rate risk of borrowings	-	171	10.182	1.069
	9.243	18.560	10.182	25.257
	31.885	18.930	63.096	39.272

NOTE 6 – FINANCIAL DERIVATIVE INSTRUMENTS (cont'd)

Derivative instruments for fair value hedge

As of 31 December 2016 and 31 December 2015, the details of cross currency swap transactions for fair value hedge are as follows:

31 December 2016		Assets		Liabilities	
		Nominal Value	Fair Value	Nominal Value	Fair Value
Cross currency, interest rate swap contracts					
Buy EUR / Sell TRY	Between 6-12 months	51.616	22.642	51.616	133
		51.616	22.642	51.616	133
Basis interest swap contracts					
USD basis floating interest collection / Basis floating interest payment	Between 1-5 years	-	-	57.963	237
		-	-	57.963	237
		51.616	22.642	109.579	370

31 December 2015		Assets		Liabilities	
		Nominal Value	Fair Value	Nominal Value	Fair Value
Cross currency, interest rate swap contracts					
Buy USD / Sell TRY	Between 6-12 months	44.841	22.386	44.841	13.946
Buy EUR / Sell TRY	More than 12 months	88.421	30.528	88.421	69
		133.262	52.914	133.262	14.015

Derivative instruments for cash flow hedge

Cross currency and interest rate swap contracts for cash flow hedges of interest rate and currency risk of borrowings.

The Company has fixing contracts for future interest and principle payments of floating interest rate borrowings. The fair values of these contracts match the floating rate borrowings and was included in other comprehensive income. The maturities of these transactions will be completed in December 2017.

The terms and conditions of those contracts match the terms and conditions of the floating rate borrowings. As a result, no hedge ineffectiveness arises requiring recognition through profit or loss and recognition in other comprehensive income/expense.

In respect of these contracts which has a nominal value of TRY 60.738 thousand, for the purpose of hedging cash flow risk, with related deferred tax effect TRY (9.317) thousand was included in other comprehensive income (31 December 2015: TRY (15.075) thousand).

NOTE 7 – FINANCIAL LIABILITIES

As of the balance sheet date, the details of the Company's liabilities are as follows:

	31 December 2016	31 December 2015
Short term financial liabilities	519.335	9.256
Current portion of long term financial liabilities	512.534	332.199
Total short term financial liabilities	1.031.869	341.455
Total long term financial liabilities	361.476	489.786
	1.393.345	831.241

As of 31 December 2016, the breakdown of the Company's loans with their original currency and their weighted average interest rates is presented as follows:

Interest Type	Type of Currency	Weighted Average Rate of Interest (%)	Short Term Portion	Long Term Portion	31 December 2016
Fixed	US Dollars	1,72	501.784	-	501.784
Fixed	TRY	12,45	14.566	-	14.566
Floating	US Dollars	Libor+2,16	397.436	64.654	462.090
Floating	EURO	Euribor+1,67	99.282	296.822	396.104
Floating	Japanese Yen	JPY+0,22	18.801	-	18.801
			1.031.869	361.476	1.393.345

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

Interest Type	Type of Currency	Weighted Average Rate of Interest (%)	Short Term Portion	Long Term Portion	31 December 2015
No interest	TRY	-	9.256	-	9.256
Fixed	US Dollars	2,05	8.059	7.684	15.743
Fixed	TRY	9,76	79.694	12.866	92.560
Floating	US Dollars	Libor+1,97	140.660	356.846	497.506
Floating	EURO	Euribor+0,33	88.558	97.832	186.390
Floating	Japanese Yen	JPY+0,22	15.228	14.558	29.786
			341.455	489.786	831.241

NOTE 7 – FINANCIAL LIABILITIES (cont'd)

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

	31 December 2016	31 December 2015
Within 1 year	1.031.869	341.455
Between 1-2 years	109.625	420.150
Between 2-3 years	66.994	49.112
Between 3-4 years	58.713	13.683
Between 4-5 years	50.433	6.841
Five years or more	75.711	-
	1.393.345	831.241

NOTE 8 – TRADE RECEIVABLES AND PAYABLES

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

	31 December 2016	31 December 2015
Short term trade receivables		
Trade receivables	266.220	152.778
Due from related parties (Note 29)	344.496	300.239
Discount on receivables (-)	(1)	(3)
Provision for doubtful trade receivables (-)	(8.475)	(7.294)
	602.240	445.720

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

	1 January-31 December 2016	1 January-31 December 2015
Opening balance	7.294	189
Provision for the period	1.173	6.737
Provision released (-)	(234)	(59)
Translation difference	242	427
Closing balance	8.475	7.294

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

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

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

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

NOTE 8 – TRADE RECEIVABLES AND PAYABLES (cont'd)

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

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

Short term trade payables	31 December 2016	31 December 2015
Trade payables	344.101	217.350
Due to related parties (Note 29)	68.188	25.611
Discount on trade payables (-)	(1.198)	(1.049)
	411.091	241.912

NOTE 9 – OTHER RECEIVABLES AND PAYABLES

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

Short term other receivables	31 December 2016	31 December 2015
Other receivables from related parties (Note 29)	2.050.619	751.026
Receivables from water system construction	1.592	1.763
Deposits and guarantees given	124	108
	2.052.335	752.897

Long term other receivables	31 December 2016	31 December 2015
Receivables from Privatization Authority	70.236	67.397
Receivables from water system construction	12.808	14.036
Provision for receivables from Privatization Authority (-)	(70.236)	(67.397)
	12.808	14.036

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

	1 January- 31 December 2016	1 January- 31 December 2015
Opening balance	67.397	62.403
Provision for the period	2.887	5.436
Other doubtful receivables collected (-)	(227)	(482)
Translation difference	179	40
Closing balance	70.236	67.397

NOTE 9 – OTHER RECEIVABLES AND PAYABLES (cont'd)

Short term other payables	31 December 2016	31 December 2015
Taxes payable	8.678	7.910
Deposits and guarantees received	7.359	5.029
Dividend payables to shareholders (*)	770	405
	16.807	13.344

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

NOTE 10 – INVENTORIES

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

	31 December 2016	31 December 2015
Raw materials	426.944	342.594
Work in progress	316.501	243.416
Finished goods	216.121	291.256
Spare parts	259.528	196.171
Goods in transit	627.772	241.695
Other inventories	126.908	121.800
Allowance for impairment on inventories (-)	(62.463)	(44.817)
	1.911.311	1.392.115

The movement of the allowance for impairment on inventories:

	1 January - 31 December 2016	1 January - 31 December 2015
Opening balance	44.817	25.474
Provision for the period	16.727	12.154
Provision released (-)	(9.677)	(115)
Translation difference	10.596	7.304
Closing balance	62.463	44.817

The Company has provided an allowance for the impairment on the inventories of finished goods, work in progress and raw materials within the scope of aging reports in the cases when their net realizable values are lower than their costs or for slow moving inventories. The provision released has been recognized under cost of sales (Note 21).

NOTE 11 – PREPAID EXPENSES

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

	31 December 2016	31 December 2015
Insurance expenses	6.857	13.561
Order advances given	4.070	3.730
Prepaid utility allowance to employees	1.423	1.672
Other prepaid expenses	2.133	5.557
	14.483	24.520

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

	31 December 2016	31 December 2015
Order advances given	11.960	14.074
Insurance expenses	-	8.593
Other prepaid expenses	21	156
	11.981	22.823

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Machinery and equipment	Vehicles	Furniture and Fixtures	Other Property, Plant and Equipment	Construction in Progress (CIP)	Total
Cost									
Opening balance as of 1 January	62.323	1.812.380	2.115.158	7.431.787	670.124	305.268	15.503	367.903	12.780.446
Translation difference	13.109	389.302	449.285	1.626.843	142.156	65.861	4.215	37.796	2.728.567
Additions (*)	-	682	-	57.677	3.554	7.725	1.679	172.639	243.956
Transfers from CIP (**)	-	48.005	26.350	326.502	3.957	3.298	555	(411.309)	(2.642)
Disposals	-	-	-	(753)	(286)	(1.081)	(530)	-	(2.650)
Closing balance as of 31 December 2016	75.432	2.250.369	2.590.793	9.442.056	819.505	381.071	21.422	167.029	15.747.677
Accumulated Depreciation									
Opening balance as of 1 January	-	(1.305.925)	(1.298.949)	(3.720.578)	(302.040)	(115.095)	(12.979)	(24.671)	(6.780.237)
Translation difference	-	(282.117)	(280.825)	(818.215)	(67.733)	(26.301)	(3.469)	(6.635)	(1.485.295)
Charge for the period	-	(44.764)	(45.781)	(215.330)	(25.609)	(13.656)	(933)	-	(346.073)
Impairment (***)	-	-	-	-	-	-	-	(8.713)	(8.713)
Disposals	-	-	-	658	286	1.050	530	-	2.524
Closing balance as of 31 December 2016	-	(1.632.806)	(1.625.555)	(4.753.465)	(395.096)	(154.002)	(16.851)	(40.019)	(8.617.794)
Net book value as of 31 December 2015	62.323	506.455	816.209	3.711.209	368.084	190.173	2.524	343.232	6.000.209
Net book value as of 31 December 2016	75.432	617.563	965.238	4.688.591	424.409	227.069	4.571	127.010	7.129.883

(*) The amount of capitalized borrowing cost is TRY 3.432 thousand for the current period.
(**) TRY 2.642 thousand is transferred to intangible assets (Note 13).
(***) The Company review the amount of not-used fixed asset which is not able to generate cash flows independently. Accordingly, the review led to the recognition of an impairment loss of TRY (8.713) thousand that has been recognized in profit or loss under other operating expenses (Note 24) (31 December 2015: None).

As of 31 December 2016, the Company has no collaterals or pledges on tangible assets (31 December 2015: None).

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

	Land	Land Improvements	Buildings	Machinery and equipment	Vehicles	Furniture and Fixtures	Other Property, Plant and Equipment	Construction in Progress (CIP)	Total
Cost									
Opening balance as of 1 January	49.704	1.430.594	1.683.265	5.868.469	527.260	238.475	10.666	164.266	9.972.699
Translation difference	12.619	364.394	427.628	1.494.606	134.441	60.948	3.604	52.443	2.550.683
Additions	-	292	27	27.713	8.893	6.574	911	227.969	272.379
Transfers from CIP (*)	-	17.100	4.238	52.888	1.461	259	358	(76.775)	(471)
Disposals	-	-	-	(11.889)	(1.931)	(988)	(36)	-	(14.844)
Closing balance as of 31 December 2015	62.323	1.812.380	2.115.158	7.431.787	670.124	305.268	15.503	367.903	12.780.446
Accumulated Depreciation									
Opening balance as of 1 January	-	(1.009.692)	(1.001.192)	(2.813.593)	(224.614)	(82.897)	(8.842)	(19.676)	(5.160.506)
Translation difference	-	(258.920)	(257.008)	(726.807)	(58.349)	(21.770)	(3.126)	(4.995)	(1.330.975)
Charge for the period	-	(37.313)	(40.749)	(180.687)	(21.004)	(11.383)	(1.047)	-	(292.183)
Disposals	-	-	-	509	1.927	955	36	-	3.427
Closing balance as of 31 December 2015	-	(1.305.925)	(1.298.949)	(3.720.578)	(302.040)	(115.095)	(12.979)	(24.671)	(6.780.237)
Net book value as of 31 December 2014	49.704	420.902	682.073	3.054.876	302.646	155.578	1.824	144.590	4.812.193
Net book value as of 31 December 2015	62.323	506.455	816.209	3.711.209	368.084	190.173	2.524	343.232	6.000.209

(*) TRY 471 thousand is transferred to intangible assets (Note 13).

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

The breakdown of depreciation expenses related to property, plant and equipment is as follows:

	31 December 2016	31 December 2015
Associated with cost of production	334.125	282.418
General administrative expenses	2.403	1.803
Marketing, sales and distribution expenses	9.545	7.962
	346.073	292.183

NOTE 13 – INTANGIBLE ASSETS

	Rights	Total
Cost		
Opening balance as of 1 January	210.296	210.296
Translation difference	44.960	44.960
Additions	1.743	1.743
Transfers from CIP	2.642	2.642
Closing balance as of 31 December 2016	259.641	259.641
Accumulated amortization		
Opening balance as of 1 January	(71.101)	(71.101)
Translation difference	(16.161)	(16.161)
Charge for the period	(7.268)	(7.268)
Closing balance as of 31 December 2016	(94.530)	(94.530)
Net book value as of 31 December 2015	139.195	139.195
Net book value as of 31 December 2016	165.111	165.111

As of 31 December 2016, the Company has no collaterals or pledges on intangible assets (31 December 2015: None).

NOTE 13 – INTANGIBLE ASSETS (cont'd)

	Rights	Total
Cost		
Opening balance as of 1 January	163.330	163.330
Translation difference	41.599	41.599
Additions	4.896	4.896
Transfers from CIP	471	471
Closing balance as of 31 December 2015	210.296	210.296
Accumulated amortization		
Opening balance as of 1 January	(51.897)	(51.897)
Translation difference	(13.567)	(13.567)
Charge for the period	(5.637)	(5.637)
Closing balance as of 31 December 2015	(71.101)	(71.101)
Net book value as of 31 December 2014	111.433	111.433
Net book value as of 31 December 2015	139.195	139.195

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

	31 December 2016	31 December 2015
Associated with cost of production	7.268	5.637
	7.268	5.637

NOTE 14 – GOVERNMENT GRANTS AND INCENTIVES

These grants and incentives can be used by all companies, which meet the related legislative requirements and those grants have no sectoral differences:

- ✓ Incentives under the jurisdiction of the research and development law (100% corporate tax exemption etc.),
- ✓ Cash incentives from Tübitak – Teydeb for cost of research and development,
- ✓ Inward processing permission certificates and Social Security Institution incentives,
- ✓ Insurance premium employer share incentive.

NOTE 15 – EMPLOYEE BENEFITS

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

	31 December 2016	31 December 2015
Due to personnel	53.462	37.637
Social security premiums payable	19.766	9.034
	73.228	46.671

NOTE 15 – EMPLOYEE BENEFITS (cont'd)

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

	31 December 2016	31 December 2015
Provisions for employee termination benefits	188.399	172.350
Provisions for seniority incentive premium	17.305	12.547
Provision for unpaid vacations	27.261	20.488
	232.965	205.385

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

As of 31 December 2016, the amount payable consists of one month's salary limited to a maximum of TRY 4.297,21 (31 December 2015: TRY 3.828,37). As of 1 January 2016, the employee termination benefit has been updated to a maximum of TRY 4.426,16.

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 Company arising from the retirement of employees. TAS 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the Company's obligation under defined benefit plans. The obligation as of 31 December 2016 has been calculated by an independent actuary. The actuarial assumptions used in the calculation of the present value of the future probable obligation are as follows:

	31 December 2016	31 December 2015
Discount rate	11,00%	10,70%
Inflation rate	7,80%	7,75%
Salary increase	real 1,5%	real 1,5%
Maximum liability increase	7,80%	7,75%

Discount rates are determined considering the expected duration of the retirement obligations and the currency in which the obligations will be paid. In calculations as of 31 December 2016, a fixed discount rate is used. Long term inflation estimates are made using an approach consistent with discount rate estimates and long term inflation rate fixed over years is used.

NOTE 15 – EMPLOYEE BENEFITS (cont'd)

The anticipated rate of resignation which do not result in the payment of employee benefits is also considered in the calculation. The anticipated rate of resignation is assumed to be related with the past experience, therefore past experiences of employees are analyzed and considered in the calculation. In the actuarial calculation as of 31 December 2016, the anticipated rate of resignation is considered to be inversely proportional to the past experience. The anticipated rate of resignation is between 2%-0% for the employees with past experience between 0-15 years or over.

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

	1 January - 31 December 2016	1 January - 31 December 2015
Opening balance	172.350	174.097
Service cost	16.684	18.064
Interest cost	17.367	13.688
Actuarial loss / (gain)	(3.759)	(10.819)
Termination benefits paid (-)	(14.286)	(22.557)
Translation difference	43	(123)
Closing balance	188.399	172.350

The sensitivity analysis of the assumptions which was used for the calculation of provision for employment termination benefits as of 31 December 2016 as follows:

Sensitivity level

	Discount rate	
Rate	1% increase	1% decrease
Chage in employee benefits liability	(16.706)	19.393

	Inflation rate	
Rate	1% increase	1% decrease
Chage in employee benefits liability	19.816	(17.009)

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

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

	1 January - 31 December 2016	1 January - 31 December 2015
Opening balance	12.547	11.068
Service cost	1.722	1.619
Interest cost	1.415	1.017
Actuarial loss/(gain)	1.753	(1.137)
Termination benefits paid (-)	(129)	(95)
Translation difference	(3)	75
Closing balance	17.305	12.547

NOTE 15 – EMPLOYEE BENEFITS (cont'd)

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

	1 January - 31 December 2016	1 January - 31 December 2015
Opening balance	20.488	19.113
Provision for the period	17.329	15.144
Vacation paid during the period (-)	(1.516)	(1.929)
Provisions released (-)	(9.077)	(11.822)
Translation difference	37	(18)
Closing balance	27.261	20.488

NOTE 16 – PROVISIONS

The Company's short term provisions are as follows:

	31 December 2016	31 December 2015
Provision for lawsuits	20.910	21.196
Penalty prov. for employment shortage of disabled pers.	3.993	3.623
Provision for land occupation	696	-
	25.599	24.819

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

	31 December 2016	31 December 2015
Lawsuits filed by the Company	146.682	146.824
Provision for lawsuits filed by the Company	1.419	116

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

	31 December 2016	31 December 2015
Lawsuits filed against the Company	17.246	15.458
Provision for lawsuits filed against the Company	20.910	21.196

NOTE 16 – PROVISIONS (cont'd)

The movement of the short term provisions is as follows:

	1 January 2016	Change for the period	Payments	Provision released	Translation difference	31 December 2016
Provision for lawsuits	21.196	4.789	(1.785)	(4.024)	734	20.910
Penalty prov. for employment shortage of disabled	3.623	1.224	-	(897)	43	3.993
Provision for land occupation	-	1.089	(373)	-	(20)	696
	24.819	7.102	(2.158)	(4.921)	757	25.599

	1 January 2013	Change for the period	Payments	Provision released	Translation difference	31 December 2015
Provision for lawsuits	17.007	13.634	(814)	(9.279)	648	21.196
Penalty prov. for employment shortage of disabled	3.040	1.576	(869)	(260)	136	3.623
	-	-	-	-	-	-
	20.047	15.210	(1.683)	(9.539)	784	24.819

NOTE 17 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Company are as follows:

	31 December 2016	31 December 2015
Letters of guarantees received	221.156	251.494
	221.156	251.494

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

	31 December 2016	31 December 2015
A. Total CPM given for the Company's own legal entity	63.542	60.801
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	-	-
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	-	-
	63.542	60.801

As of 31 December 2016, the ratio of the other CPM given by the Company to shareholders equity is 0% (31 December 2015: 0%).

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

	31 December 2016	31 December 2015
TRY	54.471	53.307
EURO	9.071	7.494
	63.542	60.801

NOTE 18 – OTHER ASSETS AND LIABILITIES

As of the balance sheet date, the details of the Company's other assets and liabilities are as follows:

Other current assets

	31 December 2016	31 December 2015
Other VAT receivable	5.978	3.065
Prepaid taxes and funds	881	699
Other current assets	3.802	43
	10.661	3.807

Other current liabilities

	31 December 2016	31 December 2015
VAT payable	51.533	15.754
Other current liabilities	7.008	4.102
	58.541	19.856

NOTE 19 – DEFERRED REVENUE

As of the balance sheet date, the details of the Company's short term deferred revenue are as follows:

	31 December 2016	31 December 2015
Advances received	16.661	21.825
Deferred income	1.755	-
	18.416	21.825

NOTE 20 – EQUITY

As of the balance sheet date, the capital structure is as follows:

	(%)	31 December 2016	(%)	31 December 2015
Shareholders				
Ereğli Demir ve Çelik Fabrikaları T.A.Ş.	95,07	2.756.978	95,07	2.756.978
Quoted in Stock Exchange	4,93	143.022	4,93	143.022
Historical Capital		2.900.000		2.900.000
Effect of inflation		164		164
Restated capital		2.900.164		2.900.164

NOTE 20 – EQUITY (cont'd)

Other equity items	31 December 2016	31 December 2015
Cash flow hedging reserves	(7.454)	(12.060)
Foreign currency translation reserves	3.550.212	2.117.376
Actuarial (loss)/ gain fund	(48.758)	(51.765)
Restricted reserves assorted from profit	240.817	165.142
-Legal reserves	*240.817*	*165.142*
Retained earnings	907.581	901.013
	4.642.398	3.119.706

According to the Turkish Commercial Code ("TCC"), legal reserves split up as the first legal reserves and the second legal reserves. According to the Turkish Commercial Code 5% of the profit shall be allocated as the first legal reserves, up to 20% of the paid/ issued capital. After deducting dividends amounting to 5% of the paid/issued capital from the part decided to be allocated; ten percent of the remaining balance shall be appropriated to second legal reserves. Also according to the "TCC" 5% of the net profit for the period after taxation is estimated to be allocated as legal reserves up until reaching 50% of the paid/issued capital.

Cash flow hedging reserve arises from the recognition of the changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows directly in equity. The amounts deferred in equity are recognized in the statement of income in the same period, if the hedged item affects profit or loss.

The amendment in IAS-19 "Employee Benefits" does not permit the actuarial gain /loss considered in the calculation of provision for employee termination benefits to be accounted for under the statement of income. The gains and losses arising from the changes in the actuarial assumption have been accounted for by "Actuarial (Loss)/Gain Funds" under the equity. The funds for actuarial gains/ (losses) in the employee termination benefits is not in a position to be reclassified under profit and loss.

As it stated in Note 2.1, foreign currency translation reserve arises from expressing the assets and liabilities of the Company's foreign operations in reporting currency TRY by using exchange rates prevailing on the balance sheet date. Exchange differences arising, if any, are recognized under translation reserve in equity.

NOTE 21 – SALES AND COST OF SALES

	1 January- 31 December 2016	1 January- 31 December 2015
Sales revenue		
Domestic sales	5.457.179	5.020.279
Export sales	882.008	729.046
Other revenues (*)	132.786	172.220
Sales returns (-)	(1.305)	(5.160)
	6.470.668	5.916.385
Cost of sales (-)	(5.019.949)	(5.000.763)
Gross profit	1.450.719	915.622

(*)The total amount of by product exports in other revenues is TRY 61.316 thousand (31 December 2015: TRY 67.473 thousand).

The breakdown of cost of goods sales for the periods 1 January – 31 December 2016 and 1 January – 31 December 2015 is as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Raw material usage	(3.626.892)	(3.758.559)
Personnel costs	(470.612)	(457.886)
Energy costs	(278.618)	(233.813)
Depreciation and amortization expenses	(341.896)	(280.125)
Factory overheads	(160.512)	(126.785)
Other cost of good solds	(70.963)	(70.385)
Non-operating costs (*)	(7.535)	(11.605)
Freight costs for sales delivered to customers	(53.816)	(48.584)
Inventory write-downs within the period (Note 10)	(16.727)	(12.154)
Reversal of inventory write-downs (Note 10)	9.677	115
Other	(2.055)	(982)
	(5.019.949)	(5.000.763)

(*) Due to the planned/ unplanned halt production of plant of the Company's, operations were suspended temporarily in the current period. As a result of this, unallocated overheads, TRY (7.535) thousand, has been accounted directly under cost of goods sold (31 December 2015: TRY 11.605 thousand).

NOTE 22 – RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

The breakdown of operational expenses according to their nature for the periods 1 January – 31 December 2016 and 1 January – 31 December 2015 is as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Marketing, sales and distribution expenses (-)	(69.470)	(59.360)
General administrative expenses (-)	(110.774)	(110.198)
Research and development expenses (-)	(689)	(122)
	(180.933)	(169.680)

NOTE 23 – OPERATING EXPENSES ACCORDING TO THEIR NATURE

The breakdown of marketing, sales and distribution expenses according to their nature for the periods 1 January – 31 December 2016 and 1 January – 31 December 2015 is as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Personnel expenses (-)	(22.913)	(21.963)
Depreciation and amortization expenses (-)	(9.545)	(7.962)
Tax, duty and charges (-)	(480)	(469)
Service expenses (-)	(36.532)	(28.966)
	(69.470)	(59.360)

The breakdown of general administrative expenses for the periods 1 January – 31 December 2016 and 1 January – 31 December 2015 is as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Personnel expenses (-)	(41.231)	(39.758)
Depreciation and amortization expenses (-)	(2.403)	(1.803)
Provision for doubtful receivables (-)	(3.826)	(11.632)
Tax, duty and charges (-)	(5.465)	(5.268)
Service expenses (-)	(57.849)	(51.737)
	(110.774)	(110.198)

NOTE 24 – OTHER OPERATING INCOME/(EXPENSES)

The breakdown of other operating income for the periods 1 January – 31 December 2016 and 1 January – 31 December 2015 is as follows:

Other operating income	1 January- 31 December 2016	1 January- 31 December 2015
Interest income from sales with maturities	10.753	14.355
Discount income	1.335	10.227
Provision released	4.921	9.539
Service income	9.516	13.365
Maintenance repair and rent income	8.231	11.081
Indemnity and penalty detention income	1.962	1.954
Insurance indemnity income	742	12.511
Gain on sale of tangible assets	-	86
Other income and gains	4.731	3.975
	42.191	77.093

The breakdown of other operating expenses for the periods 1 January – 31 December 2016 and 1 January – 31 December 2015 is as follows:

Other operating expenses (-)	1 January- 31 December 2016	1 January- 31 December 2015
Provision expenses	(6.013)	(15.210)
Donation expenses	(2.363)	(1.455)
Discount expenses	(5.638)	(15.986)
Port facility pre-licence expenses	(5.399)	(7.235)
Lawsuit compensation expenses	(2.298)	(1.632)
Penalty expenses	(1.787)	(2.091)
Impairment of property, plant and equipment (Note 12)	(8.713)	-
Other expenses and loses	(7.942)	(4.383)
	(40.153)	(47.992)

NOTE 25 – FINANCIAL INCOME

The breakdown of financial income for the periods 1 January – 31 December 2016 and 1 January – 31 December 2015 is as follows:

Financial incomes	1 January- 31 December 2016	1 January- 31 December 2015
Interest income on bank deposits	4	3
Interest income on swap contracts	9.317	-
Foreign exchange gains (net)	161.091	216.707
Interest income on related party	40.254	41.462
	210.666	258.172

NOTE 26 – FINANCIAL EXPENSES

The breakdown of financial expenses for the periods 1 January – 31 December 2016 and 1 January – 31 December 2015 is as follows:

Financial expenses (-)	1 January- 31 December 2016	1 January- 31 December 2015
Interest expenses on borrowings	(34.080)	(56.000)
Interest cost of employee benefits	(18.782)	(14.705)
Interest expenses on related party	(2.925)	(14.038)
Guarantee expenses	(4.386)	(6.331)
Fair value differences of derivative financial instruments (net)	(35.456)	(8.548)
	(95.629)	(99.622)

NOTE 27 – TAX ASSETS AND LIABILITIES

	1 January - 31 December 2016	1 January - 31 December 2015
Taxation:		
Current corporate tax expense	312.225	206.438
Deferred tax (income) / expense	131.787	151.912
	444.012	358.350

Corporate tax

The Company is subject to corporation tax applicable in Turkey.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective corporate tax rate in Turkey is 20% for the year ended in 31 December 2016 (31 December 2015: 20%).

Advance tax returns are filed on a quarterly basis in Turkey. The temporary tax of 2016 has been calculated over the corporate earnings using the rate 20%, during the temporary taxation period (2015: 20%).

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

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

NOTE 27 – TAX ASSETS AND LIABILITIES (cont'd)

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes on dividends distributed, except for the dividends distributed to fully fledged taxpayer companies receiving and declaring these dividends and to Turkish branches of foreign companies. This rate was changed to 15% as of 22 July 2006 by the decision of the Council of Ministers, numbered 2006/10731. Undistributed dividends incorporated in share capital are not subject to the income withholding taxes.

19,8% withholding tax must be applied to the investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Investment disbursements without any investment incentive certificate after this date which are directly related to production facilities of the company can be deducted by 40% from the taxable income. The investments without investment incentive certificates do not qualify for tax allowance.

Investment allowance application

With the decision numbered 2006/95, which was taken during the meeting of the Constitutional Court on 15 October 2009, the phrase "only related to the years 2006, 2007 and 2008..." which was a part of the Temporary Article 69 of the Income Tax Law was cancelled and the cancellation became effective from the date the decision has been published in the Official Gazette on 8 January 2010. According to the decision, the investment incentive amount outstanding that cannot be deducted from 2008 taxable income previously will be deducted from taxable income of the subsequent profitable years.

Regarding the cancellation decision taken by the Constitutional Court, an amendment was made in the 69th article in Income Tax Regulation using the regulation numbered 6009 and dated 23 July 2010. Consequently, in compliance with the cancellation decision of the Constitutional Court, the year limitation has been abolished and investment allowance has been limited to 25% of the profit. As limitation of investment allowance to 25% of the profit by regulation numbered 6009 is found to be contrary to law by the Constitutional Court, the Constitutional Court cancelled the regulation and stayed an execution. Corporate tax ratio of 30% in the previous regulation for the ones who benefit from investment allowance has been decreased to the effective corporate tax with the amendment made (2015: 20%).

Deferred tax

The Company recognizes deferred tax assets and liabilities based upon the temporary differences arising between its taxable statutory financial statements and its financial statements prepared in accordance with the CMB's Communiqué on Accounting Standards. These differences usually result in the recognition of revenue and expenses in different reporting periods for the CMB regulations and tax purposes and are explained below.

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

NOTE 27 – TAX ASSETS AND LIABILITIES (cont'd)

	31 December 2016	31 December 2015
Deferred tax assets:		
Provisions for employee benefits	46.593	41.077
Investment incentive	7.760	10.533
Provision for lawsuits	4.321	4.239
Discount on receivables adjustment	5.928	5.008
Provision for other doubtful receivables	14.047	13.479
Other	11.964	9.708
	90.613	84.044
Deferred tax liabilities:		
Tangible and intangible fixed assets	(964.019)	(692.322)
Fair values of the derivative financial instruments	(2.591)	(4.765)
Amortized cost adjustment on loans	(1.342)	(2.343)
Inventories	(30.972)	(6.791)
Other	(2.020)	(1.263)
	(1.000.944)	(707.484)
Presentation of deferred tax assets/(liabilities) net:	(910.331)	(623.440)

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.

The breakdown of deferred tax asset / (liability) is as follows:

Deferred tax asset/(liability) movements:	1 January - 31 December 2016	1 January - 31 December 2015
Opening balance	(623.440)	(366.879)
Deferred tax (expense) / income	(131.787)	(151.912)
The amount in comprehensive (expense) / income	(1.904)	(587)
Translation difference	(153.200)	(104.062)
Closing balance	(910.331)	(623.440)

NOTE 27 – TAX ASSETS AND LIABILITIES (cont'd)

Reconciliation of tax provision is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Profit before tax	1.386.861	933.593
Statutory tax rate	20%	20%
Calculated tax expense acc. to effective tax rate	277.372	186.719
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	706	555
- Effect of exchange difference arising from deferred tax bases	115.273	170.446
- Effect of currency translation to non taxable assets	47.888	11.163
- Investment incentives	2.773	(10.533)
Tax expense in reported in the consolidate statement of income	444.012	358.350

(*) The difference between the Company's functional currency and the currency in basis of tax base cause to translation difference.

As of 1 January – 31 December 2016 and 1 January – 31 December 2015, the details of the tax gains/(losses) of the other comprehensive income/(expense) are as follows:

	1 January – 31 December 2016		
Other comprehensive income/(loss) in the current period	Amount before tax	Tax income/ (expense)	Amount after tax
Change in actuarial (loss)/gain	3.759	(752)	3.007
Change in cash flow hedging reserves	5.758	(1.152)	4.606
Change in foreign currency translation reserves	1.432.836	-	1.432.836
	1.442.353	(1.904)	1.440.449

	1 January – 31 December 2015		
Other comprehensive income/(loss) in the current period	Amount before tax	Tax income/ (expense)	Amount after tax
Change in actuarial (loss)/gain	10.819	(2.164)	8.655
Change in cash flow hedging reserves	(7.883)	1.577	(6.306)
Change in foreign currency translation reserves	1.348.649	-	1.348.649
	1.351.585	(587)	1.350.998

NOTE 28 – EARNINGS PER SHARE

	1 January - 31 December 2016	1 January- 31 December 2015
Number of shares outstanding	290.000.000.000	290.000.000.000
Net profit attributable to equity holders - TRY thousand	942.849	575.243
Profit per share with 1 TRY nominal value TRY %	0,3251 / %32,51	0,1984 / %19,84

NOTE 29 – RELATED PARTY DISCLOSURES

The immediate parent and ultimate controlling parent of the Company are Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and Ordu Yardımlaşma Kurumu respectively (Note 1).

The details of transactions between the Company and other related parties are disclosed below:

	31 December 2016	31 December 2015
Due from related parties (short term)		
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (1)	308.982	277.578
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. (2)	23.817	10.930
Adana Çimento Sanayi T.A.Ş. (3)	6.066	6.070
Aslan Çimento A.Ş. (3)	645	168
Erdemir Asia Pacific PTE LTD (2)	4.804	5.243
Omsan Lojistik A.Ş. (3)	41	98
Oyak Pazarlama Hizmet ve Turizm A.Ş. (3)	84	39
Oyak Savunma ve Güvenlik Sistemleri A.Ş. (3)	53	54
Omsan Denizcilik A.Ş. (3)	4	59
	344.496	300.239

The details of non-trade transactions between the Company and other related parties are disclosed below:

Other receivables from related parties (short term)	31 December 2016	31 December 2015
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (1)	2.050.619	751.026
	2.050.619	751.026

(1) Immediate parent company
(2) Subsidiaries of the immediate parent company
(3) Subsidiaries of the ultimate company

NOTE 29 – RELATED PARTY DISCLOSURES (cont'd)

Other receivables from related parties are consist of cash receivables within the scope of central cash planning.

Erdemir's personnel, data system infrastructure and marketing management system are used by The Company for selling flat products to third parties. Flat products which are produced in İsdemir, directly selling over Erdemir and Erdemir takes these inventories as a "Trade goods". Erdemir sells such products through their buying price and date, without adding any profit. Accordingly, in the financial statements, balances of trade receivables and other receivables are arisen from centralized selling.

The details of transactions between the Company and other related parties are disclosed below:

Due to related parties (short term)	31 December 2016	31 December 2015
Erdemir Madencilik San. ve Tic. A.Ş. (2)	24.641	5.051
Oyak Pazarlama Hizmet ve Turizm A.Ş. (3)	1.907	2.242
Erdemir Asia Pacific PTE LTD (2)	28.137	5.214
Omsan Lojistik A.Ş. (3)	3.680	1.539
OYAK Savunma ve Güvenlik Sistemleri A.Ş. (3)	2.053	1.498
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. (2)	3.722	7.767
Omsan Denizcilik A.Ş. (3)	1.640	1.436
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. (2)	1.458	715
Diğer	950	149
	68.188	25.611

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

Major sales to related parties	1 January - 31 December 2016	1 January - 31 December 2015
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (1)	4.004.851	3.585.249
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. (2)	1.810	2.586
Adana Çimento Sanayi T.A.Ş. (3)	16.523	20.700
Erdemir Asia Pacific PTE LTD (2)	60.158	50.636
Erdemir Madencilik San. ve Tic. A.Ş. (2)	-	47
Aslan Çimento A.Ş. (3)	1.635	1.209
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. (2)	476	315
Diğer	2.183	3.272
	4.087.636	3.664.014

(1) Immediate parent company
(2) Subsidiaries of the immediate parent company
(3) Subsidiaries of the ultimate company

NOTE 29 – RELATED PARTY DISCLOSURES (cont'd)

Major purchases from related parties	1 January - 31 December 2016	1 January - 31 December 2015
Erdemir Madencilik San. ve Tic. A.Ş. [2]	329.217	355.478
Erdemir Asia Pacific PTE LTD [2]	95.044	77.459
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. [1]	113.120	70.785
Oyak Pazarlama Hizmet ve Turizm A.Ş. [3]	18.720	22.741
Omsan Denizcilik A.Ş. [3]	27.105	15.230
Oyak Savunma ve Güvenlik Sistemleri A.Ş. [3]	17.519	16.805
Omsan Lojistik A.Ş. [3]	30.827	11.811
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. [2]	8.232	8.028
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. [2]	25.319	10.043
Diğer	3.153	3.281
	668.256	591.661

(1) Immediate parent company
(2) Subsidiaries of the immediate parent company
(3) Subsidiaries of the ultimate company

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

The period end balances are secured and their collections will be done in cash. Other receivables from related parties balances are non-secured, interest free and their collections will be done in cash. As of 31 December 2016, the Company provides no provision for the receivables from related parties (31 December 2015: None).

For the year ended 31 December 2016, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Company is TRY 4.192 thousand (31 December 2015: TRY 4.933 thousand).

NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

Additional information about financial instruments

(a) Capital risk management

The Company manages its capital through the optimization of the debt and the equity balance that minimizes the financial risk.

Through the forecasts regularly prepared by the Company, the future capital amount, debt to equity ratio and similar ratios are forecasted and required precautions are taken to strengthen the capital.

The capital structure of the Company consists of debt which includes the financial liabilities disclosed in Note 7, cash and cash equivalents and equity attributable to equity holders of the parent company, comprising issued capital, reserves and retained earnings as disclosed in Note 20.

The Company's Board of Directors analyzes the capital structure in regular meetings. During these analyses, the Board of Directors also evaluates the risks associated with each class of capital together with the cost of capital. The Company, by considering the decisions of the Board of Directors, aims to balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

As of 31 December 2016 and 31 December 2015 the net debt/equity ratio is as follows:

	Note	31 December 2016	31 December 2015
Total financial liabilities	7	1.393.345	831.241
Less: Other receivables from related parties	29	2.050.619	751.026
Less: Cash and cash equivalents	4	14.069	10.819
Net debt		(671.343)	69.396
Total adjusted equity (*)		8.541.623	6.658.938
Total resources		7.870.280	6.728.334
Net debt / Total adjusted equity ratio		-8%	1%
Distribution of net debt / Total adjusted equity		-9/109	1/99

(*) Total adjusted equity is calculated by subtracting cash flow hedging reserves and actuarial (loss)/gain fund.

(b) Significant accounting policies

The Company's accounting policies related to the financial instruments are disclosed in Note 2 "Summary of Significant Accounting Policies, 2.7.7 Financial Instruments".

(c) Market risk

The Company is exposed primarily to the financial risks of changes in foreign exchange rates and interest rates. The Company utilizes the following financial instruments to manage the risks associated with the foreign exchange rates and interest rates. Also, the Company follows price changes and market conditions regularly and takes action in pricing instantaneously.

The Company prefers floating interest rates for long term borrowings. To hedge against the interest risk the Company uses interest swap agreements for some of its borrowings.

In the current period, there is no significant change in the Company's exposure to the market risks or the manner which it manages and measures risk when compared to the previous year.

NOTE 30 –NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(d) Credit risk management

Trade receivables include a large number of customers from various industries and regions. There is no risk concentration on a specific customer or a Company of customers. The majority trade receivables are assured by bank letters of guarantee and/or credit limits. The credit reviews are performed continuously over the accounts receivable balance of the customers. The Company does not have a significant credit risk arising from any customer.

Credit risk of financial instruments	Receivables				Bank Deposits	Derivative Financial Instruments
	Trade Receivables		Other Receivables			
31 December 2016	Related Party	Other Party	Related Party	Other Party		
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	344.496	257.744	2.050.619	14.524	14.069	31.885
- Secured part of the maximum credit risk exposure via collateral etc.	333.126	240.815	2.050.619	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	344.496	257.744	2.050.619	14.524	14.069	31.885
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	-	-	-	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	8.475	-	70.236	-	-
- Impairment (-)	-	(8.475)	-	(70.236)	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
- Not overdue (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-

(*)The factors that increase credibility such as guarantees received are not taken into account in determination of amount.

NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(d) Credit risk management (cont'd)

Credit risk of financial instruments	Receivables				Bank Deposits	Derivative Financial Instruments
	Trade Receivables		Other Receivables			
31 December 2015	Related Party	Other Party	Related Party	Other Party		
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	300.239	145.481	751.026	15.907	10.819	63.096
- Secured part of the maximum credit risk exposure via collateral etc.	288.799	138.396	751.026	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	300.239	145.481	751.026	15.907	10.819	63.096
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	-	-	-	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	7.294	-	67.397	-	-
- Impairment (-)	-	(7.294)	-	(67.397)	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
- Not overdue (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Secured part via collateral etc.	-	-	-	-	-	-

(*)The factors that increase credibility such as guarantees received are not taken into account in determination of amount.

NOTE 30 –NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Foreign currency risk management

As of 31 December 2016, stated in Note 2.7.8 the foreign currency position of the Company in terms of original currency is calculated as it as follows:

	31 December 2016			
	TRY (Total in reporting currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)
1. Trade Receivables	165.841	16.243	40.324	-
2a. Monetary financial assets	622.336	55.525	152.760	23
2b. Non- monetary financial assets	-	-	-	-
3. Other	19.013	18.638	101	-
4. Current assets (1+2+3)	**807.190**	**90.406**	**193.185**	**23**
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	22.156	19.589	692	-
8. Non-current assets (5+6+7)	**22.156**	**19.589**	**692**	-
9. Total assets (4+8)	**829.346**	**109.995**	**193.877**	**23**
10. Trade payables	186.833	174.425	3.127	-
11. Financial liabilities	131.914	10.204	27.515	653.841
12a. Other monetary financial liabilities	169.137	168.519	167	-
12b. Other non-monetary financial liabilities	323.219	326.180	684	-
13. Current liabilities (10+11+12)	**811.103**	**673.828**	**31.493**	**653.841**
14. Trade payables	-	-	-	-
15. Financial liabilities	297.657	-	80.233	-
16a. Other monetary financial liabilities	232.965	232.965	-	-
16b. Other non-monetary financial liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	**530.622**	**232.965**	**80.233**	-
18. Total liabilities (13+17)	**1.341.725**	**906.793**	**111.726**	**653.841**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	**44.142**	**(441)**	**13.913**	-
19a. Off-balance sheet foreign currency derivative financial assets	73.116	28.533	13.913	-
19b. Off-balance sheet foreign currency derivative financial liabilities	28.974	28.974	-	-
20. Net foreign currency asset/liability position (9-18+19)	**(468.237)**	**(797.239)**	**96.064**	**(653.818)**
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**(230.329)**	**(514.345)**	**82.042**	**(653.818)**
22. Fair value of derivative financial instruments used in foreign currency hedge	22.510	22.510	-	-
23. Hedged foreign currency assets	28.974	28.974	-	-
24. Hedged foreign currency liabilities	73.116	28.533	13.913	-
25. Exports	943.324	-	-	-
26. Imports	2.783.095	-	-	-

NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Foreign currency risk management (cont'd)

As of 31 December 2015, the foreign currency position of the Company in terms of original currency is as follows:

	31 December 2015			
	TRY (Total in reporting currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)
1. Trade Receivables	100.415	19.600	25.433	-
2a. Monetary financial assets	4.741	1.548	981	2.910
2b. Non- monetary financial assets	-	-	-	-
3. Other	112.009	18.845	29.319	-
4. Current assets (1+2+3)	**217.165**	**39.993**	**55.733**	**2.910**
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	24.808	21.263	1.116	-
8. Non-current assets (5+6+7)	**24.808**	**21.263**	**1.116**	-
9. Total assets (4+8)	**241.973**	**61.256**	**56.849**	**2.910**
10. Trade payables	166.138	154.019	3.814	-
11. Financial liabilities	192.483	86.348	28.446	653.971
12a. Other monetary financial liabilities	94.958	92.645	457	-
12b. Other non-monetary financial liabilities	206.444	206.444	-	-
13. Current liabilities (10+11+12)	**660.023**	**539.456**	**32.717**	**653.971**
14. Trade payables	-	-	-	-
15. Financial liabilities	121.537	3.962	32.047	653.778
16a. Other monetary financial liabilities	205.385	205.385	-	-
16b. Other non-monetary financial liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	**326.922**	**209.347**	**32.047**	**653.778**
18. Total liabilities (13+17)	**986.945**	**748.803**	**64.764**	**1.307.749**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	**76.196**	**(12.224)**	**27.826**	-
19a. Off-balance sheet foreign currency derivative financial assets	156.598	68.178	27.826	-
19b. Off-balance sheet foreign currency derivative financial liabilities	80.402	80.402	-	-
20. Net foreign currency asset/liability position (9-18+19)	**(668.776)**	**(669.771)**	**19.911**	**(1.304.839)**
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**(675.345)**	**(521.211)**	**(38.350)**	**(1.304.839)**
22. Fair value of derivative financial instruments used in foreign currency hedge	38.900	38.900	-	-
23. Hedged foreign currency assets	80.402	80.402	-	-
24. Hedged foreign currency liabilities	156.598	68.178	27.826	-
25. Exports	796.519	-	-	-
26. Imports	2.853.582	-	-	-

NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Foreign currency risk management (cont'd)

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

As of 31 December 2016 asset and liability balances are translated by using the following exchange rates: TRY 3,5192 = US$ 1, TRY 3,7099 = EUR 1 and TRY 0,0300= JPY 1 (31 December 2015: TRY 2,9076 = US$ 1, TRY 3,1776 = EUR 1 and TRY 0,0241= JPY 1)

	Profit/(loss) before tax and non-controlling interest	
31 December 2016	Appreciation of foreign currency	Depreciation of foreign currency
1- TRY net asset/liability	(79.680)	79.680
2- Hedged portion from TRY risk (-)	2.853	(2.853)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(76.827)	76.827
5- US Dollars net asset/liability	-	-
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- US Dollars net effect (5+6+7)	-	-
9- Euro net asset/liability	30.477	(30.477)
10- Hedged portion from Euro risk (-)	5.162	(5.162)
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	35.639	(35.639)
13- Jap. Yen net asset/liability	(1.963)	1.963
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(1.963)	1.963
TOTAL (4+8+12+16)	**(43.151)**	**43.151**

NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Foreign currency risk management (cont'd)

	Profit/(loss) before tax	
31 December 2015	Appreciation of foreign currency	Depreciation of foreign currency
1- TRY net asset/liability	(68.755)	68.755
2- Hedged portion from TRY risk (-)	6.818	(6.818)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(61.937)	61.937
5- US Dollars net asset/liability	-	-
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- US Dollars net effect (5+6+7)	-	-
9- Euro net asset/liability	(2.515)	2.515
10- Hedged portion from Euro risk (-)	8.842	(8.842)
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	6.327	(6.327)
13- Jap. Yen net asset/liability	(3.142)	3.142
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(3.142)	3.142
TOTAL (4+8+12+16)	**(58.752)**	**58.752**

(f) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities and maintaining adequate funds and reserves.

Liquidity risk tables

Conservative liquidity risk management includes maintaining sufficient cash, availability of sufficient amount of borrowings and funds and ability to settle market positions.

The Company manages its funding of actual and forecasted financial obligations by maintaining the availability of sufficient number of high quality loan providers.

The following table details the Company's expected maturity for its derivative and non derivative financial liabilities. Interests which will be paid on borrowings in the future are included in the relevant columns in the following table.

NOTE 30 –NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(f) Liquidity risk management (cont'd)

31 December 2016

Contractual maturity analysis	Book value	Total cash outflow per aggrement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Borrowings from banks	1.393.345	1.469.876	515.638	570.476	306.137	77.625
Trade payables	411.091	412.289	412.289	-	-	-
Other financial liabilities (*)	78.252	78.252	78.252	-	-	-
Total liabilities	**1.882.688**	**1.960.417**	**1.006.179**	**570.476**	**306.137**	**77.625**
Derivative financial liabilities						
Derivative cash inflows	31.885	80.149	-	28.533	51.616	-
Derivative cash outflows	(18.930)	(166.064)	-	(46.923)	(119.141)	-
	12.955	**(85.915)**	-	**(18.390)**	**(67.525)**	-

(*) Only the financial liabilities under other payables and liabilities are included.

NOTE 30 –NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(f) Liquidity risk management (cont'd)

31 December 2015

Contractual maturity analysis	Book value	outflow per aggrement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Borrowings from banks	831.241	865.921	21.939	335.710	508.272	-
Trade payables	241.912	242.961	242.961	-	-	-
Other financial liabilities (*)	64.896	64.896	64.896	-	-	-
Total liabilities	**1.138.049**	**1.173.778**	**329.796**	**335.710**	**508.272**	**-**
Derivative financial liabilities						
Derivative cash inflows	63.096	201.439	-	55.952	145.487	-
Derivative cash outflows	(39.272)	(244.197)	-	(55.020)	(189.177)	-
	23.824	**(42.758)**	**-**	**932**	**(43.690)**	**-**

(*) Only the financial liabilities under other payables and liabilities are included.

NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(g) Interest rate risk management

The majority of the Company's borrowings are based on floating interest rate terms. In order to manage the exposure to interest rate movements on certain portion of the bank borrowings, the Company uses interest rate swaps and changes floating rates to fixed rates.

Furthermore, for borrowings denominated in foreign currencies, except for US Dollars, the Company minimizes its interest rate risk by leveraging in foreign currencies that bear lower interest rate. In addition, a higher interest rate is applied to the trade receivables with a maturity when compared to the interest rate exposed for trade payables.

Interest rate sensitivity

The following sensitivity analysis is based on forecasted interest rate changes for the liabilities denominated in variable interest rates. The information details the Company's sensitivity to an increase/decrease of 0,50% for US Dollars and EURO, 0,25% for Japanese Yen and 1,00% for TRY denominated interest rates.

Since the principal payments of the loans with floating interest rates are not affected from changes in interest rates, the risk exposure of the Company loans is measured using a sensitivity analysis instead of a Value at Risk calculation.

Interest Position Table

	31 December 2016	31 December 2015
Floating Interest Rate Financial Instruments		
Financial liabilities	876.995	713.682

For the year round, if the US Dollars, EURO and Japanese Yen denominated interest rates increase/decrease by 100 base points in TRY, 50 base points in US Dollars and EURO and 25 base points in Japanese Yen respectively ceteris paribus, the profit before taxation and non-controlling interest after considering the effect of capitalization and hedging would be lower/higher TRY 3.932 thousand (31 December 2015: TRY 2.496 thousand).

NOTE 31 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES)

Additional information about financial instruments

Categories of the financial instruments and their fair values

31 December 2016	Cash and cash equivalent	Loans and receivables	Available for sale financial assets	Financial liabilities at amortized cost	Derivative financial instruments through other comprehensive income/loss	Derivative financial instruments through profit/loss	Carrying value	Note
Financial assets								
Cash and cash equivalents	14.069	-	-	-	-	-	14.069	4
Trade receivables	-	602.240	-	-	-	-	602.240	8
Financial investments	-	-	122	-	-	-	122	5
Other financial assets	-	2.065.143	-	-	-	-	2.065.143	9
Derivative financial instruments	-	-	-	-	9.243	22.642	31.885	6
Financial liabilities								
Financial liabilities	-	-	-	1.393.345	-	-	1.393.345	7
Trade payables	-	-	-	411.091	-	-	411.091	8
Other liabilities	-	-	-	78.252	-	-	78.252	9/15/19
Derivative financial instruments	-	-	-	-	18.560	-	18.560	6
31 December 2015								
Financial assets								
Cash and cash equivalents	10.819	-	-	-	-	-	10.819	4
Trade receivables	-	445.720	-	-	-	-	445.720	8
Financial investments	-	-	79	-	-	-	79	5
Other financial assets	-	766.933	-	-	-	-	766.933	9
Derivative financial instruments	-	-	-	-	10.182	52.914	63.096	6
Financial liabilities								
Financial liabilities	-	-	-	831.241	-	-	831.241	7
Trade payables	-	-	-	241.912	-	-	241.912	8
Other liabilities	-	-	-	64.896	-	-	64.896	9/15/19
Derivative financial instruments	-	-	-	-	25.257	14.015	39.272	6

NOTE 31 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (cont'd)

Additional information about financial instruments (cont'd)

Categories of the financial instruments and their fair values (cont'd)

Financial asset and liabilities at fair value		Fair value level as of reporting date		
	31 December 2016	Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	22.642	-	22.642	-
Derivative financial liabilities	(370)	-	(370)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	9.243	-	9.243	-
Derivative financial liabilities	(18.560)	-	(18.560)	-
Total	12.955	-	12.955	-

Financial asset and liabilities at fair value		Fair value level as of reporting date		
	31 December 2015	Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	52.914	-	52.914	-
Derivative financial liabilities	(14.015)	-	(14.015)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	10.182	-	10.182	-
Derivative financial liabilities	(25.257)	-	(25.257)	-
Total	23.824	-	23.824	-

First Level: Quoted (non adjusted) prices in active markets for identical assets or liabilities.

Second Level: Other valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Third Level: Valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

NOTE 32 – SUBSEQUENT EVENTS

In annual General Assembly dated 16 January 2017, the share capital of İsdemir Linde Gaz Ortaklığı A.Ş. has been increased from 50.000 TRY to 27.000.000 TRY and 26.950.000 TRY paid in cash by shareholders on 27 January 2017.

NOTE 33 – OTHER ISSUES AFFECTING THE COMPANY'S FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION

Convenience translation to English:

As at December 31, 2016, the accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying financial statements differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting, certain reclassifications and also for certain disclosures requirement of the POA/CMB. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with IFRS.