

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

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

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2018**

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

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 30 SEPTEMBER 2018

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

	Note	(Unaudited)	(Unaudited)	(Audited)	(Audited)
		Current Period 30 September 2018 USD'000	Current Period 30 September 2018 TRY'000	Previous Period 31 December 2017 USD'000	Previous Period 31 December 2017 TRY'000
ASSETS					
Current Assets		4.088.060	24.488.295	3.934.814	14.841.725
Cash and Cash Equivalents		1.596.735	9.564.761	1.865.224	7.035.440
Financial Investments	3	5.912	35.412	-	-
Financial Derivative Instruments		14.736	88.271	915	3.452
Trade Receivables		807.518	4.837.195	684.564	2.582.106
<i>Due From Related Parties</i>	3	<i>18.157</i>	<i>108.764</i>	<i>21.988</i>	<i>82.936</i>
<i>Other Trade Receivables</i>		<i>789.361</i>	<i>4.728.431</i>	<i>662.576</i>	<i>2.499.170</i>
Other Receivables		364	2.182	530	2.000
Inventories	4	1.553.331	9.304.765	1.336.066	5.039.509
Prepaid Expenses		16.887	101.158	14.047	52.982
<i>Prepaid Expenses to Related Parties</i>		<i>2.047</i>	<i>12.263</i>	-	-
<i>Other Prepaid Expenses</i>		<i>14.840</i>	<i>88.895</i>	<i>14.047</i>	<i>52.982</i>
Other Current Assets		92.577	554.551	33.468	126.236
Non Current Assets		3.623.946	21.708.161	3.588.147	13.534.130
Other Receivables		2.194	13.141	3.617	13.643
Financial Investments		27	162	3.562	13.437
Financial Derivative Instruments		1.790	10.724	1.298	4.896
Investments Accounted by Using Equity Method	5	27.282	163.423	-	-
Investment Properties		41.999	251.585	26.961	101.695
Property, Plant and Equipment	6	3.445.333	20.638.232	3.465.591	13.071.862
Intangible Assets	6	53.117	318.182	56.022	211.311
Prepaid Expenses		39.052	233.931	15.787	59.543
<i>Due to Related Parties</i>	3	<i>5.513</i>	<i>33.022</i>	-	-
<i>Other Prepaid Expenses</i>		<i>33.539</i>	<i>200.909</i>	<i>15.787</i>	<i>59.543</i>
Deferred Tax Assets	11	13.152	78.781	15.309	57.743
TOTAL ASSETS		7.712.006	46.196.456	7.522.961	28.375.855

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 18)

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

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 30 SEPTEMBER 2018

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

	Note	(Unaudited)	(Unaudited)	(Audited)	(Audited)
		Current Period 30 September 2018 USD'000	Current Period 30 September 2018 TRY'000	Previous Period 31 December 2017 USD'000	Previous Period 31 December 2017 TRY'000
LIABILITIES					
Current Liabilities		1.504.358	9.011.407	1.464.605	5.524.344
Short Term Borrowings	7	611.753	3.664.525	594.801	2.243.529
Short Term Portion of Long Term Borrowings	7	256.391	1.535.831	233.890	882.211
Financial Derivative Instruments		359	2.150	11.064	41.734
Trade Payables		264.786	1.586.119	249.951	942.791
<i>Due to Related Parties</i>	3	9.812	58.776	14.289	53.897
<i>Other Trade Payables</i>		254.974	1.527.343	235.662	888.894
Other Payables		8.894	53.278	11.124	41.958
Deferred Revenue		37.883	226.924	39.842	150.280
Current Tax Liabilities	11	229.420	1.374.274	211.554	797.961
Short Term Provisions	8	37.920	227.146	35.636	134.414
Payables for Employee Benefits	9	25.516	152.848	47.175	177.938
Other Current Liabilities		31.436	188.312	29.568	111.528
Non Current Liabilities		992.016	5.942.372	960.618	3.623.354
Long Term Borrowings	7	306.561	1.836.361	361.804	1.364.688
Financial Derivative Instruments		1.087	6.509	453	1.707
Provisions for Employee Benefits	9	112.550	674.195	168.831	636.813
Deferred Tax Liabilities	11	571.744	3.424.860	429.417	1.619.718
Other Non Current Liabilities		74	447	113	428
EQUITY		5.215.632	31.242.677	5.097.738	19.228.157
Equity Attributable to Equity Holders of the Parent		5.060.687	30.314.526	4.953.574	18.684.383
Share Capital	12	1.818.371	3.500.000	1.818.371	3.500.000
Inflation Adjustment to Capital		81.366	156.613	81.366	156.613
Treasury Shares (-)		(60.387)	(116.232)	(60.387)	(116.232)
Share Issue Premium (Discounts)		55.303	106.447	55.303	106.447
Other Comprehensive Income/Expense Not to be Reclassified to Profit/ (Loss)		(54.074)	12.802.127	(55.297)	5.510.152
<i>Revaluation Reserve of Tangible Assets</i>		10.739	60.233	11.107	33.917
<i>Foreign Currency Translation Reserves</i>		(15.685)	12.845.886	(15.685)	5.587.482
<i>Actuarial (Loss)/ Gain funds</i>		(49.128)	(103.992)	(50.719)	(111.247)
Other Comprehensive Income/Expense to be Reclassified to Profit/ (Loss)		(72.835)	5.328.831	(38.789)	2.061.722
<i>Cash Flow Hedging Gain (Loss)</i>		(2.185)	(13.091)	(4.314)	(16.272)
<i>Foreign Currency Translation Reserves</i>		(70.650)	5.341.922	(34.475)	2.077.994
Restricted Reserves Assorted from Profit		805.774	2.287.528	625.450	1.567.280
Retained Earnings		1.635.660	2.334.824	1.497.692	2.144.646
Net Profit for the Period		851.509	3.914.388	1.029.865	3.753.755
Non-Controlling Interests		154.945	928.151	144.164	543.774
TOTAL LIABILITIES AND EQUITY		7.712.006	46.196.456	7.522.961	28.375.855

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

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 18)

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

CONDENSED CONSOLIDATED STATEMENTS OF INCOME FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018

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

		(Unaudited) Current Period 1 January - 30 September 2018	(Unaudited) Current Period 1 January - 30 September 2018	Current Period 1 July - 30 September 2018	(Unaudited) Previous Period 1 January - 30 September 2017	(Unaudited) Previous Period 1 January - 30 September 2017	Previous Period 1 July - 30 September 2017
	Note	USD'000	TRY'000	TRY'000	USD'000	TRY'000	TRY'000
Revenue	13	4.224.853	19.421.650	7.792.289	3.701.391	13.304.650	4.384.849
Cost of Sales	13	(2.867.585)	(13.182.288)	(5.324.844)	(2.704.390)	(9.720.930)	(3.256.719)
GROSS PROFIT		1.357.268	6.239.362	2.467.445	997.001	3.583.720	1.128.130
Marketing Expenses	14	(32.176)	(147.914)	(56.022)	(32.447)	(116.629)	(35.874)
General Administrative Expenses	14	(67.137)	(308.628)	(101.359)	(66.371)	(238.571)	(77.086)
Research and Development Expenses		(2.672)	(12.284)	(4.385)	(2.704)	(9.721)	(3.597)
Other Operating Income	14	56.791	261.067	171.272	47.158	169.509	36.282
Other Operating Expenses	14	(26.179)	(120.345)	(51.070)	(21.947)	(78.888)	(18.385)
OPERATING PROFIT		1.285.895	5.911.258	2.425.881	920.690	3.309.420	1.029.470
Income from Investing Activities		189	870	466	1.695	6.094	5.380
Expenses from Investing Activities		(5.997)	(27.566)	(4.746)	(2.797)	(10.054)	(77)
Share of Investments' Profit Accounted by Using The Equity Method	5	818	3.759	1.437	-	-	-
OPERATING PROFIT BEFORE FINANCE INCOME (EXPENSES)		1.280.905	5.888.321	2.423.038	919.588	3.305.460	1.034.773
Finance Income	15	162.537	1.269.383	549.960	39.131	140.657	53.542
Finance Expense	15	(43.363)	(199.342)	(98.224)	(47.730)	(180.248)	(26.625)
PROFIT BEFORE TAX		1.400.079	6.958.362	2.874.774	910.989	3.265.869	1.061.690
Tax (Expense) Income	11	(510.168)	(2.867.438)	(1.471.712)	(172.124)	(610.021)	(236.421)
Current Corporate Tax Expense (Income)		(374.815)	(2.245.218)	(1.156.904)	(204.694)	(727.093)	(213.555)
Deferred Tax (Expense) Income		(135.353)	(622.220)	(314.808)	32.570	117.072	(22.866)
NET PROFIT FOR THE PERIOD		889.911	4.090.924	1.403.062	738.865	2.655.848	825.269
Non-Controlling Interests		38.402	176.536	65.177	26.230	94.282	33.104
Equity Holders of the Parent		851.509	3.914.388	1.337.885	712.635	2.561.566	792.165
EARNINGS PER SHARE			1,1184	0,3823		0,7319	0,2263
(TRY 1 Nominal value per share)							

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

CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018

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

	Note	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
		Current Period 1 January - 30 September 2018 USD'000	Current Period 1 January - 30 September 2018 TRY'000	Current Period 1 July- 30 September 2018 TRY'000	Previous Period 1 January - 30 September 2017 USD'000	Previous Period 1 January - 30 September 2017 TRY'000	Previous Period 1 July- 30 September 2017 TRY'000
PROFIT FOR THE PERIOD		889.911	4.090.924	1.403.062	738.865	2.655.848	825.269
OTHER COMPREHENSIVE INCOME							
Not to be reclassified subsequently to profit or loss							
Increase (Decrease) in Revaluation Reserve of Tangible Assets		(397)	26.316	17.161	346	1.643	627
Actuarial Gain (Loss) of Defined Benefit Plans	9	2.082	9.493	-	(4.315)	(15.440)	-
Tax Effect of Actuarial Gain (Loss) of Defined Benefit Plans	11	(458)	(2.089)	-	863	3.088	-
Foreign Currency Translation Gain (Loss)		-	7.258.404	4.621.153	-	113.400	152.653
To be reclassified subsequently to profit or loss							
Gain (Loss) in Cash Flow Hedging Reserves		2.729	4.078	(67.684)	(14.597)	(51.761)	(24.812)
Tax Effect of Gain (Loss) in Cash Flow Hedging Reserves	11	(600)	(897)	14.888	2.919	10.352	4.962
Foreign Currency Translation Gain (Loss)		(34.352)	3.580.920	2.374.622	(3.244)	24.000	55.259
OTHER COMPREHENSIVE INCOME (LOSS)		(30.996)	10.876.225	6.960.140	(18.028)	85.282	188.689
TOTAL COMPREHENSIVE INCOME		858.915	14.967.149	8.363.202	720.837	2.741.130	1.013.958
Distribution of Total Comprehensive Income							
Non-controlling Interests		40.228	493.677	256.615	26.151	98.300	38.873
Equity Holders of the Parent		818.687	14.473.472	8.106.587	694.686	2.642.830	975.085

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018

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

	Other comprehensive income (expense) not to be reclassified subsequently to profit or loss							Other comprehensive income (expense) to be reclassified subsequently to profit or loss			Retained Earnings		Equity Attributable to the Parent	Non-controlling Interests	Total Shareholders' Equity	
	Share Capital	Inflation Adjustment to Capital	Treasury Shares (-)	Share Issue Premium / Discounts	Revaluation Reserve of Tangible Assets	Revaluation Reserves of Financial Assets	Actuarial Gain/(Loss) Funds	Cash Flow Hedging Gain/(Loss)	Foreign Currency Translation Reserves	Restricted Reserves Assorted from Profit	Retained Earnings	Net Profit For The Period				
(Unaudited)																
1 January 2018 (Previously reported)	3.500.000	156.613	(116.232)	106.447	33.917	5.587.482	(111.247)	(16.272)	2.077.994	1.567.280	2.144.646	3.753.755	18.684.383	543.774	19.228.157	
Effect of change in accounting principle (Note 2.5)	-	-	-	-	-	-	-	-	-	-	(11.412)	-	(11.412)	-	(11.412)	
1 January 2018 (Restated)	3.500.000	156.613	(116.232)	106.447	33.917	5.587.482	(111.247)	(16.272)	2.077.994	1.567.280	2.133.234	3.753.755	18.672.971	543.774	19.216.745	
Net profit for the period	-	-	-	-	-	-	-	-	-	-	-	3.914.388	3.914.388	176.536	4.090.924	
Other comprehensive income/(loss)	-	-	-	-	26.316	7.258.404	7.255	3.181	3.263.928	-	-	-	10.559.084	317.141	10.876.225	
Total comprehensive income/(loss)	-	-	-	-	26.316	7.258.404	7.255	3.181	3.263.928	-	-	3.914.388	14.473.472	493.677	14.967.149	
Dividends (*)	-	-	-	-	-	-	-	-	-	-	(2.849.417)	-	(2.849.417)	(134.157)	(2.983.574)	
Transfers	-	-	-	-	-	-	-	-	-	720.248	3.033.507	(3.753.755)	-	-	-	
Decrease/increase in subsidiaries due to changes in share rates not end up with lose control	-	-	-	-	-	-	-	-	-	-	17.500	-	17.500	24.857	42.357	
30 September 2018	3.500.000	156.613	(116.232)	106.447	60.233	12.845.886	(103.992)	(13.091)	5.341.922	2.287.528	2.334.824	3.914.388	30.314.526	928.151	31.242.677	
(Unaudited)																
1 January 2017	3.500.000	156.613	(116.232)	106.447	29.437	4.769.327	(101.527)	8.013	1.752.878	1.166.197	2.420.078	1.516.438	15.207.669	452.364	15.660.033	
Net profit for the period	-	-	-	-	-	-	-	-	-	-	-	2.561.566	2.561.566	94.282	2.655.848	
Other comprehensive income/(loss)	-	-	-	-	1.643	113.400	(12.012)	(41.774)	20.007	-	-	-	81.264	4.018	85.282	
Total comprehensive income/(loss)	-	-	-	-	1.643	113.400	(12.012)	(41.774)	20.007	-	-	2.561.566	2.642.830	98.300	2.741.130	
Dividends (*)	-	-	-	-	-	-	-	-	-	-	(1.390.787)	-	(1.390.787)	(48.069)	(1.438.856)	
Transfers	-	-	-	-	-	-	-	-	-	326.644	1.189.794	(1.516.438)	-	-	-	
30 September 2017	3.500.000	156.613	(116.232)	106.447	31.080	4.882.727	(113.539)	(33.761)	1.772.885	1.492.841	2.219.085	2.561.566	16.459.712	502.595	16.962.307	

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

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018

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

	Note	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		Current Period 1 January- 30 September 2018	Current Period 1 January- 30 September 2018	Previous Period 1 January- 30 September 2017	Previous Period 1 January- 30 September 2017
		USD'000	TRY'000	USD'000	TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit (Loss) for The Period		731.063	3.264.896	757.041	2.677.530
Adjustments to Reconcile Profit (Loss)		889.911	4.090.924	738.865	2.655.848
Adjustments for Depreciation and Amortisation Expenses	6/13	139.998	643.572	147.723	530.988
Adjustments for Impairment Loss (Reversal of Impairment Loss)		8.300	38.156	(4.483)	(16.112)
Adjustments for Provision (Reversal of Provision) for Receivables		2.083	9.575	(303)	(1.087)
Adjustments for Provision (Reversal of Provision) for Inventories	4	3.416	15.706	(4.180)	(15.025)
Adjustments for Provision (Reversal of Provision) for Property, Plant and Equipment	6	2.801	12.875	-	-
Adjustments for Provisions		20.549	86.188	25.005	89.895
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	9	22.776	104.701	20.694	74.385
Adjustments for Provision (Reversal of Provision) for Pending Claims and/or Lawsuits	8	10.835	52.047	4.311	15.510
Adjustments for Free Provision (Reversal of Provision) for Possible Risks		(13.062)	(70.560)	-	-
Adjustments for Interest (Income) and Expenses		(49.901)	(229.396)	(22.511)	(80.219)
Adjustments for Interest Income	15	(67.515)	(310.367)	(37.759)	(135.725)
Adjustments for Interest Expense	15	26.308	120.937	22.135	79.563
Unearned Financial Income from Credit Sales		(8.694)	(39.966)	(6.887)	(24.057)
Adjustments for Unrealised Foreign Exchange Differences		(374)	(1.717)	14.553	52.312
Adjustments for Fair Value (Gains) Losses		(442)	(2.033)	(1.372)	(4.932)
Finansal Varlıkların Gerçeğe Uygun Değer Kayıpları (Kazançları) ile İlgili Düzeltmeler	15	(44)	(204)	-	-
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments	15	(398)	(1.829)	(1.372)	(4.932)
Adjustments for Undistributed Profits of Investments Accounted for Using Equity Method	5	(818)	(3.759)	-	-
Adjustments for Tax (Income) Expenses	11	510.168	2.867.438	172.124	610.021
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		3.154	14.497	1.188	4.268
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment		3.154	14.497	1.188	4.268
Changes in Working Capital		(417.536)	(2.501.125)	(91.328)	(376.752)
Adjustments for Decrease (Increase) in Trade Receivables		(111.683)	(669.004)	36.234	108.531
Decrease (Increase) in Trade Receivables from Related Parties		3.831	22.948	1.101	3.397
Decrease (Increase) in Trade Receivables from Third Parties		(115.514)	(691.952)	35.133	105.134
Adjustments for Decrease (Increase) in Other Receivables Related from Operations		8.424	50.461	(612)	(2.979)
Decrease (Increase) in Other Receivables from Operations from Third Parties		8.424	50.461	(612)	(2.979)
Decrease (Increase) in Derivative Financial Instruments		(14.313)	(85.738)	14.600	51.202
Adjustments for Decrease (Increase) in Inventories		(212.162)	(1.270.893)	(92.870)	(371.687)
Decrease (Increase) in Prepaid Expenses		(11.913)	(71.361)	(6.602)	(23.904)
Adjustments for Increase (Decrease) in Trade Payables		14.835	88.865	(86.779)	(299.692)
Increase (Decrease) in Trade Payable to Related Parties		(4.477)	(26.818)	3.068	11.227
Increase (Decrease) in Trade Payable to Third Parties		19.312	115.683	(89.847)	(310.919)
Adjustments for Increase (Decrease) in Other Payables Related from Operations		(24.541)	(147.005)	4.456	17.799
Increase (Decrease) in Other Payables to Third Parties Related from Operations		(24.541)	(147.005)	4.456	17.799
Increase (Decrease) in Derivative Liabilities		(6.944)	(41.596)	(3.069)	(10.556)
Adjustments for Other Increase (Decrease) in Working Capital		(59.239)	(354.854)	43.314	154.534
Decrease (Increase) in Other Assets Related from Operations		(59.109)	(354.075)	(1.312)	(5.652)
Increase (Decrease) in Other Payables Related from Operations		(130)	(779)	44.626	160.186
Cash Flows Provided by Operating Activities		1.103.009	5.002.745	979.764	3.465.317
Payments Related to Provisions for Employee Termination Benefits	9	(11.502)	(52.876)	(11.167)	(40.141)
Payments Related to Other Provisions	8	(3.495)	(16.068)	(10.397)	(37.370)
Income Taxes Refund (Paid)	11	(356.949)	(1.668.905)	(201.159)	(710.276)
CASH FLOWS FROM INVESTING ACTIVITIES		(186.215)	(968.729)	(141.940)	(509.613)
Cash Inflow Due to Share Sales of Subsidiaries' not End Up with Losing Control		9.936	46.818	-	-
Cash Outflows Arising From Purchase of Shares or Capital Increase of Associates and/or Joint Ventures	5	(22.929)	(126.034)	(3.527)	(12.532)
Cash Outflows Arising From Purchase of Third Parties' Debt Instruments or Funds	3	(5.921)	(35.470)	-	-
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		90	417	1.810	6.506
Cash Inflow from Sales of Property, Plant and Equipment		90	417	1.810	6.506
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(137.910)	(633.977)	(115.389)	(414.770)
Cash Outflow from Purchase of Property, Plant and Equipment	6	(136.469)	(627.351)	(114.871)	(412.907)
Cash Outflow from Purchase of Intangible Assets	6	(1.441)	(6.626)	(518)	(1.863)
Cash Outflow from Purchase of Investment Property		(15.289)	(70.284)	-	-
Cash Advances and Debts Given		(14.192)	(150.199)	(24.834)	(88.817)
Other Cash Advances and Debts Given		(14.192)	(150.199)	(24.834)	(88.817)
CASH FLOWS FROM FINANCING ACTIVITIES		(628.562)	(199.905)	(405.529)	(1.450.398)
Cash Inflow from Borrowings		888.935	4.097.986	623.449	2.233.300
Cash Inflow from Loans		888.935	4.097.986	623.449	2.233.300
Cash Outflow from Repayments of Borrowings		(905.205)	(1.553.902)	(654.690)	(2.308.308)
Cash Outflow from Loan Repayments		(905.205)	(1.553.902)	(654.690)	(2.308.308)
Dividends Paid		(660.162)	(2.977.130)	(391.237)	(1.436.311)
Interest Paid		(27.948)	(128.478)	(21.251)	(76.387)
Interest Received		75.818	361.619	38.200	137.308
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		(83.714)	2.096.262	209.572	717.519
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(184.775)	433.059	(6.872)	45.372
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(268.489)	2.529.321	202.700	762.891
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		1.865.224	7.035.440	1.303.396	4.586.911
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		1.596.735	9.564.761	1.506.096	5.349.802

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 18)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018

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

NOTE 1 – GROUP’S ORGANIZATION AND NATURE OF OPERATIONS

Erdemir Grubu (“Group”), is composed of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (“Erdemir” or “the Company”), and its subsidiaries which it owns the majority of their shares or has a significant influence on their management structure.

The immediate parent and ultimate controlling party of the Group are Ataer Holding A.Ş. and Ordu Yardımlaşma Kurumu (OYAK/Armed Forces Pension Fund), respectively.

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

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

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

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

Name of the Company	Country of Operation	Operation	2018	2017
			Share %	Share %
İskenderun Demir ve Çelik A.Ş. (*)	Turkey	Integrated Steel Production	94,87	95,07
Erdemir Madencilik San. ve Tic. A.Ş.	Turkey	Iron Ore and Pellet	90	90
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Turkey	Steel Service Center	100	100
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100	100
Erdemir Romania S.R.L.	Romania	Silicon Steel Production	100	100
Erdemir Asia Pacific Private Limited	Singapore	Trading	100	100
İsdemir Linde Gaz Ortaklığı A.Ş.	Turkey	Industrial Gas Production and Sale	50	50

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

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

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018**

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

NOTE 1 – GROUP’S ORGANIZATION AND NATURE OF OPERATIONS (cont’d)

The number of the personnel employed by the Group as at 30 September 2018 and 31 December 2017 are as follows:

	Paid Hourly Personnel	Paid Monthly Personnel	30 September 2018 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.187	1.681	5.868
İskenderun Demir ve Çelik A.Ş.	2.993	1.756	4.749
Erdemir Madencilik San. ve Tic. A.Ş.	145	131	276
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	221	74	295
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	211	211
Erdemir Romania S.R.L.	215	40	255
Erdemir Asia Pacific Private Limited	-	1	1
	<u>7.761</u>	<u>3.894</u>	<u>11.655</u>
	Paid Hourly Personnel	Paid Monthly Personnel	31 December 2017 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.305	1.730	6.035
İskenderun Demir ve Çelik A.Ş.	3.107	1.756	4.863
Erdemir Madencilik San. ve Tic. A.Ş.	146	121	267
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	239	81	320
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	228	228
Erdemir Romania S.R.L.	215	45	260
Erdemir Asia Pacific Private Limited	-	2	2
	<u>8.012</u>	<u>3.963</u>	<u>11.975</u>

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

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

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

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 18)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018

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

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

2.1 Basis of Presentation (cont’d)

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

Functional and reporting currency

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

Functional currency for the subsidiaries abroad

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

Presentation currency translation

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

- a) The assets and liabilities on financial position as of 30 September 2018 are translated from US Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 5,9902 =US \$ 1 and TRY 6,9505=EUR 1 on the balance sheet date (31 December 2017: TRY 3,7719= US \$ 1, TRY 4,5155=EUR 1).
- b) For the nine months period ended 30 September 2018, income statements are translated from the average TRY 4,5970 = US \$ 1 and TRY 5,4711=EUR 1 rates of 2018 January - September period (30 September 2017: TRY 3,5945 = US \$ 1 TRY 3,9951 = 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.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018**

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

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

2.1 Basis of Presentation (cont’d)

USD amounts presented in the condensed interim financial statements

The figures in USD amounts presented in the accompanying condensed interim consolidated financial statements comprising the statements of financial position as of 30 September 2018 and 31 December 2017, condensed consolidated statement of income and other comprehensive income and consolidated statement of cash flows for the interim period ended 30 September 2018 represent the consolidated financial statements prepared according to USD reporting currency within the frame of functional currency change that the Company has made, which is effective as of July 1, 2013, prepared in accordance with the TAS 21- Effects of Changes in Foreign Exchange Rates.

Going concern

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

Approval of the consolidated financial statements

The condensed interim consolidated financial statements have been approved and authorized to be published on 25 October 2018 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

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

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

Reclassification of statement of financial position is as follows:

Account	(Previously Reported) 1 January - 31 December 2017	(Restated) 1 January - 31 December 2017	(Difference) 1 January - 31 December 2017
<u>Other Comprehensive Income/Expense Not to be Reclassified to Profit/ (Loss)</u>			
Foreign Currency Translation Differences ⁽¹⁾	(77.330)	5.510.152	5.587.482
<u>Other Comprehensive Income/Expense to be Reclassified to Profit/ (Loss)</u>			
Foreign Currency Translation Differences ⁽¹⁾	7.649.204	2.061.722	<u>(5.587.482)</u>
			<u>-</u>

(1) As of 31 December 2017 foreign currency translation differences amounting to TRY 5.587.482 thousand reported as Other Comprehensive Income to be Reclassified to Profit/(Loss) reclassified to Other Comprehensive Income Not to be Reclassified to Profit/(Loss).

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018**

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

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

**2.2 Comparative Information and Restatement of Consolidated Financial Statements with Prior
Periods (cont’d)**

Reclassification of income statement is as follows:

Account	(Previously Reported)	(Restated)	(Difference)
	1 January - 30 September 2017	1 January - 30 September 2017	1 January - 30 September 2017
Revenue ⁽¹⁾	13.238.416	13.304.650	66.234
Other Operating Income ^{(1) (2) (4)}	205.416	169.509	(35.907)
Other Operating Expenses (-) ⁽³⁾	(88.942)	(78.888)	10.054
Income from Investing Activities ⁽²⁾	-	6.094	6.094
Expenses from Investing Activities (-) ⁽³⁾	-	(10.054)	(10.054)
Finance Expenses (-) ⁽⁴⁾	(143.827)	(180.248)	(36.421)
			<u>-</u>

- (1) Interest income from sales with maturities amounting to TRY 66.234 thousand reported in “Other Operating Income” was reclassified to “Revenue” on the profit and loss statement for the nine months period ended 30 September 2017.
- (2) Gain on sales of tangible assets amounting to TRY 5.720 thousand and rent income amounting to TRY 374 thousand from investment properties reported as “Other Operating Income” before, was reclassified to “Income from Investing Activities” on the profit and loss statement for the nine months period ended 30 September 2017.
- (3) Losses on sales of tangible assets amounting to TRY (9.988) thousand and losses on disposal of tangible assets amounting to TRY (66) thousand reported as “Other Operating Expenses (-)” before, was reclassified to “Expenses from Investing Activities (-)” on the profit and loss statement for the nine months period ended 30 September 2017.
- (4) Foreign exchange gains from trade receivables and payables (net) amounting to TRY 36.421 thousand reported as “Finance Expenses (-)” before, was reclassified to “Other Operating Income” on the profit and loss statement for the nine months period ended 30 September 2017.

2.3 Adoption of New and Revised Financial Reporting Standards

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

IFRS 9 Financial Instruments

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

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

Classification and Measurement of Financial Assets:

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

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

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018**

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

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

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

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

IFRS 9 Financial Instruments (cont’d)

Impairment:

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group applied the simplified approach and recorded lifetime expected losses on all financial assets. As a result of recognition of the impairment, loss allowance is increased by TRY 56.578 thousand with corresponding related decrease in the total deferred tax liability of TRY 12.447 thousand.

Hedge accounting:

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

IFRS 4 Insurance Contracts (Amendments)

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Annual Improvements to TFRSs - 2014-2016 Cycle

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

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

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

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

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

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

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

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

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

TFRS 16 Leases

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

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

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

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

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

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

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

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

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

2.4 Summary of Significant Accounting Policies

The condensed interim consolidated financial statements for the nine months period ended 30 September 2018 have been prepared in accordance with TAS 34. The accounting policies used in the preparation of these condensed interim consolidated financial statements for the period ended 30 September 2018 are consistent with those used in the preparation of annual consolidated financial statements for the year ended 31 December 2017. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2017.

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

Effects of Changes in Accounting Principles

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

TFRS 9 Financial Instruments

Classification and Measurement

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

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

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

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

2.4 Summary of Significant Accounting Policies (cont’d)

TFRS 9 Financial Instruments (cont’d)

Classification and Measurement (cont’d)

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

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

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

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

Impairment

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

Trade Receivables

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

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

2.4 Summary of Significant Accounting Policies (cont’d)

IFRS 9 Financial Instruments (cont’d)

Trade Receivables (cont’d)

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

First time adoption of IFRS 9 “Financial Instruments” Standard

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

IFRS 15 - Revenue from Contracts with Customers Standard

Revenue Recognition

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

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

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

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

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

2.4 Summary of Significant Accounting Policies (cont’d)

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

Revenue Recognition (cont’d)

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

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

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

2.5 Restatement and errors in the accounting policies and estimates

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

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

	Before change in accounting principle 30 September 2018	Effect of TFRS 9 30 September 2018	After change in accounting principle 30 September 2018
Cash and Cash Equivalents	9.621.015	(56.254)	9.564.761
Financial Investments	35.736	(324)	35.412
Deffered Tax Assets	66.334	12.447	78.781
Foreign Currency Translation	5.354.682	(12.760)	5.341.922
Retained Earnings	2.346.236	(11.412)	2.334.824
Finance Expenses	(173.754)	(25.588)	(199.342)
Deffered Tax (Expense) Income	(627.849)	5.629	(622.220)

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

2.6 Segment Reporting

The operations of the Group in İskenderun and Ereğli have been defined as geographical segments. However, the segments with similar economic characteristics have been combined into a single operating segment considering the nature of the products and the production processes, methods to allocate the products and the type of customers or to provide services.

NOTE 3 –RELATED PARTY DISCLOSURES

The immediate parent and ultimate controlling parties of the Group are Ataer Holding A.Ş. and Ordu Yardımlaşma Kurumu respectively (Note 1). The transactions between the Group and its subsidiaries, which are related parties of the Group, have been eliminated in the consolidation and therefore are not disclosed in this note.

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

<u>Due from related parties (short term)</u>	30 September 2018	31 December 2017
OYAK Renault Otomobil Fab. A.Ş. ⁽²⁾	87.195	59.622
Bolu Çimento Sanayi A.Ş. ⁽¹⁾	5.937	7.507
Adana Çimento Sanayi T.A.Ş. ⁽¹⁾	13.099	10.195
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽³⁾	476	3.820
Other	2.057	1.792
	<u>108.764</u>	<u>82.936</u>

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

<u>Due to related parties (short term)</u>	30 September 2018	31 December 2017
Omsan Lojistik A.Ş. ⁽¹⁾	20.360	14.466
Omsan Denizcilik A.Ş. ⁽¹⁾	7.235	11.696
OYAK Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	9.211	7.846
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	4.924	8.156
Omsan Logistica SRL ⁽¹⁾	1.522	818
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽¹⁾	11.038	7.322
OYAK Grup Sigorta ve Reasürans Brokerliği A.Ş. ⁽¹⁾	1.209	1.980
Other	3.277	1.613
	<u>58.776</u>	<u>53.897</u>

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

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

<u>Prepaid expenses (short term)</u>	30 September 2018	31 December 2017
OYAK Grup Sigorta ve Reasürans Brokerliği A.Ş. ⁽¹⁾	12.263	-
	<u>12.263</u>	<u>-</u>

Short term prepaid expenses to related parties mainly arise from insurance payments.

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

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NOTE 3 –RELATED PARTY DISCLOSURES (cont’d)

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

	30 September 2018	31 December 2017
<u>Prepaid expenses to related parties (long term)</u>		
OYAK Konut İnşaat A.Ş. ⁽¹⁾	579	-
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	32.443	-
	<u>33.022</u>	<u>-</u>

Long term prepaid expenses to related parties arise from advances given for tangible assets.

	1 January - 30 September 2018	1 January - 30 September 2017
<u>Major sales to related parties</u>		
OYAK Renault Otomobil Fab. A.Ş. ⁽²⁾	227.647	157.332
Adana Çimento Sanayi T.A.Ş. ⁽¹⁾	21.083	14.442
Bolu Çimento Sanayi A.Ş. ⁽¹⁾	8.790	6.318
Aslan Çimento A.Ş. ⁽¹⁾	2.450	1.450
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽¹⁾	4.399	1.374
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽³⁾	33.485	-
Other	3.376	2.775
	<u>301.230</u>	<u>183.691</u>

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

	1 January - 30 September 2018	1 January - 30 September 2017
<u>Major purchases from related parties</u>		
Omsan Denizcilik A.Ş. ⁽¹⁾	137.152	84.228
OYAK Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	78.483	66.216
Omsan Lojistik A.Ş. ⁽¹⁾	139.146	65.939
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	32.362	27.844
Omsan Logistica SRL ⁽¹⁾	12.245	8.373
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽¹⁾	81.650	33.362
OYAK Grup Sigorta ve Reasürans Brokerliği A.Ş. ⁽¹⁾	17.059	937
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽³⁾	52.386	-
Ordu Yardımlaşma Kurumu	197.717	5.140
Omsan Havacılık A.Ş. ⁽¹⁾	13.412	605
OYAK Elektrik Enerjisi Toptan Satış A.Ş. ⁽¹⁾	17.272	-
Diğer	9.832	8.107
	<u>788.716</u>	<u>300.752</u>

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

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

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NOTE 3 –RELATED PARTY DISCLOSURES (cont’d)

On 21 September 2018, the Group has purchased bond amounting to TRY 35.470 thousand from related parties. The bond has floating interest rates with 3 months period and the maturity date is 20 September 2019.

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

The period end balances are un-secured and their collections will be in cash. For the nine months period ended 30 September 2018, the Group provides no provision for the receivables from related parties (31 December 2017: None).

Salaries, bonuses and other benefits of the key management:

For the nine months period ended 30 September 2018, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 17.136 thousand (30 September 2017: TRY 22.995 thousand).

NOTE 4 – INVENTORIES

As of the 30 September 2018, the details of the Group’s inventories are as follows:

	30 September 2018	31 December 2017
Raw materials	1.939.955	1.184.596
Work in progress	1.591.727	921.580
Finished goods	2.749.530	1.143.812
Spare parts	1.260.370	781.590
Goods in transit	1.558.979	895.153
Other inventories	587.078	341.025
Allowance for impairment on inventories (-)	(382.874)	(228.247)
	<u>9.304.765</u>	<u>5.039.509</u>

The movement of the allowance for impairment on inventories:

	1 January - 30 September 2018	1 January - 30 September 2017
Opening balance	228.247	208.787
Provision for the period	16.528	15.301
Provision released (-)	(822)	(30.326)
Translation difference	138.921	2.306
Closing balance	<u>382.874</u>	<u>196.068</u>

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

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NOTE 5 – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

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

Company	Effective Right to shareholder		30 September 2018	Business segment
	vote ratio %	ratio %		
<i>Joint Venture</i> İsdemir Linde Gaz Ortaklığı A.Ş.	50	47	163.423	Industrial Gas Production and Sale

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

	30 September 2018	31 December 2017
Total assets	375.214	278.444
Total liabilities	48.368	246.568
Net assets	326.846	31.876
Group's share on net assets	163.423	15.938

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

	30 September 2018	31 December 2017
Share capital	201.667	27.000

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

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

	1 January – 30 September 2018	1 January – 30 September 2017
Revenue	57.025	-
Net profit (loss) for the period	7.518	(1.864)
Group's share on net profit	3.759	(932)

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

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

NOTE 6 – TANGIBLE AND INTANGIBLE ASSETS

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

	30 September 2018	30 September 2017
<u>Opening balance as of 1 January</u>		
Cost	33.090.796	30.252.777
Accumulated depreciation	(20.018.934)	(18.100.805)
Net book value	<u>13.071.862</u>	<u>12.151.972</u>
Net book value at the beginning of the period	13.071.862	12.151.972
Additions (*)	638.814	415.134
Disposals (-)	(14.914)	(10.774)
<i>Cost of disposals</i>	(100.828)	(43.449)
<i>Accumulated depreciation of disposals</i>	85.914	32.675
Transfers to intangible assets	(4.229)	(4.611)
Currency translation difference	7.617.673	117.615
<i>Cost currency translation difference</i>	19.307.677	287.899
<i>Accumulated depreciation currency translation difference</i>	(11.690.004)	(170.284)
Current period depreciation (-)	(658.099)	(506.749)
Impairment (-)	(12.875)	-
Net book value at the end of the period	<u>20.638.232</u>	<u>12.162.587</u>
<u>Closing balance end of period</u>		
Cost	52.932.230	30.907.750
Accumulated depreciation	(32.293.998)	(18.745.163)
Net book value	<u>20.638.232</u>	<u>12.162.587</u>

(*) The amount of capitalized borrowing cost is TRY 11.463 thousand for the current period (30 September 2017: TRY 2.227 thousand).

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 18)

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

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

	30 September 2018	30 September 2017
<u>Opening balance as of 1 January</u>		
Cost	487.752	439.937
Accumulated amortisation	(276.441)	(234.458)
Net book value	<u>211.311</u>	<u>205.479</u>
Net book value at the beginning of the period	211.311	205.479
Additions	6.626	1.863
Transfers from tangible assets	4.229	4.611
Currency translation difference	119.446	2.060
<i>Cost currency translation difference</i>	285.800	4.342
<i>Accumulated depreciation currency translation difference</i>	(166.354)	(2.282)
Current period amortisation (-)	(23.430)	(17.863)
Net book value at the end of the period	<u>318.182</u>	<u>196.150</u>
<u>Closing balance end of period</u>		
Cost	784.407	450.753
Accumulated amortisation	(466.225)	(254.603)
Net book value	<u>318.182</u>	<u>196.150</u>

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

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

	1 January – 30 September 2018	1 January – 30 September 2017
Associated with cost of production	632.409	490.066
General administrative expenses	22.406	13.885
Marketing expenses	25.547	19.069
Research and development expenses	2.321	1.592
	<u>682.683</u>	<u>524.612</u>

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NOTE 7 – BORROWINGS

Breakdown of borrowings is as follows:

	30 September 2018	31 December 2017
Short term borrowings	3.664.525	2.243.529
Current portion of long term borrowings	1.535.831	882.211
Total short term borrowings	5.200.356	3.125.740
Long term borrowings	1.836.361	1.364.688
Total long term borrowings	1.836.361	1.364.688
	<u>7.036.717</u>	<u>4.490.428</u>

As of 30 September 2018, the breakdown of the Group’s loans with their original currency and weighted average interest rates is presented as follows:

Interest Type	Type of Currency	Weighted Average Rate of Interest (%)	Short Term Portion	Long Term Portion	30 September 2018
No interest	TRY	-	9.772	-	9.772
Fixed	US Dollars	3,08	3.104.252	96.524	3.200.776
Fixed	EURO	2,79	14.082	42.648	56.730
Floating	US Dollars	Libor+1,6	1.976.140	1.365.987	3.342.127
Floating	EURO	Euribor+2,25	96.110	331.202	427.312
			<u>5.200.356</u>	<u>1.836.361</u>	<u>7.036.717</u>

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

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 18)

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NOTE 7 – BORROWINGS (cont’d)

Breakdown of loan repayment is as follows:

	30 September 2018	31 December 2017
Within 1 year	5.200.356	3.125.740
Between 1-2 years	977.632	537.186
Between 2-3 years	335.941	487.084
Between 3-4 years	217.347	130.335
Between 4-5 years	152.038	117.133
Five years or more	153.403	92.950
	<u>7.036.717</u>	<u>4.490.428</u>

NOTE 8 – PROVISIONS

The Group’s short term provisions are as follows:

	30 September 2018	31 December 2017
Provision for lawsuits	175.278	103.689
Penalty provision for employment shortage of disabled personnel	9.315	6.374
Provision for state right on mining activities	4.814	5.102
Provision for land occupation	26.065	11.665
Provision for the potential tax penalty	11.674	7.584
	<u>227.146</u>	<u>134.414</u>

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

	30 September 2018	31 December 2017
Lawsuits filed by the Group	798.656	581.107
Provision for lawsuits filed by the Group	141.121	79.933

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

	30 September 2018	31 December 2017
Lawsuits filed against the Group	549.741	377.793
Provision for lawsuits filed against the Group	175.278	103.689

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 18)

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NOTE 8 – PROVISIONS (cont’d)

The movement of the provisions is as follows:

	1 January 2018	Change for the period	Payments	Provision released	Translation difference	30 September 2018
Provision for lawsuits	103.689	63.071	(10.115)	(34.242)	52.875	175.278
Penalty provision for employment shortage of disabled personnel	6.374	2.924	-	-	17	9.315
Provision for state right on mining activities	5.102	5.207	(5.495)	-	-	4.814
Provision for land occupation	11.665	15.087	(458)	-	(229)	26.065
Provision for the tax penalty	7.584	-	-	-	4.090	11.674
	<u>134.414</u>	<u>86.289</u>	<u>(16.068)</u>	<u>(34.242)</u>	<u>56.753</u>	<u>227.146</u>

	1 January 2017	Change for the period	Payments	Provision released	Translation difference	30 September 2017
Provision for lawsuits	105.448	34.761	(5.358)	(39.028)	839	96.662
Penalty provision for employment shortage of disabled personnel	7.488	2.975	-	-	(16)	10.447
Provision for state right on mining activities	2.650	3.681	(2.560)	(90)	-	3.681
Provision for land occupation	16.602	13.002	(22.076)	-	(127)	7.401
Provision for the tax penalty	13.398	209	(7.376)	-	811	7.042
	<u>145.586</u>	<u>54.628</u>	<u>(37.370)</u>	<u>(39.118)</u>	<u>1.507</u>	<u>125.233</u>

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NOTE 8 – PROVISIONS (cont’d)

Provision for lawsuits

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

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

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

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

Had the Company started to prepare its consolidated financial statements in accordance with IFRS after 31 December 2005, it would also have to present the comparative consolidated financial statements in accordance with IFRS based on “IFRS 1: First-time adoption of International Financial Reporting Standards” and the previously recognized negative goodwill would be transferred directly to retained earnings on 1 January 2005 instead of recognizing in the consolidated income statement in accordance with “IFRS 3: Business Combinations”. Therefore, the net profit for the periods ended 30 September 2018 and 31 December 2017 will not be affected from the above mentioned disputes.

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NOTE 8 – PROVISIONS (cont’d)

Provision for lawsuits (cont’d)

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

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

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

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

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

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NOTE 8 – PROVISIONS (cont’d)

Provision for lawsuits (cont’d)

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

It is learnt through a notified made to the Company on 31 October 2012 that Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.) filed an action for compensation at amount of USD 4.800 thousand together with accessory against the Company before Ankara 14th Commercial Court of First Instance. As a result of adjudication made; the court adjudged to dismiss the case on procedural grounds because of non-competence and to send the file to commissioned and competent Karadeniz Ereğli Commercial Court of First Instance in Duty when the judgment becomes definite and in case of request. The case continued on file no. 2013/63 in Karadeniz Ereğli 2nd Civil Court of First Instance. At the hearing of the ongoing case dated 28 November 2017, Kdz. Ereğli 2. Civil Court of First Instance has decided to partially accept the case against our Company. Our company has applied for the appeal against the decision. A provision amounting to TRY 45.502 thousand recognised on financial statements for related lawsuit.

Provision for state right on mining activities

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

Land occupation

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

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

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NOTE 8 – PROVISIONS (cont’d)

Tax Penalty Provision

As a result of the comprehensive corporate tax audit carried out by the relevant tax administration for the period 2009-2014 for one of the Group’s subsidiaries, Erdemir Romania SRL in Romania, a total payment of TRY 11.674 thousand (RON 7.579 thousand) was notified for all tax and tax penalties. Provision recognised in the accompanying financial statements for the amount to be paid.

NOTE 9 – EMPLOYEE BENEFITS

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

	30 September 2018	31 December 2017
Due to personnel	76.013	113.687
Social security premiums payable	76.835	64.251
	<u>152.848</u>	<u>177.938</u>

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

	30 September 2018	31 December 2017
Provisions for employee termination benefits	542.960	511.971
Provisions for seniority incentive premium	50.727	43.468
Provision for unpaid vacations	80.508	81.374
	<u>674.195</u>	<u>636.813</u>

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

As of 30 September 2018, the employee termination benefit has been updated to a maximum of TRY 5.434,42 (31 December 2017: TRY 4.732,48).

The employee termination benefit legally is not subject to any funding requirement.

The employee termination benefit has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. TAS 19 (“Employee Benefits”) requires actuarial valuation methods to be developed to estimate the Group’s obligation under defined benefit plans. The obligation as of 30 September 2018 has been calculated by an independent actuary.

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NOTE 9 – EMPLOYEE BENEFITS (cont’d)

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

	<u>30 September 2018</u>	<u>31 December 2017</u>
Discount rate	%15,90	%11,50
Inflation rate	%12,30	%8,30
Salary increase	real 1,5%	real 1,5%
Maximum liability increase	%12,30	%8,30

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

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

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

	<u>1 January - 30 September 2018</u>	<u>1 January - 30 September 2017</u>
Opening balance	511.971	448.932
Service cost	36.149	30.968
Interest cost	44.350	34.657
Actuarial loss/(gain)	(9.493)	15.634
Termination benefits paid	(41.664)	(32.938)
Translation difference	1.647	(515)
Closing balance	<u>542.960</u>	<u>496.738</u>

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

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NOTE 9 – EMPLOYEE BENEFITS (cont’d)

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

	1 January - 30 September 2018	1 January - 30 September 2017
Opening balance	43.468	38.884
Service cost	3.622	2.984
Interest cost	3.876	2.923
Actuarial loss/(gain)	4.874	874
Termination benefits paid	(5.083)	(2.102)
Translation difference	(30)	(4)
Closing balance	<u>50.727</u>	<u>43.559</u>

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

	1 January - 30 September 2018	1 January - 30 September 2017
Opening balance	81.374	79.603
Provision for the period	64.891	47.960
Vacation paid during the period (-)	(6.129)	(5.101)
Provisions released (-)	(53.061)	(45.981)
Translation difference	(6.567)	916
Closing balance	<u>80.508</u>	<u>77.397</u>

NOTE 10 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	30 September 2018	31 December 2017
Letters of guarantees received	<u>3.522.492</u>	<u>1.976.567</u>
	<u>3.522.492</u>	<u>1.976.567</u>

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NOTE 10 – COMMITMENTS AND CONTINGENCIES (cont’d)

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

	30 September 2018	31 December 2017
A. Total CPM given for the Company's own legal entity	100.904	116.263
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	49.331	176.335
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	-	-
D. Other CPM given	-	-
i. Total CPM given in favour of parent entity	-	-
ii. Total CPM given in favour of other Group companies out of the scope of clause B and C	-	-
iii. Total CPM given in favour of other 3rd parties out of the scope of clause C	-	-
	<u>150.235</u>	<u>292.598</u>

Total CPM given by the Group in favor of subsidiaries consolidated on line-by-line basis amounting to TRY 49.331 thousand has been given as collateral for financial liabilities explained in Note 7. As of 30 September 2018, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2017: 0%).

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

	30 September 2018	31 December 2017
US Dollars	49.331	70.205
TRY	72.407	180.249
EURO	28.497	42.144
	<u>150.235</u>	<u>292.598</u>

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NOTE 11 – TAX ASSETS AND LIABILITIES

Group’s income tax payable as follows:

	30 September 2018	31 December 2017
<u>Corporate tax payable:</u>		
Current corporate tax provision	2.245.218	1.137.927
Prepaid taxes and funds (-)	(870.944)	(339.966)
	<u>1.374.274</u>	<u>797.961</u>
	1 January - 30 September 2018	1 January - 30 September 2017
<u>Taxation:</u>		
Current corporate tax expense	2.245.218	727.093
Deferred tax (income) / expense	622.220	(117.072)
	<u>2.867.438</u>	<u>610.021</u>

Corporate tax

The effective corporate tax rate in Turkey is 22%, 16% in Romania and 17% in Singapore as of 30 September 2018 (31 December 2017: in Turkey 20%, in Romania 16%, in Singapore 17%). The total amount of the corporate tax paid by the Group in 2018 is TRY 1.668.905 thousand (30 September 2017: TRY 710.276 thousand).

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

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

Deferred tax

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

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

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

	30 September 2018	31 December 2017
<u>Deferred tax assets:</u>		
Provisions for employee benefits	138.689	129.580
Investment incentive	1.555	66.046
Provision for lawsuits	28.982	22.383
Fair values of the derivative financial instruments	66	7.717
Inventories	43.884	19.170
Provision for other doubtful receivables	16.452	14.639
Tangible and intangible assets	17.975	16.039
Other	53.094	47.082
	<u>300.697</u>	<u>322.656</u>
<u>Deferred tax liabilities:</u>		
Tangible and intangible assets	(3.269.987)	(1.832.586)
Fair values of the derivative financial instruments	(19.337)	-
Amortized cost adjustment on loans	(10.560)	(4.994)
Inventories	(335.648)	(34.872)
Other	(11.244)	(12.179)
	<u>(3.646.776)</u>	<u>(1.884.631)</u>
	<u>(3.346.079)</u>	<u>(1.561.975)</u>

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

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

	30 September 2018	31 December 2017
Deferred tax assets	78.781	57.743
Deferred tax (liabilities)	(3.424.860)	(1.619.718)
	<u>(3.346.079)</u>	<u>(1.561.975)</u>

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

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

	1 January - 30 September 2018	1 January - 30 September 2017
Opening balance	(1.561.975)	(1.542.789)
Effects of change in accounting policy	3.218	-
Deferred tax (expense)/income	(622.220)	117.072
The amount in comprehensive income	(2.986)	13.440
Translation difference	(1.162.116)	(15.243)
Closing balance	<u>(3.346.079)</u>	<u>(1.427.520)</u>

Reconciliation of tax provision is as follows:

	1 January - 30 September 2018	1 January - 30 September 2017
Profit before tax	6.958.362	3.265.869
Statutory tax rate	22%	20%
Calculated tax expense according to effective tax rate	(1.530.840)	(653.174)
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	(17.652)	(9.675)
- Effect of currency translation not subject to tax	(1.319.429)	7.716
- Investment incentive	1.555	45.047
- Effect of the different tax rates due to foreign subsidiaries	(1.072)	65
Total tax expense reported in the statement of income	<u>(2.867.438)</u>	<u>(610.021)</u>

NOTE 12 – EQUITY

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

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

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NOTE 13 – SALES AND COST OF SALES

	1 January - 30 September 2018	1 July- 30 September 2018	1 January - 30 September 2017	1 July- 30 September 2017
<u>Sales Revenue</u>				
Domestic sales	15.292.536	5.866.256	11.084.483	3.930.209
Export sales	3.542.448	1.693.661	1.876.576	357.844
Other revenues (*)	519.664	208.152	295.636	84.665
Interest income from sales with maturities	100.164	44.386	66.234	21.892
Sales returns (-)	(9.235)	(4.403)	(8.439)	(5.000)
Sales discounts (-)	(23.927)	(15.763)	(9.840)	(4.761)
	<u>19.421.650</u>	<u>7.792.289</u>	<u>13.304.650</u>	<u>4.384.849</u>
<u>Cost of sales (-)</u>	<u>(13.182.288)</u>	<u>(5.324.844)</u>	<u>(9.720.930)</u>	<u>(3.256.719)</u>
Gross profit	<u>6.239.362</u>	<u>2.467.445</u>	<u>3.583.720</u>	<u>1.128.130</u>

(*)The total amount of by product exports in other revenues is TRY 189.109 thousand (30 September 2017: TRY 124.750 thousand).

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

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

	1 January - 30 September 2018	1 July- 30 September 2018	1 January - 30 September 2017	1 July- 30 September 2017
Raw material usage	(9.949.208)	(4.055.074)	(7.071.204)	(2.323.458)
Personnel costs	(1.147.335)	(417.065)	(1.074.966)	(376.557)
Energy costs	(585.542)	(233.633)	(493.823)	(162.916)
Depreciation and amortization expenses	(593.298)	(240.191)	(496.442)	(161.131)
Manufacturing overheads	(361.953)	(155.243)	(261.212)	(127.887)
Other cost of goods sold	(202.206)	(65.984)	(147.404)	(57.966)
Non-operating costs (*)	(57.105)	(38.017)	(21.311)	(8.954)
Freight costs for sales delivered to customers	(216.853)	(92.849)	(147.202)	(39.236)
Allowance expenses for impairment on inventories (Note 4)	(16.528)	(7.686)	(15.301)	(1.131)
Inventory provision released (Note 4)	822	109	30.326	7.637
Other	(53.082)	(19.211)	(22.391)	(5.120)
	<u>(13.182.288)</u>	<u>(5.324.844)</u>	<u>(9.720.930)</u>	<u>(3.256.719)</u>

(*) Due to the planned/ unplanned halt production of plant of the Group’s, operations were suspended temporarily in the current period. As a result of this, unallocated overheads, TRY (57.105) thousand, has been accounted directly under cost of goods sold (30 September 2017: TRY (21.311) thousand).

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NOTE 14 – OPERATING EXPENSES ACCORDING TO THEIR NATURE

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

	1 January - 30 September 2018	1 July- 30 September 2018	1 January - 30 September 2017	1 July- 30 September 2017
Personnel expenses (-)	(65.444)	(22.169)	(60.121)	(19.110)
Depreciation and amortization(-)	(25.547)	(10.657)	(19.069)	(5.979)
Service expenses (-)	(56.923)	(23.196)	(37.439)	(10.785)
	<u>(147.914)</u>	<u>(56.022)</u>	<u>(116.629)</u>	<u>(35.874)</u>

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

	1 January - 30 September 2018	1 July- 30 September 2018	1 January - 30 September 2017	1 July- 30 September 2017
Personnel expenses (-)	(134.271)	(44.432)	(131.594)	(41.711)
Depreciation and amortization (-)	(22.406)	(9.997)	(13.885)	(4.620)
Service expenses (-)	(104.691)	(37.712)	(88.167)	(27.851)
Tax, duty and charges (-)	(12.091)	(3.753)	(6.009)	(1.717)
Provision for doubtful receivables (-)	(35.169)	(5.465)	1.084	(1.187)
	<u>(308.628)</u>	<u>(101.359)</u>	<u>(238.571)</u>	<u>(77.086)</u>

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

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

	1 January - 30 September 2018	1 July- 30 September 2018	1 January - 30 September 2017	1 July- 30 September 2017
<u>Other operating income</u>				
Foreign exchange gain from trade receivables and payables (net)	157.626	124.675	36.421	(410)
Discount income	2.761	218	9.626	4.327
Provisions released	34.242	19.700	39.028	3.304
Service income	13.793	5.944	9.261	2.149
Maintenance repair and rent income	11.557	4.406	8.771	3.021
Warehouse income	4.267	2.195	5.775	1.664
Indemnity and penalty detention income	9.166	7.341	1.876	628
Insurance indemnity income	9.253	3.533	37.781	18.030
Lawsuit income	190	68	7.120	60
Overdue interest income	3.907	1.708	689	554
Other income and gains	14.305	1.484	13.161	2.955
	<u>261.067</u>	<u>171.272</u>	<u>169.509</u>	<u>36.282</u>

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

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

	1 January - 30 September 2018	1 July- 30 September 2018	1 January - 30 September 2017	1 July- 30 September 2017
<u>Other operating expenses (-)</u>				
Provision expenses	(65.995)	(30.156)	(37.945)	(8.898)
Discount expenses	(5.406)	(475)	(8.954)	(1.687)
Lawsuit compensation expenses	(6.262)	(3.930)	(3.748)	(1.368)
Port facility pre-licence expenses	(13.249)	(7.112)	(4.789)	(1.529)
Donation expenses	(2.554)	(621)	(1.761)	(357)
Service expenses	(6.376)	(2.122)	(5.241)	(1.837)
Stock exchange registration expenses	(2.158)	(239)	(1.234)	14
Rent expenses	(2.960)	(2.058)	(1.272)	(361)
Penalty expenses	(544)	(154)	(1.054)	(102)
Interest expenses from purchases with maturities	(350)	(350)	-	-
Other expenses and losses	(14.491)	(3.853)	(12.890)	(2.260)
	<u>(120.345)</u>	<u>(51.070)</u>	<u>(78.888)</u>	<u>(18.385)</u>

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NOTE 15 – FINANCE INCOME AND EXPENSES

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

	1 January - 30 September 2018	1 July- 30 September 2018	1 January - 30 September 2017	1 July- 30 September 2017
<u>Finance income</u>				
Interest income on bank deposits	310.367	137.132	135.725	52.425
Foreign exchange gains (net)	956.201	414.992	-	-
Interest income from financial investments	204	204	-	-
Fair value differences of derivative financial instruments (net)	1.829	(2.929)	4.932	1.117
Other financial income	782	561	-	-
	<u>1.269.383</u>	<u>549.960</u>	<u>140.657</u>	<u>53.542</u>

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

	1 January - 30 September 2018	1 July- 30 September 2018	1 January - 30 September 2017	1 July- 30 September 2017
<u>Finance expenses (-)</u>				
Interest expenses on borrowings	(120.937)	(51.722)	(79.563)	(28.170)
Foreign exchange loss (net)	-	-	(61.590)	14.159
Interest cost of employee benefits	(48.226)	(18.197)	(37.580)	(12.398)
Allowance for impairment on financial assets	(25.588)	(25.588)	-	-
Other financial expenses	(4.591)	(2.717)	(1.515)	(216)
	<u>(199.342)</u>	<u>(98.224)</u>	<u>(180.248)</u>	<u>(26.625)</u>

During the period, the interest expenses of TRY 11.463 thousand have been capitalized as part of the Group’s property, plant and equipment (1 January - 30 September 2017: TRY 2.227 thousand).

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NOTE 16 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

Additional information about financial instruments

Foreign currency risk management

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). Foreign currency position table represents foreign currencies other than each entity’s functional currency. As of 30 September 2018, the foreign currency position of the Group in terms of original currency is calculated as it as follows:

	30 September 2018				
	TRY (Total in reporting currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	RON (Original currency)
1. Trade Receivables	914.929	56.473	119.340	-	18.299
2a. Monetary financial assets	1.061.299	660.883	56.602	171	4.131
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	627.892	624.530	33	28.294	1.110
4. CURRENT ASSETS (1+2+3)	2.604.120	1.341.886	175.975	28.465	23.540
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	35.575	35.575	-	-	-
6b. Non- monetary financial assets	-	-	-	-	-
7. Other	176.412	52.304	15.698	282.824	65
8. Non-current assets (5+6+7)	211.987	87.879	15.698	282.824	65
9. Total assets (4+8)	2.816.107	1.429.765	191.673	311.289	23.605
10. Trade payables	514.321	437.598	9.317	98.408	2.521
11. Financial liabilities	119.964	9.772	15.854	-	-
12a. Other monetary financial liabilities	2.019.839	1.990.417	2.021	-	10.375
12b. Other non-monetary financial liabilities	-	-	-	-	-
13. Current liabilities (10+11+12)	2.654.124	2.437.787	27.192	98.408	12.896
14. Trade payables	-	-	-	-	-
15. Financial liabilities	373.850	-	53.787	-	-
16a. Other monetary financial liabilities	658.096	656.245	-	-	1.249
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. Non-current liabilities (14+15+16)	1.031.946	656.245	53.787	-	1.249
18. Total liabilities (13+17)	3.686.070	3.094.032	80.979	98.408	14.145
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	(2.890.923)	-	(415.930)	-	-
19a. Off-balance sheet foreign currency derivative financial assets	-	-	-	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	2.890.923	-	415.930	-	-
20. Net foreign currency asset/liability position (9-18+19)	(3.760.886)	(1.664.267)	(305.236)	212.881	9.460
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(1.674.267)	(2.341.101)	94.963	(98.237)	8.285
22. Fair value of derivative financial instruments used in foreign currency hedge	82.426	-	11.859	-	-
23. Hedged foreign currency assets	2.890.923	-	415.930	-	-
24. Hedged foreign currency liabilities	-	-	-	-	-
25. Exports	3.731.557	-	-	-	-
26. Imports	9.612.141	-	-	-	-

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

Additional information about financial instruments (cont’d)

Foreign currency risk management (cont’d)

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). As of 31 December 2017, the foreign currency position of the Group in terms of original currency is calculated as it as follows:

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

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

Additional information about financial instruments (cont’d)

Foreign currency risk management (cont’d)

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

As of 30 September 2018 asset and liability balances are translated by using the following exchange rates: TRY 5,9902 = US \$ 1, TRY 6,9505 = EUR 1, TRY 0,0527= JPY 1 and TRY 1,4819 = RON 1(31 December 2017: TRY 3,7719 = US \$ 1, TRY 4,5155 = EUR 1, TRY 0,0334= JPY 1 and TRY 0,9637 = RON 1).

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency	Depreciation of foreign currency
30 September 2018		
1- TRY net asset/liability	(166.427)	166.427
2- Hedged portion from TRY risk (-)	-	-
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(166.427)	166.427
5- RON net asset/liability	1.402	(1.402)
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- RON Dollars net effect (5+6+7)	1.402	(1.402)
9- Euro net asset/liability	76.938	(76.938)
10- Hedged portion from Euro risk (-)	-	-
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	76.938	(76.938)
13- Jap. Yen net asset/liability	1.122	(1.122)
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	1.122	(1.122)
TOTAL (4+8+12+16)	(86.965)	86.965

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

Additional information about financial instruments (cont’d)

Foreign currency risk management (cont’d)

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 18)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018

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

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

Categories of the financial instruments and their fair values

	Loans and receivables	Available for sale financial assets	Financial assets/ liabilities at amortized cost	Derivative financial instruments through other comprehensive income/loss	Derivative financial instruments through profit/loss	Carrying value
30 September 2018						
Financial Assets						
Cash and cash equivalents	-	-	9.564.761	-	-	9.564.761
Trade receivables	-	-	4.837.195	-	-	4.837.195
Financial investments	-	-	35.412	-	162	35.574
Other financial assets	-	-	15.323	-	-	15.323
Derivative financial instruments	-	-	-	15.300	83.695	98.995
Financial Liabilities						
Financial liabilities	-	-	7.036.717	-	-	7.036.717
Trade payables	-	-	1.586.119	-	-	1.586.119
Other liabilities	-	-	305.158	-	-	305.158
Derivative financial instruments	-	-	-	2.150	6.509	8.659
31 December 2017						
Financial Assets						
Cash and cash equivalents	7.035.440	-	-	-	-	7.035.440
Trade receivables	2.582.106	-	-	-	-	2.582.106
Financial investments	-	13.437	-	-	-	13.437
Other financial assets	15.643	-	-	-	-	15.643
Derivative financial instruments	-	-	-	2.648	5.700	8.348
Financial Liabilities						
Financial liabilities	-	-	4.490.428	-	-	4.490.428
Trade payables	-	-	942.791	-	-	942.791
Other liabilities	-	-	268.419	-	-	268.419
Derivative financial instruments	-	-	-	33.011	10.430	43.441

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

NOTE 17 – SUBSEQUENT EVENTS

None.

NOTE 18 – OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION

Convenience translation to English:

As of 30 September 2018, the accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying financial statements differ from International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board with respect to the application of inflation accounting, certain reclassifications and also for certain disclosures requirement of the POA/CMB. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with IFRS.