

**(CONVENIENCE TRANSLATION OF INTERIM FINANCIAL STATEMENTS  
ORIGINALLY ISSUED IN TURKISH - SEE NOTE 19)**

## **İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD 1  
JANUARY - 30 MARCH 2018**

<b>TABLE OF CONTENTS</b>		<b>Page</b>
<b>STATEMENT OF FINANCIAL POSITION .....</b>		<b>1-2</b>
<b>STATEMENT OF INCOME.. .....</b>		<b>3</b>
<b>STATEMENT OF COMPREHENSIVE INCOME.....</b>		<b>4</b>
<b>STATEMENT OF CHANGES IN EQUITY.....</b>		<b>5</b>
<b>STATEMENT OF CASH FLOW .....</b>		<b>6</b>
<b>NOTES TO THE CONDENSED FINANCIAL STATEMENTS.....</b>		<b>7-40</b>
NOTE 1	COMPANY'S ORGANIZATION AND NATURE OF OPERATIONS .....	7
NOTE 2	BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS .....	8-16
NOTE 3	RELATED PARTY DISCLOSURES .....	17-19
NOTE 4	INVENTORIES .....	20
NOTE 5	INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD .....	20-21
NOTE 6	TANGIBLE AND INTANGIBLE ASSETS .....	22-23
NOTE 7	BORROWINGS.....	24-25
NOTE 8	OTHER PAYABLES .....	25
NOTE 9	PROVISIONS.....	25-26
NOTE 10	EMPLOYEE BENEFITS.....	27-28
NOTE 11	COMMITMENTS AND CONTINGENCIES.....	29
NOTE 12	TAX ASSETS AND LIABILITIES .....	30-32
NOTE 13	EQUITY .....	32
NOTE 14	SALES AND COST OF SALES.....	32-33
NOTE 15	OPERATING EXPENSES ACCORDING TO THEIR NATURE AND OTHER OPERATING INCOME / (EXPENSES) .....	33-34
NOTE 16	FINANCIAL INCOME / EXPENSES.....	34-35
NOTE 17	NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS .....	36-39
NOTE 18	SUBSEQUENT EVENTS .....	39
NOTE 19	OTHER ISSUES AFFECTING THE FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR UNDERSTANDABLE AND INTERPRETABLE PRESENTATION .....	40

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 19)

## İSKENDERUN DEMİR VE ÇELİK A.Ş.

### STATEMENT OF FINANCIAL POSITION AS OF 31 MARCH 2018

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

		(Unaudited) Current Period 31 March 2018 USD'000	(Unaudited) Current Period 31 March 2018 TRY'000	(Audited) Previous Period 31 December 2017 USD'000	(Audited) Previous Period 31 December 2017 TRY'000
ASSETS	Note				
<b>Current Assets</b>		<b>1.909.777</b>	<b>7.541.523</b>	<b>1.645.963</b>	<b>6.208.412</b>
Cash and Cash Equivalents		2.344	9.258	3.154	11.895
Trade Receivables		155.314	613.320	193.886	731.318
<i>Due From Related Parties</i>	3	98.848	390.342	145.639	549.336
<i>Other Trade Receivables</i>		56.466	222.978	48.247	181.982
Other Receivables		1.125.729	4.445.392	882.034	3.326.945
<i>Due From Related Parties</i>	3	1.125.254	4.443.516	881.550	3.325.120
<i>Other Receivables</i>		475	1.876	484	1.825
Inventories	4	615.952	2.432.334	559.052	2.108.689
Prepaid Expenses		8.543	33.737	5.564	20.987
Other Current Assets		1.895	7.482	2.273	8.578
<b>Non Current Assets</b>		<b>2.026.171</b>	<b>8.001.144</b>	<b>2.023.916</b>	<b>7.634.003</b>
Other Receivables		3.188	12.591	3.338	12.591
Financial Investments		27	107	3.562	13.437
Investments Accounted For Using The Equity Method	5	26.824	105.925	-	-
Property, Plant and Equipment	6	1.948.947	7.696.196	1.968.696	7.425.726
Intangible Assets	6	44.713	176.566	45.129	170.223
Prepaid Expenses		2.472	9.759	3.191	12.026
<b>TOTAL ASSETS</b>		<b>3.935.948</b>	<b>15.542.667</b>	<b>3.669.879</b>	<b>13.842.415</b>

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

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

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 19)

## İSKENDERUN DEMİR VE ÇELİK A.Ş.

### STATEMENT OF FINANCIAL POSITION AS OF 31 MARCH 2018

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

		(Unaudited) Current Period 31 March 2018	(Unaudited) Current Period 31 March 2018	(Audited) Previous Period 31 December 2017	(Audited) Previous Period 31 December 2017
LIABILITIES	Note	USD'000	TRY'000	USD'000	TRY'000
<b>Current Liabilities</b>		<b>1.191.867</b>	<b>4.706.563</b>	<b>628.815</b>	<b>2.371.825</b>
Short Term Borrowings	7	222.267	877.709	239.789	904.459
Short Term Portion of Long Term Fin. Liab.	7	31.616	124.847	34.918	131.708
Trade Payables		132.945	524.987	116.506	439.446
<i>Due to Related Parties</i>	3	17.321	68.399	12.862	48.513
<i>Other Trade Payables</i>		115.624	456.588	103.644	390.933
Other Payables		524.234	2.070.148	4.593	17.326
<i>Due to Related Parties</i>	3	488.714	1.929.884	-	-
<i>Other Payables</i>	8	35.520	140.264	4.593	17.326
Deferred Revenue		12.855	50.762	7.865	29.667
Current Tax Liabilities	12	226.742	895.382	176.270	664.873
Short Term Provisions	9	7.543	29.787	7.459	28.133
Payables for Employee Benefits	10	10.800	42.648	22.769	85.884
		22.865	-	-	-
Other Current Liabilities		22.865	90.293	18.646	70.329
<b>Non Current Liabilities</b>		<b>403.001</b>	<b>1.591.412</b>	<b>398.156</b>	<b>1.501.805</b>
Long Term Borrowings	7	72.961	288.114	80.349	303.070
Financial Derivative Instruments		56	222	42	158
Provisions for Employee Benefits	10	65.331	257.987	67.472	254.496
Deferred Tax Liabilities	12	264.653	1.045.089	250.293	944.081
<b>EQUITY</b>		<b>2.341.080</b>	<b>9.244.692</b>	<b>2.642.908</b>	<b>9.968.785</b>
Share Capital	13	1.474.105	2.900.000	1.474.105	2.900.000
Inflation Adjustment to Capital		85	164	85	164
Other Comprehensive Income/Expense Not to be Reclassified to Profit/ (Loss)		(19.915)	4.708.935	(19.915)	4.190.063
<i>Revaluation Reserve of Tangible Assets</i>		-	4.761.795	-	4.242.923
<i>Actuarial (Loss)/ Gain funds</i>		(19.915)	(52.860)	(19.915)	(52.860)
Restricted Reserves Assorted from Profit		230.889	771.641	149.786	447.790
Retained Earnings		449.367	76.917	385.246	48.457
Net Profit for the Period		206.549	787.035	653.601	2.382.311
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3.935.948</b>	<b>15.542.667</b>	<b>3.669.879</b>	<b>13.842.415</b>

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

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

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 19)

## İSKENDERUN DEMİR VE ÇELİK A.Ş.

### STATEMENT OF INCOME FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018

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

		(Unaudited) Current Period 1 January - 31 March 2018	(Unaudited) Current Period 1 January - 31 March 2018	(Unaudited) Previous Period 1 January - 31 March 2017	(Unaudited) Previous Period 1 January - 31 March 2017
	Note	USD'000	TRY'000	USD'000	TRY'000
<b>OPERATING INCOME</b>					
Revenue	14	779.627	2.970.691	616.043	2.273.876
Cost of Sales (-)	14	(511.859)	(1.950.389)	(443.634)	(1.637.496)
<b>GROSS PROFIT</b>		<b>267.768</b>	<b>1.020.302</b>	<b>172.409</b>	<b>636.380</b>
Marketing, Sales and Distribution Expenses (-)	15	(5.030)	(19.167)	(4.823)	(17.803)
General Administrative Expenses (-)	15	(7.330)	(27.932)	(8.124)	(29.985)
Research and Development Expenses (-)		(20)	(76)	(7)	(25)
Other Operating Income	15	7.437	28.337	8.871	32.743
Other Operating Expenses (-)	15	(2.722)	(10.373)	(3.568)	(13.170)
<b>OPERATING PROFIT</b>		<b>260.103</b>	<b>991.091</b>	<b>164.758</b>	<b>608.140</b>
Share of Profit of Investments Accounted for Using The Equity Method	5	360	1.371	-	-
<b>OPERATING PROFIT BEFORE FINANCE INCOME (EXPENSES)</b>		<b>260.463</b>	<b>992.462</b>	<b>164.758</b>	<b>608.140</b>
Finance Income	16	22.497	93.815	10.785	37.730
Finance Expense (-)	16	(3.678)	(14.016)	(4.337)	(16.008)
<b>PROFIT BEFORE TAX</b>		<b>279.282</b>	<b>1.072.261</b>	<b>171.206</b>	<b>629.862</b>
Tax Expense	12	(72.733)	(285.226)	(38.982)	(141.807)
- Current Corporate Tax Expense		(58.373)	(230.509)	(39.616)	(144.147)
- Deferred Tax Expense		(14.360)	(54.717)	634	2.340
<b>NET PROFIT FOR THE PERIOD</b>		<b>206.549</b>	<b>787.035</b>	<b>132.224</b>	<b>488.055</b>
(TRY 1 Nominal value per share)			0,2714		0,1683

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

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

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 19)

**İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

	(Unaudited) Current Period 1 January - 31 March 2018 USD'000	(Unaudited) Current Period 1 January - 31 March 2018 TRY'000	(Unaudited) Current Period 1 January - 31 March 2017 USD'000	(Unaudited) Current Period 1 January - 31 March 2017 TRY'000
Note	USD'000	TRY'000	USD'000	TRY'000
<b>PROFIT FOR THE PERIOD</b>	<b>206.549</b>	<b>787.035</b>	<b>132.224</b>	<b>488.055</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
<b>Not to be reclassified subsequently to profit or loss</b>				
Increase (Decrease) in Revaluation Reserve of Tangible Assets	-	518.872	-	281.873
<b>To be reclassified subsequently to profit or loss</b>				
Change in Cash Flow Hedging Reserves	-	-	(124)	(768)
Tax Effect of Change in Cash Flow Hedging Reserves	-	-	25	154
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>-</b>	<b>518.872</b>	<b>(99)</b>	<b>281.259</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>206.549</b>	<b>1.305.907</b>	<b>132.125</b>	<b>769.314</b>

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

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(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 19)

## İSKENDERUN DEMİR VE ÇELİK A.Ş.

### STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018

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

(Unaudited)	Share Capital	Inflation Adjustment to Capital	Foreign Currency Translation Reserves	Actuarial (Loss)/ Gain Funds	Cash Flow Hedging Gain (Loss)	Restricted Reserves Assorted from Profit	Retained Earnings	Net Profit For The Period	Total Shareholders' Equity
<b>1 January 2018</b>	<b>2.900.000</b>	<b>164</b>	<b>4.242.923</b>	<b>(52.860)</b>	-	<b>447.790</b>	<b>48.457</b>	<b>2.382.311</b>	<b>9.968.785</b>
Net profit for the period	-	-	-	-	-	-	-	787.035	787.035
Other comprehensive income/(loss)	-	-	518.872	-	-	-	-	-	518.872
Total comprehensive income/(loss)	-	-	518.872	-	-	-	-	787.035	1.305.907
Dividends (*)	-	-	-	-	-	-	(2.030.000)	-	(2.030.000)
Transfers	-	-	-	-	-	323.851	2.058.460	(2.382.311)	-
<b>31 March 2018</b>	<b>2.900.000</b>	<b>164</b>	<b>4.761.795</b>	<b>(52.860)</b>	-	<b>771.641</b>	<b>76.917</b>	<b>787.035</b>	<b>9.244.692</b>
(Unaudited)									
<b>1 January 2017</b>	<b>2.900.000</b>	<b>164</b>	<b>3.550.212</b>	<b>(48.758)</b>	<b>(7.454)</b>	<b>240.817</b>	<b>907.581</b>	<b>942.849</b>	<b>8.485.411</b>
Net profit for the period	-	-	-	-	-	-	-	488.055	488.055
Other comprehensive income/(loss)	-	-	281.873	-	(614)	-	-	-	281.259
Total comprehensive income/(loss)	-	-	281.873	-	(614)	-	-	488.055	769.314
Dividends (*)	-	-	-	-	-	-	(812.000)	-	(812.000)
Transfers	-	-	-	-	-	128.673	814.176	(942.849)	-
<b>31 March 2017</b>	<b>2.900.000</b>	<b>164</b>	<b>3.832.085</b>	<b>(48.758)</b>	<b>(8.068)</b>	<b>369.490</b>	<b>909.757</b>	<b>488.055</b>	<b>8.442.725</b>

(\*) In Annual General Assembly dated 29 March 2018, dividend distribution gross dividend per share: TRY 0,70 (2017: TRY 0,28) amounting to TRY 2.030.000 thousand (30 March 2017 : TRY 812.000 thousand) from 2017 net profit was approved. The dividend payment will start at 29 May 2018.

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

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 19)

## İSKENDERUN DEMİR VE ÇELİK A.Ş.

### STATEMENT OF CASH FLOW FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018

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

		(Unaudited) Current Period 1 January - 31 March 2018	(Unaudited) Current Period 1 January - 31 March 2017
	Note	TRY'000	TRY'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>1.036.058</b>	<b>395.073</b>
<b>Profit (Loss) for The Period</b>		<b>787.035</b>	<b>488.055</b>
<b>Adjustments to Reconcile Profit (Loss)</b>		<b>363.632</b>	<b>244.833</b>
Adjustments for Depreciation and Amortisation Expenses	6/14	99.787	95.439
Adjustments for Impairment Loss (Reversal of Impairment Loss)		4.272	4.700
Adjustments for Provision (Reversal of Provision) for Receivables		588	1.311
Adjustments for Provision (Reversal of Provision) for Inventories	4	3.684	3.389
Adjustments for Provisions		10.754	6.851
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	10	8.838	8.226
Adjustments for Provision (Reversal of Provision) for Pending Claims and/or Lawsuits	9	1.916	(1.375)
Adjustments for Interest (Income) and Expenses		(31.462)	(9.938)
Adjustments for Interest Income	16	(33.763)	(15.954)
Adjustments for Interest Expense	16	7.133	9.827
Unearned Financial Income from Credit Sales		(4.832)	(3.811)
Adjustments for Unrealised Foreign Exchange Differences		(3.856)	7.995
Adjustments for Fair Value (Gains) Losses		-	(2.021)
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments	16	-	(2.021)
Adjustments for Undistributed Profits of Investments Accounted for Using Equity Method	5	(1.371)	-
Adjustments for Tax (Income) Expenses	12	285.226	141.807
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		282	-
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment	15	282	-
<b>Changes in Working Capital</b>		<b>(108.772)</b>	<b>(328.641)</b>
Adjustments for Decrease (Increase) in Trade Receivables		117.902	30.596
Decrease (Increase) in Trade Receivables from Related Parties		158.994	(617)
Decrease (Increase) in Trade Receivables from Third Parties		(41.092)	31.213
Adjustments for Decrease (Increase) in Other Receivables Related from Operations		(646)	14.102
Decrease (Increase) in Other Receivables from Operations from Third Parties		(646)	14.102
Decrease (Increase) in Derivative Financial Instruments		-	(3.593)
Adjustments for Decrease (Increase) in Inventories		(322.891)	(340.509)
Decrease (Increase) in Prepaid Expenses		(10.483)	(6.512)
Adjustments for Increase (Decrease) in Trade Payables		85.541	(21.862)
Increase (Decrease) in Trade Payable to Related Parties		19.886	(28.568)
Increase (Decrease) in Trade Payable to Third Parties		65.655	6.706
Adjustments for Increase (Decrease) in Other Payables Related from Operations		(20.414)	17.689
Increase (Decrease) in Other Payables to Third Parties Related from Operations		(20.414)	17.689
Increase (Decrease) in Derivative Liabilities		64	3.714
Adjustments for Other Increase (Decrease) in Working Capital		42.155	(22.266)
Decrease (Increase) in Other Assets Related from Operations		1.096	2.362
Increase (Decrease) in Other Payables Related from Operations		41.059	(24.628)
<b>Cash Flows Provided by Operating Activities</b>		<b>1.041.895</b>	<b>404.247</b>
Payments Related to Provisions for Employee Termination Benefits	10	(5.373)	(8.919)
Payments Related to Other Provisions	9	(464)	(255)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(123.368)</b>	<b>(55.921)</b>
Cash Outflows Arising From Purchase of Shares or Capital Increase of Associates and/or Joint Ventures		(91.224)	(12.840)
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		7	145
Cash Inflow from Sales of Property, Plant and Equipment	6/15	7	145
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(32.151)	(43.226)
Cash Outflow from Purchase of Property, Plant and Equipment	6	(32.125)	(42.840)
Cash Outflow from Purchase of Intangible Assets	6	(26)	(386)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>(1.131.645)</b>	<b>(388.477)</b>
Cash Inflow from Borrowings		605.362	94.125
Cash Inflow from Loans		605.362	94.125
Cash Outflow from Repayments of Borrowings		(644.555)	(556.119)
Cash Outflow from Loan Repayments		(644.555)	(556.119)
Decrease in Other Payables to Related Parties		(1.084.695)	76.976
Interest Paid		(12.651)	(7.456)
Interest Received		4.894	3.997
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES</b>		<b>(218.955)</b>	<b>(49.325)</b>
Effect of Exchange Rate Changes on Cash and Cash Equivalents		216.318	66.847
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(2.637)</b>	<b>17.522</b>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		11.895	14.069
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<b>9.258</b>	<b>31.591</b>

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



## İSKENDERUN DEMİR VE ÇELİK A.Ş.

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018

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

#### 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 10 September 1993 of Supreme Planning Committee. Then with the decision no 98/20 of Privatization Committee dated 2 March 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 8 February 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 of the company and the share percentage of the İsdemir for the company are as follows:

Name of the Company	Country of Operation	Operation	2018 Share %	2017 Share %
Teknopark Hatay A.Ş.	Turkey	R&D Centre	5	5
İsdemir Linde Gaz Ortaklığı A.Ş.	Turkey	Energy	50	50

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

The number of the personnel employed by the Company as at 31 March 2018 and 31 December 2017 are as follows:

	31 March 2018 Personnel	31 December 2017 Personnel
Paid Hourly Personnel	3.064	3.107
Paid Monthly Personnel	1.745	1.756
	4.809	4863

## **İSKENDERUN DEMİR VE ÇELİK A.Ş.**

### **NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

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#### **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 condensed 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 the Turkish Accounting Standard No: 34 “Interim Financial Reporting”, entities are allowed to prepare a complete or condensed set of interim financial statements. In this respect, the Company has preferred to prepare condensed financial statements in the interim period. Accordingly, these condensed financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017.

##### 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 March 2018 and 31 December 2017.

##### Presentation currency translation

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

- a) The assets and liabilities on financial position as of 31 March 2018 are translated from US Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 3,9489=US \$ 1 on the balance sheet date (31 December 2017: TRY 3,7719= US \$ 1 ).
- b) For the three months period ended 31 March 2018, income statements are translated from the average TRY 3,8104 = US \$ 1 rates of 2018 January - March period (31 December 2017: TRY 3,6911 = US \$ 1 TRY ).
- 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 condensed financial statements.

## İSKENDERUN DEMİR VE ÇELİK A.Ş.

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018

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

#### 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 condensed financial statements comprising the statements of financial position as of 31 March 2018 and 31 December 2017, statement of income and other comprehensive income and statement of cash flows for the interim period ended 31 March 2018 represent the condensed financial statements prepared according to USD reporting currency within the frame of functional currency change that the Company has made, which is effective as of July 1, 2013, prepared in accordance with the TAS 21- Effects of Changes in Foreign Exchange Rates.

###### Going concern

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

###### Approval of the condensed financial statements

The financial statements have been approved and authorized to be published on 30 April 2018 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

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

The Company’s condensed 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. The following arrangements have been made in the prior period financial statements.

	(Previously reported) 31 March 2017	(Revised) 31 March 2017	(Change) 31 March 2017
<b>Account</b>			
Other Operating Income <sup>(1)</sup>	27.119	32.743	5.624
Finance Income <sup>(1)</sup>	43.354	37.730	(5.624)
			<u>-</u>

(1) (Net) foreign exchange difference from trade receivables and liabilities amounting to TL 5.624 thousand reported in "Financing Income" are classified in "Other Income from Operations" in the quarterly statement of income ending on 31 March 2017

##### 2.3 Adoption of New and Revised Financial Reporting Standards

The accounting policies adopted in preparation of the condensed financial statements as at 31 March 2018 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of 1 January 2018 summarized below.

## **İSKENDERUN DEMİR VE ÇELİK A.Ş.**

### **NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

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

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

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

##### **IFRS 15 Revenue from Contracts with Customers**

In September 2016, POA issued IFRS 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). IFRS 15 effective date is January 1, 2018. The standard did not have a significant impact on the financial position or performance of the Company.

##### **IFRS 9 Financial Instruments**

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

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

##### ***Classification and Measurement of Financial Assets:***

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

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

##### ***Impairment:***

IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company applied the simplified approach and recorded lifetime expected losses on all financial assets.

## **İSKENDERUN DEMİR VE ÇELİK A.Ş.**

### **NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

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

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

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

###### ***Hedge accounting:***

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

###### **TFRS 4 Insurance Contracts (Amendments)**

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

###### **TFRIC 22 Foreign Currency Transactions and Advance Consideration**

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

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

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

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

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

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

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

## **İSKENDERUN DEMİR VE ÇELİK A.Ş.**

### **NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

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

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

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

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

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

###### **Annual Improvements to TFRSs - 2014-2016 Cycle**

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

- TFRS 1 First-time Adoption of International Financial Reporting Standards: This amendment deletes the short-term exemptions about some TFRS 7 disclosures, IAS 19 transition provisions and IFRS 10 Investment Entities. These amendments are applied for annual periods beginning on or after 1 January 2018.
- TAS 28 Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying TFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are applied for annual periods beginning on or after 1 January 2018.

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

##### **ii) Standards issued but not yet effective and not early adopted**

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the 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 16 Leases**

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

**İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

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

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

**ii) Standards issued but not yet effective and not early adopted (cont’d)**

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

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

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

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

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

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

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

**iii) 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.

***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.

## **İSKENDERUN DEMİR VE ÇELİK A.Ş.**

### **NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

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

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

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

###### *Annual Improvements – 2011–2013 Cycle*

##### **IFRIC 23 Uncertainty over Income Tax Treatments**

The interpretation clarifies how to apply the recognition and measurement requirements in “IAS 12 Income Taxes” when there is uncertainty over income tax treatments.

When there is uncertainty over income tax treatments, the interpretation addresses:

- (a) whether an entity considers uncertain tax treatments separately;
- (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- (d) how an entity considers changes in facts and circumstances.

An entity shall apply this Interpretation for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it shall disclose that fact. On initial application, an entity shall apply the interpretation either retrospectively applying IAS 8, or retrospectively with the cumulative effect of initially applying the Interpretation recognised at the date of initial application.

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

##### **IFRS 17 - The new Standard for insurance contracts**

The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. Certain changes in the estimates of future cash flows and the risk adjustment are also recognised over the period that services are provided. Entities will have an option to present the effect of changes in discount rates either in profit and loss or in OCI. The standard includes specific guidance on measurement and presentation for insurance contracts with participation features. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2021; early application is permitted.



## **İSKENDERUN DEMİR VE ÇELİK A.Ş.**

### **NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

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

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

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

##### **Prepayment Features with Negative Compensation (Amendments to IFRS 9)**

In October 2017, the IASB issued minor amendments to IFRS 9 Financial Instruments to enable companies to measure some prepayable financial assets at amortised cost.

Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss. Applying the amendments, if a specific condition is met, entities will be able to measure at amortised cost some prepayable financial assets with so-called negative compensation.

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

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

##### **Annual Improvements – 2015–2017 Cycle**

In December 2017, the IASB announced Annual Improvements to IFRS Standards 2015–2017 Cycle, containing the following amendments to IFRSs:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements — The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 Income Taxes — The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- IAS 23 Borrowing Costs — The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

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

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

## **İSKENDERUN DEMİR VE ÇELİK A.Ş.**

### **NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

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

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

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

##### **Plan Amendment, Curtailment or Settlement” (Amendments to IAS 19)**

On 7 February 2018, the IASB published Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” to harmonise accounting practices and to provide more relevant information for decision-making. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement occurs. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. The Company is in the process of assessing the impact of the interpretation on financial position or performance of the Company.

##### **2.4 Summary of Significant Accounting Policies**

The condensed financial statements for the three months period ended 31 March 2018 have been prepared in accordance with TAS 34. The accounting policies used in the preparation of these condensed financial statements for the period ended 31 March 2018 are consistent with those used in the preparation of annual financial statements for the year ended 31 December 2017. Accordingly, these condensed financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017.

There has been no change in total ownership interests and effective interests of the subsidiaries, included in the scope as of 31 March 2018, from the interests reported as of 31 December 2017.

##### **2.5 Restatement and errors in the accounting policies and estimates**

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

##### **2.6 Segment 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.

## İSKENDERUN DEMİR VE ÇELİK A.Ş.

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018

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

#### NOTE 3 –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 March 2018	31 December 2017
<u>Due from related parties (short term)</u>		
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. <sup>(1)</sup>	308.633	481.139
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. <sup>(2)</sup>	70.612	49.346
Erdemir Romania S.R.L. <sup>(2)</sup>	-	3.192
Adana Çimento Sanayi T.A.Ş. <sup>(3)</sup>	9.091	10.194
Aslan Çimento A.Ş. <sup>(3)</sup>	1.534	1.368
OYAK Beton A.Ş. <sup>(3)</sup>	87	-
Mardin Çimento Sanayi ve Ticaret A.Ş. <sup>(3)</sup>	169	277
İsdemir Linde Gaz Ortaklığı A.Ş. <sup>(4)</sup>	216	3.820
	<u>390.342</u>	<u>549.336</u>

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

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

	31 March 2018	31 December 2017
<u>Due to related parties (short term)</u>		
Erdemir Madencilik San. ve Tic. A.Ş. <sup>(2)</sup>	18.691	11.696
Oyak Pazarlama Hizmet ve Turizm A.Ş. <sup>(3)</sup>	2.724	2.791
Erdemir Asia Pacific PTE LTD <sup>(2)</sup>	34.539	14.062
Omsan Lojistik A.Ş. <sup>(3)</sup>	4.433	4.268
OYAK Savunma ve Güvenlik Sistemleri A.Ş. <sup>(3)</sup>	2.424	2.515
Oyak Denizcilik ve Liman İşletmeleri A.Ş. <sup>(3)</sup>	2.494	4.538
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. <sup>(2)</sup>	2.999	1.141
Omsan Denizcilik A.Ş. <sup>(3)</sup>	16	7.187
Other	79	315
	<u>68.399</u>	<u>48.513</u>

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

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

- (1) Immediate parent company
- (2) Subsidiaries of the immediate parent company
- (3) Subsidiaries of the ultimate company
- (4) Joint Managing Company

**İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

**NOTE 3 –RELATED PARTY DISCLOSURES (cont’d)**

	31 March 2018	31 December 2017
<u>Other receivables from related parties (short term)</u>		
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. <sup>(1)</sup>	4.443.516	3.325.120
	4.443.516	3.325.120

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.

	31 March 2018	31 December 2017
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. <sup>(1)</sup>	1.929.884	-
	1.929.884	-

At the Ordinary General Assembly of the Company, cash dividend of TRY 2.030.000 thousand the amount of the main shareholder's share in the financial statements is TRY 1.929.884 thousand were recognized in other liabilities accounts.

	1 January – 31 March 2018	1 January – 31 December 2017
<u>Major sales to related parties</u>		
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. <sup>(1)</sup>	2.003.284	1.477.723
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. <sup>(2)</sup>	73.207	47.638
Adana Çimento Sanayi T.A.Ş. <sup>(3)</sup>	6.715	4.393
Mardin Çimento Sanayi ve Ticaret A.Ş. <sup>(3)</sup>	295	104
Erdemir Asia Pacific PTE LTD <sup>(2)</sup>	-	34.519
Omsan Lojistik A.Ş. <sup>(3)</sup>	120	73
Erdemir Romania S.R.L. <sup>(2)</sup>	23	11.710
Aslan Çimento A.Ş. <sup>(3)</sup>	798	503
Oyak Savunma ve Güvenlik Sistemleri A.Ş. <sup>(3)</sup>	317	152
İsdemir Linde Gaz Ortaklığı A.Ş. <sup>(4)</sup>	9.949	-
Other	678	278
	2.095.386	1.577.093

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

<sup>(1)</sup> Immediate parent company

<sup>(2)</sup> Subsidiaries of the immediate parent company

<sup>(3)</sup> Subsidiaries of the ultimate company

## İSKENDERUN DEMİR VE ÇELİK A.Ş.

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018

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

(4) Joint Managing Company

#### NOTE 3 –RELATED PARTY DISCLOSURES (cont’d)

	1 January – 31 March 2018	1 January – 31 December 2017
<u>Major purchases from related parties</u>		
Erdemir Madencilik San. ve Tic. A.Ş. <sup>(2)</sup>	135.359	93.708
Erdemir Asia Pacific PTE LTD <sup>(2)</sup>	33.842	51.723
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. <sup>(1)</sup>	23.807	30.187
Oyak Pazarlama Hizmet ve Turizm A.Ş. <sup>(3)</sup>	9.200	6.667
Omsan Denizcilik A.Ş. <sup>(3)</sup>	14.280	9.791
Oyak Savunma ve Güvenlik Sistemleri A.Ş. <sup>(3)</sup>	5.511	4.407
Omsan Lojistik A.Ş. <sup>(3)</sup>	9.818	7.574
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. <sup>(2)</sup>	2.880	2.758
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. <sup>(2)</sup>	5.841	6.051
İsdemir Linde Gaz Ortaklığı A.Ş. <sup>(4)</sup>	14.207	-
Oyak Denizcilik ve Liman İşletmeleri A.Ş. <sup>(3)</sup>	12.040	1.344
Other	944	521
	<u>267.729</u>	<u>214.731</u>

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

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

The period end balances are un-secured and their collections will be in cash. For the three months period ended 31 March 2018, the Company provides no provision for the receivables from related parties (31 December 2017: None).

#### Salaries, bonuses and other benefits of the key management:

For the three months period ended 31 March 2018, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Company is TRY 1.345 thousand (31 March 2017: TRY 1.702 thousand).

(1) Immediate parent company

(2) Subsidiaries of the immediate parent company

(3) Subsidiaries of the ultimate company

(4) Joint Managing Company

## İSKENDERUN DEMİR VE ÇELİK A.Ş.

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018

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

#### NOTE 4 – INVENTORIES

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

	31 March 2018	31 December 2017
Raw materials	633.993	646.014
Work in progress	575.250	352.359
Finished goods	305.595	264.781
Spare parts	280.569	274.453
Goods in transit	566.389	505.755
Other inventories	171.322	157.947
Allowance for impairment on inventories (-)	(100.784)	(92.620)
	<u>2.432.334</u>	<u>2.108.689</u>

The movement of the allowance for impairment on inventories:

	1 January – 31 March 2018	1 January – 31 March 2017
Açılış bakiyesi	92.620	62.463
Dönem içinde ayrılan karşılık	3.684	3.389
Çevrim farkı	4.480	2.071
Kapanış bakiyesi	<u>100.784</u>	<u>67.923</u>

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 14).

#### NOTE 5 – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

As of 18 November 2016, İsdemir Linde Gas Partnership A.Ş. has been established through 50%-50% partnership with the German Linde Group in order to supply the additional industrial gases required for our subsidiary İsdemir's production and to reduce the costs with an effective and efficient management. İsdemir Linde Gaz Ortaklığı A.Ş, which will be recognised by using the equity pick-up method is not included in the as of the reporting period, by reason of not functioning, and that the financial statements weren't affected significantly as of 2017.

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

Company	Right to vote ratio %	31 March 2018	Business segment
<i>Joint Venture</i>			
İsdemir Linde Gaz Ortaklığı A.Ş.	50	105.925	Energy

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 19)

**İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

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

	31 March 2018	31 December 2017
Total assets	283.345	278.444
Total liabilities	71.495	246.568
Net assets	211.850	31.876
Company's share on net assets	105.925	15.938

	31 March 2018	31 December 2017
Share capital	201.667	27.000

İsdemir Linde Gaz Ortaklığı A.Ş.'s capital of TRY 27.000.000 was increased by TRY 174.666.600 in İsdemir Linde Gaz Ortaklığı A.Ş.'s Ordinary General Assembly Meeting held on March 8, 2018, decision to remove it has been taken. All of the capital increase was paid in partnership as of March 9, 2018.

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

	1 January 31 March 2018	1 January 31 March 2017
Revenue	15.260	-
Net profit (loss) for the period	2.743	(390)
Company's share on net profit	1.371	(195)

**İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

**NOTE 6 – TANGIBLE AND INTANGIBLE ASSETS**

The movement of tangible assets for the periods 1 January – 31 March 2018 and 1 January – 31 March 2017 is as follows:

	31 March 2018	31 March 2017
<u>Opening balance as of 1 January</u>		
Cost	17.062.931	15.747.677
Accumulated depreciation	(9.637.205)	(8.617.794)
Net book value	<u>7.425.726</u>	<u>7.129.883</u>
Net book value at the begin.of the period	7.425.726	7.129.883
Additions	32.125	42.840
Disposals (-)	(289)	(145)
Cost of disposals	(1.682)	(936)
Accumulated depreciation of disposals	1.393	791
Transfers to intangible assets	(1.003)	(46)
Currency translation difference	345.725	242.716
Cost currency translation difference	801.916	533.802
Accumulated depreciation currency translation difference	(456.191)	(291.086)
Current period depreciation (-)	(106.088)	(99.669)
Net book value at the end of the period	<u>7.696.196</u>	<u>7.315.579</u>
<u>Closing balance as of</u>		
Cost	17.894.287	16.323.337
Accumulated depreciation	(10.198.091)	(9.007.758)
Net book value	<u>7.696.196</u>	<u>7.315.579</u>

As of 31 March 2018, the Company has no collaterals or pledges upon its tangible assets (31 March 2017: None).



**İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

**NOTE 6 – TANGIBLE AND INTANGIBLE ASSETS (cont’d)**

The movement of intangible assets for the periods 1 January – 31 March 2018 and 1 January – 31 March 2017 is as follows:

	31 March 2018	31 March 2017
<u>Opening balance as of 1 January</u>		
Cost	281.361	259.641
Accumulated depreciation	(111.138)	(94.530)
Net book value	170.223	165.111
Net book value at the begin.of the period	170.223	165.111
Additions	26	386
Transfers from tangible assets	1.003	46
Currency translation difference	7.931	5.630
Cost currency translation difference	13.241	8.803
Accumulated depreciation currency translation difference	(5.310)	(3.173)
Current period amortisation (-)	(2.617)	(2.375)
Net book value at the end of the period	176.566	168.798
<u>Closing balance as of</u>		
Cost	295.631	268.876
Accumulated amortisation	(119.065)	(100.078)
Net book value	176.566	168.798

As of 31 March 2018, the Company has no collaterals or pledges upon its intangible assets (31 March 2017: None).

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

	31 March 2018	31 March 2017
Associated with cost of production	105.096	98.447
General administrative expenses	631	587
Marketing expenses	2.978	3.010
	108.705	102.044

**İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

**NOTE 7 – BORROWINGS**

Breakdown of borrowings is as follows:

	31 March 2018	31 December 2017
Short term financial liabilities	877.709	904.459
Current portion of long term financial liabilities	124.847	131.708
Total short term financial liabilities	1.002.556	1.036.167
Total long term financial liabilities	288.114	303.070
	1.290.670	1.339.237

As of 31 March 2018, 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	Weight Average Rate of Interest (%)	Short Term Portion	Long Term Portion	31 March 2018
No interest	TRY	-	18.321	-	18.321
Fixed	US Dollars	2,53	859.388	-	859.388
Floating	US Dollars	Libor+1,32	46.122	23.229	69.351
Floating	EURO	Euribor+2,18	78.725	264.885	343.610
			1.002.556	288.114	1.290.670

As of 31 December 2017, 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	Weight Average Rate of Interest (%)	Short Term Portion	Long Term Portion	31 December 2017
No interest	TRY	-	3.386	-	3.386
Fixed	US Dollars	2,18	901.072	-	901.072
Floating	US Dollars	Libor+1,36	43.570	26.625	70.195
Floating	EURO	Euribor+2,12	88.139	276.445	364.584
			1.036.167	303.070	1.339.237

**İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

**NOTE 7 – BORROWINGS (cont’d)**

Breakdown of loan repayment is as follows:

	31 March 2018	31 December 2017
Within 1 year	1.002.556	1.036.167
Between 1 – 2 years	84.800	79.170
Between 2 – 3 years	70.861	70.293
Between 3 – 4 years	66.215	61.418
Between 4 – 5 years	33.052	61.418
Five years or more	33.186	30.771
	<u>1.290.670</u>	<u>1.339.237</u>

**NOTE 8 – OTHER PAYABLES**

Company’s short term other payables as follows:

	31 March 2018	31 December 2017
<u>Short term other payables</u>		
Taxes payable	33.222	10.099
Deposits and guarantees received	5.374	5.570
Dividend payables to shareholders (*)	2.031.552	1.657
<i>Ereğli Demir ve Çelik Fabrikaları T.A.Ş.</i>	1.929.884	-
<i>Quoted in Stock Exchange</i>	101.668	1.657
	<u>2.070.148</u>	<u>17.326</u>

(\*)The Annual General Assembly which held on 29 March 2018, it was decided by the majority of votes to distribute TRY 2.030.000 thousand dividend from 2017 profit in cash. Dividend payables to shareholders is the sum of total dividend decided to be distributed after dividends for treasury shares are netted off, dividend payables to non-controlling interests and uncollected dividend by shareholders related to previous periods. Dividend distribution will start on 29 May 2018.

**NOTE 9 – PROVISIONS**

The Company’s short term provisions are as follows:

	31 March 2018	31 December 2017
Provision for lawsuits	22.880	21.441
Penalty prov. for employment shortage of disabled pers.	5.919	5.480
Provision for land occupation	988	1.212
	<u>29.787</u>	<u>28.133</u>

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 19)

**İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

**NOTE 9 – PROVISIONS (cont’d)**

The movement of the provisions is as follows:

	1 January 2018	Change for the period	Payments	Provision released	Translation difference	31 March 2018
Provision for lawsuits	21.441	1.579	(84)	(252)	196	22.880
Penalty prov. for employment shortage of disabled pers.	5.480	436	-	-	3	5.919
Provision for land occupation	1.212	153	(380)	-	3	988
	<b>28.133</b>	<b>2.168</b>	<b>(464)</b>	<b>(252)</b>	<b>202</b>	<b>29.787</b>

	1 January 2017	Change for the period	Payments	Provision released	Translation difference	31 March 2017
Provision for lawsuits	20.910	806	(255)	(2.623)	152	18.990
Penalty prov. for employment shortage of disabled pers.	3.993	380	-	-	(1)	4.372
Provision for land occupation	696	62	-	-	0	758
	<b>25.599</b>	<b>1.248</b>	<b>(255)</b>	<b>(2.623)</b>	<b>151</b>	<b>24.120</b>

**İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

**NOTE 10 – EMPLOYEE BENEFITS**

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

	31 March 2018	31 December 2017
Due to personnel	19.424	65.249
Social security premiums payable	23.224	20.635
	<u>42.648</u>	<u>85.884</u>

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

	31 March 2018	31 December 2017
Provisions for employee termination benefits	217.566	212.842
Provisions for seniority incentive premium	17.294	16.385
Provision for unpaid vacations	23.127	25.269
	<u>257.987</u>	<u>254.496</u>

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

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

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 March 2018 has been calculated by an independent actuary. The actuarial assumptions used in the calculation of the present value of the future probable obligation are as follows:

	31 March 2018	31 December 2017
Discount rate	% 11,50	% 11,50
Inflation rate	% 8,30	% 8,30
Salary increase	reel % 1,5	reel % 1,5
Maximum liability increase	% 8,30	% 8,30

**İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

**NOTE 10 – EMPLOYEE BENEFITS (cont’d)**

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 March 2018, a fixed discount rate is used. Long term inflation estimates are made using an approach consistent with discount rate estimates and long term inflation rate fixed over years is used.

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

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

	1 January - 31 March 2018	1 January - 31 March 2017
Opening balance	212.842	188.399
Service cost	3.809	3.704
Interest cost	5.796	4.954
Termination benefits paid	(4.905)	(7.880)
Translation difference	24	45
Closing balance	217.566	189.222

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 March 2018	1 January - 31 March 2017
Opening balance	16.385	17.305
Service cost	461	458
Interest cost	442	399
Translation difference	6	(2)
Closing balance	17.294	18.160

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

	1 January - 31 March 2018	1 January - 31 March 2017
Opening balance	25.269	27.261
Provision for the period	1.326	1.581
Vacation paid during the period (-)	(468)	(1.039)
Provisions released (-)	(2.996)	(2.870)
Translation difference	(4)	37
Closing balance	23.127	24.970

**İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

The guarantees received by the Company are as follows:

	31 March 2018	31 December 2017
Letters of guarantees received	222.570	224.067
	<u>222.570</u>	<u>224.067</u>

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

	31 March 2018	31 December 2017
A. Total CPM given for the Company's own legal entity	66.409	64.349
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis		82.500
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	-	-
D. Other CPM given	-	-
i. Total CPM given in favour of parent entity	-	-
ii. Total CPM given in favour of other Group companies out of the scope of clause B and C	-	-
iii. Total CPM given in favour of other 3rd parties out of the scope of clause C	-	-
	<u>66.409</u>	<u>146.849</u>

As of 31 March 2018, the ratio of the other CPM given by the Company to shareholders equity is 0% (31 December 2017: 0%).

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

	31 March 2018	31 December 2017
TRY	56.674	137.818
EURO	9.735	9.031
	<u>66.409</u>	<u>146.849</u>

**İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

**NOTE 12 – TAX ASSETS AND LIABILITIES**

	31 March 2018	31 December 2017
<u>Corporate tax payable:</u>		
Corporation tax for the year of 2017	664.873	-
Current corporate tax provision	230.509	664.873
	<u>895.382</u>	<u>664.873</u>
	1 January - 31 March 2018	1 January 31 March 2017
<u>Taxation:</u>		
Current corporate tax expense	230.509	144.147
Deferred tax expense	54.717	(2.340)
	<u>285.226</u>	<u>141.807</u>

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.

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

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

Deferred tax

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.

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



**İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

**NOTE 12 – TAX ASSETS AND LIABILITIES (cont’d)**

	31 March 2018	31 December 2017
<u>Deferred tax assets:</u>		
Provisions for employee benefits	53.000	50.899
Investment incentive	47.735	52.771
Provision for lawsuits	5.251	4.531
Adjustment of the receivables discount	4.781	6.449
Provision for other doubtful receivables	16.233	14.639
Other	1.759	13.575
	<u>128.759</u>	<u>142.864</u>
<u>Deferred tax liabilities:</u>		
Tangible and intangible fixed assets	(1.144.321)	(1.078.590)
Amortized cost adjustment on loans	(2.176)	(1.026)
Inventories	(26.875)	(6.380)
Other	(476)	(949)
	<u>(1.173.848)</u>	<u>(1.086.945)</u>
<u>Presentation of deferred tax assets/(liabilities):</u>	<u>(1.045.089)</u>	<u>(944.081)</u>

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:

	1 January - 31 March 2018	1 January - 31 March 2017
Opening balance	(944.081)	(910.331)
Deferred tax expense	(54.717)	2.340
The amount in comprehensive income/(expense)	-	154
Translation difference	(46.291)	(30.984)
Closing balance	<u>(1.045.089)</u>	<u>(938.821)</u>

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 19)

## İSKENDERUN DEMİR VE ÇELİK A.Ş.

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018

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

#### NOTE 12 – TAX ASSETS AND LIABILITIES (cont’d)

Reconciliation of tax provision is as follows:

	1 January - 31 March 2018	1 January - 31 March 2017
Profit before tax	1.072.261	629.862
Statutory tax rate	22%	20%
Calculated tax acc. to effective tax rate	235.897	125.972
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	146	25
- Effect of currency translation to non taxable assets (*)	41.934	25.089
- Investment incentives	7.249	(9.279)
Tax expense in reported in the consolidate statement of income	285.226	141.807

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

#### NOTE 13 – EQUITY

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

	(%)	31 March 2018	(%)	31 December 2017
<u>Shareholders</u>				
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 14 – SALES AND COST OF SALES

	1 January - 31 March 2018	1 January - 31 March 2017
<u>Sales Revenue</u>		
Domestic sales	2.443.459	1.803.205
Export sales	412.758	406.337
Other revenues (*)	115.230	64.560
Sales returns (-)	(756)	(226)
	2.970.691	2.273.876
<u>Cost of sales (-)</u>	(1.950.389)	(1.637.496)
Gross profit	1.020.302	636.380

(\*)The total amount of by product exports in other revenues is TRY 36.784 thousand (31 March 2017: TRY 34.707 thousand).

**İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

**NOTE 14 – SALES AND COST OF SALES (cont’d)**

The breakdown of cost of goods sales for the periods 1 January – 31 March 2018 and 1 January – 31 March 2017 is as follows:

	1 January - 31 March 2018	1 January - 31 March 2017
Raw material usage	(1.577.056)	(1.324.344)
Personnel costs	(114.935)	(108.324)
Energy costs	(53.640)	(52.284)
Depreciation and amortization expenses	(96.178)	(91.842)
Factory overheads	(32.720)	(7.718)
Other cost of goods sold	(32.556)	(29.947)
Non-operating costs (*)	(6.467)	-
Freight costs for sales delivered to customers	(27.635)	(19.271)
Inventory write-downs within the period (Note 4)	(3.684)	(3.389)
Other	(5.518)	(377)
	<u>(1.950.389)</u>	<u>(1.637.496)</u>

(\*) 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 (6.467) thousand, has been accounted directly under cost of goods sold

**NOTE 15 – OPERATING EXPENSES ACCORDING TO THEIR NATURE AND OTHER OPERATING INCOME / (EXPENSES)**

The breakdown of marketing expenses according to their nature for the periods 1 January – 31 March 2018 and 1 January – 31 March 2017 is as follows:

	1 January - 31 March 2018	1 January - 31 March 2017
Personnel expenses (-)	(4.931)	(5.535)
Depreciation and amortization(-)	(2.978)	(3.010)
Tax, duty and charges (-)	(185)	(132)
Service expenses (-)	(11.073)	(9.126)
	<u>(19.167)</u>	<u>(17.803)</u>

The breakdown of general administrative expenses according to their nature for the periods 1 January – 31 March 2018 and 1 January – 31 March 2017 is as follows:

	1 January - 31 March 2018	1 January - 31 March 2017
Personnel expenses (-)	(10.088)	(10.909)
Depreciation and amortization expenses(-)	(631)	(587)
Provision for doubtful receivables (-)	(587)	(1.311)
Tax, duty and charges (-)	(2.202)	(1.505)
Service expenses (-)	(14.424)	(15.673)
	<u>(27.932)</u>	<u>(29.985)</u>

**İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

**NOTE 15 – OPERATING EXPENSES ACCORDING TO THEIR NATURE AND OTHER OPERATING INCOME / (EXPENSES) (cont’d)**

The breakdown of other operating income for the periods 1 January – 31 March 2018 and 1 January – 31 March 2017 is as follows:

	1 January - 31 March 2018	1 January - 31 March 2017
<u>Other operating income</u>		
Interest income from sales with maturities	5.244	3.811
Discount income	10.568	8.404
Provisions released	252	2.623
Service income	1.252	883
Maintenance repair and rent income	3.309	2.098
Lawsuit income	45	7.090
Indemnity and penalty detention income	791	351
Insurance indemnity income	90	16
Warehouse income	220	81
Gain on sale of tangible assets	-	133
foreign exchange difference from trade receivables and liabilities	4.711	5.624
Other income and gains	1.855	1.629
	<u>28.337</u>	<u>32.743</u>

The breakdown of other operating expenses for the periods 1 January – 31 March 2018 and 1 January – 31 March 2017 is as follows:

	1 January - 31 March 2018	1 January - 31 March 2017
<u>Other operating expenses (-)</u>		
Provision expenses	(2.015)	(1.185)
Donation expenses	(369)	(319)
Discount expenses	(2.129)	(7.358)
Port facility pre-licence expenses	(1.659)	(1.679)
Lawsuit compensation expenses	(472)	(568)
Penalty expenses	(154)	(36)
Loss on disposal of tangible assets	(282)	(128)
Other expenses and losses	(3.293)	(1.897)
	<u>(10.373)</u>	<u>(13.170)</u>

**NOTE 16 – FINANCIAL INCOME AND EXPENSES**

The breakdown of financial income for the periods 1 January – 31 March 2018 and 1 January – 31 March 2017 is as follows:

	1 January - 31 March 2018	1 January - 31 March 2017
<u>Financial incomes</u>		
Interest income on bank deposits	62	11
Foreign exchange gains (net)	59.964	19.755
Interest income on related party	33.701	15.943
Fair value difference of derivative financial instruments (net)	-	2.021
Other financial incomes	88	-
	<u>93.815</u>	<u>37.730</u>

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 19)

**İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

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**NOTE 16 – FINANCIAL INCOME AND EXPENSES (cont’d)**

The breakdown of financial expenses for the periods 1 January – 31 March 2018 and 1 January – 31 March 2017 is as follows:

<u>Finance expenses (-)</u>	<u>1 January - 31 March 2018</u>	<u>1 January - 31 March 2017</u>
Interest expenses on borrowings	(7.133)	(9.380)
Interest cost of employee benefits	(6.238)	(5.353)
Interest expenses on related party	-	(447)
Guarantee expenses	(645)	(828)
	<u>(14.016)</u>	<u>(16.008)</u>

**İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

**NOTE 17 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS**

**Additional information about financial instruments**

Foreign currency risk management

As of 31 March 2018, the foreign currency position of the Company in terms of original currency is calculated as it as follows:

	31 March 2018			
	TRY (Total in currency)	TRY (Original currency)	EURO (Original currency)	Jap.Yen (Original currency)
1. Trade Receivables	177.995	22.204	32.008	-
2a. Monetary financial assets	1.925.734	224.367	349.550	22
2b. Non- monetary financial assets	-	-	-	-
3. Other	27.121	26.908	44	-
<b>4. Current assets (1+2+3)</b>	<b>2.130.850</b>	<b>273.479</b>	<b>381.602</b>	<b>22</b>
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	19.953	18.974	201	-
<b>8. Non-current assets (5+6+7)</b>	<b>19.953</b>	<b>18.974</b>	<b>201</b>	-
<b>9. Total assets (4+8)</b>	<b>2.150.803</b>	<b>292.453</b>	<b>381.803</b>	<b>22</b>
10. Trade payables	197.297	185.420	2.440	-
11. Financial liabilities	97.046	18.321	16.174	-
12a. Other monetary financial liabilities	2.263.620	2.256.547	1.453	-
12b. Other non-monetary financial liabilities	895.382	895.382	-	-
<b>13. Current liabilities (10+11+12)</b>	<b>3.453.345</b>	<b>3.355.670</b>	<b>20.067</b>	-
14. Trade payables	-	-	-	-
15. Financial liabilities	264.885	-	54.421	-
16a. Other monetary financial liabilities	257.987	257.987	-	-
16b. Other non-monetary financial liabilities	-	-	-	-
<b>17. Non-current liabilities (14+15+16)</b>	<b>522.872</b>	<b>257.987</b>	<b>54.421</b>	-
<b>18. Total liabilities (13+17)</b>	<b>3.976.217</b>	<b>3.613.657</b>	<b>74.488</b>	-
<b>19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)</b>	-	-	-	-
19a. Off-balance sheet foreign currency derivative financial assets	-	-	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	-	-	-	-
<b>20. Net foreign currency asset/liability position (9-18+19)</b>	<b>(1.825.414)</b>	<b>(3.321.204)</b>	<b>307.315</b>	<b>22</b>
<b>21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>(977.106)</b>	<b>(2.471.704)</b>	<b>307.070</b>	<b>22</b>
22. Fair value of derivative financial instruments used in foreign currency hedge	-	-	-	-
23. Hedged foreign currency assets	-	-	-	-
24. Hedged foreign currency liabilities	-	-	-	-
25. Exports	449.542			
26. Imports	621.061			

**İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

**NOTE 17 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**

**Additional information about financial instruments (cont’d)**

Foreign currency risk management (cont’d)

As of 31 December 2017, the foreign currency position of the Company in terms of original currency is calculated as it as follows:

	31 December 2017			
	TRY (Total in currency)	TRY (Original currency)	EURO (Original currency)	Jap.Yen (Original currency)
1. Trade Receivables	146.950	26.574	26.659	-
2a. Monetary financial assets	1.371.322	5.601	302.450	22
2b. Non- monetary financial assets	-	-	-	-
3. Other	12.285	12.087	44	-
<b>4. Current assets (1+2+3)</b>	<b>1.530.557</b>	<b>44.262</b>	<b>329.153</b>	<b>22</b>
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	21.648	21.163	108	-
<b>8. Non-current assets (5+6+7)</b>	<b>21.648</b>	<b>21.163</b>	<b>108</b>	-
<b>9. Total assets (4+8)</b>	<b>1.552.205</b>	<b>65.425</b>	<b>329.261</b>	<b>22</b>
10. Trade payables	168.907	156.004	2.857	-
11. Financial liabilities	88.301	-	19.555	-
12a. Other monetary financial liabilities	196.290	195.940	77	-
12b. Other non-monetary financial liabilities	689.002	688.067	207	-
<b>13. Current liabilities (10+11+12)</b>	<b>1.142.500</b>	<b>1.040.011</b>	<b>22.696</b>	-
14. Trade payables	-	-	-	-
15. Financial liabilities	277.087	-	61.364	-
16a. Other monetary financial liabilities	254.496	254.496	-	-
16b. Other non-monetary financial liabilities	-	-	-	-
<b>17. Non-current liabilities (14+15+16)</b>	<b>531.583</b>	<b>254.496</b>	<b>61.364</b>	-
<b>18. Total liabilities (13+17)</b>	<b>1.674.083</b>	<b>1.294.507</b>	<b>84.060</b>	-
<b>19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)</b>	-	-	-	-
19a. Off-balance sheet foreign currency derivative financial assets	-	-	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	-	-	-	-
<b>20. Net foreign currency asset/liability position (9-18+19)</b>	<b>(121.878)</b>	<b>(1.229.082)</b>	<b>245.201</b>	<b>22</b>
<b>21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>533.191</b>	<b>(574.265)</b>	<b>245.256</b>	<b>22</b>
22. Fair value of derivative financial instruments used in foreign currency hedge	-	-	-	-
23. Hedged foreign currency assets	-	-	-	-
24. Hedged foreign currency liabilities	-	-	-	-
25. Exports	1.615.383	-	-	-
26. Imports	5.189.950	-	-	-

**İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

**NOTE 17 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**

**Additional information about financial instruments (cont’d)**

Foreign currency risk management (cont’d)

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

As of 31 March 2018 asset and liability balances are translated by using the following exchange rates: TRY 3,9489 = US \$ 1, TRY 4,8673 = EUR 1 and TRY 0,0371 = JPY 1 (31 December 2017 : TRY 3,7719 = US\$ 1, TRY 4,5155 = EUR 1 and TRY 0,0334= JPY 1)

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency	Depreciation of foreign currency
31 March 2018		
1- TRY net asset/liability	(332.120)	332.120
2- Hedged portion from TRY risk (-)	-	-
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(332.120)	332.120
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	149.579	(149.579)
10- Hedged portion from Euro risk (-)	-	-
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	149.579	(149.579)
13- Jap. Yen net asset/liability	-	-
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	-	-
<b>TOTAL (4+8+12+16)</b>	<b>(182.541)</b>	<b>182.541</b>



**İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

**NOTE 17 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**

**Additional information about financial instruments (cont’d)**

Foreign currency risk management (cont’d)

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency	Depreciation of foreign currency
31 December 2017		
1- TRY net asset/liability	(122.908)	122.908
2- Hedged portion from TRY risk (-)	-	-
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(122.908)	122.908
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	110.721	(110.721)
10- Hedged portion from Euro risk (-)	-	-
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	110.721	(110.721)
13- Jap. Yen net asset/liability	-	-
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	-	-
<b>TOTAL (4+8+12+16)</b>	<b>(12.187)</b>	<b>12.187</b>

**NOTE 18 – SUBSEQUENT EVENTS**

The share held in the Company’s capital has become 94.87% after realization of the sales of shares of ISDEMİR with the value of 42,390,615 TL in aggregate at 7.5 TL par value per share (total par value of 5,652,082 TL) on 13 April 2018, formerly traded on Pre-Market Trading Platform, with ISDEMİR’s 95.07% share in the capital of the Company. With the change of such share ratio, since the requirements in the BISAS Listing Regulations have met, the shares of ISDEMİR have been started to be traded at Star Market as of 19 April 2018.

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 19)

**İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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

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**NOTE 19 – OTHER ISSUES AFFECTING THE FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION**

**Convenience translation to English:**

As of 31 March 2018, the accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying financial statements differ from International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board with respect to the application of inflation accounting, certain reclassifications and also for certain disclosures requirement of the POA/CMB. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with TFRS.