# İZMİR DEMİR ÇELİK SANAYİ A.Ş.

**CONVENIENCE TRANSLATION TO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017 WITH INDEPENDENT AUDITOR'S REPORT**

(Originally Issued in Turkish)

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Director of İzmir Demir Çelik Sanayi Anonim Şirketi

## A) Audit of the Consolidated Financial Statements

*Opinion*

We have audited the consolidated financial statements of İzmir Demir Çelik Sanayi Anonim Şirketi and its subsidiaries (together will be referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

*Basis for Opinion*

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

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## *Key Audit Matters*

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

*Revenue recognition*

Refer to Note 2.5 and Note 33 to the consolidated financial statements for summary of significant accounting policies and significant accounting assessments, estimates and assumptions for revenue recognition.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| Revenue is recognized when it is probable that an entity will be able to recover the future economic benefits, the amount of the revenue can be reliably measured and significant risks and rewards of ownership are transferred to the buyer.<br><br>The Group recognizes the revenue by analyzing whether the significant risks and rewards are transferred to the buyer according to the delivery arrangements of domestic and export sales.<br><br>In this context, revenue recognition has been determined as one of the key audit matters since determining whether the revenue recognition criteria are met as well as determining whether the revenue is recorded in the financial statements in the correct period requires significant judgment of management | Our audit procedures in this area include the following:<br><br>The appropriateness of the Group's accounting policy for the recognition of revenue has been assessed.<br><br>The effectiveness of the design, implementation and operation of internal controls related to the accounting of the revenue has been assessed.<br><br>The timing of the revenue recognition for different delivery terms has been assessed through examining the related provisions in the customer contracts with respect to the terms of trade and delivery.<br><br>The level of revenue amount was analyzed analytically and the adequacy of disclosures made on the financial statements was assessed.<br><br>Sales and sales returns realized in the subsequent period were examined and it was ckecked whether there were large amount of reversals and returns. |

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*Key Audit Matters (continued)*

*Recoverability of trade receivables*

Refer to Note 2.5, Note 9 and Note 50 to the consolidated financial statements for summary of significant accounting policies and significant accounting assessments, estimates and assumptions for recoverability of trade receivables.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| Trade receivables from third parties amounting to 232,638,687 TL as of 31 December 2017, constitute a significant portion of the consolidated assets of the Group.<br><br>In performing impairment analysis for trade receivables, payment capability of the debtors, the data related to the receivables that could not be collected in prior periods, the extraordinary circumstances arising in the sector and the current economic environment, the amount of collaterals held from customers, the payment performance of customers and the aging analysis of the trade receivables are taken into account and the estimations made according to these analysis are accounted.<br><br>In this context, recoverability of trade receivables has been determined as one of the key audit matters since determining the amount of the allowance for doubtful receivables requires significant judgments and estimation of the management. | Our audit procedures in this area include the following:<br><br>The process related to the collection follow up of trade receivables from third parties of the Group has been analyzed and the design and operational effectiveness of internal controls for credit risk have been tested.<br><br>The aging analysis for trade receivables was analyzed analytically and the collection turnover rate was compared with the prior period.<br><br>It has been examined whether there is any dispute or litigation related to collection of receivables and written declaration has been obtained from legal counsel regarding the receivables under legal follow up.<br><br>The existence and accuracy of trade receivables from third parties were tested by sending confirmation letters through sampling.<br><br>Collections subsequent to reporting period were tested through sampling.<br><br>The collection risk was assessed by examining the past payment performance of customers who have overdue trade receivable balances.<br><br>The appropriateness and adequacy of the disclosures in the notes to the consolidated financial statements in relation to trade receivables from third parties has been evaluated. |

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

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting processs.

*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Responsibilities of auditors in an audit are as follows:

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

As part of an audit in accordance with the standards on auditing issued by the CMB and Standards on Auditing issued by POA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

B) Other Legal and Regulatory Requirements

1) Pursuant to the fourth paragraph of Article 398 of Turkish Commercial Code ("TCC") no. 6102; Auditors' Report on System and Committee of Early Identification of Risks is presented to the Board of Directors of the Group on 5 March 2018.

2) Pursuant to the fourth paragraph of Article 402 of the TCC; no significant matter has come to our attention that causes us to believe that for the period 1 January - 31 December 2017, the Group's bookkeeping activities and consolidated financial statements are not in compliance with TCC and provisions of the Group's articles of association in relation to financial reporting.

3) Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and required documents in connection with the audit.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member of KPMG International Cooperative

ORIGINALLY ISSUED IN TURKISH

İsmail Önder Ünal, SMMM
Partner
5 March 2018
İzmir, Türkiye

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## Notes to the Consolidated Financial Statements

**İZMİR DEMİR ÇELİK SANAYİ A.Ş. and ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2017**

(Amounts expressed in TL)

| ASSETS | Note | *Audited* Current period 31.12.2017 | *Audited* Prior period 31.12.2016 |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and Cash Equivalents | 7 | 180,180,845 | 276,259,554 |
| Trade Receivables | | 245,307,362 | 297,625,817 |
| *Due from related parties* | *6* | *12,668,675* | *14,911,302* |
| *Other trade receivables* | *9* | *232,638,687* | *282,714,515* |
| Other Receivables | | 1,156,167 | 11,936,309 |
| *Due from related parties* | *6* | *456,370* | *9,564,129* |
| *Due from other* | *11* | *699,797* | *2,372,180* |
| Derivative Instruments | 48 | 7,538,558 | 749,720 |
| Inventories | 12 | 613,620,253 | 353,276,922 |
| Prepaid Expenses | 14 | 9,893,740 | 6,244,149 |
| Other Current Assets | 31 | 1,445,448 | 2,847,464 |
| **TOTAL CURRENT ASSETS** | | **1,059,142,373** | **948,939,935** |
| **Non-Current Assets** | | | |
| Financial Investments | 8 | 931,043 | 931,043 |
| Other Receivables | | 1,297,193 | 1,060,056 |
| Investment Properties | 15 | 84,185,000 | 78,470,000 |
| Property, Plant and Equipment | 16 | 1,767,479,038 | 1,828,978,139 |
| Intangible Assets | 19 | 1,181,862 | 979,958 |
| Prepaid Expenses | 14 | 2,120,353 | 2,825,618 |
| Deferred Tax Assets | 42 | 126,791,462 | 130,686,435 |
| **TOTAL NON-CURRENT ASSETS** | | **1,983,985,951** | **2,043,931,249** |
| **TOTAL ASSETS** | | **3,043,128,324** | **2,992,871,184** |
| | | | |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Short-term Borrowings | 49 | 393,985,710 | 313,458,516 |
| Short-term Portion of Long-term Borrowings | 49 | 195,334,391 | 266,022,855 |
| Trade Payables | | 873,678,060 | 845,005,512 |
| *Due to related parties* | *6* | *3,326,411* | *899,786* |
| *Other trade payables* | *9* | *870,351,649* | *844,105,726* |
| Payables for Employee Benefits | 29 | 12,634,941 | 11,393,285 |
| Other Payables | | 1,796,513 | 2,380,337 |
| *Other payables* | *11* | *1,796,513* | 2,380,337 |
| Derivative Instruments | 48 | 662,984 | 2,947,966 |
| Current Income Tax Liability | 42 | 401,665 | 80,128 |
| Short-term Provisions | | 4,045,681 | 45,972 |
| Other Current Liabilities | 31 | 126,185,211 | 39,533,191 |
| **TOTAL CURRENT LIABILITIES** | | **1,608,725,156** | **1,480,867,762** |
| **Non-current Liabilities** | | | |
| Long-term Borrowings | 49 | 551,528,197 | 637,322,532 |
| Long-term Provisions | | 22,634,740 | 17,653,472 |
| *Long term provisions related to employee benefits* | *29* | *22,634,740* | *17,653,472* |
| Deferred Tax Liabilities | 42 | 176,638,172 | 180,845,129 |
| **TOTAL NON- CURRENT LIABILITIES** | | **750,801,109** | **835,821,133** |
| **EQUITY** | | | |
| **Equity Attributable to Owners of the Company** | | **647,903,884** | **619,564,279** |
| Paid-in Capital | 32 | 375,000,000 | 375,000,000 |
| Adjustment on Capital | 32 | 22,763,962 | 22,763,962 |
| Other Accumulated Comprehensive Income/ Expense not to be Reclassified Through Profit or Loss | | 673,964,320 | 681,212,243 |
| *Gain/ loss on revaluation and remeasurement* | *32* | *673,964,320* | *681,212,243* |
| Legal Reserves | 32 | 25,832,374 | 25,832,374 |
| Retained Earnings/(Accumulated Losses) | | (464,645,739) | (411,899,096) |
| Net Profit/(Loss) for the Period | | 14,988,967 | (73,345,204) |
| **Non-controlling Interests** | 32 | **35,698,175** | **56,618,010** |
| **TOTAL EQUITY** | | **683,602,059** | **676,182,289** |
| **TOTAL LIABILITIES** | | **3,043,128,324** | **2,992,871,184** |

The accompanying notes are an integral part of these consolidated financial statements.

(Amounts expressed in TL)

| | Note | *Audited* Current Period 01.01 - 31.12.2017 | *Audited* Prior Period 01.01 - 31.12.2016 |
|---|---|---|---|
| **PROFIT OR LOSS** | | | |
| Revenue | 33 | 2,977,313,462 | 2,209,673,040 |
| Cost of Sales (-) | 33 | (2,770,702,815) | (1,962,685,646) |
| **GROSS PROFIT** | | **206,610,647** | **246,987,394** |
| General Administrative Expenses (-) | 35 | (24,356,105) | (22,199,477) |
| Marketing Expenses (-) | 35 | (32,319,076) | (26,913,687) |
| Other Income from Operating Activities | 36 | 46,232,453 | 32,772,872 |
| Other Expenses from Operating Activities(-) | 36 | (76,990,212) | (137,319,016) |
| **OPERATING PROFIT** | | **119,177,707** | **93,328,086** |
| Income from Investing Activities | 37 | 30,895,715 | 41,913,172 |
| Expenses from Investing Activities (-) | 37 | (3,116,344) | (3,407,207) |
| **OPERATING PROFIT BEFORE FINANCE EXPENSE** | | **146,957,078** | **131,834,051** |
| Finance Income | 39 | 19,073,574 | 31,018,688 |
| Finance Expenses (-) | 39 | (156,453,283) | (260,125,325) |
| **OPERATING PROFIT/(LOSS) BEFORE TAX** | | **9,577,369** | **(97,272,586)** |
| **Tax Income/(Expense)** | | **(220,921)** | **14,880,306** |
| Current Tax Expense | 42 | (1,898,991) | (247,602) |
| Deferred Tax Income /(Expense) | 42 | 1,678,070 | 15,127,908 |
| **PROFIT/(LOSS) FOR THE PERIOD** | | **9,356,448** | **(82,392,280)** |
| **Profit/(Loss) Attributable to** | | | |
| Non-controlling Interests | | (5,632,519) | (9,047,076) |
| Owners of the Company | | 14,988,967 | (73,345,204) |
| Diluted Profit/(Losses) Per Share | 43 | 0.0400 | (0.1956) |

The accompanying notes are an integral part of these consolidated financial statements.

## İZMİR DEMİR ÇELİK SANAYİ A.Ş. and ITS SUBSIDIARIES
## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 1 JANUARY 2017 – 31 DECEMBER 2017

| (Amounts expressed in TL) | ***Audited*** | ***Audited*** |
|---|---|---|
| | **Current Period 01.01 - 31.12.2017** | **Prior Period 01.01 - 31.12.2016** |
| **PROFIT/LOSS FOR THE PERIOD** | **9,356,448** | **(82,392,280)** |
| **OTHER COMPREHENSIVE INCOME** | | |
| **Items not to be reclassified through profit or loss** | **(520,474)** | **549,205,520** |
| Increase/(Decrease) on Revaluation of Tangible Assets | - | 688,103,048 |
| Actuarial Gain/(Losses) on Employee Benefits | (650,592) | (1,596,148) |
| Taxes Over Other Comprehensive Income/ Expenses not to be Reclassified Through Profit or Loss | 130,118 | (137,301,380) |
| **Items to be reclassified through profit or loss** | **-** | **-** |
| **OTHER COMPREHENSIVE INCOME** | **(520,474)** | **549,205,520** |
| **TOTAL COMPREHENSIVE INCOME** | **8,835,974** | **466,813,240** |
| **Attributable to** | **8,835,974** | **466,813,240** |
| Non-controlling Interests | (5,626,439) | 95,380,214 |
| Owners of the Company | 14,462,413 | 371,433,026 |

The accompanying notes are an integral part of these consolidated financial statements.

## İZMİR DEMİR ÇELİK SANAYİ A.Ş. and ITS SUBSIDIARIES
## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 1 JANUARY 2017 - 31 DECEMBER 2017

(Amounts expressed in TL)

| | | | | Accumulated Other Comprehensive Income/Expense that will not be Reclassified through Profit or Loss | | Accumulated Profit/Loss | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Note** | **Paid-in Capital** | **Adjustment on Capital** | **Gain/ (Loss) on Revaluation and Re-measurement** | **Legal Reserves** | **Retained Earnings / (Losses)** | **Net Profit / (Loss) for the Period** | **Equity Attributable to Owners of the Company** | **Non-controlling Interests** | **Total Equity** |
| **PRIOR PERIOD** | | | | | | | | | | |
| **Balance at 1 January 2016 (Beginning of the period)** | | **375,000,000** | **22,763,962** | **187,375,198** | **25,832,374** | **(181,076,817)** | **(183,064,702)** | **246,830,015** | **19,339,034** | **266,169,049** |
| Transfers | | - | - | (2,195,564) | - | (180,869,138) | 183,064,702 | - | - | - |
| Other comprehensive income/loss | | - | - | 444,778,230 | - | - | - | 444,778,230 | 104,427,290 | 549,205,520 |
| Increase/decrease due to change in shareholding at subsidiary | | - | - | 51,254,379 | - | (49,953,141) | - | 1,301,238 | (58,101,238) | (56,800,000) |
| Net profit/(loss) for the period | | - | - | - | - | - | (73,345,204) | (73,345,204) | (9,047,076) | (82,392,280) |
| **Balance at 31 December 2016 (End of the period)** | | **375,000,000** | **22,763,962** | **681,212,243** | **25,832,374** | **(411,899,096)** | **(73,345,204)** | **619,564,279** | **56,618,010** | **676,182,289** |
| **CURRENT PERIOD** | | | | | | | | | | |
| **Balance at 1 January 2017 (Beginning of the period)** | **32** | **375,000,000** | **22,763,962** | **681,212,243** | **25,832,374** | **(411,899,096)** | **(73,345,204)** | **619,564,279** | **56,618,010** | **676,182,289** |
| Transfers | | - | - | (29,632,438) | - | (43,712,766) | 73,345,204 | - | - | - |
| Other comprehensive income/loss | | - | - | (531,214) | - | - | - | (531,214) | 10,740 | (520,474) |
| Increase/decrease due to change in shareholding at subsidiary | 32 | - | - | 24,411,933 | - | (9,033,877) | - | 15,378,056 | (15,378,056) | - |
| Net profit/(loss) for the period | | - | - | - | - | - | 14,988,967 | 14,988,967 | (5,632,519) | 9,356,448 |
| Capital increase | | - | - | - | - | - | - | - | 80,000 | 80,000 |
| Other | 42 | - | - | (1,496,204) | - | - | - | (1,496,204) | - | (1,496,204) |
| **Balance at 31 December 2017 (End of the period)** | **32** | **375,000,000** | **22,763,962** | **673,964,320** | **25,832,374** | **(464,645,739)** | **14,988,967** | **647,903,884** | **35,698,175** | **683,602,059** |

The accompanying notes are an integral part of these consolidated financial statements.

**İZMİR DEMİR ÇELİK SANAYİ A.Ş. and ITS SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF CASH FLOW FOR THE PERIOD ENDED 31 DECEMBER 2017**
(Amounts expressed in TL)

| | Notes | *Audited* Current Period 01.01 - 31.12.2017 | *Audited* Prior Period 01.01 - 31.12.2016 |
|---|---|---|---|
| **A. CASH FLOWS FROM OPERATING ACTIVITIES** | | **153,155,024** | **490,973,598** |
| Net profit/(loss) for the period | | 9,356,448 | (82,392,280) |
| | | | |
| **Adjustments for net profit/loss for the period reconciliation** | | **262,676,944** | **377,027,147** |
| Adjustments for depreciation and amortization | 30,36 | 113,830,440 | 86,728,156 |
| Adjustments for provision for impairment on inventories | 12 | (342,075) | (297,172) |
| Adjustments for provision for employee severance indemnity and vacation pay liability | 29 | 7,026,502 | 3,655,925 |
| Adjustments for interest income and expenses | 36,39 | 70,572,734 | 47,361,964 |
| Adjustments to (gain)/loss on fair value of financial instruments | 37 | (7,367,145) | (33,368,918) |
| Adjustments for tax expense/(income) | 42 | 220,921 | (14,880,306) |
| Unrealized foreign exchange (gain)/loss | | 78,832,241 | 287,637,716 |
| Adjustments for (gain)/loss on disposal of tangible assets | 37 | (96,674) | 189,782 |
| | | | |
| **Changes in working capital** | | **(113,923,889)** | **200,758,506** |
| Adjustments for (increase)/decrease in trade receivables | | 52,051,303 | (56,865,121) |
| Adjustments for (increase)/decrease in other receivables | | 1,435,246 | 3,953,468 |
| Adjustments for (increase)/decrease in inventories | | (257,191,372) | (118,059,612) |
| Adjustments for increase/(decrease) in trade payables | | (420,339) | 360,232,737 |
| Adjustments for increase/(decrease) in other payables | | (583,824) | 705,694 |
| Adjustments for increase/(decrease) in working capital | | 90,785,097 | 10,791,340 |
| **Net cash provided from operating activities** | | **158,109,503** | **495,393,373** |
| | | | |
| Employee termination benefits paid | 29 | (2,695,825) | (2,560,114) |
| Taxes paid | | (2,258,654) | (1,859,661) |
| | | | |
| **B. CASH FLOW USED IN INVESTING ACTIVITIES** | | **(62,298,239)** | **(76,189,641)** |
| Cash inflows due to acquisition of additional subsidiary share | | - | (56,800,000) |
| Cash inflows by disposal of tangible and intangible assets | | 158,202 | 614,794 |
| Cash outflows by acquisition of tangible and intangible assets | | (60,829,766) | (22,349,883) |
| Cash inflows on derivative instruments | | 20,229,728 | 9,463,375 |
| Cash outflows on derivative instruments | | (21,936,403) | (7,117,927) |
| Other | | 80,000 | - |
| | | | |
| **C. NET CASH USED FOR FINANCING ACTIVITIES** | | **(186,935,494)** | **(361,928,507)** |
| Cash inflows from loans and borrowings | | 1,134,496,660 | 779,111,578 |
| Cash outflows by repayment of loans and borrowings | | (1,265,826,458) | (1,085,283,316) |
| Increase/(decrease) in due to related parties | | 9,541,255 | (9,316,245) |
| Interest paid | | (77,138,090) | (56,789,789) |
| Interest received | | 11,991,139 | 10,349,265 |
| | | | |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)** | | **(96,078,709)** | **52,855,450** |
| **D. CASH AND CASH EQUIVALENTS AT THE BEGINING OF THE PERIOD** | **7** | **276,259,554** | **223,404,104** |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D)** | **7** | **180,180,845** | **276,259,554** |

The accompanying notes are an integral part of these consolidated financial statements

## 1. ORGANIZATION AND NATURE OF BUSINESS

İzmir Demir Çelik Sanayi A.Ş ("the Company") was established in 1975 to produce long steel products for domestic and international markets. Modern bar rolling mill and steel melt shop was commissioned in 1983 and 1987 respectively. Production is carried out in Aliağa heavy industrial zone at a plant located over 500,000 m² areas. The Company and its subsidiaries are engaged in production, sales, marketing, transportation of iron and steel, port services, ship operations and production, distribution and trading of energy.

The registered address of İzmir Demir Çelik Sanayi A.Ş. is Şair Eşref Bulvarı No: 23, 35210 Konak, İzmir.

Subsidiaries included in the accompanying consolidated financial statements are as follows:

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| Company Name | Operating Activities | 31 December 2017 Shareholding rate | 31 December 2016 Shareholding rate |
|---|---|---|---|
| Akdemir Çelik Sanayi ve Tic. A.Ş. | Iron-steel production | %99.98 | %99.98 |
| İDÇ Liman İşletmeleri A.Ş. | Harbor operating | %99.98 | %99.98 |
| İzdemir Enerji Elektrik Üretim A.Ş. | Energy production | %92,26 | %86,63 |

**Shareholding structure:**

| Shareholders name | Share Amount (TL) | Share (%) |
|---|---|---|
| Şahin – Koç Çelik Sanayi A.Ş. | 216,676,003 | 57.78 |
| Halil Şahin | 55,459,438 | 14.79 |
| Şahin Şirketler Grubu Holding | 20,244,300 | 5.25 |
| Other (Publicly traded) | 82,620,259 | 22.18 |
| **Total** | **375,000,000** | **100.00** |

The Company's shares are traded at Borsa İstanbul ("BIST") under the name "IZMDC".

The Company and its subsidiaries are hereby referred to as "the Group" in this report.

Number of employees is as follows:

| | Blue Collar | White Collar | Manager | Top Level Manager | Total |
|---|---|---|---|---|---|
| 31 December 2017 | 1,357 | 482 | 26 | 7 | 1,872 |
| 31 December 2016 | 1,343 | 468 | 26 | 7 | 1,844 |

The Company's investments and associates are as follows.

| | Share (%) | TL |
|---|---|---|
| **Investments and Associates** | | |
| İtaş İzmir Teknopark Ticaret A.Ş. | 0.125 | 2,547 |
| Sivas Demir Çelik İşletmeleri A.Ş. | 0.002 | 445,357 |
| Enda Enerji Holding A.Ş. | 0.24 | 644,150 |
| Egenda Ege Enerji Üretim A.Ş. | 0.03 | 70,013 |
| İHY İzmir Hava Yolları A.Ş. | 0.01 | 4,333 |
| Nemrut Kılavuz ve Römorkör Hizmetleri A.Ş. | 16.66 | 10,000 |
| Enerji Piyasaları İşletim Anonim Şirketi | 0.80 | 200,000 |
| **Impairment provision** | | |
| Sivas Demir Çelik İşletmeleri A.Ş. | | (445,357) |
| **TOTAL** | | **931,043** |

## 2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

### 2.1 Basis of Presentation

**Statement of Compliance**

The Group maintains its book of accounts and prepares its statutory financial statements in TL in accordance with the Turkish Uniform Chart of Accounts, Turkish Commercial Code and Turkish Tax Code.

The accompanying consolidated financial statements have been prepared in accordance with the Turkish Accounting Standards as adopted by the Public Oversight Accounting and Auditing Standards Authority of Turkey in line with the communiqué Serial: II, No: 14.1 "Basis for Financial Reporting in the Capital Markets" issued by CMB which is published on 13 June 2013 in the Official Gazette numbered 28676. The Turkish Accounting Standards are composed of Turkish accounting standards, Turkish Financial Reporting Standards and additional interpretations.

With the resolution on 17 March 2005, the CMB announced that, effective from 1 January 2005, the application of TAS 29 "Financial Reporting in Hyperinflationary Economies" issued by TASB is no longer required for companies operating in Turkey and accordingly effective from 1 January 2005, TAS 29 has not been applied in preparing the Group's consolidated financial statements in accordance with CMB Financial Reporting Standards.

**Basis of presentation of financial statements**

The accompanying consolidated financial statements of the Group have been prepared in compliance with the basis stated in "Basis for Financial Reporting in the Capital Markets" issued by CMB on 7 June 2013.

**Approval of Consolidated Financial Statements**

The Group's consolidated financial statements were approved by the board of directors of the Company on 5 March 2018. The General Assembly has the right to amend the financial statements after the publication of the financial statements.

**Functional and presentation currency**

The accompanying consolidated financial statements are presented in TL, which is the Group's functional currency. All financial information presented in TL unless otherwise stated. The amounts after the comma are rounded to one nearest integer.

**Basis of Consolidation**

***Subsidiaries***

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise to obtain benefits from its activities.

In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of the subsidiaries are included in the consolidated financial statements starting from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The table below sets out all the subsidiaries included in the scope of consolidation and, shows the Group's share of control.

| | **31 December 2017** | **31 December 2016** |
|---|---|---|
| Akdemir Çelik Sanayi ve Tic. A.Ş. | %99.98 | 99.98% |
| İDÇ Liman İşletmeleri A.Ş. | %99.98 | 99.98% |
| İzdemir Enerji Elektrik Üretim A.Ş. | %92.26 | |

***Transactions eliminated on consolidation***

Intragroup balances and transactions, and any unrealized income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

**Comparative Information**

For the purpose of conducting a comparison of financial position, performance and cash flow trend, the Group's accompanying consolidated financial statements are prepared comparative with prior period. If there have been a change in presentation or classification on consolidated financial statements; to ensure the compatibility, the prior period consolidated financial statements are adjusted properly and explanation is presented on these issues.

The Group has prepared consolidated statement of financial position as at 31 December 2017 comparatively with the consolidated statement of financial position as at 31 December 2016, and consolidated profit or loss statement, consolidated statement of other comprehensive income, consolidated statement of cash flow and consolidated statement of changes in shareholders' equity for the period ended 31 December 2017 comparatively with the consolidated profit or loss statement, consolidated statement of other comprehensive income, consolidated statement of cash flow and consolidated statement of changes in shareholders' equity for the period ended 31 December 2016

The Group has restated the comparitve period's income statement to reclassify TL 50,534,5885 related to income from YEKDEM (renewable energy support mechanism) reported in revenue to cost of sales. The relevant reclassification is made in accordance with TAS 8 article 13/b.

**Offsetting**

Financial assets and liabilities are offset and are reported net only when the entity has a legally enforceable right to offset, and it intends to settle the asset and the liability either simultaneously or on a net basis.

## 2.2 Changes in Accounting Policies

A company could only change its accounting policies under following circumstances.

- If a standard or interpretation makes it necessary or
- If the financial position of the company, performance and impacts of operations and incidents upon its cash flow is able to be offered more appropriate and reliable quality in the financial statements.

Financial statements have to be comparable to enable the users of financial statements to see the trends in financial position, performance and cash flows. Therefore, if the change is not granting one of the above conditions, the accounting policies are applied consistently at each and annual period. The significant accounting policies applied in preparing the consolidated financial statements for the period ended 31 December 2017 are similar with those of expressed in detail in the financial statements dated 31 December 2016.

## 2.3 Changes and Errors in Accounting Estimates

The preparation of the consolidated financial statements in accordance with Turkish Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. These estimates are regularly reviewed and reported in consolidated statement of profit or loss for the periods in which they are known.

The Group management has reassessed the useful lives of certain fixed assets as of 1 April 2017. Based on the technical analysis the management assessed that the useful life of a group of machinery and equipment should be 30 years, which was previously estimated between 30 years to 40 years. Hence the accompanying financial statements have been prepared according to the new estimate, in compliance with the article 13/b of TAS 8. This change has no effect on prior periods. The current period effect of the related change in estimate is to decrease depreciation expense of the current period by TL 27,680,015. In the Consolidated Statement of Changes in Equity, depreciation transferred from the revaluation surplus to previous years' losses is realized as TL 10,171,372 less. It is expected that the related estimation change will be effected on the same level in future periods.

## 2.4 Changes in TFRSs and Interpretations

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

New standards, interpretations and amendments to existing standards are not effective at reporting date but earlier application is permitted; however the Group has not early adopted are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

## TFRS 15 Revenue from Contracts with Customers

As issued in September 2016 by POA, the new standard replaces existing TFRS guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which companies to be entitled, rather than fair value and new guidance have been introduced on separating performance obligations for goods and services in a contract and recognition of revenue over time. TFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

***Explanations related to TFRS 15's prospected effects***

The Group has performed an initial assessment on these transactions and does not expect that there will be a significant impact on its consolidated financial statements resulting from the application of TFRS 15.

## TFRS 9 Financial Instruments (2017 version)

TFRS 9 *Financial Instruments*, has been published by POA in January 2017, replaces the existing guidance in TAS 39 *Financial Instruments: Recognition and Measurement*. It also carries forward the guidance on recognition, classification, measurement and derecogniton of financial instruments from TAS 39 to TFRS 9. The last version of TFRS 9 includes a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements and also includes guidance issued in previous versions of TFRS 9. The Standard is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

***Explanations related to TFRS 9's prospected effects***

The Group has performed an initial assessment on these financial assets and liabilities and does not expect that there will be a significant impact on its consolidated financial statements resulting from the application of TFRS 9.

**TFRS Interpretation 22 – Foreign Currency Transactions and Advance Consideration**

TFRS Interpretation 22 "*Foreign Currency Transactions and Advance Consideration*" has been published by POA in December 2017 to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. This Interpretation is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of TFRS Interpretation 22.

**Amendments to TFRS 2 – Classification and Measurement of Share-based Payment Transactions**

POA has issued amendments to TFRS 2 Share-Based Payment in December 2017to improving consistency and resolve some long-standing ambiguities in share-based payment accounting. The amendments cover three accounting areas: i) measurement of cash-settled share-based payments, ii) classification of share-based payments settled net of tax withholdings; and iii) accounting for modification of a share-based payment from cash-settled to equity-settled. Also, same approach has been adopted for the measurement of cash-settled share-based payments as equity-settled share-based payments. If certain conditions are met, share-based payments settled net of tax withholdings are accounted for as equity-settled share-based payments. The amendments are effective for periods beginning on or after 1 January 2018, with earlier application permitted. The Group does not expect that application of these amendments to TFRS 2 will have significant impact on its consolidated financial statements.

**TAS 40 – Transfers of Investment Property**
Amendments to IAS 40 - Transfers of Investment Property issued by POA in December 2017 have been made to clarify uncertainty about that provide evidence of transfer of /from investment property to other asset groups. A change in management's intentions for the use of property does not provide evidence of a change in intended use. Therefore, when an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognized (eliminated from the statement of consolidated financial position and does not reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to TAS 40.

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

**Improvements to TFRSs**
POA has issued Annual Improvements to TFRSs - 2014–2016 Cycle for applicable standards. The amendments are effective as of 1 January 2018. Earlier application is permitted. The Group does not expect that application of these improvements to TFRSs will have significant impact on its consolidated financial statements.

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

*TFRS 1 "First Time Adoption of Turkish Financial Reporting Standards"*

TFRS 1 is amended to removing of the outdated short-term exemptions for first-time adopters within the context of 'Annual Improvements to TFRSs 2012-2014 Cycle' related to disclosures for financial instruments, employee benefits and consolidation of investment entities.

*TAS 28 "Investments in Associates and Joint Ventures"*

The amendment enable when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with TFRS 9.

### *The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA*

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued to TFRS by the POA, thus they do not constitute part of TFRS. Such standards, interpretations and amendments that are issued by the IASB but not yet issued by the POA are referred to as IFRS or IAS. The Group will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

**IFRS 16 Leases**

On 13 January 2016, IASB issued the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently changes to IAS 40 *Investment Properties*. IFRS 16 *Leases* eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15 Revenue from Contracts with Customers. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

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

On 17 June 2017, IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Interpretation is effective from 1 January 2019 with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 23.

***Annual Improvements to IFRSs 2015-2017 Cycle***

**Improvements to IFRSs**

IASB issued Annual Improvements to IFRSs - 2015–2017 Cycle. The amendments are effective as of 1 January 2019. Earlier application is permitted. The Group does not expect that application of these improvements to IFRSs will have significant impact on its consolidated financial statements.

*IFRS 3 Business Combinations* and *IFRS 11 Joint Arrangements*

IFRS 3 and IFRS 11 are amended to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.

***Annual Improvements to IFRSs 2015-2017 Cycle***

**Improvements to IFRSs**

IASB issued Annual Improvements to IFRSs - 2015–2017 Cycle. The amendments are effective as of 1 January 2019. Earlier application is permitted. The Group does not expect that application of these improvements to IFRSs will have significant impact on its consolidated financial statements.

*IFRS 3 Business Combinations* and *IFRS 11 Joint Arrangements*

IFRS 3 and IFRS 11 are amended to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.

*IAS 12 Income Taxes*

IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income (OCI) or equity.

*IAS 23 Borrowing Costs*

IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

**Amendments to IAS 28- Long-term *interests in Associates and Joint Ventures***

On 12 October 2017, IASB has issued amendments to IAS 28 to clarify that entities also apply IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. An entity applies IFRS 9 to such long-term interests before it applies related paragraphs of IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 28.

**Amendments to IFRS 9 - Prepayment features with negative compensation**

On 12 October 2017, IASB has issued amendments to IFRS 9 to clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. Under IFRS 9, a prepayment option in a financial asset meets this criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include 'reasonable additional compensation' for early termination of the contract. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 9.

**IFRS 17 –Insurance Contracts**

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly international standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2021 but companies can apply it earlier. The Group does not expect that application of IFRS 17 will have significant impact on its consolidated financial statements.

## 2.5 Summary of Significant Accounting Policies

The significant accounting policies applied in the preparation of consolidated financial statements are summarized below:

**Revenue**

Revenue is recognized on an accrual basis when the amount of the revenue can be measured reliably. The estimated customer returns, discounts and provisions are deducted from that amount. The main activities of the Company and its subsidiaries are production, sales, marketing, transportation of iron and steel, port services and ship operations.

*Sales of iron and steel:*

Revenue from sale of iron and steel is accounted on accrual basis at fair value when all the following conditions are satisfied:

- The Group has transferred all significant risks and rewardsof ownershipof the goods to the buyer,
- The Group retains neither continuing managerial involvement associated with ownership nor effective control over the goods sold,
- The amount of revenue can be measured reliably,
- It is probable that the economic benefits associated with the transaction will flow to the entity,
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

*Service delivery:*

Service delivery consists of marine transportation and harbor management. When the outcome of a transaction involving the service delivery can be estimated reliably, revenue associated with the transaction shall be recognized by reference to the completion stage of the transaction as of the statement of financial position date.

Revenue from service delivery is accounted on accrual basis at fair value when all the following conditions are satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity;
- The completion stage of the transaction at the statement of financial position date can be measured reliably;
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

*Sales of electricity:*

Revenue is recognized on accrual basis over the relevant portion of the invoiced amount, if electricity delivery is incurred. Net sales represent the amount of invoiced electricity delivery after sales commissions and sales taxes are deducted.

Revenue from sale of electricity is accounted when all the following conditions are satisfied:

- Transmitting the quantity of the power committed to customer
- The amount of revenue can be measured reliably,
- It is probable that the economic benefits associated with the transaction will flow to the entity,
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

*Rent income:*

Proceeds achieved through renting the Group owned-ships are accounted on a straight line basis during the rent agreement period.

**Financial income and expenses**

Financial income is composed of interest income from time deposits rediscount gains which is not associated with main activities of the Group and foreign exchange gains. Financial expenses are composed of bank charges, interest expenses on bank borrowings, interest expenses on letters of credit, bank commission expenses, foreign exchange losses and rediscount losses which is not associated with main activities of the Group.

*Dividend and interest income:*

Interest income is accrued at the relevant period in proportion to the effective interest rate which reduces the estimated cash inflows from the related financial asset to the book value of the asset over the expected life with respect to the remaining principal amount. Dividend income is recorded when shareholders have the right to get dividend.

**Inventories**

Inventories are valued at the lower of cost or net realizable value. The cost of the inventories includes purchases, conversion costs and other costs incurred to bring the inventories to their present state and position.. Cost for finished goods includes production costs in accordance with normal production capacity. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale (Note 12). The cost of inventories is based on the weighted average cost on a monthly basis. Imputed interest that is included in the cost of purchased goods is deducted from the cost of goods sold and inventories.

Amounts of impairment on inventories that decrease inventory costs to net realizable value and losses related with inventories are recognized as expense in the period when these losses occur. Impairment provisions on inventories are reversed by reducing the cost of goods sold amount. As of every reporting period, net realizable value is reviewed once again.

The allocation of fixed production overheads to the cost of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. General fixed production expenses part is allocated with the idle capacity expenses in the case of idle capacity.

**Tangible Assets**

Lands, buildings, land improvements, machineries and equipment are reflected to the consolidated financial statements at fair values that are determined on 27 December 2016 by an independent real estate appraisal company, which is accredited by CMB.

The valuation company determined the fair value of land and parcels with market value method, the fair value of building with market value method and depreciated replacement cost method, the fair value of land improvements and machinery and equipment with depreciated replacement cost method.

The revaluation frequency depends on the differences at the fair values of tangible fixed assets.
If net book value of an asset increases as a result of the revaluation, this increase is recognized at statement of other comprehensive income and presented under the revaluation fund account in the equity. However a revaluation value increase can only be recognized in the profit or loss statement to the extent of impairment recorded in the previous periods for the same asset.

If net book value of an asset decreases during the revaluation, this decrease is recognized as expense. However this decrease can only be recognized as much as all kinds of credit balance about this asset in the revaluation surplus. The subjected decrease recognized in other comprehensive income, decreases the amount accumulated in equity under revaluation surplus. In the case of sales of revalued building or land, revaluation surplus part of revalued asset is classified to accumulated profit/(loss). On the other hand, a part of the revaluation surplus is transferred to the accumulated profit / loss as the asset is used by the entity.

The costs of property, plant and equipment purchased before 1 January 2005 are restated for the effects of inflation in TL unit current at 31 December 2004 less accumulated depreciation and impairment losses. The costs of tangible assets purchased after 1 January 2005 are carried at cost less accumulated depreciation and impairment losses.

Property, plant and equipment are carried at cost, less accumulated depreciation. Depreciation is provided on the acquired values of property, plant and equipment on a straight-line method starting from the acquisition date. Land is not amortized. Repair and maintenance costs are transferred to the related expense account on the date of the charge.

The depreciation rates presented below are determined by considering estimated useful lives.

| | |
|---|---|
| Buildings | 10- 50 years |
| Land improvements | 5- 25 years |
| Machinery and equipment | 5- 30 years |
| Vehicles | 3- 20 years |
| Furniture and fixtures | 3- 17 years |
| Lease hold improvements | 2-5 years |

***Impairment of assets***

*Financial Assets*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event had a negative effect on the estimated future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired may include default or delinquency by a debtor, restructuring of an amount due to the Group on items that the Group would not consider otherwise, indications that a debtor or issuer may go bankruptcy.

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant receivables are assessed for specific impairment

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. If financial assets are subject to significant impairment amounts when considered separately, then they are considered for impairment collectively. All impairments are recognized in the profit or loss

An impairment is reversed if the impairment can be related objectively with an event occurring after the impairment was recognized. The reversal of financial assets booked with their discounted amounts is recognized in profit or loss.

*Non-financial assets*

Carrying amounts of the Group's non-financial assets except deferred tax assets and investment properties are reviewed at each reporting date to determine whether there is any indication of impairment. If any such an indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or its cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset. Fair value less cost to sell of an asset or a cash generating unit is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Impairment is recognized if the carrying amount of an asset or cash generating unit exceeds its recoverable amount through use or sale. Impairments are recognized in the profit or loss.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets. Goodwill acquired in a business combination allocated to groups of cash generating units that are expected to benefit from the synergies of the combination. Impairment losses recognized in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating units, and then to reduce the carrying amounts of the other assets in the cash generating units on a pro rata basis. Impairment losses are recognized in profit or loss.

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

**Leases**

*Financial lease*

Leases of property and equipment where the Group substantially assumes all the risks and rewards of ownership are classified as finance leases. Finance leases are included in the property and equipment at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other current and non-current financial liabilities. The interest element of the finance cost is charged to the consolidated profit or loss statement over the lease period.

*Operational lease*

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net off any incentives received from the leassor) are charged to the profit or loss statement on a straight-line basis over the period of the lease.

**Government Grants and Incentives**

Government incentives, including non-monetary grants at fair value are included in the consolidated financial statements only if there is reasonable assurance that the Group will fulfill all required conditions and acquire the incentive. A forgivable loan from government is treated as a government grant when it is probable that the entity will meet the terms for forgiveness of the loan.

The Group utilizes disabled employment incentive due to Labor law numbered 4857 and Social Insurance and general Health Insurance Law numbered 5510. Government incentives recorded under government incentive and grant in the profit or loss statements are not collected in cash but deducted from the accrued insurance premiums by treasury. Incentive income was off set against cost of goods sold.

**Investment Properties**

Investment properties are the real estates which are held to earn rental income and/or for capital appreciation. Investment properties are presented in the financial statements at their fair value determined in the revaluation work which is carried out on December 27, 2016 by an independent appraisal company accredited by the Capital Market Board. Appreciation or devaluation in the mentioned properties is accounted in the consolidated statement of profit or loss.

If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply TAS 16 up to the date of change in use. The entity shall treat any difference at that date between the carrying amount of the property in accordance with TAS 16 and its fair value in the same way as a revaluation in accordance with TAS 16.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of profit or loss in the year of retirement or disposal. A gain or loss arising from a change in the fair value of investment property shall be recognized in profit or loss for the period in which it arises.

**Intangible Assets**

The costs of intangible assets purchased before 1 January 2005 are restated for the effects of inflation in TL units current at 31 December 2004 less accumulated amortization and impairment losses. The costs of intangible assets purchased after 1 January 2005 are carried at cost less accumulated amortization and impairment losses. If there is an impairment, the recorded value of the intangible assets are decreased to their recovarable values.

Intangible assets are amortized on a straight-line basis in consolidated statement of profit or loss over their estimated useful lives. Amortization rates that are mentioned below are determined by considering estimated useful lives.

Rights 20%-33%

**Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

**Financial Investments**

Except for impairments in accordance with Communiqué II, No: 14.1 published by CMB, income or loss from available for sale financial assets are directly recorded in the statement of changes in equity. When these assets are sold, retained income or loss previously reflected in the other comprehensive income is recognized in current period profit or loss. However, the difference between the amount when the available for sale financial assets are initially booked and the amount at maturity which is subject to effective interest method stands for interest and it is reflected in the financial statements as profit or loss. As a result of this communiqué, the available for sale financial assets are valued at their fair value. If the difference between fair value and the value calculated by effective interest method is positive, then it is booked in capital reserve. If the difference is negative, then it is deducted from existing capital reserve. If still it is negative, it is booked under expenses from investing activities in the profit or loss statement.

Since the Group's long-term financial investments are not traded in active capital markets and the fair value of the companies cannot be measured reliably, they are accounted for at cost less any impairment in the financial statements.

Fair value of shares quoted in stock exchange is taken from closing price of Borsa Istanbul (BIST) as of the reporting date.

**Financial Instruments**

*Non-derivative financial assets*

The Group initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Non-derivative financial assets consist of bank borrowings, trade and other receivables, cash and cash equivalents. Non-derivative financial assets are recorded at cost. Non-derivative financial assets are recognized in the following way after being recorded.

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash and cash equivalents and trade and other receivables.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and time deposits with original maturities of three months or less. Cash and cash equivalents are highly liquid investments with maturity periods of less than three-months and having no conversion risk exposure other than the impact of foreign currency changes.

*Non-derivative financial liabilities*

Non-derivative financial liabilities are comprised of borrowings, trade and other payables, due to related parties and short term liabilities. Non-derivative financial liabilities are recognized as follows.

Financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are reflected in financial statements with their current values of reimbursement using effective interest rate, and the differences with the initial cost are reflected in the comprehensive income statement during the maturity of the liabilities.

Other non-derivative financial liabilities are measured at amortized cost using the effective interest method, less any impairment. Short term other receivables and payables are disclosed at their cost values.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

*Ordinary Shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

*Preference shares*

Preference shares are classified under equity where they are not redeemable or cannot be redeemed, where it is only possible to pay the Company's preference at their option and to distribute dividends to preference shares. Discretionary dividends distributed to preference shares upon the approval of the Company's shareholders are recorded in the shareholders' equity as dividends.

*Derivative Financial Instruments*

The Group's derivative financial instruments composed of forward foreign exchange purchase-sale contracts (forward and option).

The Group does not apply hedge accounting for derivative financial instruments. The Group reflects the fair value difference of the derivative financial instruments, to the profit or loss statement.

Derivatives are recognized initially at fair value; any attributable transaction costs are recognized in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted in profit or loss.

**Related Parties**

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to as the 'reporting entity').

(a) A person or a close member of that person's family is related to a reporting entity if that person:
- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:
- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

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

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged. Group interacts with its related parties within the frame of ordinary business activities.

Details of related parties are as follows:

*İDÇ Denizcilik San. ve Tic. A.Ş.*
It was established in 2005 in Izmir in order to operate agency, ship chartering and ship management. İDÇ Denizcilik San. ve Tic. A.Ş. broadly undertakes the administrative function of Group ships according to international regulations by providing full range of staffing, technical assistance, insurance, technical management, maintenance, technical equipment and fuel supply.

*Şahin Gemicilik Nakliyat Sanayi ve Ticaret A.Ş.*
The company is established in the year 2009 in Aliağa. Main activities of the company is to perform domestic and international maritime and road transportation or subcontract them on the purpose of transport all kinds of freight and passengers by road and maritime. Company owns 55,803 DWT dry cargo ship. . The Group has no commercial relationship with, Şahin Gemicilik ve Denizcilik Nakliyat Sanayi Tic. A.Ş.

*Agora Sigorta Aracılık Hizmetleri Ltd. Şti.*
It was established in 2006 in İzmir. Company's main activity is making insurance policies. Agora Sigorta Aracılık Hizmetleri Ltd. Şti. conducts The Group's insurance brokerage services.

*Koç Metalürji A.Ş.*
It was established in the year 1993 in Dörtyol, Hatay. It is active in the production of reinforcing iron. There is no commercial relationship between the Group and Koç Haddecilik Teks. İnş. San. ve Tic. A.Ş.

*Dagi Giyim Sanayi ve Ticaret A.Ş.*
It was established in Istanbul in the year 1988. The Company has been operating in textile industry. There is no commercial relationship between the Group and Dagi Giyim Sanayi ve Ticaret A.Ş.

*Begonviller Turizm Yatçılık ve Ticaret Ltd. Şti.*
It was established in Muğla in the year 1994. It has been operating since 2006 in İzmir. It has one commercial yacht. It is engaged in rent yacht. There is no commercial relationship between the Group and Begonviller Turizm Yatçılık ve Ticaret Ltd. Şti.

*Şahin Kömür Ticaret A.Ş..*
Engaged in coal trade.

**Other Statement of Financial Position Items**

Other statement of financial position items are accounted at their costs.

**Income taxes**

Income taxes comprised current and deferred tax expenses. Current tax and deferred tax is recognised in profit or loss except items recognized directly in equity or in other comprehensive income.

Current tax liability includes the tax payable on the taxable income for the period and deferred tax liability calculated by using tax rates enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Currently enacted tax rates are used to determine deferred tax.

The major temporary differences arise from recognition of income and expenses in different reporting periods and capitalization and depreciation differences of property, plant and equipment.

Deferred tax liabilities are recognized for all taxable temporary differences, whereas deferred tax assets resulting from deductible temporary differences are recognized to the extent that it is probable that the future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

Tax regulations in Turkey does not enable a parent company to submit a consolidated tax returns with its subsidiary. Therefore, tax provisions are separately calculated on a company-by-company basis, as reflected in the accompanying consolidated financial statements.

When current and deferred tax amounts are determined, the Group considers the uncertain tax positions and whether there are additional taxes and interest to be paid. The Group believes that based on taxation law and its prior experience, the tax provisions set aside for the periods that no tax investigation has been occurred are sufficient. This assessment is based on estimates and assumptions involving many professional judgments about the future. If new information emerges that will change the Group's assessment of the adequacy of its tax liability, this change in tax liability will affect the tax charge for the period in which it is determined.

**Employee Benefits**

According to the enacted laws the Group is liable to pay lump sum payments to its employees in case of retirement or the termination of the employment contract of the employees except for the rules stated in the labor laws. Such payments are computed according to the severance indemnity ceiling valid at the statement of financial position date. Employee severance indemnity recognized as the present value of the estimated total reserve of the future probable obligation of the Group.

The Group makes compulsory premium payments to the Social Security Institution and does not have any other liabilities. These premium payments are accrued at the financials as they incur.

**Provisions, Contingent Assets and Liabilities**

A provision is recognized in the accompanying consolidated financial statements if as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

Contingent liabilities are reviewed to determine if there is a possibility that the outflow of economic benefits will be required to settle the obligation. Except for the economic benefit outflow possibility is remote, such contingent liabilities is disclosed in the notes to the financial statements.

If the entry of the economic benefit to the Group is possible, explanations are included in the disclosures of the financial statements about the contingent asset. If the entry of economic benefit is certain, the asset and its related income changes are included in the financial statements at the date that they occurred.

**Foreign currency transactions**

Transactions in foreign currencies are translated to TL at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to TL at the exchange rate at that date. Foreign currency differences arising on retranslation are recognized in profit or loss.

The foreign currency rates used at the end of the period are as follows:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| United States Dollar ("USD") | 3.7719 | 3.5192 |
| Euro ("EUR") | 4.5155 | 3.7099 |
| Great Britain Pound ("GBP") | 5.0803 | 4.3189 |
| Japanese Yen ("JPY") | 0.0334 | 0.0300 |
| Swiss Franc ("CHF") | 3.8548 | 3.4454 |
| Canadian Dollar ("CAD") | 3.0031 | 2.6066 |

**Earnings per Share**

Earnings per share disclosed in the consolidated statement of comprehensive income are determined by dividing net income by the weighted average number of shares that have been outstanding during the related period concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. Such kind of bonus shares are taken into consideration in the computation of earnings per share as issued share certificates. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the period has been adjusted in respect of bonus shares issued without a corresponding change in resources, by giving them retroactive effect for the year in which they were issued.

**Subsequent Events**

Subsequent events represent the events that occur against or on behalf of the Group between the reporting date and the date when the financial statements were authorized for the issue. As of the reporting date, if the evidence with respect to such events or such events has occurred after the reporting date and such events require restating the financial statements; accordingly the Group restates the financial statements appropriately. If such events do not require restating the financial statements, such events have been disclosed in the related notes.

**Change and Errors in the Accounting Policies and Estimates**

Material changes in accounting policies or material errors are corrected retrospectively by restating the prior period consolidated financial statements. The effect of changes in accounting estimates affecting the current period is recognized in the current period; the effect of changes in accounting estimates affecting current and future periods is recognized in the current and future periods.

**Segment Reporting**

Operating segments are reported in a manner consistent with the reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. The executive managers are determined as the chief operating decision maker of the Group.

The Group's four main operating activities are iron and steel activities, ship activities, harbor activities and energy activities.

**Statement of Cash Flows**

In the cash flow statement, cash flows are classified as operating, investing and financing activities. Cash flows from operating activities represent the Group's cash flows generated from operating activities.

Group presents operating cash flows in indirect method by adjusting net income with non- cash expenses, income or expense accruals or deferrals and income and expense items related to investment or financing activities.

Cash flows from investing activities represent the cash flows used in/provided from investing activities (Acquisition of property, plant, equipment and intangible assets). Cash flows from financing activities represent the funds used in and repayment of the funds during the period.

**Use of Estimates and Judgments**

The preparation of consolidated financial statements in conformity with accounting standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In preparation of the consolidated financial statements, the significant estimates and judgments used by the Group are included in the following notes:

Note 2.5 – Useful lives of tangible and intangible assets
Note 16 – Tangible assets
Note 9 – Impairment loss on trade receivables
Note 27 – Provisions, contingent assets and liabilities
Note 29 – Provisions for employee severance indemnity
Note 42 – Tax assets and liabilities
Note 15 – Investment properties
Note 48 – Financial derivatives
Note 12 – Provision for impairment on inventories
Note 51 – Fair value disclosures

### 2.6 Going Concern Assumption

The accompanying consolidated financial statements have been prepared in accordance with going concern principle. The subsidiary of the Group İzdemir Enerji Elektrik Üretim A.Ş. has completed the period ending on 31 December 2017 with a net loss of TL 72,721,975, gross profit of TL 25,471,815 and gross profit margin of 5%. The reason of the fact that Company has completed the current period's operations with low gross profit rate compared to previous periods is that commodity prices had exceeded the expectations in the international market in the current period. In addition, in the current period Renewable Energy Resources Support Mechanism ("YEKDEM") expenses created a significant financial burden. In the current period, the share of the surplus paid by the Company to YEKDEM is TL 64,937,309. Besides that, since the revenue is TL denominated while the costs are in foreign currency the increase in exchange rates has narrowed the gross profit margin considerably.

In order to reduce the adverse effects of the cost increasing factors described above, the management of the Company will create a customer portfolio that will reduce this cost to the minimum to reduce the YEKDEM burden. Moreover, when the future commodity price forecasts are analyzed, commodity prices are seen to be in a downward trend. A downward trend in raw material prices following the reporting date is also perceived as an indication that these price forecasts will be realized.

Considering all these evaluations and action plans made by the Group management, no financial difficulties are expected in order to maintain the continuity of the business.

## 3. BUSINESS COMBINATIONS

None. (31 December 2016: None)

## 4. SHARES IN OTHER BUSINESSES

None. (31 December 2016: None)

## 5. SEGMENT REPORTING

The Group operates in four areas of business. These are iron and steel operations, ship operations, harbor and energy operations.

**Information about Geographic Regions**

Regional distribution of the Group's overseas sales from the iron-steel operations is as follows.

| Region | 2017 | 2016 |
|---|---|---|
| Middle East | %52 | %78 |
| Africa | %12 | %10 |
| America | %7 | %4 |
| Asia | %19 | - |
| Other | %9 | %8 |
| | **%100** | **%100** |

**Information about Major Clients**

Sales of the Group are determined by depending on the fluctuations and competitive conditions in domestic and international markets. The share of the largest buyer in proceeds from iron steel operations is 14% (2016: 19%).

Details of the reportable segments used in management reporting are as follows.

## SEGMENT REPORTING

| **01.01- 31.12.2017** | ***Iron Steel Operations*** | ***Ship Operations*** | ***Harbor Operations*** | ***Energy Operations*** | ***Consolidation Adjustments*** | ***Consolidated*** |
|---|---|---|---|---|---|---|
| Domestic Sales | 1,964,457,382 | - | 11,793,389 | 358,773,692 | | 2,335,024,463 |
| Foreign Sales | 608,062,428 | 33,008,438 | 1,218,133 | - | - | 642,288,999 |
| Intersegment Sales | 1,184,771 | - | 37,456,869 | 157,532,846 | (196,174,486) | - |
| **Total Sales** | **2,573,704,581** | **33,008,438** | **50,468,391** | **516,306,538** | **(196,174,486)** | **2,977,313,462** |
| Cost Of Sales (-) | (2,402,230,534) | (29,710,250) | (42,079,941) | (490,834,723) | 194,152,633 | (2,770,702,815) |
| | | | | | | |
| **GROSS PROFIT/(LOSS)** | **171,474,047** | **3,298,188** | **8,388,450** | **25,471,815** | **(2,021,853)** | **206,610,647** |
| General Administrative Expenses (-) | (19,659,951) | (362,616) | (1,671,294) | (3,482,085) | 819,841 | (24,356,105) |
| Marketing Expenses (-) | (16,690,568) | - | - | (19,465,901) | 3,837,393 | (32,319,076) |
| Other Income from Operating Activities | 21,773,882 | 17,171,596 | 3,813,153 | 14,307,058 | (10,833,236) | 46,232,453 |
| Other Expenses from Operating Activities(-) | (23,918,291) | (16,837,657) | (435,501) | (40,903,318) | 5,104,555 | (76,990,212) |
| | | | | | | |
| **OPERATING PROFIT/(LOSS)** | **132,979,119** | **3,269,511** | **10,094,808** | **(24,072,431)** | **(3,093,300)** | **119,177,707** |
| Income from Investing Activities | 10,131,774 | - | 44,426 | 20,719,515 | - | 30,895,715 |
| Expense from Investing Activities (-) | (1,575,303) | - | | (1,541,041) | - | (3,116,344) |
| | | | | | | |
| **OPERATING PROFIT /(LOSS) BEFORE FINANCE EXPENSE** | **141,535,590** | **3,269,511** | **10,139,234** | **(4,893,957)** | **(3,093,300)** | **146,957,078** |
| Financial Incomes | 24,705,706 | - | 156,186 | 8,964,482 | (14,752,800) | 19,073,574 |
| Financial Expenses (-) | (72,439,966) | (486,295) | (6,318,822) | (94,929,135) | 17,720,935 | (156,453,283) |
| | | | | | | |
| **OPERATING PROFIT/(LOSS) BEFORE INCOME TAX** | **93,801,330** | **2,783,216** | **3,976,598** | **(90,858,610)** | **(125,165)** | **9,577,369** |
| **Tax Income/(Expense)** | **(21,809,347)** | **-** | **(401,867)** | **18,136,635** | **3,853,658** | **(220,921)** |
| Tax Income/(Expense) | (357,023) | - | (1,541,968) | - | - | (1,898,991) |
| Deferred Tax Income / (Expense) | (21,452,324) | - | 1,140,101 | 18,136,635 | 3,853,658 | 1,678,070 |
| | | | | | | |
| **PROFIT/(LOSS) FOR THE PERIOD** | **71,991,983** | **2,783,216** | **3,574,731** | **(72,721,975)** | **3,728,493** | **9,356,448** |
| **Profit/(Loss) Attributable to** | | | | | | |
| Non-controlling Interests | 20 | - | 283 | (5,632,822) | - | (5,632,519) |
| Owners of the Company | 71,991,963 | 2,783,216 | 3,574,448 | (67,089,153) | 3,728,493 | 14,988,967 |
| | | | | | | |
| **Segment Assets** | | | | | | |
| Tangible and intangible fixed assets, investment properties | 502,000,026 | 55,500,805 | 136,966,875 | 1,158,378,194 | - | 1,852,845,900 |
| Purchases of tangible and intangible fixed assets | 23,837,457 | | 17,255,221 | 19,737,088 | - | 60,829,766 |
| Amortization and depreciation expenses | 45,943,358 | 7,438,633 | 13,212,466 | 49,755,977 | - | 116,350,434 |

## SEGMENT REPORTING

| **01.01- 31.12.2016** | ***Iron Steel Operations*** | ***Ship Operations*** | ***Harbor Operations*** | ***Energy Operations*** | ***Consolidation Adjustments*** | ***Consolidated*** |
|---|---|---|---|---|---|---|
| Domestic Sales | 1,226,226,100 | - | 8,547,188 | 312,780,676 | | 1,547,553,964 |
| Foreign Sales | 642,245,817 | 19,058,057 | 815,202 | - | - | 662,119,076 |
| Intersegment Sales | 1,056,693 | - | 28,692,762 | 140,444,291 | (170,193,746) | - |
| **Total Sales** | **1,869,528,610** | **19,058,057** | **38,055,152** | **453,224,967** | **(170,193,746)** | **2,209,673,040** |
| Cost Of Sales (-) | (1,734,598,654) | (24,524,270) | (29,949,244) | (337,284,972) | 163,671,494 | (1,962,685,646) |
| | | | | | | |
| **GROSS PROFIT/(LOSS)** | **134,929,956** | **(5,466,213)** | **8,105,908** | **115,939,995** | **(6,522,252)** | **246,987,394** |
| General Administrative Expenses (-) | (18,166,821) | (297,493) | (1,108,137) | (3,657,957) | 1,030,931 | (22,199,477) |
| Marketing Expenses (-) | (15,596,455) | - | - | (15,576,001) | 4,258,769 | (26,913,687) |
| Other Income from Operating Activities | 18,567,217 | 13,726,830 | 9,691,589 | 3,857,898 | (13,070,662) | 32,772,872 |
| Other Expenses from Operating Activities(-) | (107,143,344) | (15,860,818) | (2,657,716) | (16,310,427) | 4,653,289 | (137,319,016) |
| | | | | | | |
| **OPERATING PROFIT/(LOSS)** | **12,590,553** | **(7,897,694)** | **14,031,644** | **84,253,508** | **(9,649,925)** | **93,328,086** |
| Income from Investing Activities | 39,167,467 | - | 2,114,358 | 631,347 | - | 41,913,172 |
| Expense from Investing Activities (-) | (1,784,762) | | (457,701) | (1,164,744) | - | (3,407,207) |
| | | | | | | |
| **OPERATING PROFIT /(LOSS) BEFORE FINANCE EXPENSE** | **49,973,258** | **(7,897,694)** | **15,688,301** | **83,720,111** | **(9,649,925)** | **131,834,051** |
| Financial Incomes | 43,329,970 | - | 823,272 | 460,853 | (13,595,407) | 31,018,688 |
| Financial Expenses (-) | (97,404,151) | (296,828) | (10,365,107) | (168,673,855) | 16,614,616 | (260,125,325) |
| | | | | | | |
| **OPERATING PROFIT/(LOSS) BEFORE INCOME TAX** | **(4,100,923)** | **(8,194,522)** | **6,146,466** | **(84,492,891)** | **(6,630,716)** | **(97,272,586)** |
| **Tax Income/(Expense)** | **(1,059,127)** | **-** | **(882,085)** | **16,821,518** | **-** | **14,880,306** |
| Tax Income/(Expense) | (244,917) | - | (2,685) | - | - | (247,602) |
| Deferred Tax Income / (Expense) | (814,210) | - | (879,400) | 16,821,518 | - | 15,127,908 |
| | | | | | | |
| **PROFIT/(LOSS) FOR THE PERIOD** | **(5,160,050)** | **(8,194,522)** | **5,264,381** | **(67,671,373)** | **(6,630,716)** | **(82,392,280)** |
| **Profit/(Loss) Attributable to** | | | | | | |
| Non-controlling Interests | 94 | - | 677 | (9,047,847) | - | (9,047,076) |
| Owners of the Company | (5,160,144) | (8,194,522) | 5,263,704 | (58,623,526) | (6,630,716) | (73,345,204) |
| | | | | | | |
| **Segment Assets** | | | | | | |
| Tangible and intangible fixed assets, investment properties | 527,243,146 | 59,847,993 | 132,939,879 | 1,188,397,079 | - | 1,908,428,097 |
| Purchases of tangible and intangible fixed assets | 8,881,272 | 1,389,483 | 4,359,364 | 11,451,935 | - | 26,082,054 |
| Amortization and depreciation expenses | 32,759,856 | 7,503,858 | 5,510,600 | 43,781,500 | - | 89,555,814 |

## 6. RELATED PARTY DISCLOSURES

As of 31 December 2017, there is no provision for doubtful receivables for trade and other receivables and guarantee for receivables regarding related parties. Similarly, there is no guarantee given for trade and other payables regarding related parties.

The Group has no guarantees, collaterals, bails and similar commitments given except for fully consolidated companies (Note 28).

The Group's due from related parties, due to related parties, balances and significant related party transactions during the period are summarized below.

**Due from related parties**

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| İDÇ Denizcilik San. Tic. A.Ş. | 15,875 | 9,202 |
| Şahin Kömür Ticaret A.Ş. | 2,051,404 | 5,479,521 |
| Koç Metalurji A.Ş. | 10,591,863 | 9,414,062 |
| Dagi Giyim Sanayi ve Ticaret A.Ş. | 9,533 | 8,517 |
| | **12,668,675** | **14,911,302** |

**Other due from related parties**

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Şahin - Koç Çelik Sanayi A.Ş. | 24,172 | 213,287 |
| Şahin Şirketler Grubu Holding A.Ş. | 432,198 | 9,349,154 |
| Begonviller Turizm Yatçılık Ltd. Şti. | - | 1,688 |
| | **456,370** | **9,564,129** |

**Due to related parties**

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| İDÇ Denizcilik San. ve Tic. A.Ş. | 3,325,130 | 898,291 |
| Agora Sigorta Aracılık Hizmetleri Ltd. Şti. | 1,281 | 1,495 |
| | **3,326,411** | **899,786** |

**Income from related parties**

| | 01.01.-31.12.2017 | 01.01.-31.12.2016 |
|---|---|---|
| İDÇ Denizcilik Sanayi ve Ticaret A.Ş. | 699,210 | 733,396 |
| Şahin Kömür Ticaret A.Ş | 2,891,449 | 4,059,497 |
| Koç Çelik Sanayi A.Ş. | - | 55,110,471 |
| Dagi Giyim Sanayi ve Ticaret A.Ş. | 51,181 | 46,081 |
| Koç Metalürji A.Ş. (*) | 97,949,413 | 14,448,946 |
| | **101,591,253** | **74,398,391** |

(*) Electricity is sold.

**Purchases from related parties in cost of goods sold**

| | **01.01.-31.12.2017** | **01.01.-31.12.2016** |
|---|---|---|
| İDÇ Denizcilik Sanayi ve Ticaret A.Ş. | 12,135,399 | 10,199,012 |
| Koç Metalürji A.Ş. | 26,898,116 | - |
| Agora Sigorta Aracılık Hizmetleri Ltd. Şti. | 763,832 | 923,501 |
| | **39,797,347** | **11,122,513** |

İDÇ Denizcilik Sanayi ve Ticaret A.Ş., provides personnel, gives maintenance service and technical support for the vessels of the Group.

**Expenses from related parties in marketing, selling and distribution expenses**

| | **01.01.-31.12.2017** | **01.01.-31.12.2016** |
|---|---|---|
| İDÇ Denizcilik Sanayi ve Ticaret A.Ş. | 406,308 | 774,361 |
| Agora Sigorta Aracılık Hizmetleri Ltd. Şti. | 302 | - |
| | **406,610** | **774,361** |

**Expenses from related parties in general administrative expenses**

| | **01.01.-31.12.2017** | **01.01.-31.12.2016** |
|---|---|---|
| Agora Sigorta Aracılık Hizmetleri Ltd. Şti. | 32,979 | 19,807 |
| Begonviller Turizm Yatçılık Ltd. Şti. | 13,200 | 23,358 |
| | **46,179** | **43,165** |

**Income from related parties in other operating income and profit**

| | **01.01.-31.12.2017** | **01.01.-31.12.2016** |
|---|---|---|
| İDÇ Denizcilik San. ve Tic. A.Ş. | 155,152 | 137,297 |
| Şahin Şirketler Grubu Holding A.Ş. | 15,965 | 15,881 |
| Şahin - Koç Çelik Sanayi A.Ş. | 16,922 | 20,107 |
| Şahin Kömür Ticaret A.Ş. | 12,162,678 | 1,781,742 |
| Begonviller Turizm Yatçılık Ltd. Şti. | 3,570 | 3,291 |
| Agora Sigorta Aracılık Hizmetleri Ltd. Şti. | 18,747 | 17,273 |
| Koç Metalürji A.Ş | - | 563,186 |
| Dagi Giyim Sanayi ve Ticaret A.Ş. | 25,408 | 21,122 |
| Şahin Gemicilik Nakliyat San. ve Tic. A.Ş. | 4,200 | 3,840 |
| Karbeyaz Çimento Madencilik Sanayi ve Ticaret A.Ş. | 1,850 | 1,680 |
| | **12,404,492** | **2,565,419** |

Income from Şahin Kömür Ticaret A.Ş. is mainly composed of raw material sales.

**Purchase of tangible fixed assets from related parties**

None. (31 December 2016: None)

**Key management personnel compensation**

Total benefits provided to top management (Board of Directors, Executive Board, General Manager and Assistants of General Manager) during the current period amounted to TL 2,825,247 (01.01.-31.12.2016: 2,281,322TL).

As of reporting date, the Group has no payable to key management personnel.

## 7. CASH AND CASH EQUIVALENTS

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Cash on hand | 73,780 | 86,902 |
| Bank - demand deposits | 3,482,924 | 33,440,153 |
| Bank - time deposits | 176,363,898 | 242,442,220 |
| Bank - interest accruals of time deposits | 35,690 | 202,393 |
| POS machines | 224,553 | 87,886 |
| **Cash and cash equivalents in cash flow** | **180,180,845** | **276,259,554** |

There are no blockage and pledge over the Group's time and demand deposits (31 December 2016: None).

**Demand Deposits**

| | 31 December 2017 | | 31 December 2016 | |
|---|---|---|---|---|
| | Foreign Currency | TL Equivalence | Foreign Currency | TL Equivalence |
| TL | 1,822,734 | 1,822,734 | 2,445,464 | 2,445,464 |
| USD | 180,464 | 680,693 | 8,209,462 | 28,890,739 |
| EUR | 177,522 | 801,601 | 534,800 | 1,984,053 |
| JPY | 3,818,010 | 127,602 | 1,476,278 | 44,325 |
| GBP | 6,111 | 31,044 | 12,403 | 53,568 |
| CAD | 214 | 642 | 214 | 557 |
| CHF | 4,827 | 18,608 | 6,225 | 21,447 |
| **Toplam** | | **3,482,924** | | **33,440,153** |

**Time Deposits**

| Currency | Weighted Average Interest Rate | Maturity Date | TL Balance 31 December 2017 |
|---|---|---|---|
| USD | %3.32 | 02.01.2018 | 166,057,898 |
| TL | %14.02 | 02.01.2018 | 10,306,000 |
| | | | **176,363,898** |

| Currency | Weighted Average Interest Rate | Maturity Date | TL Balance 31 December 2016 |
|---|---|---|---|
| USD | %3.35 | 02.01.2017-15.03.2017 | 196,987,220 |
| TL | %10.17 | 02.01.2017 | 45,455,000 |
| | | | **242,442,220** |

## 8. FINANCIAL INVESTMENTS

Shareholdings at non-current financial investments are as follows.

| Name of Company | Share (%) | 31 December 2017 | Share (%) | 31 December 2016 |
|---|---|---|---|---|
| **Investments and Associates** | | | | |
| İtaş İzmir Teknopark Ticaret A.Ş. | 0.125 | 2,547 | 0.125 | 2,547 |
| Sivas Demir Çelik İşletmeleri A.Ş. | 0.002 | 445,357 | 0.002 | 445,357 |
| Enda Enerji Holding A.Ş. | 0.24 | 644,150 | 0.24 | 644,150 |
| Egenda Ege Enerji Üretim A.Ş. | 0.03 | 70,013 | 0.03 | 70,013 |
| İHY İzmir Havayolları A.Ş. | 0.0073 | 4,333 | 0.0073 | 4,333 |
| Nemrut Kılavuz ve Römorkör Hizm. A.Ş. | 16.66 | 10,000 | 16.66 | 10,000 |
| Enerji Piyasaları İşletim Anonim Şirketi | 0.80 | 200,000 | 0.80 | 200,000 |
| **Impairment** | | | | |
| Sivas Demir Çelik İşletmeleri A.Ş. | | (445,357) | | (445,357) |
| **Total** | | **931,043** | | **931,043** |

There is no financial asset given as guarantee for liabilities of the companies (31 December 2016: None).

Since the Company's long-term financial investments are not traded in active market and fair values cannot be determined reliably, long-term financial investments are reflected in the consolidated financial statements at their cost values less any impairment losses. The information about long-term investments is as follows:

*Sivas Demir Çelik İşletmeleri A.Ş*
The company was established in Sivas in 1987. The Company deals with iron and steel production and its trading. The Group does have no commercial relationship with Sivas Demir Çelik İşletmeleri A.Ş.

*ENDA Enerji Holding A.Ş.*
The Company was established in İzmir in 1993. The Company deals with energy production, distribution and trading. The Group does not have commercial relationship with ENDA Enerji Holding A.Ş.

*EGENDA Ege Enerji Üretim A.Ş.*
The Company was established in İzmir in 1997. The Company deals with energy production, distribution and trading. The Group does not have commercial relationship with EGENDA Ege Enerji Üretim A.Ş.

*İHY İzmir Havayolları A.Ş*

The Company was established in İzmir in 2005. The Company deals with airline business. The Group does not have commercial relationship with İHY İzmir Havayolları A.Ş.

İTAŞ İzmir Teknopark Ticaret A.Ş.
The Company was established in İzmir in 1988. The Company deals with technologic information production. The Group does not have commercial relationship with İTAŞ İzmir Teknopark Ticaret A.Ş.

Nemrut Kılavuz ve Römorkör Hizmetleri A.Ş.
The Company was established in İzmir in 2014. The Company provides pilot service and towing boat with ships coming to harbors in Aliağa region. The Group does not have commercial relationship with Nemrut Kılavuz ve Römorkör Hizmetleri A.Ş.

*Enerji Piyasaları İşletim Anonim Şirketi*
Established to operate organized wholesale electricity markets (day ahead market, intra-day market) and to carry out financial settlement transactions of the activities carried out in these markets and to carry out payment, invoicing and other financial transactions related to such activities.

## 9. TRADE RECEIVABLES AND PAYABLES

**Short term trade receivables**

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Trade receivables | 207,477,710 | 279,805,575 |
| Notes receivables | 26,978,162 | 3,959,853 |
| Doubtful trade receivables | 4,106,403 | 3,877,754 |
| Provision for doubtful trade receivables (-) | (4,106,403) | (3,877,754) |
| Discount on trade receivables (-) | (1,817,185) | (1,050,913) |
| | **232,638,687** | **282,714,515** |

The Group has set provision for uncollectible receivables. Provision for doubtful receivables is based on past experience regarding the collectability. While determining the collectability, the Group considers the changes between the dates of trade and reporting for the receivables credit quality. Therefore, the Group Management believes that there is no necessity to set more provision than provision for doubtful receivables already recorded in the financial statements.

Trade receivables are rediscounted by using effective interest method. The effective discount rates used are 4.34%, 3% and 15.20% for receivables denominated in USD, EUR and TL respectively. (31 December 2016: USD:%3.92, EUR:%3, TL:%14.75)

Maturity detail of notes receivable are as follows.

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| 1-30 days | 15,464,141 | 1,673,601 |
| 30-90 days | 11,492,921 | 2,096,252 |
| 90-360 days | 21,100 | 190,000 |
| | **26,978,162** | **3,959,853** |

The movement of provision for doubtful trade receivables is as follows.

| | 01.01.- 31.12.2017 | 01.01.- 31.12.2016 |
|---|---|---|
| Beginning of the period | 3,877,754 | 802,609 |
| Collections during the period | (511) | (7,569) |
| Provision for the period | 229,159 | 3,082,714 |
| **End of the period** | **4,106,403** | **3,877,754** |

The amount of trade receivables arising from foreign exchange gains as of the end of the period is TL 1,052,193 (Prior period: 4,598,062)

Foreign currency and liquidity risk on short term trade receivables of the Group are disclosed in Note 50.

**Short term trade payables**

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Trade payables | 860,208,153 | 835,346,728 |
| Expense accruals | 10,593,560 | 8,927,772 |
| Discount on trade payables (-) | (450,064) | (168,774) |
| | **870,351,649** | **844,105,726** |

As of the end of the period, trade payable amounting to TL 773,101,471 is comprised of letters of credit issued for the purchase of raw materials (prior: TL 805,224,536). Letters of credit are of maturity due to the agreement signed by the Group, the local bank that issued the letters of credit and the foreign intermediary bank. In accordance with agreement, foreign suppliers collected their receivables in cash with discount. Expense accruals consist of interests incurred on deferred payment letters of credit concerning purchase of raw materials.

Trade payables are rediscounted by using effective interest method. The effective discount rates used are 4.34%, 3% and 15.20% for receivables denominated in USD, EUR and TL respectively. (31 December 2016: USD:%3.92, EUR:%3, TL:%14.75).

The amount of trade payables arising from foreign exchange gains/losses as of the end of the period is TL 26,149,342 (Prior period : 106,346,236)

Foreign currency and liquidity risk on short term trade payables of the Group are disclosed on Note 50.

## 10. RECEIVABLES AND PAYABLES FROM FINANCE SECTOR ACTIVITIES

None. (31 December 2016: None)

## 11. OTHER RECEIVABLES AND PAYABLES

**Short term other receivables**

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Deposit and guarantees given | 699,797 | 2,372,180 |
| | **699,797** | **2,372,180** |

Big majority of deposits and guarantees were given to Custom Administrations.

**Long term other receivables**

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Deposit and guarantees given | 1,297,193 | 1,060,056 |
| | **1,297,193** | **1,060,056** |

**Short term other payables**

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Deposits and guarantees received | - | 132,918 |
| Taxes and duties payable | 1,596,094 | 2,061,640 |
| Other payables | 200,419 | 185,779 |
| | **1,796,513** | **2,380,337** |

## 12. INVENTORIES

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Raw materials | 529,615,467 | 262,116,823 |
| Work in process | 2,687,495 | 6,150,764 |
| Finished goods | 81,216,360 | 73,071,760 |
| Goods on transit | - | 12,404,202 |
| Merchandised goods | 113,254 | 116,419 |
| Impairment on inventories (*) | (12,323) | (583,046) |
| | **613,620,253** | **353,276,922** |

(*) The Group made a provision for impairment on finished goods in case the book value is less than net realizable value and recorded it under cost of goods sold in the consolidated statement of profit or loss.

As of 31 December 2017, the insurance coverage on inventories is TL 81,207,000 (31 December 2016: TL 66,778,200). The depreciation expenses capitalized on inventories is TL 2,519,994 (31 December 2016: TL 2,827,658). (Note 16)

As of 31 December 2017, there is no inventory collateralized against liabilities (31 December 2016: None). The Group has no inventory that will be recovered within more than twelve months starting from the date of statement of financial position.

Movement of provision for impairment on inventories is as follows.

| | 01.01.- 31.12.2017 | 01.01.- 31.12.2016 |
|---|---|---|
| Beginning of the period | 583,046 | 223,196 |
| Reversal of previous period | (583,046) | (223,196) |
| Impairment on inventories for current period | 12,323 | 583,046 |
| **End of the period** | **12,323** | **583,046** |

## 13. BIOLOGICAL ASSETS

None. (31 December 2016: None)

## 14. PREPAID EXPENSES

**Short Term Prepaid Expenses**

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Advances given | 6,055,708 | 2,601,169 |
| Insurance expenses | 1,592,889 | 1,398,764 |
| Financial expense | 1,506,190 | 1,638,227 |
| Information technology expenses | 169,291 | 50,904 |
| Rent expenses | 409,941 | 279,597 |
| Other expenses | 159,721 | 275,488 |
| | **9,893,740** | **6,244,149** |

Advances given consist of advances given by the Group for the purchases of goods and services.

**Long Term Prepaid Expenses**

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Advances given | 2,119,995 | 2,824,166 |
| Other expenses | 358 | 1,452 |
| | **2,120,353** | **2,825,618** |

## 15. INVESTMENT PROPERTIES

The Group appointed an independent real estate appraisal company holding a CMB license on December 26, 2016 in order to find out the fair values of the investment properties and correspondingly the investment properties are presented in the consolidated financial statements at their fair values. Change in value is booked in the profit or loss statement. The valuation company used the market value method as valuation model as it was used in the valuation works performed in prior years.

| | 01.01-31.12.2017 | 01.01-31.12.2016 |
|---|---|---|
| Beginning of the period | 78,470,000 | 46,034,000 |
| Change in fair value | - | 32,436,000 |
| Transfer from fixed asset | 5,715,000 | - |
| **Fair value at the end of the period** | **84,185,000** | **78,470,000** |

Detailed information of the lands owned by İzmir Demir Çelik Sanayi A.Ş. is presented below.

| City | District | Village | Nature | Purchase cost | Fair Value 31 December 2017 | Fair Value 31 December 2016 |
|---|---|---|---|---|---|---|
| İzmir | Foça | Samurlu | Field | 1,630,159 | 20,515,000 | 20,515,000 |
| İzmir | Foça | Horozgediği | Field | 105,768 | 3,020,000 | 3,020,000 |
| İzmir | Foça | Horozgediği | Land | 2,207,171 | 54,935,000 | 54,935,000 |
| İzmir | Foça | Horozgediği | Field | 3,049,860 | 5,715,000 | - |
| | | | | **6,992,958** | **84,185,000** | **78,470,000** |

As of the end of the period, there is no insurance coverage or collateral on investment properties. (31 December 2016: None).

As a result of the analysis made by the Group management and valuation specialist for the fair values of the investment properties, no significant change has been observed in the value of these assets as of the reporting date. For this reason, the assets have been reflected in the financial statements at their fair value in the latest valuation study.

## 16. PROPERTY, PLANT AND EQUIPMENT

Movement in the property, plant and equipment is as follows for the period ended 31 December 2017.

| | Lands | Land Improvements | Buildings | Machinery and Equipment | Vehicles (*) | Furniture and Fixtures | Leasehold Improvements | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| 1 January 2017 | 322,180,002 | 27,735,433 | 492,090,236 | 1,676,088,125 | 121,938,635 | 18,370,255 | 7,316,430 | 6,899,430 | 2,672,618,546 |
| Additions | - | 303,460 | 15,936,157 | 19,549,967 | 1,460,272 | 1,870,192 | 110,090 | 20,970,764 | 60,200,902 |
| Disposals | - | - | - | (3,374,540) | (900,491) | (8,033) | - | - | (4,283,064) |
| Transfers | (5,715,000) | 2,559,247 | 2,644,286 | 15,052,607 | - | 7,392 | 539,161 | (20,802,693) | (5,715,000) |
| **31 December 2017** | **316,465,002** | **30,598,140** | **510,670,679** | **1,707,316,159** | **122,498,416** | **20,239,806** | **7,965,681** | **7,067,501** | **2,722,821,384** |
| **Accumulated depreciation** | | | | | | | | | |
| 1 January 2017 | - | (16,161,633) | (201,083,583) | (551,445,878) | (58,825,294) | (10,131,114) | (5,992,905) | - | (843,640,407) |
| Additions | - | (1,435,608) | (14,509,149) | (89,019,831) | (8,380,457) | (1,869,248) | (709,181) | - | (115,923,474) |
| Disposals | - | - | - | 3,313,011 | 900,491 | 8,033 | - | - | 4,221,535 |
| **31 December 2017** | **-** | **(17,597,241)** | **(215,592,732)** | **(637,152,698)** | **(66,305,260)** | **(11,992,329)** | **(6,702,086)** | **-** | **(955,342,346)** |
| **Net Book Value as of 31 December 2016** | **322,180,002** | **11,573,800** | **291,006,653** | **1,124,642,247** | **63,113,341** | **8,239,141** | **1,323,525** | **6,899,430** | **1,828,978,139** |
| **Net Book Value as of 31 December 2017** | **316,465,002** | **13,000,899** | **295,077,947** | **1,070,163,461** | **56,193,156** | **8,247,477** | **1,263,595** | **7,067,501** | **1,767,479,038** |

(*) Vehicles also contain ships owned by the Group.

As of 31 December 2017, the insurance coverage on fixed assets of the Group amounted to TL 4,559,455,810 (TL 98,069,400 of which is for ships). The depreciation expense of tangible fixed assets for the period 1 January – 31 December 2017 amounted to TL 115,923,474. As of 31 December 2017, the depreciation expenses associated with tangible fixed assets and capitalized on inventories amounted to TL 2,519,994. (Note 12)

A first level mortgage was placed on the property in the town of Horozgediği in Aliağa in favor of Türkiye Garanti Bankası A.Ş. on 14 November 2011 amounting to TL 1,100,000,000. The mortgage is related with the long-term loan received from the mentioned bank within the power plant project of İzdemir Enerji Elektrik Üretim A.Ş. (31 December 2016: 1,100,000,000)

Construction in progress as of 31 December 2017 is composed of TL 83,528 for modernization of İzmir Demir Çelik Sanayi A.Ş. TL 313,166 for factory modernization of Akdemir Çelik Sanayi ve Ticaret A.Ş., TL 2,237,026 for building seaport dock for İDÇ Liman İşletmeleri A.Ş. and TL 4,433,780 for the power plant expenditures.

As of 31 December 2017, net carrying value of fixed assets acquired under finance leases amounted to TL 1,491,936. (31 December 2016: TL 5,679,916)

The carrying amounts of each class of property, plant and equipment that would have been recognized if the assets had been carried at their book values are as follows.

| **31 December 2017** | **Lands** | **Buildings and land improvements** | **Machinery and equipment** |
|---|---|---|---|
| Cost | 7,417,770 | 438,479,606 | 1,189,232,319 |
| Accumulated depreciation (-) | - | (203,511,853) | (581,385,394) |
| **Net Book Value** | **7,417,770** | **234,967,753** | **607,846,926** |

| **31 December 2016** | **Lands** | **Buildings and land improvements** | **Machinery and equipment** |
|---|---|---|---|
| Cost | 10,467,630 | 413,304,287 | 1,158,921,651 |
| Accumulated depreciation (-) | - | (193,011,137) | (529,485,834) |
| **Net Book Value** | **10,467,630** | **220,293,150** | **629,435,817** |

Movement in the property, plant and equipment is as follows for the period ended 31 December 2016

| | Lands | Land Improvements | Buildings | Machinery and Equipment | Vehicles (*) | Furniture and Fixtures | Leasehold Improvements | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| 1 January 2016 | 200,695,841 | 23,967,064 | 417,882,961 | 1,176,148,631 | 124,563,987 | 16,635,148 | 7,316,430 | 2,988,607 | 1,970,198,669 |
| Additions | 710,401 | 665,734 | 4,202,459 | 8,796,416 | 1,527,417 | 1,592,808 | - | 8,157,910 | 25,653,144 |
| Disposals | (360,800) | - | - | (6,828,983) | (4,133,033) | (13,499) | - | - | (11,336,315) |
| Transfers | - | 313,340 | 617,030 | 3,180,654 | (19,736) | 155,799 | - | (4,247,087) | - |
| İncrease in value | 121,134,560 | 2,789,295 | 69,387,786 | 494,791,407 | - | - | - | - | 688,103,048 |
| **31 December 2016** | **322,180,002** | **27,735,433** | **492,090,236** | **1,676,088,125** | **121,938,635** | **18,370,255** | **7,316,430** | **6,899,430** | **2,672,618,546** |
| **Accumulated depreciation** | | | | | | | | | |
| 1 January 2016 | - | (15,315,912) | (192,494,613) | (489,366,139) | (54,231,472) | (8,437,833) | (5,302,025) | - | (765,147,994) |
| Additions | - | (845,721) | (8,588,970) | (68,489,192) | (8,706,160) | (1,703,229) | (690,880) | - | (89,024,152) |
| Disposals | - | - | - | 6,409,453 | 4,112,338 | 9,948 | - | - | 10,531,739 |
| **31 December 2016** | **-** | **(16,161,633)** | **(201,083,583)** | **(551,445,878)** | **(58,825,294)** | **(10,131,114)** | **(5,992,905)** | **-** | **(843,640,407)** |
| **Net Book Value as of 31 December 2015** | **200,695,841** | **8,651,152** | **225,388,348** | **686,782,492** | **70,332,515** | **8,197,315** | **2,014,405** | **2,988,607** | **1,205,050,675** |
| **Net Book Value as of 31 December 2016** | **322,180,002** | **11,573,800** | **291,006,653** | **1,124,642,247** | **63,113,341** | **8,239,141** | **1,323,525** | **6,899,430** | **1,828,978,139** |

(*) Vehicles also contain ships owned by the Group.

As of 31 December 2016, the insurance coverage on fixed assets of the Group amounted to TL 3,848,824,169 (TL 109,799,040 of which is for ships). The depreciation expense of tangible fixed assets for the period 1 January – 31 December 2016 amounted to TL 89,024,152. As of 31 December 2016, the depreciation expenses associated with tangible fixed assets and capitalized on inventories amounted to TL 2,827,658. (Note 12)

A first level mortgage was placed on the property in the town of Horozgediği in Aliağa in favor of Türkiye Garanti Bankası A.Ş. on 14 November 2011 amounting to TL 1,100,000,000. The mortgage is related with the long-term loan received from the mentioned bank within the power plant project of İzdemir Enerji Elektrik Üretim A.Ş. (31.12.2015: 1,100,000,000)

Construction in progress as of 31 December 2016 is composed of TL 799,461 for environmental infrastructure expenditures within the frame of modernization of İzmir Demir Çelik Sanayi A.Ş., TL 195,271 for factory modernization of Akdemir Çelik Sanayi ve Ticaret A.Ş., TL 1,309,366 for building seaport dock for İDÇ Liman İşletmeleri A.Ş. and TL 4,595,332 for the power plant expenditures.

As of 31 December 2016, net carrying value of fixed assets acquired under finance leases amounted to TL 5,679,916. (31 December 2015: TL 1,659,086)

Distribution of depreciation expenses relating to property, plant and equipment is as follows.

| | **01.01.-31.12.2017** | **01.01.-31.12.2016** |
|---|---|---|
| Cost of goods sold | 86,448,344 | 68,905,946 |
| Cost of service | 21,356,835 | 13,012,121 |
| Capitalized on inventories | 2,519,994 | 2,827,658 |
| General administrative expenses (Note 35) | 584,280 | 446,171 |
| Other operating expenses | 5,014,021 | 3,832,256 |
| | **115,923,474** | **89,024,152** |

## 17. RIGHTS OVER SHARES ARISING FROM DECOMMISSIONING, RESTORATION AND ENVIRONMENTAL REHABILITATION FUNDS

None. (31 December 2016: None)

## 18. MEMBERS' SHARES IN COOPERATIVE ENTITIES AND SIMILAR FINANCIAL INSTRUMENTS

None. (31 December 2016: None)

## 19. INTANGIBLE ASSETS

| **Cost** | **Rights** |
|---|---|
| 1 January 2017 | 3,914,379 |
| Purchases | 628,864 |
| **31 December 2016** | **4,543,243** |
| **Accumulated amortization** | |
| 1 January 2017 | (2,934,421) |
| Charge for the period | (426,960) |
| **31 December 2017** | **(3,361,381)** |
| **Net Book Value as of 31 December 2016** | **979,958** |
| **Net Book Value as of 31 December 2017** | **1,181,862** |

Amortization expenses for the period 1 January – 31 December 2017 amounted to TL 426,960. No amortization expense is capitalized on inventories associated with intangible assets.

| **Cost** | **Rights** |
|---|---|
| 1 January 2016 | 3,485,469 |
| Purchases | 428,910 |
| **31 December 2016** | **3,914,379** |
| **Accumulated amortization** | |
| 1 January 2016 | (2,402,759) |
| Charge for the period | (531,662) |
| **31 December 2015** | **(2,934,421)** |
| **Net Book Value as of 31 December 2015** | **1,082,710** |
| **Net Book Value as of 31 December 2016** | **979,958** |

Amortization expenses for the period 1 January – 31 December 2016 amounted to TL 531,662. No amortization expense is capitalized on inventories associated with intangible assets.

Distribution of amortization expenses relating to intangible assets is as follows.

| | **01.01.-31.12.2017** | **01.01.-31.12.2016** |
|---|---|---|
| Cost of goods sold | 109,825 | 106,595 |
| General administrative expenses (Note 35) | 317,135 | 425,067 |
| | **426,960** | **531,662** |

## 20. GOODWILL

None. (31 December 2016: None)

## 21. EXPLORATION AND DEVELOPMENT OF MINERAL RESOURCES

None. (31 December 2016: None)

## 22. FINANCIAL LEASES

None. (31 December 2016: None)

## 23. CONCESSION SERVICE ARRANGEMENTS

None. (31 December 2016: None)

## 24. IMPAIRMENT OF ASSETS

None. (31 December 2016: None)

## 25. GOVERNMENT GRANTS AND INCENTIVES

For the period ended 1 January – 31 December 2017, the Group has an income of TL 6,305,978 from insurance premium employer share incentive based on the Labor Law numbered 4857 and Social Insurance and General Health Insurance Law numbered 5510 (1 January–31 December 2016: TL 4,845,273). This incentive granted by government is not collected in cash but deducted from the accrued insurance premiums by treasury. The mentioned incentive income was off set against cost of goods sold in the financial statements.

## 26. BORROWING COSTS

None. (31 December 2016: None)

## 27. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

| | **31 December 2017** | **31 December 2016** |
|---|---|---|
| Provisions for litigation | 45,972 | 45,972 |
| Collective agreement wages | 3,674,768 | - |
| Manufacturing overhead | 324,941 | - |
| | **4,045,681** | **45,972** |

Movement of provisions for litigation is as follows.

| | **01.01.- 31.12.2017** | **01.01.- 31.12.2016** |
|---|---|---|
| Balance at the beginning of the period | **45,972** | **45,972** |
| Charge for the period | - | - |
| **End of the period** | **45,972** | **45,972** |

As of report date, provision for the litigation of TL 45,972 consists of the court cases for İDÇ Liman İşletmeleri A.Ş. and Akdemir Çelik Sanayi A.Ş. that was prosecuted about employee severance indemnity, overtime payment and job accident. Decisions have been appealed by the Group and the settlement is expected from the Supreme Court.

## 28. COMMITMENTS

| Guarantees and bails received by the Group | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Letters of guarantee received | 14,132,807 | 12,347,648 |
| Bails received | 5,318,689,259 | 4,957,146,486 |
| | **5,332,822,066** | **4,969,494,134** |

Letters of guarantee are composed of the letters received from local vendors in return for goods and services rendered by the vendors. Bails received comprise bails provided by the Group's related parties and shareholders for the bank borrowings.

Guarantees, pledges and mortgages that are given by the Group at the end of the period are as follows.

| | 31 December 2017 | | | |
|---|---|---|---|---|
| | Original Currency | | | Total |
| **GUARANTEE- PLEDGE-MORTGAGES (GPM)** | **EUR** | **USD** | **TL** | **TL** |
| A. Total amount of GPM given on behalf of own legal entities within Group | 450,000 | 1,481,000 | 35,089,815 | 42,706,174 |
| B. Total amount of GPM given in favor of consolidated subsidiaries | - | 322,500,000 | 1,415,918,587 | 2,632,356,337 |
| C. Total amount of GPM given for assurance of third parties' debts in order to conduct of usual business activities | - | - | - | - |
| D. Total amount of other GPM given | - | - | - | - |
| i. Total amount of GPM given in favor of parent company | - | - | - | - |
| ii. Total amount of GPM given in favor of other Group companies which B and C don't comprise | - | - | - | - |
| iii. Total amount of GPM given for third parties which C doesn't comprise | - | - | - | - |
| **Total** | **450,000** | **323,981,000** | **1,451,008,402** | **2,675,062,511** |

The ratio of other GPM given by the Group to the equity of the Group as of 31 December 2017 is 0%.

| | 31 December 2016 | | | |
|---|---|---|---|---|
| | Original Currency | | | Total |
| **GUARANTEE- PLEDGE-MORTGAGES (GPM)** | **EUR** | **USD** | **TL** | **TL** |
| A. Total amount of GPM given on behalf of own legal entities within Group | 450,000 | 72,451,000 | 27,853,160 | 284,492,174 |
| B. Total amount of GPM given in favor of consolidated subsidiaries | - | 322,500,000 | 1,295,199,655 | 2,430,141,655 |
| C. Total amount of GPM given for assurance of third parties' debts in order to conduct of usual business activities | - | - | - | - |
| D. Total amount of other GPM given | - | - | - | - |
| i. Total amount of GPM given in favor of parent company | - | - | - | - |
| ii. Total amount of GPM given in favor of other Group companies which B and C don't comprise | - | - | - | - |
| iii. Total amount of GPM given for third parties which C doesn't comprise | - | - | - | - |
| **Total** | **450,000** | **394,951,000** | **1,323,052,815** | **2,714,633,829** |

As of 31 December 2016, detail of the letters of guarantee given to the various public institutions on behalf of legal entities within the Group is as follows.

| GUARANTEE | 31 December 2017 |
|---|---|

| | **Original Currency** | | | **Total** |
|---|---|---|---|---|
| | **EUR** | **USD** | **TL** | **TL** |
| Given to customs office | 450,000 | - | 3,497,181 | 5,383,761 |
| Given to tax office | - | - | 1,053,115 | 1,053,115 |
| Given to electricity distribution companies | - | - | 3,989,430 | 3,989,430 |
| Given to natural gas distribution companies | - | - | 11,166,771 | 11,166,771 |
| Given to banks | - | 1,000,000 | - | 3,771,900 |
| Other letters of guarantee given | - | 481,000 | 15,383,318 | 17,197,602 |
| **Total** | **450,000** | **1,481,000** | **35,089,815** | **42,706,174** |

| | **31 December 2016** | | | |
|---|---|---|---|---|
| | **Original Currency** | | | **Total** |
| **GUARANTEE** | **EUR** | **USD** | **TL** | **TL** |
| Given to customs office | 450,000 | - | 3,497,181 | 5,166,636 |
| Given to tax office | - | - | 1,050,183 | 1,050,183 |
| Given to electricity distribution companies | - | - | 4,672,707 | 4,672,707 |
| Given to natural gas distribution companies | - | - | 11,166,771 | 11,166,771 |
| Given to banks | - | 72,020,000 | - | 253,452,784 |
| Other letters of guarantee given | - | 431,000 | 7,466,318 | 8,983,093 |
| **Total** | **450,000** | **72,451,000** | **27,853,160** | **284,492,174** |

Detail of the bails that the Group and its subsidiaries are given for using various loans in favor of each other is as follows.

| | **31 December 2017** | | | |
|---|---|---|---|---|
| | **Original Currency** | | | **Total** |
| **BAIL** | **EUR** | **USD** | **TL** | **TL** |
| **Bails given to fully consolidated companies** | | | | |
| - Given to Akdemir Çelik Sanayi ve Ticaret A.Ş. | - | - | 8,007,109 | 8,007,109 |
| - Given to İDÇ Liman İşletmeleri A.Ş. | - | 15,000,000 | 14,822,478 | 71,400,978 |
| - Given to İzdemir Enerji Sanayi ve Ticaret A.Ş. | - | 307,500,000 | 1,393,089,000 | 2,552,948,250 |
| **Total** | | **322,500,000** | **1,415,918,587** | **2,632,356,337** |

| | **31 December 2016** | | | |
|---|---|---|---|---|
| | **Original Currency** | | | **Total** |
| **BAIL** | **EUR** | **USD** | **TL** | **TL** |
| **Bails given to fully consolidated companies** | | | | |
| - Given to Akdemir Çelik Sanayi ve Ticaret A.Ş. | - | - | 8,007,109 | 8,007,109 |
| - Given to İDÇ Liman İşletmeleri A.Ş. | - | 15,000,000 | 14,804,546 | 67,592,546 |
| - Given to İzdemir Enerji Sanayi ve Ticaret A.Ş. | - | 307,500,000 | 1,272,388,000 | 2,354,542,000 |
| **Total** | | **322,500,000** | **1,295,199,655** | **2,430,141,655** |

## 29. EMPLOYEE BENEFITS

### Payables within the context of employee benefits

| | **31 December 2017** | **31 December 2016** |
|---|---|---|
| Payable due to personnel | 4,938,475 | 4,755,009 |
| Social security premiums payable | 5,651,035 | 4,746,762 |
| Income tax payable | 2,045,431 | 1,891,514 |
| | **12,634,941** | **11,393,285** |

### Long term employee severance indemnity

| | **31 December 2017** | **31 December 2016** |
|---|---|---|

| | | |
|---|---|---|
| Employee severance indemnity | 19,596,431 | 15,582,422 |
| Vacation pay liability | 3,038,310 | 2,071,050 |
| | **22,634,740** | **17,653,472** |

Movement of employee severance indemnity is as follows.

| Employee Severance Indemnity | **01.01.- 31.12.2017** | **01.01.- 31.12.2016** |
|---|---|---|
| Provision at the beginning of the period | 15,582,422 | 12,198,175 |
| Service cost | 4,375,434 | 3,288,148 |
| Interest cost | 1,865,630 | 1,194,389 |
| Actuarial loss / (gain) | 650,592 | 1,596,148 |
| Employee severance indemnity payment | (2,695,825) | (2,560,114) |
| Provisions no longer required | (181,822) | (134,324) |
| **Provision at the end of the period** | **19,596,431** | **15,582,422** |

Actuarial gain amounting to TL 650,592 is recognized in other comprehensive income as of 31 December 2017. (31 December 2016: TL 1,596,148)

Under the Turkish Labor Law, employees whose contracts are terminated by the employer for reasons set by the law are entitled to be paid compensation. As of 31 December 2017, the amount payable as compensation for each year served is equal to one month's salary subject to a ceiling of TL 4732.48 (31 December 2016: TL 4,297,21)

Employee severance indemnity is not subject to any funding as statutory requirement. Employee severance indemnity of the Group has been calculated as expressed in Note 2. As at 31 December 2017, the liability is computed on a thirty day wage base with a maximum of TL 4,732.48 for each year of service and utilizing the rates on date of retirement or departure.

Based on the fact that is mentioned above, the Group calculated provisions for employee severance indemnity and recorded to the financial statements by estimating the present value of the future probable obligation arising from the retirement of the employees.

Accordingly, the following actuarial assumptions were used in the calculation of the provision.

| | **31 December 2017** | **31 December 2016** |
|---|---|---|
| Inflation rate | % 11.14 | % 8,53 |
| Real discount rate | %2.07 | %2.32 |

As of 31 December 2017, the Group's expected probability rate to pay the employee severance indemnity is 96% except those quitting their jobs on their own wish and those not eligible for severance pay (31 December 2016: 96%).

Movement of the vacation pay liability is as follows.

| | **01.01.- 31.12.2017** | **01.01.- 31.12.2016** |
|---|---|---|
| Beginning of the period | 2,071,050 | 2,763,338 |
| Change for the period | 967,260 | (692,288) |
| **End of the period** | **3,038,310** | **2,071,050** |

Vacation pay liability was calculated by multiplying remaining vacation days with daily salaries. Current period allowance is accounted under long term provisions in consolidated financial statements.

## 30. EXPENSES BY NATURE

| | 01.01.- 31.12.2017 | 01.01.- 31.12.2016 |
|---|---|---|
| Raw material costs | 2,210,381,434 | 1,456,206,701 |
| Utility expenses | 71,634,933 | 76,593,865 |
| Labor costs | 164,814,389 | 140,256,400 |
| Commercial goods | 42,800,337 | 40,565,494 |
| Freight costs | 33,100,928 | 49,362,086 |
| Material cost | 60,809,568 | 45,516,352 |
| Depreciation and amortization | 113,830,440 | 86,728,156 |
| General manufacturing expenses | 32,873,474 | 27,591,481 |
| Change in inventories | (10,001,334) | (7,497,320) |
| Foreign exchange loss | 37,518,634 | 110,923,801 |
| Other | 146,605,406 | 122,870,810 |
| | **2,904,368,209** | **2,149,117,826** |

## 31. OTHER ASSETS AND LIABILITIES

### Other Current Assets

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Prepaid tax | 735,629 | 1,657,271 |
| Deferred VAT (*) | 538,081 | 57,227 |
| Work advances | 77,419 | 126,285 |
| Personnel advances | 27,864 | 88,556 |
| Other various current assets | 66,455 | 918,125 |
| | **1,445,448** | **2,847,464** |

### Other Current Liabilities

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| VAT payable | 38,577,128 | 16,663,965 |
| Order advances received | 85,014,288 | 22,567,013 |
| Deferred income | 2,582,765 | 299,067 |
| Other liabilities | 11,029 | 3,146 |
| | **126,185,211** | **39,533,191** |

## 32. CAPITAL, RESERVES AND OTHER EQUITY ITEMS

### Paid-in Capital

The Company adopted registered paid- in capital system pursuant to the articles of the Law numbered 2499 after the permission from the Capital Market Board on 22 August 1984. The Company's registered capital is TL 600,000,000; shares are divided into 60,000,000,000 each with a nominal value of Kurus 1.

The permission granted by the Capital Market Board to be on the registered capital ceiling is valid for the years between 2013 and 2017 (5 years). Board of directors cannot take decision after 2017 for increase of capital even if the registered capital ceiling allowed till the end of 2017 is not reached. It is compulsory to obtain authorization for a new capital ceiling from the General Assembly provided that the Capital Market Board endorses the ceiling. If mentioned authority is not taken, the Company is deemed to have come out from the registered capital system.

The Company's issued share capital is, fully paid TL 375,000,000. This capital is formed in total 37,500,000,000 unit shares of group A which has 800 units written to name each valued 1 Kurus (700 pieces to Şahin Koç Çelik Sanayi A.Ş., 100 pieces to Deba Holding A.Ş.) and of group B which has 37,499,999,200 units written to name each valued 1 Kurus. Registration to stock register of the shares written to name is subject to the approval of the Board. Registered shares may be withheld from the record by the Group even with no reason.

The capital structure is as follows.

| **Shareholders** | **(%)** | **31 December 2017** | **(%)** | **31 December 2016** |
|---|---|---|---|---|
| Şahin – Koç Çelik Sanayi A.Ş. | 58.13 | 217,972,335 | 58.13 | 217,972,335 |
| Halil Şahin | 14.79 | 55,459,438 | 14.79 | 55,459,438 |
| Şahin Şirketler Grubu Holding | 5.45 | 20,444,300 | 5.45 | 20,444,300 |
| Other (Publicly traded) | 21.63 | 81,123,927 | 21.63 | 81,123,927 |
| **Capital with historic value** | **100.00** | **375,000,000** | **100.00** | **375,000,000** |

Group A shares are the privileged shares. More than the half of the Members of Board of Directors is elected from the owners of group A shares at the General Assembly. After distribution of first dividends founding shareholders are entitled to receive 10% of the remaining profit. Then, Board of Directors are entitled to receive 10% of the remaining profit.

**Inflation Adjustment on Capital**

| | **31 December 2017** | **31 December 2016** |
|---|---|---|
| Inflation adjustment on capital | 22,763,962 | 22,763,962 |
| | **22,763,962** | **22,763,962** |

**Legal Reserves**

| | **31 December 2017** | **31 December 2016** |
|---|---|---|
| Legal reserves | 25,832,374 | 25,832,374 |
| | **25,832,374** | **25,832,374** |

The legal reserves are comprised of first and second reserves, appropriated in accordance with the Turkish Commercial Code. The code stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the company's paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in-capital and at the rate of 9% p.a. of all cash distribution in excess of 5% of the paid-in-share capital in case of full distribution of respective profit as dividend.

The legal reserves can be used only to offset losses and are not available for any other usage unless they exceed 50% of paid-in-capital.

Publicly-traded companies are obligated to execute distribution of dividend in compliance with the communique No. II-19.1 issued by the CMB, effective from 1 February 2014.

Companies distribute dividends in accordance with their dividend policies settled and dividend payment decision taken in general assembly and also conforming to relevant legislations. The communique does not dictate a minimum dividend rate. Companies distribute dividend in accordance with the frame defined in their dividend policy or articles of incorporation. Furthermore, dividend can be distributed by fixed or variable installments and advance dividend can be paid on the profit reported on interim financial statements.

**Retained earnings**

Retained earnings in legal books can be distributed taking the following article into consideration.

In accordance with the Communiqué II, No: 14.1; at the first time application of inflation adjustments on financial statements, equity items, namely Share Premiums, Legal Reserves, Statue Reserves, Special Reserves and Extraordinary Reserves were carried at nominal value in the statement of financial position and inflation differences of such items were presented in equity under the retained earnings in total.

**Revaluation Fund Gains and Losses**

Revaluation Fund Gains and Losses are composed of increases/decreases on valuation of tangible fixed asset and actuarial gains/losses on employee benefits.

With amendments to standard of TAS 19 Employee Benefits, actuarial gains and losses taken into consideration in calculation of severance indemnity provision are not allowed to be accounted in profit or loss statement. Gains and losses arising from changes in actuarial assumptions are recorded as revaluation fund gains and losses in equity.

Movement of Revaluation Fund Gains/ (Losses) is as follows.

| | **2017** | **2016** |
|---|---|---|
| Beginning of the period | 681,212,243 | 187,375,198 |
| Revaluation of tangible fixed asset | - | 446,059,210 |
| Depreciation transfer from revaluation fund | (37,018,099) | (2,454,643) |
| Deferred tax calculated over depreciation | 7,403,620 | 490,929 |
| Losses on revaluation of employee benefits | (664,018) | (1,601,224) |
| Deferred tax calculated on losses on revaluation of employee benefits | 132,804 | 320,245 |
| Effect of change in minority interest (*) | 24,411,933 | 51,254,379 |
| Fund outflow due to sale of fixed asset | (17,959) | (231,850) |
| Effect of change of exemption rate on corporation tax | (1,762,718) | - |
| Tax effect on reclassification of investment properties | 266,514 | - |
| **End of the period** | **673,964,320** | **681,212,243** |

**(*)**Subsidiary İzdemir Enerji Elektrik Üretim A.Ş. increased its capital in the current period. Parent Company İzmir Demir Çelik Sanayi A.Ş. participated in the capital increase. Thus, the direct control share, which was 67.50% before the increase, increased to 74.14% after the capital increase.

**Non-Controlling Interests**

| | **31 December 2017** | **31 December 2016** |
|---|---|---|
| Shares in capital | 20,136,027 | 20,056,027 |

| | | |
|---|---|---|
| Revaluation fund | 32,490,474 | 57,932,455 |
| Actuarial loss / (gain) | 6,213 | 135 |
| Shares in accumulated profit / ( losses) | (11,302,020) | (12,323,528) |
| Share in profit / (loss) for the period | (5,632,519) | (9,047,079) |
| | **35,698,175** | **56,618,010** |

## 33. REVENUE AND COST OF SALES

| | **01.01.-31.12.2017** | **01.01.-31.12.2016** |
|---|---|---|
| Domestic sales | 2,337,656,932 | 1,549,689,088 |
| International sales | 645,404,384 | 663,631,563 |
| Sales returns (-) | (2,294,598) | (2,118,602) |
| Other deductions from sales (-) (*) | (3,453,256) | (1,529,009) |
| **Revenue** | **2,977,313,462** | **2,209,673,040** |
| | | |
| Cost of goods sold | (2,634,145,008) | (1,819,753,107) |
| Cost of merchandise sold | (42,800,337) | (40,565,494) |
| Cost of services | (91,325,467) | (100,774,853) |
| Cost of other sales | (2,432,002) | (1,592,192) |
| **Cost of Sales** | **(2,770,702,815)** | **(1,962,685,646)** |
| | | |
| **Gross Profit** | **206,610,647** | **246,987,394** |

Details of the reportable segments used in management reporting are disclosed in Note 5.

## 34. CONSTRUCTION CONTRACTS

None. (31 December 2016: None)

## 35. GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES, RESEARCH AND DEVELOPMENT EXPENSES

| | **01.01.-31.12.2017** | **01.01.-31.12.2016** |
|---|---|---|
| General administrative expenses | (24,356,105) | (22,199,477) |
| Marketing expenses | (32,319,076) | (26,913,687) |
| | **(56,675,181)** | **(49,113,164)** |

**General Administrative Expenses**

| | **01.01.-31.12.2017** | **01.01.-31.12.2016** |
|---|---|---|
| Personnel expenses | 11,807,612 | 10,979,351 |

| | | |
|---|---|---|
| Travelling expenses | 541,268 | 411,612 |
| Food expenses | 221,209 | 197,198 |
| Information technology expenses | 743,734 | 808,962 |
| Repair and maintenance expenses | 115,814 | 135,518 |
| Counseling and consultation expenses | 1,002,876 | 1,013,409 |
| Insurance expenses | 622,197 | 485,071 |
| Communication expenses | 568,225 | 472,695 |
| Subscription expenses | 675,349 | 567,242 |
| Taxes and other legal dues | 1,433,771 | 1,836,597 |
| Depreciation and amortization expenses | 901,414 | 871,238 |
| Employee severance indemnity expenses | 472,917 | 364,215 |
| Representation and accommodation expenses | 537,185 | 489,809 |
| Vehicle expenses | 1,113,642 | 942,396 |
| Other expenses | 3,598,892 | 2,624,164 |
| | **24,356,105** | **22,199,477** |

**Marketing Expenses**

| | **01.01.-31.12.2017** | **01.01.-31.12.2016** |
|---|---|---|
| Transportation expenses | 3,907,452 | 4,227,299 |
| Loading and handling expenses | 516,586 | 244,914 |
| Commission expenses | 3,331,809 | 3,718,373 |
| Harbor service expenses | 267,135 | 243,659 |
| Export expenses | 2,849,667 | 1,210,884 |
| Personnel expenses | 1,113,803 | 1,001,785 |
| Electricity sales expenses | 19,366,429 | 15,576,001 |
| Other expenses | 966,195 | 690,772 |
| | **32,319,076** | **26,913,687** |

## 36. OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

**Other Income from Operating Activities**

| | **01.01.-31.12.2017** | **01.01.-31.12.2016** |
|---|---|---|
| Rediscount income | 1,473,539 | 1,995,563 |
| Bunker | 16,278,274 | 13,726,830 |
| Reversal of unnecessary provisions | 182,332 | 141,893 |
| Warehouse income | - | 1,036,893 |
| Indemnity income | 6,843,858 | 5,842,609 |
| Finance income over sales with maturity | 4,882,946 | 5,289,908 |
| Incomes from customs charges | 1,118,933 | 937,312 |
| Income from carriage | 666,196 | 955,693 |
| Income from electricity sales charges | 75,624 | 890,278 |
| Sale of raw material | 11,719,883 | - |
| Other income and profits | 2,990,868 | 1,955,893 |
| | **46,232,453** | **32,772,872** |

**Other Expenses from Operating Activities**

| | **01.01.-31.12.2017** | **01.01.-31.12.2016** |
|---|---|---|

| | | |
|---|---|---|
| Foreign exchange losses -net | (37,518,634) | (110,923,801) |
| Rediscount expenses | (1,958,521) | (1,237,160) |
| Cost of bunker | (15,192,370) | (12,498,684) |
| Warehouse expenses | - | (1,094,655) |
| Customs charges | (1,138,372) | (930,632) |
| Carriage expenses | (959,792) | (1,381,887) |
| Doubtful receivables | (229,159) | (3,082,714) |
| Idle time expenses | (6,109,791) | (3,436,830) |
| Electricity sales liability expenses | (1,370,340) | (501,404) |
| Electricity sales charges | (75,287) | (893,352) |
| Cost of raw material sold | (11,820,659) | - |
| Other expense and losses | (617,287) | (1,337,897) |
| | **(76,990,212)** | **(137,319,016)** |

## 37. INCOME AND EXPENSES FROM INVESTING ACTIVITIES

**Income from Investing Activities**

| | **01.01.-31.12.2017** | **01.01.-31.12.2016** |
|---|---|---|
| Changes in the fair value of derivative financial instruments | 10,486,524 | 1,804,895 |
| Foreign exchange gains | - | 2,345,448 |
| income from financial derivatives | 20,312,517 | 1,594,662 |
| Gain on sales of property, plant and equipment | 96,674 | - |
| Increase in value in investment properties | - | 32,436,000 |
| Reversal of impairment losses in fixed asset | - | 3,732,167 |
| | **30,895,715** | **41,913,172** |

**Expenses from Investing Activities**

| | **01.01.-31.12.2017** | **01.01.-31.12.2016** |
|---|---|---|
| Changes in the fair value of derivative financial instruments | (1,409,669) | (3,217,425) |
| Foreign exchange losses | (1,706,675) | - |
| Loss on sales of property, plant and equipment | - | (189,782) |
| | **(3,116,344)** | **(3,407,207)** |

## 38. EXPENSES CLASSIFIED BY VARIETIES

Expenses are demonstrated by their function, and details of expenses are disclosed in Note 30, 33 and 35.

## 39. FINANCIAL INCOME AND EXPENSES

**Financial Income**

| | **01.01.-31.12.2017** | **01.01.-31.12.2016** |
|---|---|---|

| | | |
|---|---|---|
| Foreign exchange gains | 11,698,557 | 24,851,113 |
| Interest income | 7,375,017 | 5,554,908 |
| Premium income on letter of credits | - | 612,667 |
| | **19,073,574** | **31,018,688** |

| **Financial Expenses** | **01.01.-31.12.2017** | **01.01.-31.12.2016** |
|---|---|---|
| Foreign exchange losses | (69,106,104) | (196,336,071) |
| Interest expenses | (82,345,716) | (58,965,183) |
| Bank charges | (5,001,463) | (4,824,071) |
| | **(156,453,283)** | **(260,125,325)** |

## 40. ANALYSIS OF OTHER COMPREHENSIVE INCOME COMPONENTS

The Group has other comprehensive gain amounting to TL 520,474 for the period ended 31 December 2017 not to be reclassified to profit or loss (31 December 2016: 549,205,520). The amount is composed of actuarial losses on re-measurement of employee benefits and revaluation of fixed assets.

## 41. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

None. (31 December 2016: None)

## 42. INCOME TAXES (INCLUDED DEFERRED TAX ASSETS AND LIABILITIES)

| **Corporate Tax Payable** | **31 December 2017** | **31 December 2016** |
|---|---|---|
| Provision for corporate tax payable | 1,898,991 | 247,602 |
| Prepaid taxes and funds | (1,497,326) | (167,474) |
| | **401,665** | **80,128** |

| **Tax Provision for the Period** | **01.01.-31.12.2017** | **01.01.-31.12.2016** |
|---|---|---|
| Corporate tax provision | (1,898,991) | (247,602) |
| Deferred tax income / (expense) | 1,678,070 | 15,127,908 |
| | **(220,921)** | **14,880,306** |

*Corporate Tax*

The Company and its subsidiaries in Turkey, are subject to corporate tax in Turkey. The estimated tax liabilities, which is regarding Group's current period operating results, are recognized in the accompanying consolidated financial statements. Corporate tax that will be accrued over corporation tax base is calculated over the tax base that remains after adding expenses recorded as expense in determination of commercial earnings that are non-deductible from tax base and subtracting tax-exempt profit, tax- free income and other deductions (if there are losses from previous years and used investment allowances if preferred).

Effective corporation tax rate applied in Turkey since 2005 is 20 %. Temporary tax is calculated and accrued quarterly in Turkey. As of temporary tax periods, the effective corporation tax rate is 20%. Losses may be carried forward for a maximum period of five years in order to be deducted from the taxable profit to be earned in the coming years.

A temporary article is added on corporation tax act in official gazette published on December 5, 2017 numbered 30261. The temporary article dictates that rate of corporation tax will be applied as 22% on taxable earnings for the years 2018,2019 and 2020.

Furthermore, tax-exemption rate applied on earnings from sale of real estates is reduced from 75% to 50%. This reduction results in enforcement of %10 deferred tax rate, instead of 5% earlier, on temporary differences arising in case of revaluation

As of 31 December 2017, according to the tax legislation provisional tax payable is determined at the rate of 20% (2016: 20%) on the income generated for the three-month periods and the amounts paid in this manner are deducted from the tax calculated on the annual earnings. With the amendment made in the law, this ratio was set at 22% for the years 2018, 2019 and 2020.

There is no absolute and certain confirmation procedure related to tax evaluation in Turkey. Companies submit their tax declarations between 1-25 April coming after the related year's balancing period (for the companies having special account period, between 1 and 25 of fourth month following the closing of period). These tax declarations and concerning accounting records may be inspected and changed by tax department in five years.

*Withholding Tax:*

In addition to Corporation Tax, it is required to calculate withholding tax from the dividends distributed by full pledge taxpayer enterprise and include in its income tax base and except dividends distributed by foreign companies to its subsidiary in Turkey. As of 23 July 2006 withholding tax rate was altered to 15%. Dividends that are added to capital without distribution are not subject to withholding tax. It is necessary to make tax withholding at 19.8% over investment allowance balance utilized based on investment incentive certificate received prior to 24 April 2003. 40% of company activities directly related to production investment certificate. Investment expenses made after this date can be deducted. Tax withholding cannot be made on investment expenses without incentive certificate.

*Deferred Tax:*

The Group recognizes deferred tax assets and liabilities based on temporary differences arising between the financial statements as reported in accordance with CMB Communiqué Serial: II, No: 14.1 and the statutory tax financial statements. The differences which are explained below usually result in the recognition of revenue and expenses in different reporting periods for Account Standards Communiqué of CMB and tax purposes.

Timing differences arise from differences which occurred because of change in income and expense items between accounting and tax base. Time differences are being calculated based on tangible fixed assets (except land and area), intangible fixed assets, revaluation of stocks; rediscount of receivables and payables, financial liabilities, provision for employee severance indemnity and previous years' losses. The ratio of deferred tax applied is 20% in the reporting period.

Items that constitute base to deferred tax and corporate tax are presented below.

| | 31 December 2017 | 31 December 2016 |
|---|---|---|

| | Temporary Difference | Deferred Tax | Temporary Difference | Deferred Tax |
|---|---|---|---|---|
| **Deferred Tax Assets** | | | | |
| Inventories | 6,237,638 | 1,247,528 | 877,366 | 175,473 |
| Employee severance indemnity | 15,418,401 | 3,083,680 | 12,054,984 | 2,410,997 |
| Trade receivables | 5,913,569 | 1,182,714 | 4,878,509 | 975,702 |
| Financial investments | 445,357 | 89,071 | 445,357 | 89,071 |
| Fair values of derivative financial instruments | (6,878,608) | (1,375,722) | 2,198,246 | 439,649 |
| Other non-current and current liabilities | 1,434,130 | 286,826 | 2,841,885 | 568,377 |
| Debt provisions | 1,266,863 | 253,373 | (589,703) | (117,941) |
| Tangible and intangible assets | 128,789,110 | 25,757,822 | 135,158,740 | 27,031,748 |
| Other current assets | 12,520,018 | 2,504,004 | 8,741,708 | 1,748,342 |
| Trade payables | (6,662,360) | (1,332,472) | (5,922,077) | (1,184,415) |
| Tax losses carried forward | 471,295,162 | 94,259,032 | 489,219,720 | 97,843,944 |
| Actuarial loss fund on severance indemnity | 4,178,031 | 835,606 | 3,527,441 | 705,488 |
| | | **126,791,462** | | **130,686,435** |
| **Deferred Tax Liabilities** | | | | |
| Fair values of property, plant equipment | 844,594,839 | 168,918,968 | 885,593,920 | 177,118,784 |
| Investment properties | 77,192,042 | 7,719,204 | 74,526,902 | 3,726,345 |
| | | **176,638,172** | | **180,845,129** |
| **Net Deferred Tax Liabilities** | | **(49,846,710)** | | **(50,158,694)** |

| **Movements in Deferred Tax Asset / (Liability)** | **01.01.-31.12.2017** | **01.01.-31.12.2016** |
|---|---|---|
| Balance at the beginning of the period | (50,158,694) | 72,014,777 |
| Tax effect of actuarial loss /(gain) of severance indemnity | 130,118 | 319,231 |
| Deferred tax income | 1,678,070 | 15,127,908 |
| Revaluation of fixed asset | - | (137,620,610) |
| Tax effect on reclassification of investment properties | 266,514 | - |
| Effect of change of exemption rate on corporation tax | (1,762,718) | - |
| **Balance at the end of the period** | **(49,846,710)** | **(50,158,694)** |

Movement of deferred tax assets and liabilities are presented below.

| | 1 January 2017 | Current period deferred tax income | Recognized in other comprehensive income | Other | 31 December 2017 |
|---|---|---|---|---|---|
| **Deferred Tax Assets** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Inventories | 175,473 | 1,072,055 | - | - | 1,247,528 |
| Employee severance indemnity | 2,410,997 | 672,683 | - | - | 3,083,680 |
| Trade receivables | 975,702 | 207,012 | - | - | 1,182,714 |
| Financial investments | 89,071 | - | - | - | 89,071 |
| Fair values of derivative financial instruments | 439,649 | (1,815,371) | - | - | (1,375,722) |
| Other non-current and current liabilities | 568,377 | (281,551) | - | - | 286,826 |
| Debt provisions | (117,941) | 371,314 | - | - | 253,373 |
| Tangible and intangible fixed assets | 27,031,748 | (1,273,925) | - | - | 25,757,823 |
| Other current assets | 1,748,342 | 755,662 | - | - | 2,504,004 |
| Trade payables | (1,184,415) | (148,057) | - | - | (1,332,472) |
| Tax losses carried forwards | 97,843,944 | (3,584,912) | - | - | 94,259,032 |
| Actuarial loss fund on severance indemnity | 705,488 | - | 130,118 | - | 835,606 |
| | **130,686,435** | **(4,025,091)** | **130,118** | **-** | **126,791,462** |
| **Deferred Tax Liabilities** | | | | | |
| Fair values of property, plant equipment | 177,118,784 | (7,666,788) | - | (533,028) | 168,918,968 |
| Investment properties | 3,726,345 | - | - | - | 3,726,345 |
| Effect of change of exemption rate on corporation tax | - | 1,963,627 | - | 1,762,718 | 3,726,345 |
| Tax effect on reclassification of investment properties | - | - | - | 266,514 | 266,514 |
| | **180,845,129** | **(5,703,161)** | **-** | **1,496,204** | **176,638,172** |
| **Net Deferred Tax Assets/ (Liabilities)** | **(50,158,694)** | **1,678,070** | **130,118** | **(1,496,204)** | **(49,846,710)** |

Lands that were previously reported in property, plant and equipment are classified as investment property in current period. In prior periods, the increase on revaluation which were TL 2,665,140 has been accounted for with 20% deferred tax. Deferred tax liability together with the new classification has been reduced to 20% to 10%, taking into account the exception to Article 89 of Law No. 7061, which amends Article 5 of the corporate tax law. The effect of the change in the tax rates is 266,514 TL.

| | **1 January 2016** | **Current period deferred tax income** | **Recognized in other comprehensive income** | **31 December 2016** |
|---|---|---|---|---|
| **Deferred Tax Assets** | | | | |
| Inventories | 101,946 | 73,527 | - | 175,473 |
| Employee severance indemnity | 2,053,377 | 357,620 | - | 2,410,997 |
| Trade receivables | 385,691 | 590,011 | - | 975,702 |
| Financial investments | 89,071 | - | - | 89,071 |
| Fair values of derivative financial instruments | 157,143 | 282,506 | - | 439,649 |
| Other non-current and current liabilities | 689,236 | (120,859) | - | 568,377 |
| Debt provisions | (117,941) | - | - | (117,941) |
| Tangible and intangible fixed assets | 29,083,913 | (2,052,165) | - | 27,031,748 |
| Other current assets | 836,114 | 912,228 | - | 1,748,342 |
| Trade payables | (275,618) | (908,797) | - | (1,184,415) |
| Tax losses carried forwards | 80,777,218 | 17,066,726 | - | 97,843,944 |
| Actuarial loss fund on severance indemnity | 386,257 | - | 319,231 | 705,488 |
| | **114,166,407** | **16,200,797** | **319,231** | **130,686,435** |
| **Deferred Tax Liabilities** | | | | |
| Fair values of property, plant equipment | 40,047,085 | (548,912) | 137,620,611 | 177,118,784 |
| Investment properties | 2,104,545 | 1,621,800 | | 3,726,345 |
| | **42,151,630** | **1,072,888** | **137,620,611** | **180,845,129** |
| **Net Deferred Tax Assets/ (Liabilities)** | **72,014,777** | **15,127,909** | **(137,301,380)** | **(50,158,694)** |

Reconciliation of tax provision that is presented in the profit or loss statement is as follows.

| **Reconciliation of tax provision** | **01.01.- 31.12.2017** | **01.01.- 31.12.2016** |
|---|---|---|
| Net profit/(loss) for the period | 9,356,448 | (82,392,280) |

| | | |
|---|---|---|
| Total tax income / (expense) | (220,921) | 14,880,306 |
| Profit /(loss) before tax | 9,577,369 | (97,272,586) |
| | | |
| Tax on profit per statutory tax rate of the parent company | (1,915,474) | 19,454,517 |
| Discount on tax rate | - | 4,865,400 |
| Non-deductible expenses | (279,808) | (1,860,827) |
| Tax exempt income | 556,643 | 132 |
| Effect of change of exemption rate on corporation tax | (1,963,627) | - |
| Effect of consolidation adjustments | 3,409,722 | (1,101,789) |
| Cancellation of tax losses carried forward | - | (6,477,130) |
| Other | (28,377) | - |
| **Total tax income** | **(220,921)** | **14,880,306** |

The maturity of the tax losses are as follows:

| | | **31 December 2017** | **31 December 2016** |
|---|---|---|---|
| Period of tax losses occurred | Maturity of tax losses | Tax losses carried forward | Tax losses carried forward |
| 2012 | 2017 | - | 246,369 |
| 2013 | 2018 | - | 98,182,361 |
| 2014 | 2019 | 22,709,473 | 32,139,281 |
| 2015 | 2020 | 240,956,879 | 240,956,879 |
| 2016 | 2021 | 117,719,937 | 117,694,830 |
| 2017 | 2022 | 89,908,872 | - |
| **Total** | | **471,295,162** | **489,219,720** |

## 43. EARNINGS PER SHARE

Weighted average number of the Company shares and calculated earnings per share are as follows

| | **01.01.-31.12.2017** | **01.01.-31.12.2016** |
|---|---|---|
| Profit for the period attributable to parent company | 14,988,967 | (73,345,204) |
| Weighted average number of ordinary shares | 375,000,000 | 375,000,000 |
| | | |
| Earnings / (losses) per share TL | 0.0400 | (0.1956) |
| Earnings / (losses) per share | %4.00 | (%19.56) |

## 44. SHARE-BASED PAYMENT

None. (31 December 2016: None)

## 45. INSURANCE CONTRACTS

None. (31 December 2016: None)

## 46. EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

The analysis of the effects of changes in exchange rates related to the current and prior periods is presented in note 50.

## 47. FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES

In accordance with the decision taken by the CMB on March 17, 2005, the Group ceased inflation accounting application effective from 1 January 2005.

## 48. DERIVATIVE INSTRUMENTS

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Income accrual on derivative instruments | 7,538,558 | 749,720 |
| | **7,538,558** | **749,720** |

Income accrual on derivative instruments consists of fair value differences of option contracts and future contracts recognized in profit or loss statement.

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Expense accrual on derivative instruments | 662,984 | 2,947,966 |
| | **662,984** | **2,947,966** |

Expense accrual on derivative instruments consists of fair value differences of option contracts and future contracts recognized in profit or loss statement.

**Forward exchange transactions**

The Group's business operations are exposed to financial risk due to changes in currency rate and interest rate basically. The Group utilizes derivative financial instruments (primarily currency exchange forward contracts and commodity future contracts) to avoid fair value risks.

Derivative financial instruments are calculated at fair value on contract date and recalculated at their fair value at next reporting date. The variations on market values are accounted in the profit or loss statement of relevant period.

The Group does not apply hedge accounting for derivative financial instruments. Details of forward and option contracts entered by the Group are summarized below.

**Forward contracts:**

| | Maturity | Exchange rate parity | To be handed over to bank | To be received from bank |
|---|---|---|---|---|
| USD Sale TL Purchase | 1-11 month | 4.0323 -4.4610 | 28,900,000 | 126,442,900 |
| TL Sale USD Purchase | 1-2 month | 3.7737 -3.9299 | 34,766,380 | 9,000,000 |

**Option contracts:**

| | Maturity | Exchange rate parity | To be handed over to bank | To be received from bank |
|---|---|---|---|---|
| USD Sale TL Purchase | 1-11 month | 5 -5.60 | 14,000,000 | 73,600,000 |

## 49. FINANCIAL INSTRUMENTS

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents (Note 7) | 180,180,845 | 276,259,554 |
| Trade receivables (Note 6 and 9) | 245,307,362 | 297,625,817 |
| Financial investments (Note 8) | 931,043 | 931,043 |

| **Financial liabilities** | | |
|---|---|---|
| Financial liabilities | 1,140,848,298 | 1,216,803,903 |
| Trade payables (Note 6 and 9) | 873,678,060 | 845,005,512 |

**Financial Borrowings**

| | **31 December 2017** | **31 December 2016** |
|---|---|---|
| Short term borrowings | 393,985,710 | 266,958,516 |
| Short term portion of long term borrowings | 195,334,391 | 266,022,855 |
| Factoring borrowings | - | 46,500,000 |
| **Total short term financial borrowings** | **589,320,101** | **579,481,371** |
| | | |
| Long term borrowings | 551,528,197 | 637,322,532 |
| **Total financial borrowings** | **1,140,848,298** | **1,216,803,903** |

As of 31 December 2017, there is interest expense accrual amounting to TL 11,362,818 on total financial borrowings (31 December 2016: TL 10,732,459). The mentioned accrual is included in short term borrowings.

The pledges and mortgages given by the Group against borrowings are disclosed in Note 16 and 28.

Breakdown of short term and long term financial borrowings in terms of currency are as follows.

**31 December 2017**

| **Currency** | **Short term** | **Long term** | **Total** | **TL equivalent** |
|---|---|---|---|---|
| USD | 116,834,369 | 132,301,544 | 249,135,913 | 939,715,750 |
| TL | 137,269,730 | 52,500,000 | 189,769,730 | 189,769,730 |
| | | | | **1,129,485,480** |
| Interest expense accrual | | | | 11,362,818 |
| **Total** | | | | **1,140,848,298** |

**31 December 2016**

| **Currency** | **Short term** | **Long term** | **Total** | **TL equivalent** |
|---|---|---|---|---|
| USD | 144,476,676 | 178,785,913 | 323,262,590 | 1,137,625,706 |
| EUR | 1,692,308 | 846,154 | 2,538,462 | 9,417,439 |
| TL | 7,528,299 | 5,000,000 | 12,528,299 | 12,528,299 |
| | | | | **1,159,571,444** |
| Interest expense accrual | | | | 10,732,459 |
| **Total** | | | | **1,170,303,903** |

The contractual interest rates at the statement of financial position date are as follows.

| **Short term** | **31 December 2017** | **31 December 2016** |
|---|---|---|
| USD borrowings | Libor+0.65- %5,50 | %3.75- Libor+1.5 |
| TL borrowings | %14.75 - %15.70 | - |

| Long term | 31 December 2017 | 31 December 2016 |
|---|---|---|
| USD borrowings | %2.85 - Libor+3.40 | %2.05 - Libor+3.40 |
| EUR borrowings | - | Euribor+3 |
| TL borrowings | %15 | %14.75 |

As of the statement of financial position date, principal repayment plans of total borrowings are as follows. Interest accruals and factoring borrowings are excluded.

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| 2017 | - | 522,248,912 |
| 2018 | 577,957,285 | 171,726,937 |
| 2019 | 133,030,555 | 110,123,049 |
| 2020-2023 | 418,497,640 | 355,472,546 |
| | **1,129,485,480** | **1,159,571,444** |

## 50. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

### Credit risk

Registered values of financial assets show the maximum credit risk exposed. Maximum credit risk exposed as of the reporting date is as follows.

| | Receivables | | | | | | |
|---|---|---|---|---|---|---|---|
| | Trade Receivables | | Other Receivables | | | | |
| Current Period 31 December 2017 | Related Party | Other Party | Related Party | Other party | Bank Deposits | Derivate Instruments | Other |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Exposure to maximum credit risk as of reporting date (A+B+C+D) (*) | **12,668,675** | **232,638,687** | **456,370** | **1,996,989** | **179,846,822** | **7,538,558** | **-** |
| - The secured part of maximum credit risk | - | - | - | - | - | - | - |
| A. Net book value of financial assets that are neither impaired nor overdue | 11,799,423 | 152,726,502 | 456,370 | 1,996,989 | 179,846,822 | 7,538,558 | - |
| B. Net book value of impaired assets | 869,252 | 79,912,185 | - | - | - | - | - |
| C. Net book values of the impaired assets | - | - | - | - | - | - | - |
| - Overdue (gross book value) | - | 4,106,403 | - | - | - | - | - |
| - Impairment (-) | - | (4,106,403) | - | - | - | - | - |
| - Secured part of the net value | - | - | - | - | - | - | - |
| - Not past due (gross book value) | - | - | - | - | - | - | - |
| - Impairment (-) | - | - | - | - | - | - | - |
| - Secured part of the net value | - | - | - | - | - | - | - |
| D. Off-balance sheet items with credit risk | - | - | - | - | - | - | - |

| | **Receivables** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Trade Receivables** | | **Other Receivables** | | | | |
| **Prior Period 31 December 2016** | **Related Party** | **Other Party** | **Related Party** | **Other party** | **Bank Deposits** | **Derivate Instruments** | **Other** |
| Exposure to maximum credit risk as of reporting date (A+B+C+D) (*) | **14,911,302** | **282,714,515** | **9,564,129** | **3,432,236** | **275,882,373** | **749,720** | **-** |
| - The secured part of maximum credit risk | - | - | - | - | - | - | - |
| A. Net book value of financial assets that are neither impaired nor overdue | 13,679,003 | 194,754,849 | 9,564,129 | 3,432,236 | 275,882,373 | 749,720 | - |
| B. Net book value of impaired assets | 1,232,299 | 87,959,666 | - | - | - | - | - |
| C. Net book values of the impaired assets | - | - | - | - | - | - | - |
| - Overdue (gross book value) | - | 3,877,754 | - | - | - | - | - |
| - Impairment (-) | - | (3,877,754) | - | - | - | - | - |
| - Secured part of the net value | - | - | - | - | - | - | - |
| - Not past due (gross book value) | - | - | - | - | - | - | - |
| - Impairment (-) | - | - | - | - | - | - | - |
| - Secured part of the net value | - | - | - | - | - | - | - |
| D. Off-balance sheet items with credit risk | - | - | - | - | - | - | - |

(*) Items that enhance the loan security such as collaterals were not taken into consideration in determining the amount.

Credit risk is the risk that a customer or counterparty will fail to meet its commitments and is significantly derived from the customer receivables.

The credit risk that the Group is exposed to is affected by the characteristics of each customer. The demographic structure of the customer base of the Group has an impact on the credit risk, including the industry in which the customer operates and the default risk created by the country. The Group operates in iron and steel, harbor and energy sectors and the credit risk concentration of the Group companies is Turkey.

In the context of the credit policy established by the companies operating in these areas, prior to submitting a proposal each company's standard payment, delivery terms and conditions and the creditworthiness of each new customer is analyzed individually.

The Group makes provision for impairment losses to show the estimated loss incurred for the receivable portfolio.

The aging details of Group's receivables overdue but not impaired are as follows with their due dates.

| | **Receivables** | | | **Other** |
|---|---|---|---|---|

| **Current Period 31 December 2017** | **Trade Receivables** | **Other Receivables** | **Bank Deposits** | **Derivate Instruments** | |
|---|---|---|---|---|---|
| Past due 1-30 days | 120,825 | - | - | - | - |
| Past due 1-3 moths | 182,464 | - | - | - | - |
| Past due 3-12 months | 62,128,620 | - | - | - | - |
| Past due 1-5 years | 18,349,528 | - | - | - | - |
| Past due 5 years or more | - | - | - | - | - |
| | **80,781,437** | **-** | **-** | **-** | **-** |

The majority of overdue receivables are receivables from long standing customers. It has been concluded that there is no possibility of payment collapse when these customer's past payment performances are evaluated by the management.

| **Prior Period 31 December 2016** | **Receivables** | | **Bank Deposits** | **Derivate Instruments** | **Other** |
|---|---|---|---|---|---|
| | **Trade Receivables** | **Other Receivable s** | | | |
| Past due 1-30 days | 28,858,630 | - | - | - | - |
| Past due 1-3 moths | 51,674,398 | - | - | - | - |
| Past due 3-12 months | 6,618,588 | - | - | - | - |
| Past due 1-5 years | 2,040,349 | - | - | - | - |
| Past due 5 years or more | - | - | - | - | - |
| | **89,191,965** | **-** | **-** | **-** | **-** |

## Foreign Currency Risk

| | Current Period 31 December 2017 | | | | | | Prior Period 31 December 2016 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | TL Equivalent (Functional currency) | USD | Euro | JPY | GBP | Other (TL Equivalent) | TL Equivalent (Functional currency) | USD | Euro | JPY | GBP | Other (TL Equivalent) |
| 1. Trade receivables | 48,040,141 | 11,645,207 | 911,435 | - | - | - | 79,894,486 | 22,127,596 | 545,311 | - | - | - |
| 2a. Monetary financial assets | 167,760,257 | 44,216,644 | 177,522 | 3,818,010 | 6,111 | 19,250 | 228,172,365 | 64,238,581 | 534,800 | 1,476,278 | 12,403 | 22,005 |
| 2b. Non-monetary financial assets | - | - | - | - | - | - | - | - | - | - | - | - |
| 3. Other | - | - | - | - | - | - | 11,615 | 3,301 | - | - | - | - |
| **4. Current Assets (1+2+3)** | **215,800,398** | **55,861,851** | **1,088,957** | **3,818,010** | **6,111** | **19,250** | **308,078,466** | **86,369,478** | **1,080,111** | **1,476,278** | **12,403** | **22,005** |
| 5. Trade receivables | - | - | - | - | - | - | - | - | - | - | - | - |
| 6a. Monetary financial assets | - | - | - | - | - | - | - | - | - | - | - | - |
| 6b. Non-monetary financial assets | - | - | - | - | - | - | - | - | - | - | - | - |
| 7. Other | - | - | - | - | - | - | - | - | - | - | - | - |
| **8. Non-Current Assets (5+6+7)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **9. Total Assets (4+8)** | **215,800,398** | **55,861,851** | **1,088,957** | **3,818,010** | **6,111** | **19,250** | **308,078,466** | **86,369,478** | **1,080,111** | **1,476,278** | **12,403** | **22,005** |
| 10. Trade payables | 798,331,759 | 211,558,206 | 76,032 | 155,990 | 1,344 | | 829,983,410 | 235,584,216 | 238,592 | 166,654 | 4,286 | 6,771 |
| 11. Financial liabilities | 439,639,768 | 116,556,581 | - | - | - | - | 524,358,203 | 147,205,438 | 1,701,616 | - | - | - |
| 12a. Monetary other liabilities | - | - | - | - | - | - | 132,918 | 37,770 | - | - | - | - |
| 12b. Non-monetary other liabilities | - | - | - | - | - | - | - | - | - | - | - | - |
| **13. Short Term Liabilities (10+11+12)** | **1,237,971,527** | **328,114,787** | **76,032** | **155,990** | **1,344** | | **1,354,474,532** | **382,827,424** | **1,940,208** | **166,654** | **4,286** | **6,771** |
| 14. Trade payables | - | - | - | - | - | - | - | - | - | - | - | - |
| 15. Financial liabilities | 509,805,055 | 135,158,688 | - | - | - | - | 632,322,529 | 178,785,912 | 846,154 | - | - | - |
| 16a. Monetary other liabilities | - | - | - | - | - | - | - | - | - | - | - | - |
| 16b. Non-monetary other liabilities | - | - | - | - | - | - | - | - | - | - | - | - |
| **17. Long Term Liabilities (14+15+16)** | **509,805,055** | **135,158,688** | **-** | **-** | **-** | **-** | **632,322,529** | **178,785,912** | **846,154** | **-** | **-** | **-** |
| **18. Total Liabilities (13+17)** | **1,747,776,581** | **463,273,475** | **76,032** | **155,990** | **1,344** | | **1,986,797,060** | **561,613,336** | **2,786,361** | **166,654** | **4,286** | **6,771** |
| 19. Net asset/(liability) position of off-balance sheet derivative instruments (19a-19b) | (75,060,810) | (19,900,000) | - | - | - | - | (96,830,788) | (27,515,000) | - | - | - | - |
| 19a. Off-balance sheet foreign currency derivative assets | 33,947,100 | 9,000,000 | - | - | - | - | 25,021,512 | 7,110,000 | - | - | - | - |
| 19b. Off-balance sheet foreign currency derivative liabilities | 109,007,910 | 28,900,000 | - | - | - | - | 121,852,300 | 34,625,000 | - | - | - | - |
| **20. Net Foreign Currency Asset/(Liability) Position (9-18+19)** | **(1,607,036,994)** | **(427,311,623)** | **1,012,925** | **3,662,020** | **4,767** | **19,250** | **(1,775,549,382)** | **(502,758,858)** | **(1,706,251)** | **1,309,624** | **8,117** | **15,234** |
| 21. Net foreign currency asset / (liability) position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a) | (1,531,976,184) | (407,411,623) | 1,012,925 | 3,662,020 | 4,767 | 19,250 | (1,678,718,594) | (475,243,858) | (1,706,251) | 1,309,624 | 8,117 | 15,234 |
| 22. Fair value of financial instruments used in foreign currency hedges | - | - | - | - | - | - | - | - | - | - | - | - |
| 23. Hedged foreign currency assets | - | - | - | - | - | - | - | - | - | - | - | - |
| 24. Hedged foreign currency liabilities | 48,040,141 | 11,645,207 | 911,435 | - | - | - | 79,894,486 | 22,127,596 | 545,311 | - | - | - |

**Foreign currency risk sensitivity analysis**

In case of a fluctuation by 10% in TL against foreign currencies as shown below, the profit or loss statement is expected to be affected as below. While making the analysis, all other variables are assumed to remain unchanged.

| **Foreign Currency Risk Sensitivity Analysis** | | | | |
|---|---|---|---|---|
| **Current Period 31 December 2017** | **Profit / Loss** | | **Equity** | |
| | Appreciation of foreign currency | Devaluation of foreign currency | | Appreciation of foreign currency |
| Change in the USD against TL by 10 % : | | | | |
| 1- Net asset / liability of USD | (153,671,590) | 153,671,590 | - | - |
| 2- USD risk hedged (-) | (7,506,081) | 7,506,081 | - | - |
| **3- USD net effect (1+2)** | **(161,177,671)** | **161,177,671** | **-** | **-** |
| Change in the EUR against TL by 10 % : | | | | |
| 4- Net asset / liability of EURO | 457,386 | (457,386) | - | - |
| 5- EUR risk hedged (-) | - | - | - | - |
| **6- EUR net effect (4+5)** | **457,386** | **(457,386)** | **-** | **-** |
| Change in the other foreign currencies against TL by 10 % | | | | |
| 7- Net asset / liability of other currency | 16,586 | (16,586) | - | - |
| 8- Other currency risk hedged (-) | - | - | - | - |
| **9- Other currencies net effect (7+8)** | **16,586** | **(16,586)** | **-** | **-** |
| **TOTAL (3+6+9)** | **(160,703,699)** | **160,703,699** | **-** | **-** |

| **Foreign Currency Risk Sensitivity Analysis** | | | | |
|---|---|---|---|---|
| **Current Period 31 December 2016** | **Profit / Loss** | | **Equity** | |
| | Appreciation of foreign currency | Devaluation of foreign currency | | Appreciation of foreign currency |
| Change in the USD against TL by 10 % : | | | | |
| 1- Net asset / liability of USD | (167,247,819) | 167,247,819 | - | - |
| 2- USD risk hedged (-) | (9,683,079) | 9,683,079 | - | - |
| **3- USD net effect (1+2)** | **(176,930,897)** | **176,930,897** | **-** | **-** |
| Change in the EUR against TL by 10 % : | | | | |
| 4- Net asset / liability of EURO | (633,002) | 633,002 | - | - |
| 5- EUR risk hedged (-) | - | - | - | - |
| **6- EUR net effect (4+5)** | **(633,002)** | **633,002** | **-** | **-** |
| Change in the other foreign currencies against TL by 10 % | | | | |
| 7- Net asset / liability of other currency | 8,961 | (8,961) | - | - |
| 8- Other currency risk hedged (-) | - | - | - | - |
| **9- Other currencies net effect (7+8)** | **8,961** | **(8,961)** | **-** | **-** |
| **TOTAL (3+6+9)** | **(177,554,938)** | **177,554,938** | **-** | **-** |

**Interest rate sensitivity**

| Interest Position Table | | | |
|---|---|---|---|
| | | **Current Period** | **Prior Period** |
| **Financial instruments with fixed interest rate** | | | |
| Financial Assets | Fair value through profit or loss assets | - | - |
| | Available for sale assets | - | - |
| Financial Liabilities | | 262,161,196 | 60,308,207 |
| | | | |
| **Financial instruments with floating interest rate** | | | |
| Financial Assets | | - | - |
| Financial Liabilities | | 867,324,285 | 1,099,263,236 |

If annual interest rate on bank loans received as of 31 December 2017 was higher/lower by 100 basis point (1%) with all other variables remain constant, the profit before tax and non-controlling interest would be lower/higher by TL 7,881,791.

The Group's financial liabilities expose the Group to interest rate risk. The Group's financial liabilities mainly consist of borrowings with floating rate. The Group attempts to acquire loans with lower interest rate to minimize interest rate risk.

**Liquidity Risk**

Liquidity risk is the probability of the Group defaulting on its liabilities. Occurrence of events like deteriorations in markets or decrease in credit score that causes decreases in fund resources bring about liquidity risk. The Group management manages liquidity risk by distributing the funds and by keeping sufficient cash and cash equivalents resources to cover the current and possible liabilities.

Funding risk of the current and future liabilities is managed by providing sustainability of the access to sufficient high quality creditors and the sustainability of the sufficient cash flows obtained from operating activities. In order to ensure continuous liquidity the Group management, , closely follows up the timely collection of receivables, allocates high intensity focus to prevent any financial burden sourcing from late collections and determines cash and non-cash credit limits to be activated in case of need by the Group. Besides, Group's liquidity management policy consists to prepare cash flow projections, follow up and evaluate actual liquidity rates by comparing to budgeted ratios.

The Group's liquidity risk table for the period ending at 31 December 2017 is as follows.

| **Contractual maturities** | **Carrying Amount** | **Total contractual cash outflows (=I+II+III+IV)** | **Less than 3 months (I)** | **Between 3 – 12 months (II)** | **Between 1- 5 Year (III)** | **More than 5 Years (IV)** |
|---|---|---|---|---|---|---|
| **Non-derivative Financial Liabilities** | | | | | | |
| Bank borrowings | 1,140,848,298 | 1,272,170,558 | 86,719,517 | 553,166,928 | 577,023,014 | 55,261,099 |
| Trade payables | 873,678,060 | 883,666,930 | 277,655,636 | 606,011,293 | - | - |
| Other payables * | 1,796,513 | 1,796,513 | 1,796,513 | - | - | - |
| Other current liabilities * | 51,212,069 | 51,212,069 | 51,212,069 | - | - | - |
| **Derivative Financial Liabilities (Net) **** | | | | | | |
| Derivative cash inflows | | 160,390,000 | 50,107,390 | - | - | - |
| Derivative cash outflows | 6,878,608 | (143,774,290) | (49,853,980) | - | - | - |

**31 December 2016**

| Contractual maturities | Carrying Amount | Total contractual cash outflows (=I+II+III+IV) | Less than 3 months (I) | Between 3 – 12 months (II) | Between 1- 5 Year (III) | More than 5 Years (IV) |
|---|---|---|---|---|---|---|
| **Non-derivative Financial Liabilities** | | | | | | |
| Bank borrowings | 1,216,803,903 | 1,332,428,305 | 124,177,109 | 486,439,914 | 564,038,777 | 157,772,505 |
| Trade payables | 845,005,512 | 854,351,394 | 200,788,209 | 653,563,185 | - | - |
| Other payables * | 2,247,419 | 2,247,419 | 2,247,419 | - | - | - |
| Other current liabilities * | 28,057,251 | 28,057,251 | 28,057,251 | - | - | - |
| **Derivative Financial Liabilities (Net) **** | | | | | | |
| Derivative cash inflows | | 157,226,107 | 147,000,300 | 10,225,807 | - | - |
| Derivative cash outflows | (2,198,246) | (157,179,920) | (146,822,318) | (10,357,602) | - | - |

(*) Non-financial assets such as deposits received, advances taken, deferred incomes are not included in other payables and other current liabilities.

(**) By their nature, option contracts that are mentioned in Note 48 are not included in the table above since the right is fully under the control of the bank.

**Capital risk management**

In capital management, the Group aims to enhance profitability while keeping a reasonable leverage and sustainability in its operations.

The Group monitors its capital with debt / total capital ratio. This ratio is defined as net debt divided by total capital. Net debt is calculated by deducting cash and cash equivalents from total debt, which includes bank borrowings and financial leases. Total equity is calculated by summing the total equity and net debt as pointed out in the consolidated statement of financial position.

The net debt / total equity ratio is as follows.

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Total debt (Note 49) | 1,140,848,298 | 1,216,803,901 |
| Less: Cash and cash equivalents (Note 7) | 180,180,845 | 276,259,554 |
| Net debt | 960,667,453 | 940,544,347 |
| Total shareholders' equity | 683,602,054 | 676,182,289 |
| Total equity | 1,644,269,507 | 1,616,726,636 |
| Net debt/Total equity ratio | %58 | %58 |

In the profitability projections that the Group has formed, it is anticipated that the profit before tax will be provided and future cash flows will provide positive cash flow from operational activities. Given these two indicators, the Group believes that the net operating capital deficit will be met by positive cash flow from operational activities.

## 51. FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES)

"TFRS 7 – Financial Instruments: Disclosure" requires the Companies to disclose the classification and hierarchy of the data used in determining the fair values of the financial assets. The basis for the hierarchy is dependent on the conformity of the data used in fair value calculation. The independency of the source of the data, the assumptions used in calculation of the fair value effects the level of hierarchy.
In the following table, the valuation methodologies of financial instruments made valuation with their fair values are presented. They are described in terms of their levels as follows.

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3: inputs for the asset or liability that are not based on observable market (unobservable inputs).

| **31 December 2017** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|
| Investment properties | - | - | 84,185,000 |
| Forward contracts | - | 6,875,574 | - |
| | **-** | **6,875,574** | **84,185,000** |

**31 December 2016**

| | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|
| Investment properties | - | - | 78,470,000 |
| Fixed assets | - | - | 1,749,402,702 |
| Forward contracts | - | (2,198,246) | - |
| | **-** | **(2,198,246)** | **1,827,872,702** |

## 52. SUBSEQUENT EVENTS

None. (31 December 2016: None)

## 53. OTHER MATTERS THAT SIGNIFICANTLY AFFECT THE FINANCIAL STATEMENTS OR MAKE THE FINANCIAL STATEMENTS CLEAR, INTERPRETABLE AND UNDERSTANDABLE

None. (31 December 2016: None)

## 54. DISCLOSURES IN RELATION TO STATEMENT OF CASH FLOW

As at 31 December 2017, the Group's cash flow generated from operating activities amounted to TL 153,155,024 TL (31 December 2016: 490,973,598). Cash used in investing activities amounted to TL 62,298,239 (31 December 2016: 76,189,641). Cash used in financing activities amounted to TL 186,935,494 (31 December 2016: 361,928,507)

Reconciliation of cash flows from financing activities with movements of financial liabilities:

| | | | Non cash movement | | |
|---|---|---|---|---|---|
| | 31 December 2016 | Cash movement | Foreign exchange | Other | 31 December 2017 |
| Borrowings (Note 49) | 1,216,803,903 | (67,515,026) | (63,901,775) | 55,461,197 | 1,140,848,298 |

## 55. DISCLOSURES IN RELATION TO STATEMENT OF CHANGES IN EQUITY

As at 31 December 2017, the Group's total equity amounted to TL 683,602,059 (31 December 2016: TL 676,182,289), which is the sum of TL 647,903,884 (31 December 2016: TL 619,564,279) and TL 35,698,175 (31 December 2016: TL 56,618,010) stands for equity attributable to owners of the company and non-controlling interests respectively.