(CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH - SEE NOTE 33)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

FINANCIAL STATEMENTS FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2017 AND INDEPENDENT AUDITORS' REPORT

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

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

Mersis No: 0291001097600016
Ticari Sicil No : 304099

(CONVENIENCE TRANSLATION OF
INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH)
INDEPENDENT AUDITOR'S REPORT

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

A) Report on the Audit of the Financial Statements

1) Opinion

We have audited the financial statements of İskenderun Demir ve Çelik A.Ş. ("the Company"), which comprise the statement of financial position as at 31 December 2017, and the 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Turkish Accounting Standards (TAS).

2) Basis for Opinion

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

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3) Key Audit Matters

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

Key Audit Matter	How the matter was addressed in the audit
Revenue recognition Revenue is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods. Due to the nature of the Company's operations, there are some goods invoiced and cash collection is completed although the Company retains physical possession. Those goods are kept at premises of the Company as of the financial reporting date. Significant risks and rewards of ownership of these goods might be transferred to the buyers. Therefore, revenue recognition for those goods in the correct accounting period is a key matter for our audit (Note 21). With reference to the above explanations, as a part of sales cut-off principle, recognition of revenue in the correct period is identified as a key audit matter. Please refer to notes 2.7.1 and 21 to the financial statements for the Company's disclosures on revenue recognition, including the related accounting policy.	We performed the following procedures in relation to the revenue recognition: The design and implementation of the controls on the revenue process have been evaluated. The Company's sales and delivery procedures have been analyzed. Terms of trade and delivery with respect to contracts made with customers have been examined and the timing of revenue recognition in the financial statements for the different shipment arrangements has been assessed. For substantive audit procedures, special emphasis is given for transactions where the goods billed but revenue has not been earned. Significant portion of revenue which is generated from main shareholder is confirmed in substantive audit procedures. In addition, we assessed the adequacy of the disclosures in Note 21 of the Note under TAS.

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3) **Key Audit Matters (cont'd)**

Key Audit Matter	How the matter was addressed in the audit
Units of production depreciation calculation As explained in Note 2.2 (accounting policies) and Note 12 (notes to the financial statements), the Company applies units of production depreciation calculation method for relevant land improvements, machinery and equipment and vehicles. Units of production depreciation calculation is made for large number of assets and determining the remaining life and production capacities involve estimates. Therefore, there is risk that there may be an error on calculation of depreciation.	Procedures performed related with Units of production depreciation calculation risk are as follows: • Review of the expert report for the estimation of production capacity dated 22 February 2017. • Comparison of net book values of property, plant and equipment that are included in the report with net book values in the financial statements • Evaluation of competence and capabilities of the management's expert • Evaluation of the production capacity estimates by comparing with the estimations used in previous periods by negotiating with the Company management • Analysis of production amount of yearly production and production capacity • Recalculation of depreciation amount of the year In addition, we assessed the adequacy of the disclosures in Note 13 to property, plant and equipment under TAS.

4) **Other Matter**

The financial statements of the Company for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 7 February 2017.

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. (The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.)
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other

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matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

B) Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 402 of TCC, nothing has come to our attention that may cause us to believe that the Company's set of accounts and financial statements prepared for the period 1 January-31 December 2017 does not comply with TCC and the provisions of the Company's articles of association in relation to financial reporting.

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

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

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

Volkan Becerik, SMMM
Partner

İstanbul, 2 February 2018

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ASSETS	Note	(Audited) Current Period 31 December 2017 USD'000	(Audited) Current Period 31 December 2017 TRY'000	(Audited) Previous Period 31 December 2016 USD'000	(Audited) Previous Period 31 December 2016 TRY'000
Current Assets		**1.645.963**	**6.208.412**	**1.316.207**	**4.631.997**
Cash and Cash Equivalents	4	3.154	11.895	3.998	14.069
Financial Derivative Instruments	6	-	-	9.060	31.885
Trade Receivables	8	193.886	731.318	169.712	597.253
Due From Related Parties	*29*	*145.639*	*549.336*	*96.473*	*339.509*
Other Trade Receivables	*8*	*48.247*	*181.982*	*73.239*	*257.744*
Other Receivables	9	882.034	3.326.945	583.183	2.052.335
Due From Related Parties	*29*	*881.550*	*3.325.120*	*582.695*	*2.050.619*
Other Receivables	*9*	*484*	*1.825*	*488*	*1.716*
Inventories	10	559.052	2.108.689	543.110	1.911.311
Prepaid Expenses	11	5.564	20.987	4.115	14.483
Other Current Assets	18	2.273	8.578	3.029	10.661
Non Current Assets		**2.023.916**	**7.634.003**	**2.079.992**	**7.319.905**
Other Receivables	9	3.338	12.591	3.639	12.808
Financial Investments	5	3.562	13.437	35	122
Property, Plant and Equipment	12	1.968.696	7.425.726	2.025.995	7.129.883
Intangible Assets	13	45.129	170.223	46.917	165.111
Prepaid Expenses	11	3.191	12.026	3.406	11.981
TOTAL ASSETS		**3.669.879**	**13.842.415**	**3.396.199**	**11.951.902**

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

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 33)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2017

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

LIABILITIES	Note	Current Period 31 December 2017 USD'000	(Audited) Current Period 31 December 2017 TRY'000	Previous Period 31 December 2016 USD'000	(Audited) Previous Period 31 December 2016 TRY'000
Current Liabilities		**628.815**	**2.371.825**	**557.367**	**1.961.482**
Short Term Borrowings	7	239.789	904.459	147.572	519.335
Short Term Portion of Long Term Borrowings	7	34.918	131.708	145.639	512.534
Financial Derivative Instruments	6	-	-	5.312	18.693
Trade Payables	8	116.506	439.446	115.397	406.104
Due to Related Parties	*29*	*12.862*	*48.513*	*17.959*	*63.201*
Other Trade Payables	*8*	*103.644*	*390.933*	*97.438*	*342.903*
Other Payables	9	4.593	17.326	4.776	16.807
Deferred Revenue	19	7.865	29.667	5.233	18.416
Current Tax Liabilities	27	176.270	664.873	88.720	312.225
Short Term Provisions	16	7.459	28.133	7.274	25.599
Payables for Employee Benefits	15	22.769	85.884	20.808	73.228
Other Current Liabilities	18	18.646	70.329	16.636	58.541
Non Current Liabilities		**398.156**	**1.501.805**	**427.656**	**1.505.009**
Long Term Borrowings	7	80.349	303.070	102.715	361.476
Financial Derivative Instruments	6	42	158	67	237
Provisions for Employee Benefits	15	67.472	254.496	66.198	232.965
Deferred Tax Liabilities	27	250.293	944.081	258.676	910.331
EQUITY		**2.642.908**	**9.968.785**	**2.411.176**	**8.485.411**
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)	20	(19.915)	4.190.063	(18.698)	3.501.454
Revaluation Reserve of Tangible Assets	20	-	*4.242.923*	-	*3.550.212*
Actuarial (Loss)/ Gain funds		*(19.915)*	*(52.860)*	*(18.698)*	*(48.758)*
Other Comprehensive Income/Expense to be Reclassified to Profit/ (Loss)		-	-	(2.118)	(7.454)
Cash Flow Hedging Reserves	*20*	-	-	*(2.118)*	*(7.454)*
Restricted Reserves Appropriated from Profit	20	149.786	447.790	94.473	240.817
Retained Earnings	20	385.246	48.457	550.972	907.581
Net Profit for the Year		653.601	2.382.311	312.357	942.849
TOTAL LIABILITIES AND EQUITY		**3.669.879**	**13.842.415**	**3.396.199**	**11.951.902**

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

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

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Note	(Audited) Current Period 1 January - 31 December 2017 USD'000	(Audited) Current Period 1 January - 31 December 2017 TRY'000	(Audited) Previous Period 1 January - 31 December 2016 USD'000	(Audited) Previous Period 1 January - 31 December 2016 TRY'000
OPERATING INCOME					
Revenue	21	2.911.595	10.612.473	2.143.670	6.470.668
Cost of Sales (-)	21	(2.085.707)	(7.602.193)	(1.663.061)	(5.019.949)
GROSS PROFIT		**825.888**	**3.010.280**	**480.609**	**1.450.719**
Marketing Expenses (-)	23	(20.698)	(75.442)	(23.015)	(69.470)
General Administrative Expenses (-)	23	(30.183)	(110.014)	(36.698)	(110.774)
Research and Development Expenses (-)		(34)	(124)	(228)	(689)
Other Operating Income	24	22.332	81.399	13.977	42.191
Other Operating Expenses (-)	24	(12.408)	(45.226)	(13.302)	(40.153)
OPERATING PROFIT		**784.897**	**2.860.873**	**421.343**	**1.271.824**
Finance Income	25	58.992	237.405	69.792	210.666
Finance Expense (-)	26	(22.625)	(82.467)	(46.398)	(95.629)
PROFIT BEFORE TAX		**821.264**	**3.015.811**	**444.737**	**1.386.861**
Tax Expense	27	(167.663)	(633.500)	(132.380)	(444.012)
- Current Corporate Tax Expense		(176.270)	(664.873)	(88.720)	(312.225)
- Deferred Tax (Expense) Income		8.607	31.373	(43.660)	(131.787)
NET PROFIT FOR THE YEAR		**653.601**	**2.382.311**	**312.357**	**942.849**
(TRY 1 Nominal value per share)			0,8215		0,3251

The functional currency of the Company is USD Dollars. The details of presentation currency translation to 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 OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Note	(Audited) Current Period 1 January - 31 December 2017 USD'000	(Audited) Current Period 1 January - 31 December 2017 TRY'000	(Audited) Current Period 1 January - 31 December 2016 USD'000	(Audited) Current Period 1 January - 31 December 2016 TRY'000
PROFIT FOR THE YEAR		**653.601**	**2.382.311**	**312.357**	**942.849**
OTHER COMPREHENSIVE INCOME					
Not to be reclassified subsequently to profit or loss					
Increase (Decrease) in Revaluation Reserve of Tangible Assets		-	692.711	-	1.432.836
Actuarial Gain (Loss) of Defined Benefit Plans		(1.521)	(5.128)	454	3.759
Tax Effect of Actuarial Gain (Loss) of Defined Benefit Plans	27	304	1.026	(91)	(752)
To be reclassified subsequently to profit or loss					
Gain in Cash Flow Hedging Reserves		2.648	9.318	2.538	5.758
Tax Effect of Gain in Cash Flow Hedging Reserves	27	(530)	(1.864)	(508)	(1.152)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**901**	**696.063**	**2.393**	**1.440.449**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**654.502**	**3.078.374**	**314.750**	**2.383.298**

The functional currency of the Company is USD Dollars. The details of presentation currency translation to 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 CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as 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)	Share Capital	Inflation Adjustment to Capital	Foreign Currency Translation Reserves	Actuarial (Loss)/ Gain Funds	Cash Flow Hedging Gain (Loss)	Restricted Reserves Appropriated from Profit	Retained Earnings	Net Profit For The Year	Total Shareholders' Equity
1 January 2017	**2.900.000**	**164**	**3.550.212**	**(48.758)**	**(7.454)**	**240.817**	**907.581**	**942.849**	**8.485.411**
Net profit for the year	-	-	-	-	-	-	-	2.382.311	2.382.311
Other comprehensive income/(loss)	-	-	692.711	(4.102)	7.454	-	-	-	696.063
Total comprehensive income/(loss)	-	-	692.711	(4.102)	7.454	-	-	2.382.311	3.078.374
Dividends (*)	-	-		-	-	-	(1.595.000)	-	(1.595.000)
Transfers	-	-	-	-	-	206.973	735.876	(942.849)	-
31 December 2017	**2.900.000**	**164**	**4.242.923**	**(52.860)**	**-**	**447.790**	**48.457**	**2.382.311**	**9.968.785**
(Audited)									
1 January 2016	**2.900.000**	**164**	**2.117.376**	**(51.765)**	**(12.060)**	**165.142**	**901.013**	**575.243**	**6.595.113**
Net profit for the year	-	-	-	-	-	-	-	942.849	942.849
Other comprehensive income/(loss)	-	-	1.432.836	3.007	4.606	-	-	-	1.440.449
Total comprehensive income/(loss)	-	-	1.432.836	3.007	4.606	-	-	942.849	2.383.298
Dividends (*)	-	-	-	-	-	-	(493.000)	-	(493.000)
Transfers	-	-	-	-	-	75.675	499.568	(575.243)	-
31 December 2016	**2.900.000**	**164**	**3.550.212**	**(48.758)**	**(7.454)**	**240.817**	**907.581**	**942.849**	**8.485.411**

(*) In annual General Assembly dated 30 March 2017, dividend distribution gross dividend per share: TRY 0,2800 amounting to TRY 812.000 thousand from 2016 net profit was approved. The dividend payment was started at 5 April 2017. Also, in extraordinary General Assembly dated 5 December 2017, dividend distribution gross dividend per share: TRY 0,2700 amounting to TRY 783.000 thousand from previous years distributable profits were approved. The dividend payment was started at 7 December 2017.

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Note	(Audited) Current Period 1 January - 31 December 2017 USD'000	(Audited) Current Period 1 January - 31 December 2017 TRY'000	(Audited) Previous Period 1 January - 31 December 2016 USD'000	(Audited) Previous Period 1 January - 31 December 2016 TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES		**819.033**	**2.861.282**	**479.011**	**1.483.698**
Profit (Loss) for The Year		**653.601**	**2.382.311**	**312.357**	**942.849**
Adjustments to Reconcile Profit (Loss)		**302.063**	**1.123.383**	**278.658**	**885.550**
Adjustments for Depreciation and Amortisation Expenses	21-23	111.542	406.559	117.225	353.844
Adjustments for Impairment Loss (Reversal of Impairment Loss)		6.456	23.532	6.491	19.589
Adjustments for Provision (Reversal of Provision) for Receivables	5 9	*(350)*	*(1.275)*	*1.268*	*3.826*
Adjustments for Provision (Reversal of Provision) for Inventories	10	*6.806*	*24.807*	*2.336*	*7.050*
Adjustments for Provision (Reversal of Provision) for Property, Plant and Equipment	13	-	-	*2.887*	*8.713*
Adjustments for Provisions		12.722	46.374	16.357	49.374
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	15	*11.932*	*43.498*	*15.635*	*47.193*
Adjustments for Provision (Reversal of Provision) for Pending Claims and or Lawsuits	16	*790*	*2.876*	*722*	*2.181*
Adjustments for Interest (Income) and Expenses		(13.675)	(49.840)	(922)	(2.782)
Adjustments for Interest Income	25	*(22.805)*	*(83.122)*	*(13.337)*	*(40.258)*
Adjustments for Interest Expense	26	9.851	35.909	12.259	37.005
Unearned Financial Income from Credit Sales		(721)	(2.627)	156	471
Adjustments for Unrealised Foreign Exchange Differences		10.837	39.502	(4.647)	(14.028)
Adjustments for Fair Value (Gains) Losses		6.435	23.452	11.746	35.456
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments	26	*6.435*	*23.452*	*11.746*	*35.456*
Adjustments for Tax (Income) Expenses	27	167.663	633.500	132.380	444.012
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		83	304	28	85
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment	24	*83*	*304*	*28*	*85*
Changes in Working Capital		**(40.278)**	**(304.365)**	**(35.012)**	**(120.174)**
Adjustments for Decrease (Increase) in Trade Receivables		(23.400)	(131.610)	(19.668)	(69.138)
Decrease (Increase) in Trade Receivables from Related Parties		*(49.166)*	*(209.827)*	*(12.576)*	*(44.257)*
Decrease (Increase) in Trade Receivables from Third Parties		*25.766*	*78.217*	*(7.092)*	*(24.881)*
Adjustments for Decrease (Increase) in Other Receivables Related from Operations		858	(2.849)	4.490	15.800
Decrease (Increase) in Other Receivables from Operations from Third Parties		*858*	*(2.849)*	*4.490*	*15.800*
Decrease (Increase) in Derivative Financial Instruments		9.060	31.885	12.640	44.482
Adjustments for Decrease (Increase) in Inventories		(23.933)	(231.851)	(66.827)	(235.178)
Decrease (Increase) in Prepaid Expenses		(2.024)	(8.673)	8.990	31.639
Adjustments for Increase (Decrease) in Trade Payables		1.109	33.342	33.613	118.294
Increase (Decrease) in Trade Payable to Related Parties		*(5.097)*	*(14.688)*	*12.098*	*42.577*
Increase (Decrease) in Trade Payable to Third Parties		*6.206*	*48.030*	*21.515*	*75.717*
Adjustments for Increase (Decrease) in Other Payables Related from Operations		1.778	13.175	187	658
Increase (Decrease) in Other Payables to Third Parties Related from Operations		*1.778*	*13.175*	*187*	*658*
Increase (Decrease) in Derivative Liabilities		(9.124)	(32.906)	(17.336)	(61.010)
Adjustments for Other Increase (Decrease) in Working Capital		5.398	25.122	8.899	34.279
Decrease (Increase) in Other Assets Related from Operations		*756*	*2.083*	*(3.390)*	*(8.968)*
Increase (Decrease) in Other Payables Related from Operations		*4.642*	*23.039*	*12.289*	*43.247*
Cash Flows Provided by Operating Activities		**915.386**	**3.201.329**	**556.003**	**1.708.225**
Payments Related to Provisions for Employee Termination Benefits	15	(7.476)	(27.250)	(5.278)	(15.931)
Payments Related to Other Provisions	16	(157)	(572)	(715)	(2.158)
Income Taxes Refund (Paid)		(88.720)	(312.225)	(70.999)	(206.438)
CASH FLOWS FROM INVESTING ACTIVITIES		**(54.091)**	**(198.372)**	**(79.949)**	**(243.570)**
Cash Outflows Arising From Purchase of Shares or Capital Increase of Associates and or Joint Ventures		(3.527)	(13.315)	(8)	(26)
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		45	163	14	41
Cash Inflow from Sales of Property, Plant and Equipment	12 13 24	*45*	*163*	*14*	*41*
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(51.399)	(187.344)	(81.397)	(245.699)
Cash Outflow from Purchase of Property, Plant and Equipment	12	*(50.717)*	*(184.857)*	*(80.820)*	*(243.956)*
Cash Outflow from Purchase of Intangible Assets	13	*(682)*	*(2.487)*	*(577)*	*(1.743)*
Cash Advances and Debts Given		790	2.124	1.442	2.114
Other Cash Advances and Debts Given		*790*	*2.124*	*1.442*	*2.114*
CASH FLOWS FROM FINANCING ACTIVITIES		**(759.658)**	**(2.913.271)**	**(380.066)**	**(1.252.834)**
Cash Inflow from Borrowings		305.849	1.110.596	316.796	1.114.870
Cash Inflow from Loans		*305.849*	*1.110.596*	*316.796*	*1.114.870*
Cash Outflow from Repayments of Borrowings		(358.261)	(1.206.615)	(203.318)	(715.516)
Cash Outflow from Loan Repayments		*(358.261)*	*(1.206.615)*	*(203.318)*	*(715.516)*
Decrease in Other Payables to Related Parties		*(276.510)*	*(1.193.056)*	*(312.031)*	*(1.104.291)*
Dividends Paid		(422.770)	(1.595.000)	(171.588)	(517.939)
Interest Paid		(8.740)	(32.015)	(10.080)	(30.425)
Interest Received		774	2.819	155	467
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		**5.284**	**(250.361)**	**18.996**	**(12.706)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(6.128)	248.187	(18.719)	15.956
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(844)**	**(2.174)**	**277**	**3.250**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	3.998	14.069	3.721	10.819
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	**3.154**	**11.895**	**3.998**	**14.069**

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

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 Company	Country of Operation	Operation	2017 Share %	2016 Share %
Teknopark Hatay A.Ş.	Turkey	R&D Centre	5	5
İsdemir Linde Gaz Ortaklığı A.Ş.	Turkey	Energy	50	50

As of 18 November 2016, İsdemir Linde Gas Partnership A.Ş. has been established through 50%-50% partnership with the German Linde Company 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 Partnership A.Ş., which will be accounted for using the equity method, is not included in the consolidation as of the reporting period due to the fact that it does not have a significant effect on the consolidated financial statements. Share capital of the jointly controlled entity amounting to TRY 13.335 thousand reported under financial investments.

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 2017 and 31 December 2016 are as follows:

	31 December 2017 Personnel	31 December 2016 Personnel
Paid Hourly Personnel	3.107	3.286
Paid Monthly Personnel	1.756	1.742
	4.863	5.028

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 2017 and 31 December 2016.

Presentation currency translation

Presentation currency of the 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 December 2017 are translated from US Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 3,7719=US $ 1 and TRY 4,5155=EUR 1 on the balance sheet date (31 December 2016: TRY 3,5192= US $ 1, TRY 3,7099=EUR 1).
b) For the twelve months period ended 31 December 2017, income statements are translated from the average TRY 3,6449 = US $ 1 and TRY 4,1139=EUR 1 rates of 2017 January - December period (31 December 2016: TRY 3,0185 = US $ 1 TRY 3,3377 = 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 2017 and 31 December 2016, statement of income and other comprehensive income, and statement of cash flows for the year ended 31 December 2017 representing the financial statements within the frame of functional currency change that the Company has made, which is effective as of 1 July 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 2 February 2018 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

2.2 Restatement and errors in the accounting policies and estimates

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

Based on the report of Hatch Associates Limited prepared as of 31 December 2008 and dated 12 May 2009, the Company changed the depreciation method of İsdemir's land improvements, machinery, equipment and vehicles from straight line to the units of production method effective from 1 January 2009, where it is appropriate, to reflect their expected consumption model in a more accurate way.

The Company, after the investments and modernizations realized , to be used as 1 January 2017, Hatch Associates Limited has issued a new valuation report in 22 February 2017. Prior period economic life assumptions been used, the depreciation charge for twelve months would have been higher by TRY 33,385 thousand in the upcoming financial statements of the company.

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

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. The following arrangements have been made in the prior period financial statements.

	(Previously reported) 31 December 2016	(Revised) 31 December 2016	(Change) 31 December 2016
Account			
Trade receivables from related parties [1]	344.496	339.509	(4.987)
Trade payables to related parties [1]	68.188	63.201	(4.987)
Other comprehensive income/expense not to be reclassified to profit or loss [2]	(48.758)	3.501.454	3.550.212
Other comprehensive income/expense to be reclassified to profit or loss [2]	3.542.758	(7.454)	(3.550.212)

(1) "Trade receivables from related parties" and "Trade payables to related parties" have been reported as netted off by TRY 4.987 thousand in the statement of financial position at 31 December 2016.

(2) Other comprehensive income(expense) to be reclassified to profit or loss reported in TRY 3.550.212 thosand to foreign currency translation differences classified other comprehensive income(expense) not to be reclassified to profit or loss in the statement of financial position at 31 December 2016.

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).

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)

2.4.4 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. As of the reporting date, 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.

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.

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

2.6 Adoption of New and Revised Financial Reporting Standards

Amendments to TFRSs that are mandatorily effective for the current year

Amendments to TAS 12 Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference.

The application of these amendments has had no impact on the Company's financial statements.

Amendments to TAS 7 *Disclosure Initiative*

This amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Company's liabilities arising from financing activities consist of borrowings and certain other financial liabilities. A reconciliation between the opening and closing balances of these items is provided in note. Consistent with the transition provisions of the amendments, the Company has not disclosed comparative information for the prior period. Apart from the additional disclosure in note, the application of these amendments has had no impact on the Company's financial statements.

Annual Improvements to TFRS Standards 2014–2016 Cycle

TFRS 12: TFRS 12 states that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of TFRS 12 for such interests.

The application of these amendments has had no effect on the Company's financial statements as none of the Company's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

New and revised TFRSs in issue but not yet effective:

The Company has not yet implemented the following amendments and interpretations to the existing standards that have not yet entered into force:

TFRS 9 Financial Instruments

TFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets / liabilities and for derecognition and for general hedge accounting.

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

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

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

TFRS 9 Financial Instruments (cont'd)

Key requirements of TFRS 9:

• All recognized financial assets that are within the scope of TFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the nd of subsequent accounting periods. In addition, under TFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in profit or loss.

• With regard to the measurement of financial liabilities designated as at fair value through profit or loss, TFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under TAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

• In relation to the impairment of financial assets, TFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under TAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in TAS 39. Under TFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required.Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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

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

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

Based on an analysis of the Company's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the management of the Company have assessed the impact of TFRS 9 to the Company's financial statements as follows:

Classification and measurement

Bills of exchange and debentures classified as held-to-maturity investments and loans carried at amortized cost. These are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortized cost upon the application of TFRS 9. All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under TAS 39.

Impairment

Financial assets measured at amortized cost, listed redeemable notes that will be carried at FVTOCI under TFRS 9.

The Company expects to apply the simplified approach to recognize lifetime expected credit losses for its trade receivables as required or permitted by TFRS 9.

TFRS 15 Revenue from Contracts with Customers

TFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. TFRS 15 will supersede the current revenue recognition guidance including TAS 18 *Revenue*, TAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of TFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

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

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

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

Under TFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in TFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by TFRS 15.

In April 2016, the IASB issued *Clarifications to TFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The sales-related warranties cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Company will continue to account for the warranty in accordance with TAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with its current accounting treatment.

Apart from providing more extensive disclosures on the Company's revenue transactions, the management do not anticipate that the application of TFRS 15 will have a significant impact on the financial position and/or financial performance of the Company.

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

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

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

The amendments clarify the estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

Amendments to TAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in TAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

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

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

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

Annual Improvements to TFRS Standards 2014–2016 Cycle

The Annual Improvements include amendments to a number of TFRSs, which have been summarised below. The package also includes amendments to TFRS 12 Disclosure of Interests in Other Entities, which is effective for annual periods beginning on or after 1 January 2017 (see section 1A above for details).

- **TFRS 1:** The amendments delete certain short-term exemptions in TFRS 1 because the reporting period to which the exemptions applied have already passed. As such, these exemptions are no longer applicable.
- **TAS 28:** The amendments clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture.

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

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

The management of the Company do not evaluating impacts of the amendments in the future will have an impact on the Company's financial statements.

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.

<u>Sale of goods</u>

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 the 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.

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

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

2.7.1 Revenue recognition (cont'd)

Dividend and interest income

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. 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.
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.

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)

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. 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.

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

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: '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.

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.

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.

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)

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.

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.

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)

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.

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).

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

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

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.

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. Post period end events that are not adjusting events are disclosed in the notes when material.

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.

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

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

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

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.

2.7.12 Taxation and Deferred Income Taxes

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

<u>Current tax</u>

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.

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)

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.

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.

NOT 2 –FİNANSAL TABLOLARIN SUNUMUNA İLİŞKİN ESASLAR (devamı)

2.7 Uygulanan Değerleme İlkeleri / Muhasebe Politikaları (devamı)

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 15.

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.

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.

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 (cont'd)

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 2017 and 31 December 2016 is as follows:

	31 December 2017	31 December 2016
Banks-demand deposits	11.895	14.069
	11.895	14.069

The breakdown of demand deposits is presented below:

	31 December 2017	31 December 2016
US Dollars	8.919	12.737
TRY	2.802	903
EURO	162	325
GB Pound	10	87
Other	2	17
	11.895	14.069

NOTE 5 – FINANCIAL INVESTMENTS

Long term financial investments:

	31 December 2017	31 December 2016
Aavailable for sale financial assets	13.437	122
	13.437	122

As of 31 December 2017 and 31 December 2016, 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 2017	Ratio %	31 December 2016
Financial investments without an active market				
Teknopark Hatay A.Ş.	5	102	5	95
Joint venture				
İsdemir Linde Gaz Ortaklığı A.Ş. (*)	50	13.335	50	27
		13.437		122

(*)As of 31 December 2017, non-operating joint venture İsdemir Linde Gaz Ortaklığı A.Ş. not recognized as equity pick up method and included to the financials with cost amount since the effect on financials are not material.

NOTE 6 – FINANCIAL DERIVATIVE INSTRUMENTS

The detail of financial derivative instruments as of 31 December 2017 and 31 December 2016 is as follows:

	31 December 2017		31 December 2016	
	Asset	Liability	Asset	Liability
Fair value hedging derivative financial assets				
Cross currency swap contracts	-	-	22.642	133
Basis Swap contracts	-	158	-	237
	-	158	22.642	370
Cash flow hedging derivative financial assets				
Cross currency swap contracts for cash flow hedges of currency risk of borrowings	-	-	9.243	18.389
Interest rate swap contracts for cash flow hedges of interest rate risk of borrowings	-	-	-	171
	-	158	9.243	18.560
	-	158	31.885	18.930

NOTE 6 – FINANCIAL DERIVATIVE INSTRUMENTS (cont'd)

Derivative instruments for fair value hedge

As of 31 December 2017 and 31 December 2016, the details of cross currency swap transactions for fair value hedge are as follows:

		Assets		Liabilities	
31 December 2017		Nominal Value	Fair Value	Nominal Value	Fair Value
Basis interest swap contracts					
USD basis floating interest collection /Basis floating interest payment	Between 1-5 years			44.375	158
		-	-	44.375	158
		-	-	44.375	158

		Assets		Liabilities	
31 December 2016		Nominal Value	Fair Value	Nominal Value	Fair Value
Cross currency, interst rate swap contracts					
Buy EUR / Sell TRY	Berween 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

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.

As of the reporting date, the Company does not have derivative instruments for cash flow hedge purposes.

NOTE 7 – BORROWINGS

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

	31 December 2017	31 December 2016
Short term borrowings	904.459	519.335
Current portion of long term borrowings	131.708	512.534
Total short term borrowings	1.036.167	1.031.869
Total long term financial borrowings	303.070	361.476
	1.339.237	1.393.345

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

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	Weight 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

NOTE 7 – BORROWINGS (cont'd)

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

	31 December 2017	31 December 2016
Within 1 year	1.036.167	1.031.869
Between 1 – 2 years	79.170	109.625
Between 2 – 3 years	70.293	66.994
Between 3 – 4 years	61.418	58.713
Between 4 – 5 years	61.418	50.433
Five years or more	30.771	75.711
	1.339.237	1.393.345

Reconciliation of net financial borrowings as of 31 December 2017 and 31 December 2016 is as follows:

	31 December 2017	31 December 2016
Opening balance	1.393.345	831.241
Interest expenses	34.424	34.080
Interest paid	(32.015)	(30.425)
Unrealised foreign exchange differences	39.502	(14.028)
Net present value differences	1.577	5.006
Cash inflow from loans	1.109.019	1.181.187
Cash outflow from loan repayments	(1.206.615)	(613.716)
Closing balance	1.339.237	1.393.345

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 2017	31 December 2016
Short term trade receivables		
Trade receivables	183.823	266.220
Due from related parties (Note 29)	549.336	339.509
Discount on receivables (-)	-	(1)
Allowance for doubtful trade receivables (-)	(1.841)	(8.475)
	731.318	597.253

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

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

The movement of allowance for doubtful receivables are as follows:

	1 January – 31 December 2017	1 January – 31 December 2016
Opening balance	8.475	7.294
Provision for the year	67	1.173
Doubtful receivables collected (-)	(4.179)	-
Provision released (-)	(4.332)	(234)
Translation difference	1.810	242
Closing balance	1.841	8.475

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.

The detail of overdue receivables included in trade receivables as of the reporting date is disclosed in the management of credit risk management (Note 30).

As of the balance sheet date, there are no significant receivables in trade receivables past due.

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 2017	31 December 2016
Trade payables	392.686	344.101
Due to related parties (Note 29)	48.513	63.201
Discount on trade payables (-)	(1.753)	(1.198)
	439.446	406.104

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 2017	31 December 2016
Other receivables from related parties (Note 29)	3.325.120	2.050.619
Receivables from water system construction	1.701	1.592
Deposits and guarantees given	124	124
	3.326.945	2.052.335

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

Long term other receivables	31 December 2017	31 December 2016
Receivables from Privatization Authority	73.193	70.236
Receivables from water system construction	12.591	12.808
Provision for receivables from Privatization Authority (-)	(73.193)	(70.236)
	12.591	12.808

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

	31 December 2017	31 December 2016
Opening balance	70.236	67.397
Provision for the period	2.990	2.887
Other doubtful receivables collected (-)	-	(227)
Translation difference	(33)	179
Closing balance	73.193	70.236

Short term other payables	31 December 2017	31 December 2016
Taxes payable	10.099	8.678
Deposits and guarantees received	5.570	7.359
Dividend payables to shareholders (*)	1.657	770
	17.326	16.807

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

NOTE 10 – INVENTORIES

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

	31 December 2017	31 December 2016
Raw materials	646.014	426.944
Work in progress	352.359	316.501
Finished goods	264.781	216.121
Spare parts	274.453	259.528
Goods in transit	505.755	627.772
Other inventories	157.947	126.908
Allowance for impairment on inventories (-)	(92.620)	(62.463)
	2.108.689	1.911.311

NOTE 10 – INVENTORIES (cont'd)

The movement of the allowance for impairment on inventories:

	1 January - 31 December 2017	1 January - 31 December 2016
Opening balance	62.463	44.817
Provision for the year	27.471	16.727
Provision released (-)	(2.664)	(9.677)
Translation difference	5.350	10.596
Closing balance	92.620	62.463

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 2017	31 December 2016
Insurance expenses	17.091	6.857
Order advances given	2.573	4.070
Prepaid utility allowance to employees	1.323	1.423
Other prepaid expenses	-	2.133
	20.987	14.483

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

	31 December 2017	31 December 2016
Order advances given	9.836	11.960
Other prepaid expenses	2.190	21
	12.026	11.981

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	75.432	2.250.369	2.590.793	9.442.056	819.505	381.071	21.422	167.029	15.747.677
Translation difference	5.422	162.587	186.382	682.302	59.111	27.625	1.818	11.967	1.137.214
Additions (*)	-	369	432	41.198	6.701	8.026	1.422	126.709	184.857
Transfers from CIP (**)	145	28.385	9.760	83.042	5.170	368	120	(127.476)	(486)
Disposals	-	(155)	(228)	(718)	(4.246)	(885)	(99)	-	(6.331)
Closing balance as of 31 December 2017	80.999	2.441.555	2.787.139	10.247.880	886.241	416.205	24.683	178.229	17.062.931
Accumulated Depreciation									
Opening balance as of 1 January	-	(1.632.806)	(1.625.555)	(4.753.465)	(395.096)	(154.002)	(16.851)	(40.019)	(8.617.794)
Translation difference	-	(118.770)	(118.694)	(350.070)	(29.026)	(11.598)	(1.489)	(2.874)	(632.521)
Charge for the year	-	(43.828)	(56.536)	(251.494)	(23.052)	(16.327)	(1.517)	-	(392.754)
Disposals	-	54	25	602	4.243	841	99	-	5.864
Closing balance as of 31 December 2017	-	(1.795.350)	(1.800.760)	(5.354.427)	(442.931)	(181.086)	(19.758)	(42.893)	(9.637.205)
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
Net book value as of 31 December 2017	80.999	646.205	986.379	4.893.453	443.310	235.119	4.925	135.336	7.425.726

(*) TRY 486 thousand is transferred to intangible assets (Note 13).

As of 31 December 2017, the Company has no collaterals or pledges on tangible assets (31 December 2016: 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	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 year	-	(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)

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

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

	31 December 2017	31 December 2016
Associated with cost of production	379.235	334.125
General administrative expenses	2.315	2.403
Marketing, sales and distribution expenses	11.204	9.545
	392.754	346.073

NOTE 13 – INTANGIBLE ASSETS

	Rights	Total
Cost		
Opening balance as of 1 January	259.641	259.641
Translation difference	18.747	18.747
Additions	2.487	2.487
Transfers from CIP	486	486
Closing balance as of 31 December 2017	281.361	281.361
Accumulated amortization		
Opening balance as of 1 January	(94.530)	(94.530)
Translation difference	(7.119)	(7.119)
Charge for the year	(9.489)	(9.489)
Closing balance as of 31 December 2017	(111.138)	(111.138)
Net book value as of 31 December 2016	165.111	165.111
Net book value as of 31 December 2017	170.223	170.223

As of 31 December 2017, the Company has no collaterals or pledges on intangible assets (31 December 2016: None).

NOTE 13 – INTANGIBLE ASSETS (cont'd)

	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 year	(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

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

	31 December 2017	31 December 2016
Associated with cost of production	9.489	7.268
	9.489	7.268

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 2017	31 December 2016
Due to personnel	65.249	53.462
Social security premiums payable	20.635	19.766
	85.884	73.228

NOTE 15 – EMPLOYEE BENEFITS (cont'd)

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

	31 December 2017	31 December 2016
Provisions for employee termination benefits	212.842	188.399
Provisions for seniority incentive premium	16.385	17.305
Provision for unpaid vacations	25.269	27.261
	254.496	232.965

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 2017, the amount payable consists of one month's salary limited to a maximum of TRY 4.732,48 (31 December 2016: TRY 4.297,21) As of 1 January 2018, the employee termination benefit has been updated to a maximum of TRY 5.001,76

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 2017 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 2017	31 December 2016
Discount rate	%11,50	%11,00
Inflation rate	%8,30	%7,80
Salary increase	reel %1,5	reel %1,5
Maximum liability increase	%8,30	%7,80

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 2017, 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 2017	1 January - 31 December 2016
Opening balance	188.399	172.350
Service cost	17.154	16.684
Interest cost	19.498	17.367
Actuarial loss	5.128	(3.759)
Termination benefits paid	(17.440)	(14.286)
Translation difference	103	43
Closing balance	212.842	188.399

The sensitivity analysis of the assumptions which was used for the calculation of provision for employment termination benefits as of 31 December 2017 as follows:

	Interest rate	
Change in Rate	1% increase	1% decrease
Change in employee benefits liability	(9.782)	10.529

	Inflation rate	
Change in Rate	1% increase	1% decrease
Change in employee benefits liability	9.877	(9.270)

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 2017	1 January - 31 December 2016
Opening balance	17.305	12.547
Service cost	1.768	1.722
Interest cost	1.622	1.415
Actuarial loss/(gain)	3.362	1.753
Termination benefits paid	(7.667)	(129)
Translation difference	(5)	(3)
Closing balance	16.385	17.305

NOTE 15 – EMPLOYEE BENEFITS (cont'd)

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

	1 January - 31 December 2017	1 January - 31 December 2016
Opening balance	27.261	20.488
Provision for the year	18.047	17.329
Vacation paid during the year (-)	(2.143)	(1.516)
Provisions released (-)	(17.953)	(9.077)
Translation difference	57	37
Closing balance	25.269	27.261

NOTE 16 – PROVISIONS

The Company's short term provisions are as follows:

	31 December 2017	31 December 2016
Provision for lawsuits	21.441	20.910
Penalty prov. for employment shortage of disabled pers.	5.480	3.993
Provision for land occupation	1.212	696
	28.133	25.599

As of 31 December 2017 and 31 December 2016, lawsuits filed by and against the Company are as follows:

	31 December 2017	31 December 2016
Lawsuits filed by the Company	171.184	146.682
Provision for lawsuits filed by the Company	4.045	1.419

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

	31 December 2017	31 December 2016
Lawsuits filed against the Company	16.825	17.246
Provision for lawsuits filed against the Company	21.441	20.910

NOTE 16 – PROVISIONS (cont'd)

The movement of the short term provisions is as follows:

	1 January 2017	Change for the period	Payments	Provision Released	Translation differnce	31 December 2017
Provision for lawsuits	20.910	7.515	(572)	(6.657)	245	21.441
Penalty prov. for employment shortage of disabled pers.	3.993	1.441	-	-	46	5.480
Provision for land occupation	696	527	-	-	(11)	1.212
	25.599	9.483	(572)	(6.657)	280	28.133

	1 January 2016	Change for the period	Payments	Provision Released	Translation differnce	31 December 2016
Provision for lawsuits	21.196	4.789	(1.785)	(4.024)	734	20.910
Penalty prov. for employment shortage of disabled pers.	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

NOTE 17 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Company are as follows:

	31 December 2017	31 December 2016
Letters of guarantees received	224.067	221.156
	224.067	221.156

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

	31 December 2017	31 December 2016
A. Total CPM given for the Company's own legal entity	64.349	63.542
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	-	-
	146.849	63.542

As of reporting date, TRY 82.500 thousand of total CPM given in favor of subsidiaries by the Company is related with jointly controlled entity of Company, Isdemir Linde Gaz A.Ş.'s financial borrowings. As of 31 December 2017, the ratio of the other CPM given by the Company to shareholders equity is 0% (31 December 2016: 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 2017	31 December 2016
TRY	137.818	54.471
EURO	9.031	9.071
	146.849	63.542

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 2017	31 December 2016
Other VAT receivable	2.720	5.978
Prepaid taxes and funds	943	881
Other current assets	4.915	3.802
	8.578	10.661

Other current liabilities

	31 December 2017	31 December 2016
VAT payable	66.052	51.533
Other current liabilities	4.277	7.008
	70.329	58.541

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 2017	31 December 2016
Advances received	28.085	16.661
Deferred income	1.582	1.755
	29.667	18.416

NOTE 20 – EQUITY

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

Other equity items	31 December 2017	31 December 2016
Cash Flow Hedging Reserves	-	(7.454)
Foreign Currency Translation Reserves	4.242.923	3.550.212
Actuarial (Loss)/ Gain Fund	(52.860)	(48.758)
Restricted Reserves Assorted from Profit	447.790	240.817
-Legal Reserves	*447.790*	*240.817*
Retained Earnings	48.457	907.581
	4.686.310	4.642.398

NOTE 20 – EQUITY (cont'd)

Other equity items	31 December 2017	31 December 2016
Cash Flow Hedging Reserves	-	(7.454)
Foreign Currency Translation Reserves	4.242.923	3.550.212
Actuarial (Loss)/ Gain Fund	(52.860)	(48.758)
Restricted Reserves Assorted from Profit	447.790	240.817
_Legal Reserves	*447.790*	*240.817*
Retained Earnings	48.457	907.581
	4.686.310	4.642.398

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.

Other sources which might be used in dividend distribution, except the net profit for the period, in statutory books of the Company are equal to TRY 18.719 thousand as of 31 December 2017.

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 TAS-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 Aralık 2017	1 January - 31 Aralık 2016
Sales Revenue		
Domestic sales	8.867.684	5.457.179
Export sales	1.496.128	882.008
Other revenues (*)	264.671	132.786
Sales returns (-)	(16.010)	(1.305)
	10.612.473	6.470.668
Cost of sales (-)	(7.602.193)	(5.019.949)
Gross profit	3.010.280	1.450.719

(*)The total amount of by product exports in other revenues is TRY 119.255 thousand (31 December 2016: TRY 61.316 thousand).

The breakdown of cost of goods sales for the periods 1 January – 31 December 2017 and 1 January – 31 December 2016 is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Raw material usage	(6.031.286)	(3.626.892)
Personnel costs	(519.205)	(470.612)
Energy costs	(220.807)	(278.618)
Depreciation and amortization expenses	(393.040)	(341.896)
Factory overheads	(191.858)	(160.512)
Other cost of goods sold	(129.050)	(70.963)
Non-operating costs (*)	(9.242)	(7.535)
Freight costs for sales delivered to customers	(77.521)	(53.816)
Inventory write-downs within the period (Note 10)	(27.471)	(16.727)
Reversal of inventory write-downs (Note 10)	2.664	9.677
Other	(5.377)	(2.055)
	(7.602.193)	(5.019.949)

(*) 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 (9.242) thousand, has been accounted directly under cost of goods sold (31 December 2016: TRY 7.535 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 2017 and 1 January – 31 December 2016 is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Marketing expenses (-)	(75.442)	(69.470)
General administrative expenses (-)	(110.014)	(110.774)
Research and development expenses (-)	(124)	(689)
	(185.580)	(180.933)

NOTE 23 – OPERATING EXPENSES ACCORDING TO THEIR NATURE

The breakdown of marketing expenses according to their nature for the periods 1 January – 31 December 2017 and 1 January – 31 December 2016 is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Personnel expenses (-)	(22.039)	(22.913)
Depreciation and amortization(-)	(11.204)	(9.545)
Tax, duty and charges (-)	(500)	(480)
Service expenses (-)	(41.699)	(36.532)
	(75.442)	(69.470)

The breakdown of general administrative expenses for the periods 1 January – 31 December 2017 and 1 January – 31 December 2016 is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Personnel expenses (-)	(41.757)	(41.231)
Depreciation and amortization expenses(-)	(2.315)	(2.403)
Provision for doubtful receivables (-)	1.275	(3.826)
Tax, duty and charges (-)	(5.844)	(5.465)
Service expenses (-)	(61.373)	(57.849)
	(110.014)	(110.774)

NOTE 24 – OTHER OPERATING INCOME/(EXPENSES)

The breakdown of other operating income for the periods 1 January – 31 December 2017 and 1 January – 31 December 2016 is as follows:

Other operating income	1 January - 31 December 2017	1 January - 31 December 2016
Interest income from sales with maturities	20.069	10.753
Discount income	8.893	1.335
Provisions released	6.657	4.921
Service income	9.973	9.516
Maintenance repair and rent income	9.765	8.231
Lawsuit income	7.437	242
Indemnity and penalty detention income	2.820	1.962
Insurance indemnity income	699	742
Warehouse income	3.285	1.770
Gain on sale of tangible assets	137	-
Gain on sale of investment properties	7.931	-
Other income and gains	3.733	2.719
	81.399	42.191

The breakdown of other operating expenses for the periods 1 January – 31 December 2017 and 1 January – 31 December 2016 is as follows:

Other operating expenses (-)	1 January - 31 December 2017	1 January - 31 December 2016
Provision expenses	(9.006)	(6.013)
Donation expenses	(1.372)	(2.363)
Discount expenses	(10.468)	(5.638)
Port facility pre-licence expenses	(6.443)	(5.399)
Lawsuit compensation expenses	(1.885)	(2.298)
Penalty expenses	(363)	(1.787)
Sales return and price differences of previous period	(9.021)	(835)
Loss on disposal of tangible assets	(441)	(85)
Impairment of property, plant and equipment (Note 12)	-	(8.713)
Other expenses and losses	(6.227)	(7.022)
	(45.226)	(40.153)

NOTE 25 – FINANCE INCOME

The breakdown of financial income for the periods 1 January – 31 December 2017 and 1 January – 31 December 2016 is as follows:

Financial income	1 January - 31 December 2017	1 January - 31 December 2016
İnterest income on bank deposits	192	4
İnterest income on swap contracts	-	9.317
Foreign exchange gains (net)	154.056	161.091
İnterest income on related party	82.930	40.254
Other financial incomes	227	-
	237.405	210.666

NOTE 26 – FINANCE EXPENSES

The breakdown of financial expenses for the periods 1 January – 31 December 2017 and 1 January – 31 December 2016 is as follows:

Finance expenses (-)	1 January - 31 December 2017	1 January - 31 December 2016
Interest expenses on borrowings	(34.424)	(34.080)
Interest cost of employee benefits	(21.120)	(18.782)
İnterest expenses on related party	(1.485)	(2.925)
Guarantee expenses	(1.986)	(4.386)
Fair value differences of derivative financial instruments (net)	(23.452)	(35.456)
	(82.467)	(95.629)

NOTE 27 – TAX ASSETS AND LIABILITIES

	31 December 2017	31 December 2016
Corporate tax payable:		
Current corporate tax expense	664.873	312.225
Deferred tax (income)/expense	(31.373)	131.787
	633.500	444.012

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 2017 (31 December 2016: 20%).

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

Corporate tax (cont'd)

Advance tax returns are filed on a quarterly basis in Turkey. The temporary tax of 2017 has been calculated over the corporate earnings using the rate 20%, during the temporary taxation period (2016: 20%).

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

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

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

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

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes on dividends distributed, except for the dividends distributed to fully fledged taxpayer companies receiving and declaring these dividends and to Turkish branches of foreign companies. 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 (2016: 20%).

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

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.

In accordance with the Provisional Article added to the Law of Corporate Income Tax, 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%. Due to the 19.8% investment reduction of the company, tax rate used in the calculation of deferred tax assets and liabilities (excluding land) are 20% (31 December 2016: 20%). Deferred tax related with the temporary differences arising from land parcels is calculated with the tax rate of 10% (31 December 2016: 5%).

	31 December 2017	31 December 2016
Deferred tax assets:		
Provisions for employee benefits	50.899	46.593
Investment incentive	52.771	7.760
Provision for lawsuits	4.531	4.321
Adjustment of receivable rediscount	6.449	5.928
Provision for other doubtful receivables	14.639	14.047
Other	13.575	11.964
	142.864	90.613
Deferred tax liabilities:		
Tangible and intangible fixed assets	(1.078.590)	(965.728)
Fair values of the derivative financial instruments	-	(2.591)
Amortized cost adjustment on loans	(1.026)	(1.342)
Inventories	(6.380)	(30.972)
Other	(949)	(311)
	(1.086.945)	(1.000.944)
	(944.081)	(910.331)

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.

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

Deferred tax (cont'd)

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

	1 January - 31 December 2017	1 January - 31 December 2016
Opening balance	(910.331)	(623.440)
Deferred tax expense	31.373	(131.787)
The amount in comprehensive income/(expense)	(838)	(1.904)
Translation difference	(64.285)	(153.200)
Closing balance	(944.081)	(910.331)

Reconciliation of tax provision is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Profit before tax	3.015.811	1.386.861
Statutory tax rate	20%	20%
Calculated tax acc. to effective tax rate	603.162	277.372
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	687	706
- Effect of currency translation to non taxable assets	72.608	163.161
- Investment incentives	(42.957)	2.773
Tax expense in reported in the consolidate statement of income	633.500	444.012

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

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

Deferred tax (cont'd)

As of 1 January – 31 December 2017 and 1 January – 31 December 2016, the details of the tax gains/(losses) of the other comprehensive income/(expense) are as follows:

	1 January -31 December 2017		
Other comprehensive income/(loss) in the current year	Amount before tax	Tax income / (expense)	Amount after tax
Change in actuarial (loss)/gain	(5.128)	1.026	(4.102)
Change in cash flow hedging reserves	9.318	(1.864)	7.454
Change in foreign currency translation reserves	692.711	-	692.711
	696.901	(838)	696.063

	1 January -31 December 2016		
Other comprehensive income/(loss) in the current year	Vergi öncesi tutar	Vergi geliri/(gideri)	Vergi sonrası tutar
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

NOTE 28 – EARNINGS PER SHARE

	1 January - 31 December 2017	1 January- 31 December 2016
Number of shares outstanding	290.000.000.000	290.000.000.000
Net profit attributable to equity holders - TRY thousand	2.382.311	942.849
Profit per share with 1 TRY nominal value TRY %	0,8215 / %82,15	0,3251 / %32,51

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 2017	31 December 2016
Due from related parties (short term)		
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (1)	481.139	308.982
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. (2)	49.346	23.817
Erdemir Romania S.R.L. (2)	3.192	-
Adana Çimento Sanayi T.A.Ş. (3)	10.194	6.065
Aslan Çimento A.Ş. (3)	1.368	645
Mardin Çimento Sanayi ve Ticaret A.Ş. (3)	277	-
İsdemir Linde Gaz Ortaklığı A.Ş. (4)	3.820	-
	549.336	339.509

NOTE 29 – RELATED PARTY DISCLOSURES (cont'd)

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

	31 December 2017	31 December 2016
Other receivables from related parties (short term)		
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. [(1)]	3.325.120	2.050.619
	3.325.120	2.050.619

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 2017	31 December 2016
Erdemir Madencilik San. ve Tic. A.Ş. [(2)]	11.696	24.641
Oyak Pazarlama Hizmet ve Turizm A.Ş. [(3)]	2.791	1.907
Erdemir Asia Pacific PTE LTD [(2)]	14.062	23.333
Omsan Lojistik A.Ş. [(3)]	4.268	3.639
OYAK Savunma ve Güvenlik Sistemleri A.Ş. [(3)]	2.515	2.000
Oyak Denizcilik ve Liman İşletmeleri A.Ş. [(3)]	4.538	-
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. [(2)]	1.141	3.722
Omsan Denizcilik A.Ş. [(3)]	7.187	1.636
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. [(2)]	-	1.458
Other	315	865
	48.513	63.201

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

NOTE 29 – RELATED PARTY DISCLOSURES (cont'd)

	1 January – 31 December 2017	1 January – 31 December 2016
Major sales to related parties		
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. [1]	6.586.807	3.925.568
Adana Çimento Sanayi T.A.Ş. [3]	20.527	16.523
Erdemir Romania S.R.L. [2]	29.614	-
Erdemir Asia Pacific PTE LTD [2]	90.967	60.158
Oyak Denizcilik ve Liman İşletmeleri A.Ş. [3]	9.219	-
İsdemir Linde Gaz Ortaklığı A.Ş. [2]	3.341	-
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. [2]	218.034	81.093
OYAK Savunma ve Güvenlik Sistemleri A.Ş. [3]	707	616
Omsan Lojistik A.Ş. [3]	518	121
Mardin Çimento Sanayi ve Ticaret A.Ş. [3]	1.104	650
Aslan Çimento A.Ş. [3]	2.177	1.635
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. [2]	414	476
Other	922	796
	6.964.351	4.087.636

	1 January – 31 December 2017	1 January – 31 December 2016
Major purchases from related parties		
Erdemir Madencilik San. ve Tic. A.Ş. [2]	545.680	329.217
Erdemir Asia Pacific PTE LTD [2]	200.583	95.044
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. [1]	146.949	113.120
Oyak Pazarlama Hizmet ve Turizm A.Ş. [3]	28.147	18.720
Omsan Denizcilik A.Ş. [3]	36.477	27.105
Oyak Savunma ve Güvenlik Sistemleri A.Ş. [3]	19.257	17.519
Omsan Lojistik A.Ş. [3]	36.552	30.827
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. [2]	11.077	8.232
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. [2]	18.602	25.319
Oyak Denizcilik ve Liman İşletmeleri A.Ş. [3]	41.223	-
Oyak Grup Sigorta Reasürans Brokerliği A.Ş. [3]	2.250	-
Other	3.063	7.151
	1.089.860	672.254

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

Total financial income from the related party transactions of the Company for the twelve months period of 2017 is TRY 101.312 thousand.

NOTE 29 – RELATED PARTY DISCLOSURES (cont'd)

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 2017, the Company provides no provision for the receivables from related parties (31 December 2016: None).

For the year ended 31 December 2017, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Company is TRY 5.241 thousand (31 December 2016: TRY 4.192 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 2017 and 31 December 2016 the net debt/equity ratio is as follows:

	Note	31 December 2017	31 December 2016
Total financial liabilities	7	1.339.237	1.393.345
Less: Other receivables from related parties	29	3.325.120	2.050.619
Less: Cash and cash equivalents	4	11.895	14.069
Net debt		(1.997.778)	(671.343)
Total adjusted equity (*)		10.021.645	8.541.623
Total resources		8.023.867	7.870.280
Net debt / Total adjusted equity ratio		-20%	-8%
Distribution net debt / Total adjusted equity		-25/125	-9/109

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

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

Additional information about financial instruments (cont'd)

(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.

Credir risk of financial instruments	Receivables				Bank	Derivative
	Trade Receivables		Other Receivables		Deposits	financial instruments
31 December 2017	Related Party	Other Party	Related Party	Other Party		
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	549.336	181.982	3.325.120	14.416	11.895	-
_Secured part of the maximum credit risk exposure via collateral etc.	531.212	168.904	3.325.120	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	549.336	181.982	3.325.120	14.416	11.895	-
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)	-	1.841	-	73.193	-	-
_Impairment (-)	-	(1.841)	-	(73.193)	-	-
_Secured part via collateral etc.	-	-	-	-	-	-
_Not overdue (gross carrying amount)	-	-	-	-	-	-
_Impairment (-)	-	-	-	-	-	-
_Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-

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

NOTE 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)

Credir 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)	339.509	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	339.509	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)

(e) Foreign currency risk management

As of 31 December 2017, 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 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	-
4. Current assets (1+2+3)	**1.530.557**	**44.262**	**329.153**	**22**
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	21.648	21.163	108	-
8. Non-current assets (5+6+7)	**21.648**	**21.163**	**108**	-
9. Total assets (4+8)	**1.552.205**	**65.425**	**329.261**	**22**
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	-
13. Current liabilities (10+11+12)	**1.142.500**	**1.040.011**	**22.696**	-
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	-	-	-	-
17. Non-current liabilities (14+15+16)	**531.583**	**254.496**	**61.364**	-
18. Total liabilities (13+17)	**1.674.083**	**1.294.507**	**84.060**	-
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	-	-	-	-
19a. Off-balance sheet foreign currency derivative financial assets	-	-	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	-	-	-	-
20. Net foreign currency asset/liability position (9-18+19)	**(121.878)**	**(1.229.082)**	**245.201**	**22**
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**533.191**	**(574.265)**	**245.256**	**22**
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	-	-	-

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 2016, the foreign currency position of the Company in terms of original currency is 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)

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 December 2017 asset and liability balances are translated by using the following exchange rates: TRY 3,7719 = US $ 1, TRY 4,5155 = EUR 1 and TRY 0,0334 = JPY 1 (31 December 2016: 3, TRY 3,5192 = US$ 1, TRY 3,7099 = EUR 1 and TRY 0,0300= JPY 1)

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2017	Appreciation of foreign currency	Depreciation of foreign currency
1- TRY net asset/liability	(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)	-	-
TOTAL (4+8+12+16)	**(12.187)**	**12.187**

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) after capitalization on tangible assets and 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**

(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)

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

31 December 2017

Contractual maturity analysis	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than five years (IV)
Non derivative financial liabilities						
Borrowings from banks	1.339.237	1.366.470	602.842	443.434	289.051	31.143
Trade payables	439.446	441.199	441.199	-	-	-
Other financial liabilities (*)	100.561	100.561	100.561	-	-	-
Total liabilities	**1.879.244**	**1.908.230**	**1.144.602**	**443.434**	**289.051**	**31.143**
Derivative financial liabilities						
Derivative cash inflows	-	-	-	-	-	-
Derivative cash outflows	(158)	(44.375)	-	-	(44.375)	-
	(158)	**(44.375)**	**-**	**-**	**(44.375)**	**-**

(*) 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)

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

31 December 2016

Contractual maturity analysis	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than five 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)

(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.

In addition, through the use of deposits in which the Company has a right to claim the accrued interest when withdrawn before the predetermined maturity, the Company minimizes the interest rate risk by increasing the share of floating rate denominated assets in its the balance sheet.

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 2017	31 December 2016
Floating Interest Rate Financial Instruments		
Financial liabilities	434.779	876.995

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 1.941 thousand (31 December 2016: TRY 3.932 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 2017	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	11.895	-	-	-	-	-	11.895	4
Trade receivables	-	731.318	-	-	-	-	731.318	8
Financial investments	-	-	13.437	-	-	-	13.437	5
Other financial assets	-	3.339.536	-	-	-	-	3.339.536	9
Derivative financial instruments	-	-	-	-	-	-	-	6
Financial Liabilities								
Financial liabilities	-	-	-	1.339.237	-	-	1.339.237	7
Trade payables	-	-	-	439.446	-	-	439.446	8
Other liabilities	-	-	-	100.561	-	-	100.561	9/15/19
Derivative financial instruments	-	-	-	-	-	158	158	6
31 December 2016								
Financial Assets								
Cash and cash equivalents	14.069	-	-	-	-	-	14.069	4
Trade receivables	-	597.253	-	-	-	-	597.253	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	-	-	-	406.104	-	-	406.104	8
Other liabilities	-	-	-	78.252	-	-	78.252	9/15/19
Derivative financial instruments	-	-	-	-	18.560	370	18.930	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 2017	Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	(158)	-	(158)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	-	-	-	-
Total	(158)	-	(158)	-

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	-

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 the Board of Directors meeting held on February 2, 2018, it was decided that Isdemir Linde Gaz Partnership, a joint managing company, would participate 50% in capital increase amounting to USD 46 million.

NOTE 33 – 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 at December 31, 2017, the accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying financial statements differ from International Financial Reporting Standards ("TFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting, certain reclassifications and also for certain disclosures requirement of the POA/CMB. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with TFRS.