

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

**CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD BETWEEN
1 JANUARY - 30 JUNE 2019 AND AUDITOR'S REVIEW REPORT**

**(CONVENIENCE TRANSLATION OF THE REPORT ON REVIEW OF
CONDENSED INTERIM FINANCIAL INFORMATION ORIGINALLY
ISSUED IN TURKISH)**

**REPORT ON REVIEW OF CONDENSED INTERIM
FINANCIAL INFORMATION**

To the General Assembly of İskenderun Demir ve Çelik A.Ş.

Introduction

We have reviewed the accompanying condensed statement of financial position of İskenderun Demir ve Çelik A.Ş. ("the Company") as at 30 June 2019 and the related condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended. Company management is responsible for the preparation and presentation of this interim financial information in accordance with Turkish Accounting Standards 34 "Interim Financial Reporting" ("TAS 34"). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with Independent Auditing Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Independent Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with TAS 34 "Interim Financial Reporting".

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


Osman Arslan, SMMM
Audit Partner

İstanbul, 8 August 2019

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2019

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

	Note	(Reviewed)	(Reviewed)	(Audited)	(Audited)
		Current Period 30 June 2019 USD'000	Current Period 30 June 2019 TRY'000	Previous Period 31 December 2018 USD'000	Previous Period 31 December 2018 TRY'000
ASSETS					
Current Assets		1.532.840	8.821.645	2.007.885	10.563.284
Cash and Cash Equivalents		29.695	170.899	11.874	62.468
Trade Receivables		207.956	1.196.808	254.944	1.341.234
<i>Due From Related Parties</i>	3	133.032	765.613	119.855	630.546
<i>Other Trade Receivables</i>		74.924	431.195	135.089	710.688
Other Receivables		528.218	3.039.951	936.588	4.927.297
<i>Due From Related Parties</i>	3	527.914	3.038.199	936.279	4.925.669
<i>Other Receivables</i>		304	1.752	309	1.628
Inventories	4	752.146	4.328.675	776.888	4.087.128
Prepaid Expenses		9.262	53.302	5.141	27.048
Other Current Assets		5.563	32.010	22.450	118.109
Non Current Assets		1.990.958	11.458.164	1.980.323	10.418.280
Other Receivables		1.532	8.817	1.676	8.817
Financial Investments		27	156	27	143
Investments Accounted For Using Equity Method	5	27.634	159.039	27.616	145.284
Right of Use Assets	7	39.270	226.006	-	-
Property, Plant and Equipment	6	1.860.990	10.710.183	1.887.876	9.931.925
Intangible Assets	6	43.355	249.514	44.245	232.767
Prepaid Expenses		18.150	104.449	18.883	99.344
<i>Due From Related Parties</i>	3	2.789	16.052	7.362	38.729
<i>Other Prepaid Expenses</i>		15.361	88.397	11.521	60.615
TOTAL ASSETS		3.523.798	20.279.809	3.988.208	20.981.564

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

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

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2019

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

	Note	(Reviewed)	(Reviewed)	(Audited)	(Audited)
		Current Period 30 June 2019 USD'000	Current Period 30 June 2019 TRY'000	Previous Period 31 December 2018 USD'000	Previous Period 31 December 2018 TRY'000
LIABILITIES					
Current Liabilities		490.400	2.822.303	597.047	3.141.004
Short Term Borrowings	8	157.545	906.687	259.065	1.362.917
Short Term Portion of Long Term Borrowings	8	36.100	207.761	21.003	110.494
Derivative Financial Instruments		32	186	-	-
Trade Payables		205.427	1.182.256	209.965	1.104.607
<i>Due to Related Parties</i>	3	55.060	316.877	33.930	178.503
<i>Other Trade Payables</i>		150.367	865.379	176.035	926.104
Other Payables		5.313	30.577	3.553	18.692
Deferred Income		9.198	52.935	4.887	25.708
Current Tax Liabilities	12	59.845	344.416	82.254	432.731
Short Term Provisions	9	6.838	39.353	6.235	32.802
Payables for Employee Benefits	10	9.810	56.458	9.497	49.964
Other Current Liabilities		292	1.674	588	3.089
Non Current Liabilities		424.009	2.440.211	401.602	2.112.792
Long Term Borrowings	8	74.054	426.187	56.947	299.593
Derivative Financial Instruments		-	-	46	242
Long Term Provisions		52.457	301.895	51.911	273.100
<i>Long Term Provisions for Employee Benefits</i>	10	52.457	301.895	51.911	273.100
Deferred Tax Liabilities	12	297.498	1.712.129	292.698	1.539.857
EQUITY		2.609.389	15.017.295	2.989.559	15.727.768
Share Capital	13	1.474.105	2.900.000	1.474.105	2.900.000
Inflation Adjustment to Capital		85	164	85	164
Other Comprehensive Income/(Expense) That will not to be Reclassified to Profit or (Loss)		(17.057)	9.197.873	(16.292)	7.870.167
<i>Foreign Currency Translation Reserves</i>		-	9.236.522	-	7.904.416
<i>Gain/(Loss) on Remeasurement of Defined Benefit Plans</i>		(17.057)	(38.649)	(16.292)	(34.249)
Restricted Reserves Assorted from Profit		339.211	1.364.160	230.889	771.641
Retained Earnings		550.951	84.277	449.367	76.917
Net Profit for the Period		262.094	1.470.821	851.405	4.108.879
TOTAL LIABILITIES AND EQUITY		3.523.798	20.279.809	3.988.208	20.981.564

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

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

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019

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

		(Reviewed) Current Period 1 January - 30 June 2019 USD'000	(Reviewed) Current Period 1 January - 30 June 2019 TRY'000	(Unreviewed) Current Period 1 April 30 June 2019 TRY'000	(Reviewed) Previous Period 1 January - 30 June 2018 USD'000	(Reviewed) Previous Period 1 January - 30 June 2018 TRY'000	(Unreviewed) Previous Period 1 April 30 June 2018 TRY'000
Revenue	14	1.525.041	8.558.226	4.498.252	1.654.304	6.762.630	3.786.695
Cost of Sales	14	(1.210.497)	(6.793.065)	(3.552.789)	(1.080.921)	(4.418.696)	(2.468.307)
GROSS PROFIT		314.544	1.765.161	945.463	573.383	2.343.934	1.318.388
Marketing Expenses	15	(9.796)	(54.974)	(28.414)	(10.009)	(40.914)	(21.747)
General Administrative Expenses	15	(13.757)	(77.202)	(39.606)	(14.868)	(60.780)	(32.848)
Research and Development Expenses		(15)	(84)	(6)	(24)	(99)	(23)
Other Operating Income	15	7.909	44.383	23.641	13.061	53.393	30.300
Other Operating Expenses	15	(4.077)	(22.881)	(2.709)	(4.807)	(19.650)	(9.559)
OPERATING PROFIT		294.808	1.654.403	898.369	556.736	2.275.884	1.284.511
Income from Investing Activities		2	13	10	5	22	22
Expenses from Investing Activities		(635)	(3.566)	(179)	(1.256)	(5.136)	(4.854)
Share of Investments' Profit Accounted by Using The Equity Method	5	621	3.486	1.581	568	2.322	951
OPERATING PROFIT BEFORE FINANCE INCOME (EXPENSES)		294.796	1.654.336	899.781	556.053	2.273.092	1.280.630
Finance Income	16	90.841	525.098	391.922	107.274	503.339	409.524
Finance Expense	16	(11.669)	(65.486)	(37.136)	(7.354)	(30.061)	(16.045)
PROFIT BEFORE TAX		373.968	2.113.948	1.254.567	655.973	2.746.370	1.674.109
Tax (Expense) Income	12	(111.874)	(643.127)	(306.775)	(186.055)	(825.390)	(540.164)
Current Tax (Expense) Income		(106.859)	(614.985)	(344.465)	(137.091)	(625.232)	(394.723)
Deferred Tax (Expense) Income		(5.015)	(28.142)	37.690	(48.964)	(200.158)	(145.441)
NET PROFIT FOR THE PERIOD		262.094	1.470.821	947.792	469.918	1.920.980	1.133.945
EARNINGS PER SHARE			0,5072	0,3268		0,6624	0,3910
(TRY 1 Nominal value per share)							

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

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

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019

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

	(Reviewed) Current Period 1 January - 30 June 2019 USD'000	(Reviewed) Current Period 1 January - 30 June 2019 TRY'000	(Unreviewed) Current Period 1 April 30 June 2019 TRY'000	(Reviewed) Previous Period 1 January - 30 June 2018 USD'000	(Reviewed) Previous Period 1 January - 30 June 2018 TRY'000	(Unreviewed) Previous Period 1 April 30 June 2018 TRY'000
Note						
PROFIT FOR THE PERIOD	262.094	1.470.821	947.792	469.918	1.920.980	1.133.945
OTHER COMPREHENSIVE INCOME						
Not to Be Reclassified Subsequently to Profit or Loss						
Foreign Currency Translation Gain	-	1.332.106	308.640	-	2.018.350	1.499.478
Gain/(Loss) on Remeasurement of Defined Benefit Plans	10 (981)	(5.641)	(5.641)	817	3.726	3.726
Tax Effect of Remeasurement of Defined Benefit Plans	12 216	1.241	1.241	(180)	(820)	(820)
OTHER COMPREHENSIVE INCOME	(765)	1.327.706	304.240	637	2.021.256	1.502.384
TOTAL COMPREHENSIVE INCOME	261.329	2.798.527	1.252.032	470.555	3.942.236	2.636.329

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

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

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019

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

	Share Capital	Inflation Adjustment to Capital	Other Comprehensive Income/(Expense) That will not to be Reclassified to Profit or (Loss)		Restricted Reserves Assorted from Profit	Retained Earnings		Total Shareholders' Equity
			Foreign Currency Translation Reserves	Gain/(Loss) on Remeasurement of Defined Benefit Plans		Retained Earnings	Net Profit for the Period	
(Reviewed)								
1 January 2019	2.900.000	164	7.904.416	(34.249)	771.641	76.917	4.108.879	15.727.768
Net profit for the period	-	-	-	-	-	-	1.470.821	1.470.821
Other comprehensive income/(loss)	-	-	1.332.106	(4.400)	-	-	-	1.327.706
Total comprehensive income/(loss)			1.332.106	(4.400)			1.470.821	2.798.527
Dividends (*)	-	-	-	-	-	(3.509.000)	-	(3.509.000)
Transfers	-	-	-	-	592.519	3.516.360	(4.108.879)	-
30 June 2019	2.900.000	164	9.236.522	(38.649)	1.364.160	84.277	1.470.821	15.017.295
(Reviewed)								
1 January 2018	2.900.000	164	4.242.923	(52.860)	447.790	48.457	2.382.311	9.968.785
Net profit for the period	-	-	-	-	-	-	1.920.980	1.920.980
Other comprehensive income/(loss)	-	-	2.018.350	2.906	-	-	-	2.021.256
Total comprehensive income/(loss)	-	-	2.018.350	2.906	-	-	1.920.980	3.942.236
Dividends (*)	-	-	-	-	-	(2.030.000)	-	(2.030.000)
Transfers	-	-	-	-	323.851	2.058.460	(2.382.311)	-
30 June 2018	2.900.000	164	6.261.273	(49.954)	771.641	76.917	1.920.980	11.881.021

(*) At the Ordinary General Meeting held on March 21, 2019, it has been approved to distribute net profit of 2018 amounting to TRY 3.509.000 thousand (gross dividend per share: TRY 1,21 (2018: TRY 0,70)) (29 March 2018: TRY 2.030.000 thousand). The dividend payment has been realized between dates 8-10 May 2019.

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

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF CASH FLOW FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019

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

	Note	(Reviewed)	(Reviewed)	(Reviewed)	(Reviewed)
		Current Period	Current Period	Current Period	Current Period
		1 January - 30 June 2019	1 January - 30 June 2019	1 January - 30 June 2018	1 January - 30 June 2018
		USD'000	TRY'000	USD'000	TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES		314.358	2.211.427	346.899	1.253.310
Profit (Loss) for the Period		262.094	1.470.821	469.918	1.920.980
Adjustments to Reconcile Profit (Loss)		93.307	935.793	160.877	992.968
Adjustments for Depreciation and Amortisation Expenses	6,7,14,15	57.287	321.487	52.934	216.387
Adjustments for Impairment Loss (Reversal of Impairment Loss)		1.675	9.397	2.327	9.488
Adjustments for Provision (Reversal of Provision) for Receivables	15	899	5.043	294	1.182
Adjustments for Provision (Reversal of Provision) for Inventories	4	776	4.354	876	3.578
Adjustments for Provision (Reversal of Provision) for Property, Plant and Equipment	6	-	-	1.157	4.728
Adjustments for Provisions		7.667	43.021	8.022	32.793
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	10	6.498	36.463	7.277	29.747
Adjustments for Provision (Reversal of Provision) for Pending Claims and/or Lawsuits	9	1.169	6.558	745	3.046
Adjustments for Interest (Income) and Expenses		(11.494)	(64.504)	(15.883)	(64.923)
Adjustments for Interest Income	16	(16.542)	(92.832)	(20.040)	(81.920)
Adjustments for Interest Expense	16	7.437	41.734	4.034	16.492
Unearned Financial Income from Credit Sales		(2.389)	(13.406)	123	505
Adjustments for Unrealised Foreign Exchange Differences		(2.994)	(16.802)	(5.925)	(24.226)
Adjustments for Undistributed Profits of Investments Accounted for Using Equity Method	5	(621)	(3.486)	(568)	(2.322)
Adjustments for Tax (Income) Expenses	12	111.874	643.127	186.055	825.390
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		633	3.553	94	381
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment		633	3.553	94	381
Other Adjustments to Reconcile Profit (Loss)		(70.720)	-	(66.179)	-
Changes in Working Capital		90.754	522.304	(104.990)	(984.990)
Adjustments for Decrease (Increase) in Trade Receivables		49.137	282.788	(66.716)	(457.596)
Decrease (Increase) in Trade Receivables from Related Parties		(13.177)	(75.835)	(2.110)	(124.505)
Decrease (Increase) in Trade Receivables from Third Parties		62.314	358.623	(64.606)	(333.091)
Adjustments for Decrease (Increase) in Other Receivables from Operations		498	2.867	3.730	(1.289)
Decrease (Increase) in Other Receivables from Operations from Third Parties		498	2.867	3.730	(1.289)
Adjustments for Decrease (Increase) in Inventories		24.118	138.802	(98.128)	(909.854)
Decrease (Increase) in Prepaid Expenses		(1.174)	(6.753)	(5.140)	(28.301)
Adjustments for Increase (Decrease) in Trade Payables		(4.538)	(26.117)	83.212	471.408
Increase (Decrease) in Trade Payable to Related Parties		21.130	121.605	23.719	118.324
Increase (Decrease) in Trade Payable to Third Parties		(25.668)	(147.722)	59.493	353.084
Adjustments for Increase (Decrease) in Other Payables Related from Operations		1.825	10.503	(10.829)	(27.807)
Increase (Decrease) in Other Payables to Third Parties Related from Operations		1.825	10.503	(10.829)	(27.807)
Increase (Decrease) in Derivative Liabilities		(14)	(79)	18	116
Adjustments for Other Increase (Decrease) in Working Capital		20.902	120.293	(11.137)	(31.667)
Decrease (Increase) in Other Assets Related from Operations		16.887	97.186	484	422
Increase (Decrease) in Other Payables Related from Operations		4.015	23.107	(11.621)	(32.089)
Cash Flows Provided by Operating Activities		446.155	2.928.918	525.805	1.928.958
Payments Related to Provisions for Employee Termination Benefits	10	(2.455)	(13.778)	(2.435)	(9.954)
Payments Related to Other Provisions	9	(74)	(413)	(201)	(821)
Income Taxes Refund (Paid)	12	(129.268)	(703.300)	(176.270)	(664.873)
CASH FLOWS FROM INVESTING ACTIVITIES		(33.099)	(193.456)	(43.398)	(174.831)
Cash Outflows Arising From Purchase of Shares or Capital Increase of Associates and/or Joint Ventures		-	-	(22.929)	(87.333)
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		467	2.618	6	30
Cash Inflow from Sales of Property, Plant and Equipment		467	2.618	6	30
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(30.052)	(168.651)	(16.722)	(68.353)
Cash Outflow from Purchase of Property, Plant and Equipment	6	(29.985)	(168.268)	(16.338)	(66.788)
Cash Outflow from Purchase of Intangible Assets	6	(67)	(383)	(384)	(1.565)
Cash Advances and Debts Given		(4.117)	(30.628)	(3.753)	(19.175)
Cash Advance and Debts Given to Related Parties		4.573	22.677	(2.628)	(11.987)
Other Cash Advances and Debts Given		(8.690)	(53.305)	(1.125)	(7.188)
Dividends Received	5	603	3.205	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		(256.980)	2.001.471	(284.316)	(1.735.555)
Cash Inflow from Borrowings		125.472	702.931	239.677	941.019
Cash Inflow from Loans		125.472	702.931	239.677	941.019
Cash Outflow from Repayments of Borrowings		(229.383)	(1.133.147)	(278.974)	(842.528)
Cash Outflow from Loan Repayments		(229.383)	(1.133.147)	(278.974)	(842.528)
Decrease in Other Payables to Related Parties	3	408.365	1.887.470	181.415	132.015
Cash Outflows on Debt Payments from Financial Leasing Agreements		(4.888)	(27.429)	-	-
Dividends Paid		(570.293)	(3.507.450)	(441.929)	(2.028.773)
Interest Paid		(3.038)	(18.041)	(4.422)	(18.703)
Interest Received		16.785	94.195	19.917	81.415
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		24.279	16.500	19.185	(657.076)
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(6.458)	91.931	(16.503)	671.796
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		17.821	108.431	2.682	14.720
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		11.874	62.468	3.154	11.895
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		29.695	170.899	5.836	26.615

In the statement of financial position, since the functional currency of the Company is USD, exchange differences between the accrued and payment dates of the dividend payables to the shareholders whose original currency is Turkish Lira are reported in Other Adjustments to reconcile Profit (Loss).

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019

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

NOTE 1 – COMPANY’S ORGANIZATION AND NATURE OF OPERATIONS

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

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

The main operations of the subsidiaries of the Company and the share percentages of İsdemir for these companies are as follows:

Name of Company	Country of Operation	Operation	2019 Share (%)	2018 Share (%)
Teknopark Hatay A.Ş.	Turkey	R&D Centre	5	5
İsdemir Linde Gaz Ortaklığı A.Ş.	Turkey	Industrial Gas Production and Sale	50	50

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

The number of the personnel employed by the Company for reporting period are as follows:

	30 June 2019 Personnel	31 December 2018 Personnel
Paid Hourly Personnel	2.909	2.980
Paid Monthly Personnel	1.741	1.744
	4.650	4.724

NOTE 2 – BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Basis of Presentation

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

The accompanying condensed financial statements are prepared in accordance with the requirements of Capital Markets Board (“CMB”) Communiqué Serial II, No: 14.1 “Basis of Financial Reporting in Capital Markets”, which was published in the Official Gazette No:28676 on 13 June 2013. The accompanying financial statements are prepared based on the Turkish Accounting Standards and interpretations (“TAS”) that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority (“POA”) under Article 5 of the Communiqué.

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019

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

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

2.1 Basis of Presentation (cont’d)

In accordance with the Turkish Accounting Standard No: 34 “Interim Financial Reporting”, entities are allowed to prepare a complete or condensed set of interim financial statements. In this respect, the Company has preferred to prepare condensed financial statements in the interim period. Accordingly, these condensed financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2018.

Also, the condensed interim financial statements are presented in accordance with “Announcement regarding with TFRS Taxonomy” which was published on 15 April 2019 by POA and the format and mandatory information recommended by CMB.

Functional and Reporting Currency

The Company’s functional currency is US Dollars, the presentation currency of the condensed financial statements is TRY.

Functional Currency of Joint Venture

The functional currency of the Joint venture of the Company’s is US Dollars.

Presentation currency translation

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

- a) The assets and liabilities on condensed financial position as of 30 June 2019 are translated from US Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 5,7551=US \$ 1 on the balance sheet date (31 December 2018: TRY 5,2609= US \$ 1).
- b) For the six months period ended 30 June 2019, condensed profit or loss statements are translated from the 6 months average TRY 5,6118 = US \$ 1 rates of 2019 January - June period (30 June 2018: TRY 4,0879 = US \$ 1).
- c) Exchange differences are shown in other comprehensive income as of foreign currency translation reserve.
- d) The differences between presentation of statutory and historical figures are recognised as translation differences under equity. All capital, capital measures and other measures are represented with their statutory figures, other equity accounts are represented with their historic cost figures in the accompanying condensed financial statements.

USD amounts presented in the condensed interim financial statements

The figures in USD amounts presented in the accompanying condensed interim financial statements comprising the statements of financial position as of 30 June 2019 and 31 December 2018, condensed statement of income and other comprehensive income and statement of cash flows for the interim period ended 30 June 2019 represent the financial statements prepared according to USD reporting currency within the frame of functional currency change that the Company has made, which is effective as of July 1, 2013, prepared in accordance with the TAS 21- Effects of Changes in Foreign Exchange Rates.

Going concern

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

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019

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

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

2.1 Basis of Presentation (cont’d)

Approval of the financial statements

The condensed interim financial statements have been approved on 8 August 2019 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

2.2 Comparative Information and Restatement of Financial Statements with Prior Periods

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

2.3 Adoption of New and Revised Financial Reporting Standards

The accounting policies adopted in preparation of the interim condensed financial statements as at 30 June 2019 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations summarized below.

The new standards, amendments and interpretations which are effective from 2019 are as follows

TFRS 16	Leases
Amendments to TAS 28	Long-term Interests in Associates and Joint Ventures
TFRS Interpretation 23	Uncertainty over Income Tax Treatments
Amendments to TAS 19 Employee Benefits	Plan Amendment, Curtailment or Settlement
<i>Annual Improvements to 2015–2017 Cycle</i>	<i>Amendments to TFRS 3, TFRS 11, TAS 12 and TAS 23</i>

TFRS 16 Leases

General impact of application of TFRS 16 Leases

TFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. TFRS 16 supersedes the current lease guidance including TAS 17 Leases and the related Interpretations for accounting periods beginning on or after 1 January 2019. The date of initial application of TFRS 16 for the Company is 1 January 2019 retrospectively taking into account the cumulative effect in the financial statements.

The simplified transition approach of the related standard does not require a restatement in the comparative periods or in the retained earnings.

In contrast to lessee accounting, TFRS 16 substantially carries forward the lessor accounting requirements in TAS 17.

Impact of the new definition of a lease

The Company made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 continue to apply to those leases entered or modified before 1 January 2019.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019

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

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

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

The new standards, amendments and interpretations which are effective from 2019 are as follows (cont’d)

IFRS 16 Leases (cont’d)

Impact of the new definition of a lease (cont’d)

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Company applied the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract).

Impact on Lessee Accounting

Operating leases

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under TAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Company has:

- a) Recognised right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
- b) Recognised depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;
- c) Separated the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under TAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at 1 January 2019, the impact of IFRS 16 on the financial statements of the Company is disclosed in “the effects of accounting policy amendments” note.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019

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

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

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

The new standards, amendments and interpretations which are effective from 2019 are as follows (cont’d)

IFRS 16 Leases (cont’d)

Finance leases

The main differences between IFRS 16 and TAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Company recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by TAS 17.

Impact on Lessor Accounting

Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

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

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

IFRS Interpretation 23 Uncertainty over Income Tax Treatments

This interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under TAS 12.

Amendments to TAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position).

Annual Improvements to IFRS Standards 2015–2017 Cycle

Annual Improvements to IFRS Standards 2015–2017 Cycle include amendments to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements in when a party that participates in, but does not have joint control of, TAS 12 Income Taxes; income tax consequences of dividends in profit or loss, and TAS 23 Borrowing Costs in capitalized borrowing costs.

Other than IFRS 16, these standards, amendments and improvements have no impact on the financial position and performance of the Company.

New and revised IFRSs in issue but not yet effective

The Company has not yet adopted the following standards and amendments and interpretations to the existing standards:

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019

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

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

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

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

TFRS 17	<i>Insurance Contracts</i>
Amendments to TFRS 3	<i>Business Combinations</i>
Amendments to TAS 1	<i>Presentation of Financial Statements</i>
Amendments to TAS 8	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>

TFRS 17 Insurance Contracts

TFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. TFRS 17 supersedes TFRS 4 Insurance Contracts as of 1 January 2021.

Amendments to TFRS 3 Business Combinations

The definition of “business” is important because the accounting for the acquisition of an activity and asset group varies depending on whether the group is a business or only an asset group. The definition of “business” in TFRS 3 Business Combinations standart has been amended. With this change:

- By confirming that a business should include inputs and a process; clarified that the process should be essential and that the process and inputs should contribute significantly to the creation of outputs.
- The definition of a business has been simplified by focusing on the definition of goods and services offered to customers and other income from ordinary activities.
- An optional test has been added to facilitate the process of deciding whether a company acquired a business or a group of assets.

Amendments to TAS 1 Presentation of Financial Statements and TAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material

The amendments in Definition of Material (Amendments to TAS 1 and TAS 8) clarify the definition of ‘material’ and align the definition used in the Conceptual Framework and the standards.

The Company assess the possible impacts of the application of the amendments on the Company’s financial statements.

2.4 Summary of Significant Accounting Policies

The condensed interim financial statements for the six months period ended 30 June 2019 have been prepared in accordance with TAS 34. The accounting policies except for the general effects of TFRS 16 “Leases” effective from 1 January 2019, used in the preparation of these condensed interim financial statements for the period ended 30 June 2019 are consistent with those used in the preperation of annual financial statements for the year ended 31 December 2018. Accordingly, these condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2018.

As explained in Note 1 there has been no change in total ownership interests and effective interests of the subsidiaries, included in the scope as of 30 June 2019, from the interests reported as of 31 December 2018.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019

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

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

2.4 Summary of Significant Accounting Policies (cont’d)

Effects of Revised Accounting Policies

In this note, the new accounting policies, which the Company has started to apply as of 1 January 2019, have been disclosed with the effect of application of TFRS 16 Leases standard on the Company's financial statements.

TFRS 16 Leases

In accordance with the adoption of TFRS 16, some changes have occurred in the accounting policies as of 1 January 2019 and adjustments have been made to the financial statements. The new accounting policies applied are explained in clause of this note. In accordance with the transitional provisions of TFRS 16, prior year financial statements have not been restated.

In this context, the application of TFRS 16 Leases Standard has no effect on the retained earnings of the Company as of 1 January 2019 due to facilitation practices in the transition to TFRS 16.

On adoption of TFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of TMS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 16%.

In applying TFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate

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

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019

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

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

2.4 Summary of Significant Accounting Policies (cont’d)

Effects of Revised Accounting Policies (cont’d)

TFRS 16 Leases (cont’d)

As of 1 January 2019 of operating lease liabilities in the condensed financial statements accounted under TFRS 16 is as below:

	Effect of TFRS 16 1 January 2019
Total lease liabilities within the scope of TFRS 16 (non-discounted)	705.854
Total lease liabilities within the scope of TFRS 16 (discounted)	170.686
- Short term lease liabilities	24.444
- Long term lease liabilities	146.242

Prior to the date of initial application of TFRS 16 “Leases, the commitments regarding operational leases that are followed under TAS 17 have no material impact on the financial results or financial position of the Company. Payments related to leasing of low value assets, linear are recognized as an expense in profit or loss.

As of 1 January 2019, the use recognized in the condensed financial statements within the scope of TFRS 16. The details of the right assets on the basis of asset groups are as follows:

	Effect of TFRS 16 1 January 2019
Land usage permit	177.106
Motor vehicles	3.266
	180.372

2.5 Restatement and errors in the accounting policies and estimates

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

The amendments to TFRS 16 “Leases” which are effective from 1 January 2019 have been summarized in the table below:

	Before change in accounting policy 1 January 2019	Effect of TFRS 16 1 January 2019	After change in accounting policy 1 January 2019
Right of Use Assets	-	180.372	180.372
Prepaid Expenses	27.048	(9.686)	17.362
Short Term Portion of Long Term Borrowings	110.494	24.444	134.938
Long Term Borrowings	299.593	146.242	445.835

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019

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

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

2.6 Segment Reporting

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

NOTE 3 –RELATED PARTY TRANSACTIONS

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

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

	30 June 2019	31 December 2018
<u>Due from related parties (short term)</u>		
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	751.583	619.547
Adana Çimento Sanayi T.A.Ş. ⁽³⁾	9.567	8.525
Aslan Çimento A.Ş. ⁽³⁾	224	1.413
OYAK Beton A.Ş. ⁽³⁾	98	337
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽⁴⁾	4.141	724
	<u>765.613</u>	<u>630.546</u>

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

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

	30 June 2019	31 December 2018
<u>Other receivables from related parties (short term)</u>		
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	3.038.199	4.925.669
	<u>3.038.199</u>	<u>4.925.669</u>

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

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

	30 June 2019	31 December 2018
<u>Prepaid expenses (long term)</u>		
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	16.052	38.729
	<u>16.052</u>	<u>38.729</u>

Prepaid expenses to related parties arise from advances given for tangible assets.

⁽¹⁾ Immediate parent company

⁽²⁾ Subsidiaries of the immediate parent company

⁽³⁾ Subsidiaries of the ultimate company

⁽⁴⁾ Joint venture

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019

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

NOTE 3 –RELATED PARTY TRANSACTIONS (cont’d)

The details of payables of the Company to the related parties are disclosed below:

<u>Due to related parties (short term)</u>	<u>30 June 2019</u>	<u>31 December 2018</u>
Erdemir Madencilik San. ve Tic. A.Ş. ⁽²⁾	225.079	117.789
OYAK Pazarlama Hizmet ve Turizm A.Ş. ⁽³⁾	5.516	4.268
Erdemir Asia Pacific PTE LTD ⁽²⁾	65.403	20
Omsan Lojistik A.Ş. ⁽³⁾	5.976	4.848
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	2.637	4.236
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽³⁾	5.911	4.103
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. ⁽²⁾	2.013	1.975
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. ⁽²⁾	2.328	1.462
OYAK Grup Sigorta ve Reasürans Brokerliği A.Ş. ⁽³⁾	1.841	35.971
Other	173	3.831
	<u>316.877</u>	<u>178.503</u>

The trade payables from related parties are generally due to the purchase of raw material, energy and service transactions.

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

<u>Major sales to related parties</u>	<u>1 January – 30 June 2019</u>	<u>1 January – 30 June 2018</u>
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	5.226.484	4.673.240
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. ⁽²⁾	1.173	1.397
Adana Çimento Sanayi T.A.Ş. ⁽³⁾	11.046	13.040
Mardin Çimento Sanayi ve Ticaret A.Ş. ⁽³⁾	-	686
Omsan Lojistik A.Ş. ⁽³⁾	143	250
Aslan Çimento A.Ş. ⁽³⁾	235	1.100
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽³⁾	581	-
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	359	485
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽⁴⁾	21.867	20.921
Other	818	1.456
	<u>5.262.706</u>	<u>4.712.575</u>

⁽¹⁾ Immediate parent company

⁽²⁾ Subsidiaries of the immediate parent company

⁽³⁾ Subsidiaries of the ultimate company

⁽⁴⁾ Joint venture

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019

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

NOTE 3 –RELATED PARTY TRANSACTIONS (cont’d)

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

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

<u>Major purchases from related parties</u>	<u>1 January – 30 June 2019</u>	<u>1 January – 30 June 2018</u>
Erdemir Madencilik San. ve Tic. A.Ş. ⁽²⁾	570.783	311.228
Erdemir Asia Pacific PTE LTD ⁽²⁾	488.767	84.862
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	26.931	60.212
OYAK Pazarlama Hizmet ve Turizm A.Ş. ⁽³⁾	24.873	21.570
Omsan Denizcilik A.Ş. ⁽³⁾	37.423	24.081
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	44.532	11.033
Omsan Lojistik A.Ş. ⁽³⁾	30.725	19.403
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. ⁽²⁾	7.277	6.314
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. ⁽²⁾	14.550	10.449
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽⁴⁾	40.045	31.681
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽³⁾	34.392	26.310
Other	7.157	3.550
	<u>1.327.545</u>	<u>610.693</u>

The major purchases from related parties are generally due to the purchased service transactions, raw material and energy.

The Company earned TRY 91.614 thousand of interest income from related party transactions of the six-months period ended 30 June 2019, amounting to TRY 22.123 thousand of interest income from credit sales and TRY 113.737 thousand of interest accrued on term. (30 June 2018: TRY 92.983 thousand)

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

For the six months period end balances are secured and their collections will be done in cash. Other receivables from related parties balances are non-secured, interest free and their collections will be done in cash. As of 30 June 2019, the Company provides no provision for the receivables from related parties (31 December 2018: None).

The benefits of the key management:

For the six months period ended 30 June 2019, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Company is TRY 2.622 thousand (30 June 2018: TRY 1.764 thousand).

⁽¹⁾ Immediate parent company

⁽²⁾ Subsidiaries of the immediate parent company

⁽³⁾ Subsidiaries of the ultimate company

⁽⁴⁾ Joint venture

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

NOTE 4 – INVENTORIES

The details of the Company’s inventories for the reporting period are as follows:

	30 June 2019	31 December 2018
Raw materials	1.190.955	1.210.583
Work in progress	875.172	878.818
Finished goods	707.137	694.917
Spare parts	453.309	400.724
Goods in transit	962.441	763.087
Other inventories	294.265	276.245
Allowance for impairment on inventories (-)	(154.604)	(137.246)
	<u>4.328.675</u>	<u>4.087.128</u>

The movement of the allowance for impairment on inventories:

	1 January - 30 June 2019	1 January - 30 June 2018
Opening balance	137.246	92.620
Provision for the period	5.522	4.201
Provision released (-)	(1.168)	(623)
Translation difference	13.004	19.783
Closing balance	<u>154.604</u>	<u>115.981</u>

The Company has provided an allowance for the impairment on the inventories of finished goods, work in progress and raw materials within the scope of aging reports in the cases when their net realizable values are lower than their costs or for slow moving inventories. The provision released has been recognized under cost of sales (Note 14).

NOTE 5 – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

	Right to vote ratio %	30 June 2019	Right to vote ratio %	31 December 2018	Business segment
<u>Joint Venture</u>					
İsdemir Linde Gaz Ortaklığı A.Ş.	50	159.039	50	145.284	Industrial Gas Production and Sale

Company’s share on net assets of investments accounted for using equity method is as follows:

	30 June 2019	31 December 2018
Total assets	386.705	380.489
Total liabilities	68.627	89.921
Net assets	<u>318.078</u>	<u>290.568</u>
Company's share on net assets	<u>159.039</u>	<u>145.284</u>

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

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

	1 January – 30 June 2019	1 January – 30 June 2018
Revenue	47.261	34.117
Net profit (loss) for the period	6.972	4.644
Company's share on net profit	3.486	2.322

İsdemir Linde Gaz Ortaklığı A.Ş., as a joint venture of the Company, has the right to deduct the investment incentives where profit will occur in the upcoming years pursuant to the Resolution No 2012/3305 on Government Aids in Investments and the Cabinet Decision issued in the Official gazette on 22 February 2017. Since İsdemir Linde Gaz Ortaklığı A.Ş. was established recently and it is not yet possible for İsdemir Linde Gaz Ortaklığı A.Ş. to make a reasonable forecast for full or partial recovery of the investment deduction amount for the upcoming periods under the current conditions, the deferred tax asset of TRY 73.173 thousand (its effect in the profit or loss statement of İsdemir is TRY 36.586 thousand) is not included in the financial statements prepared as of 30 June 2019.

At the Ordinary General Meeting of İsdemir Linde Gaz Ortaklığı A.Ş. held on March 1, 2019, it has been approved to distribute net profit of 2018 amounting to TRY 6.409 thousand. The dividend payment was completed at 29 March 2019.

NOTE 6 – TANGIBLE AND INTANGIBLE ASSETS

The movement of tangible assets for the reporting period is as follows:

	30 June 2019	30 June 2018
<u>Opening balance as of 1 January</u>		
Cost	23.958.965	17.062.931
Accumulated depreciation	(14.027.040)	(9.637.205)
Net book value	9.931.925	7.425.726
Net book value at the beginning of the period	9.931.925	7.425.726
Additions	168.268	66.788
Disposals (-)	(6.171)	(411)
<i>Cost of disposals</i>	(23.996)	(4.147)
<i>Accumulated depreciation</i>	17.825	3.736
Transfers to intangible assets	(2.503)	(1.077)
Currency translation difference	929.135	1.533.568
<i>Cost currency translation difference</i>	2.254.585	3.576.079
<i>Accumulated depreciation currency translation difference</i>	(1.325.450)	(2.042.511)
Current period depreciation (-)	(310.471)	(227.816)
Impairment (-)	-	(4.728)
Net book value at the end of the period	10.710.183	8.792.050
<u>Closing balance as of</u>		
Cost	26.355.319	20.700.574
Accumulated depreciation	(15.645.136)	(11.908.524)
Net book value	10.710.183	8.792.050

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

As of reporting period, the Company has no collaterals or pledges upon its tangible assets (30 June 2018: None).

The movement of intangible assets for the reporting period is as follows:

	30 June 2019	30 June 2018
<u>Opening balance as of 1 January</u>		
Cost	402.552	281.361
Accumulated amortisation	(169.785)	(111.138)
Net book value	<u>232.767</u>	<u>170.223</u>
Net book value at the beginning of the period	232.767	170.223
Additions	383	1.565
Transfers	2.503	1.077
Currency translation difference	21.737	35.247
<i>Cost currency translation difference</i>	37.887	59.145
<i>Accumulated depreciation currency translation difference</i>	(16.150)	(23.898)
Current period amortisation (-)	(7.876)	(5.673)
Net book value at the end of the period	<u>249.514</u>	<u>202.439</u>
<u>Closing balance as of</u>		
Cost	443.325	343.148
Accumulated amortisation	(193.811)	(140.709)
Net book value	<u>249.514</u>	<u>202.439</u>

As of reporting period, the Company has no collaterals or pledges upon its intangible assets (30 June 2018: None).

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

	30 June 2019	30 June 2018
Associated with cost of production	307.263	225.751
General administrative expenses	1.728	1.335
Marketing expenses	9.356	6.403
	<u>318.347</u>	<u>233.489</u>

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

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NOTE 7 – RIGHT OF USE ASSETS

The movement of right of use assets for the reporting period is as follows:

	30 June 2019
Net book value at the beginning of the period	-
Opening effect of the change in accounting policy (Note 2.4)	180.372
The effect of rent increases	31.967
Currency translation difference	17.659
<i>Cost currency translation difference</i>	17.760
<i>Accumulated amortization currency translation difference</i>	(101)
Amortization for the period (-)	(3.992)
Net book value at the end of the period	226.006

The net book value of right of use assets acquired through leasing is as follows:

	30 June 2019	1 January 2019
Land usage permit	222.533	177.106
Motor Vehicles	3.473	3.266
	226.006	180.372

The Company has usage permit agreements for the port areas of the General Directorate of National Estate. The values of immovable properties whose usage permits will expire in 2048 are measured at their present value by reducing the borrowing rate by 16% and starting from 1 January 2019, the right of use assets and borrowings (Note 8) are accounted for in the condensed statement of financial position.

In addition, leasing contracts of the vehicle whose usage period is between 2020-2022 and whose borrowing rate has been reduced by 25% have been measured in accordance with the above explanations.

The distribution of amortization expenses related to right of use assets is as follows:

	30 June 2019
General administrative expenses	718
Other operating expenses	3.274
	3.992

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NOTE 8 - BORROWINGS

Breakdown of borrowings for the reporting period are as follows:

	30 June 2019	31 December 2018
Short term borrowings	906.687	1.362.917
Short term portion of long term borrowings	177.625	110.494
Long term borrowings	267.573	299.593
Total borrowings	1.351.885	1.773.004
Short term portion of long term leases borrowings	32.181	-
Cost of short term portion of long term leases borrowings (-)	(2.045)	-
Long term leases borrowings	780.912	-
Cost of long term leases borrowings (-)	(622.298)	-
Total leases borrowings	188.750	-
Total borrowings	1.540.635	1.773.004

As of 30 June 2019, the breakdown of the Company’s loans with their original currency and their weighted average interest rates is presented as follows:

Interest Type	Type of Currency	Weight Average Rate of Interest (%)	Short Term Portion	Long Term Portion	30 June 2019
No interest	TRY	-	21.595	-	21.595
Fixed	US Dollars	3,47	943.004	-	943.004
Floating	US Dollars	Libor+1,9	27.285	-	27.285
Floating	EURO	Euribor+2,25	92.428	267.573	360.001
			1.084.312	267.573	1.351.885

As of 31 December 2018, the breakdown of the Company’s loans with their original currency and their weighted average interest rates is presented as follows:

Interest Type	Type of Currency	Weight Average Rate of Interest (%)	Short Term Portion	Long Term Portion	31 December 2018
No interest	TRY	-	11.688	-	11.688
Fixed	US Dollars	3,31	1.351.228	-	1.351.228
Floating	US Dollars	Libor+1,9	25.034	12.379	37.413
Floating	EURO	Euribor+2,25	85.461	287.214	372.675
			1.473.411	299.593	1.773.004

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NOTE 8 – BORROWINGS (cont’d)

As of 30 June 2019, the breakdown of loan repayment is as follows:

	Financial liabilities	Lease liabilities	30 June 2019
Within 1 year	1.084.312	30.136	1.114.448
Between 1 – 2 years	89.170	23.398	112.568
Between 2 – 3 years	89.171	19.227	108.398
Between 3 – 4 years	89.232	16.477	105.709
Between 4 – 5 years	-	14.248	14.248
Five years or more	-	85.264	85.264
	<u>1.351.885</u>	<u>188.750</u>	<u>1.540.635</u>

As of 31 December 2018, the breakdown of loan repayment is as follows:

	Financial liabilities	Lease liabilities	31 December 2018
Within 1 year	1.473.411	-	1.473.411
Between 1 – 2 years	94.423	-	94.423
Between 2 – 3 years	82.043	-	82.043
Between 3 – 4 years	82.043	-	82.043
Between 4 – 5 years	41.084	-	41.084
Five years or more	-	-	-
	<u>1.773.004</u>	<u>-</u>	<u>1.773.004</u>

NOTE 9 – PROVISIONS

The Company’s short term provisions for the reporting period are as follows:

	30 June 2019	31 December 2018
Provision for lawsuits	29.060	24.051
Penalty provision for employment shortage of disabled person	8.499	7.301
Provision for land occupation	1.794	1.450
	<u>39.353</u>	<u>32.802</u>

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NOTE 9 – PROVISIONS (cont’d)

The movement of the short term provisions for the reporting period are as follows:

	1 January 2019	Change for the period	Payments	Provision released	Translation difference	30 June 2019
Provision for lawsuits	24.051	5.901	(413)	(881)	402	29.060
Penalty provision for employment shortage of disabled personnel	7.301	1.195	-	-	3	8.499
Provision for land occupation	1.450	343	-	-	1	1.794
	<u>32.802</u>	<u>7.439</u>	<u>(413)</u>	<u>(881)</u>	<u>406</u>	<u>39.353</u>

	1 January 2018	Change for the period	Payments	Provision released	Translation difference	30 June 2018
Provision for lawsuits	21.441	3.394	(413)	(1.567)	804	23.659
Penalty provision for employment shortage of disabled personnel	5.480	911	-	-	1	6.392
Provision for land occupation	1.212	308	(408)	-	30	1.142
	<u>28.133</u>	<u>4.613</u>	<u>(821)</u>	<u>(1.567)</u>	<u>835</u>	<u>31.193</u>

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NOTE 10 – EMPLOYEE BENEFITS

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

	30 June 2019	31 December 2018
Due to personnel	26.734	38.585
Social security premiums payable	29.724	11.379
	<u>56.458</u>	<u>49.964</u>

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

	30 June 2019	31 December 2018
Provisions for employee termination benefits	229.314	220.511
Provisions for seniority incentive premium	25.459	21.228
Provision for unpaid vacations	37.122	31.361
	<u>301.895</u>	<u>273.100</u>

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

As of 30 June 2019, the employee termination benefit has been updated to a maximum of TRY 6.017,60 (31 December 2018: TRY 5.434,42). Seniority to be applied as of 1 July 2019 compensation has been increased to TRY 6.379,86 per month.

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

The employee termination benefit has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees. TAS 19 (“Employee Benefits”) requires actuarial valuation methods to be developed to estimate the Company’s obligation under defined benefit plans. The obligation as of 30 June 2019 has been calculated by an independent actuary. The actuarial assumptions used in the calculation of the present value of the future probable obligation are as follows:

	30 June 2019	31 December 2018
Discount rate	%17,90	%16,00
Inflation rate	%12,80	%11,30
Salary increase	reel %1,5	reel %1,5
Maximum liability increase	%12,80	%11,30

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NOTE 10 – EMPLOYEE BENEFITS (cont’d)

Discount rates are determined considering the expected duration of the retirement obligations and the currency in which the obligations will be paid. In calculations as of 30 June 2019, a fixed discount rate is used. Long term inflation estimates are made using an approach consistent with discount rate estimates and long term inflation rate fixed over years is used.

The anticipated rate of resignation which do not result in the payment of employee benefits is also considered in the calculation. The anticipated rate of resignation is assumed to be related with the past experience, therefore past experiences of employees are analyzed and considered in the calculation.

In the actuarial calculation as of reporting period, the anticipated rate of resignation is considered to be inversely proportional to the past experience. The anticipated rate of resignation is between 2%-0% for the employees with past experience between 0-15 years or over.

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

	1 January - 30 June 2019	1 January - 30 June 2018
Opening balance	220.511	212.842
Service cost	9.363	7.827
Interest cost	16.625	11.696
Actuarial loss/(gain)	5.641	(3.726)
Termination benefits paid	(12.780)	(9.011)
Translation difference	(46)	53
Closing balance	<u>239.314</u>	<u>219.681</u>

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

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

	1 January - 30 June 2019	1 January - 30 June 2018
Opening balance	21.228	16.385
Service cost	1.184	931
Interest cost	1.687	892
Actuarial loss/(gain)	1.355	1.395
Translation difference	5	(5)
Closing balance	<u>25.459</u>	<u>19.598</u>

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NOTE 10 – EMPLOYEE BENEFITS (cont’d)

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

	1 January - 30 June 2019	1 January - 30 June 2018
Opening balance	31.361	25.269
Provision for the period	20.881	10.930
Vacation paid during the period (-)	(998)	(943)
Provisions released (-)	(14.632)	(3.924)
Translation difference	510	958
Closing balance	37.122	32.290

NOTE 11 – COMMITMENTS

The guarantees received reporting period by the Company are as follows:

	30 June 2019	31 December 2018
Letters of guarantees received	424.244	326.481
	424.244	326.481

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

	30 June 2019	31 December 2018
A. Total CPM given for the Company's own legal entity	34.420	34.343
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	-	-
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	-	-
D. Other CPM given	-	-
i. Total CPM given in favour of parent entity	-	-
ii. Total CPM given in favour of other Group companies out of the scope of clause B and C	-	-
iii. Total CPM given in favour of other 3rd parties out of the scope of clause C	-	-
	34.420	34.343

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

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NOTE 11 – COMMITMENTS (cont’d)

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

	30 June 2019	31 December 2018
TRY	21.319	22.287
EURO	13.101	12.056
	<u>34.420</u>	<u>34.343</u>

NOTE 12 – TAX ASSETS AND LIABILITIES

The period income tax liabilities by the Company are as follows:

	30 June 2019	31 December 2018
<u>Corporate tax payable:</u>		
Current corporate tax provision	614.985	1.447.656
Prepaid taxes and funds (-)	(270.569)	(1.014.925)
	<u>344.416</u>	<u>432.731</u>

	1 January - 30 June 2019	1 January - 30 June 2018
<u>Taxation:</u>		
Current corporate tax expense (income)	614.985	625.232
Deferred tax expense	28.142	200.158
	<u>643.127</u>	<u>825.390</u>

Corporate Tax

The Company is subject to corporation tax applicable in Turkey.

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

Pursuant to the Provisional Article 10 of the Law No. 7061 added with the Article 91 of the Law on Corporate Income Tax, published in the Official Gazette dated December 5, 2017 and numbered 30261, the corporate tax rate for corporate earnings to be obtained during the tax years 2018, 2019 and 2020 has been increased from 20% to 22%. The total amount of corporate tax payments made by the Company in 2019 six months period is TRY 703.300 thousand. (30 June 2018: TRY 664.873 thousand)

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

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

Deferred tax

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

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

Deferred tax assets and liabilities by the Company for the reporting period are as follows:

	30 June 2019	31 December 2018
<u>Deferred tax assets:</u>		
Provisions for employee benefits	61.865	55.997
Leases borrowings	37.750	-
Provision for lawsuits	6.788	5.610
Adjustment of receivable discount	5.379	5.406
Provision for other doubtful receivables	17.642	16.531
Other	23.338	15.030
	<u>152.762</u>	<u>98.574</u>
<u>Deferred tax liabilities:</u>		
Tangible and intangible fixed assets	(1.780.456)	(1.627.016)
Right of use assets	(45.592)	-
Amortized cost adjustment on loans	(1.651)	(3.790)
Inventories	(37.192)	(7.515)
Other	-	(110)
	<u>(1.864.891)</u>	<u>(1.638.431)</u>
<u>Deferred tax assets/(liabilities) net:</u>	<u>(1.712.129)</u>	<u>(1.539.857)</u>

The temporary differences disclosed above besides the deferred tax asset and liabilities, have been prepared on the basis of the gross values and show the net deferred tax position.

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

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

	1 January - 30 June 2019	1 January - 30 June 2018
Opening balance	(1.539.857)	(944.081)
Deferred tax (expense)/income	(28.142)	(200.158)
The amount in comprehensive income/(expense)	1.241	(820)
Translation difference	(145.371)	(220.582)
Closing balance	<u>(1.712.129)</u>	<u>(1.365.641)</u>

Reconciliation of tax provision is as follows:

<u>Reconciliation of tax provision</u>	1 January - 30 June 2019	1 January - 30 June 2018
Profit before tax	2.113.948	2.746.370
Statutory tax rate	22%	22%
Calculated tax acc. to effective tax rate	(465.069)	(604.201)
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	(357)	(86)
- Non-taxable income	705	-
- Effect of currency translation to non taxable assets (*)	(178.406)	(221.103)
Tax expense in reported in the statement of profit or loss	<u>(643.127)</u>	<u>(825.390)</u>

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

NOTE 13 – EQUITY

The capital structure reporting period by the Company is as follows:

	30 June		31 December	
	(%)	2019	(%)	2018
<u>Shareholders</u>				
Ereğli Demir ve Çelik Fabrikaları T.A.Ş.	94,87	2.751.326	94,87	2.751.326
Quoted in Stock Exchange	5,13	148.674	5,13	148.674
Historical capital		2.900.000		2.900.000
Effect of inflation		164		164
Restated capital		<u>2.900.164</u>		<u>2.900.164</u>

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

NOTE 14 – SALES AND COST OF SALES

The breakdown of sales revenue for the reporting period is as follows:

	1 January - 30 June 2019	1 April 30 June 2019	1 January - 30 June 2018	1 April 30 June 2018
<u>Sales Revenue</u>				
Domestic sales	6.313.537	3.428.854	5.491.238	3.047.779
Export sales	1.993.692	925.828	1.027.998	615.240
Other revenues (*)	233.627	136.758	232.155	116.925
Interest income from sales with maturities	24.141	12.634	12.219	6.975
Sales returns (-)	(6.771)	(5.822)	(980)	(224)
	<u>8.558.226</u>	<u>4.498.252</u>	<u>6.762.630</u>	<u>3.786.695</u>
<u>Cost of sales (-)</u>	<u>(6.793.065)</u>	<u>(3.552.789)</u>	<u>(4.418.696)</u>	<u>(2.468.307)</u>
Gross profit	<u>1.765.161</u>	<u>945.463</u>	<u>2.343.934</u>	<u>1.318.388</u>

(*)The total amount of by product exports in other revenues is TRY 138.192 thousand (30 June 2018: TRY 91.392 thousand).

The Company derives its revenue from the transfer of goods at a point in time in the following major product lines. The amount of performance obligations in the ongoing contracts of the Company will be eligible for recognition in the future is TRY 50.275 thousand. The Company planning to recognize related revenue amount as a revenue in a year.

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

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019

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

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

The breakdown of cost of goods sales for the reporting period is as follows:

	1 January - 30 June 2019	1 April 30 June 2019	1 January - 30 June 2018	1 April 30 June 2018
Raw material usage	(5.489.311)	(2.876.819)	(3.551.401)	(2.017.651)
Personnel costs	(287.396)	(151.757)	(248.831)	(133.896)
Energy costs	(230.781)	(118.779)	(112.413)	(58.773)
Depreciation and amortization expenses	(306.411)	(160.486)	(208.649)	(112.471)
Factory overheads	(163.068)	(94.262)	(79.381)	(46.661)
Other cost of goods sold	(197.963)	(94.219)	(141.426)	(65.564)
Non-operating costs (*)	(9.314)	(9.314)	(6.938)	(471)
Freight costs for sales delivered to customers	(73.299)	(28.868)	(51.194)	(23.559)
Inventory write-downs within the period (Note 4)	(5.522)	(3.312)	(4.201)	(517)
Reversal of inventory write-downs (Note 4)	1.168	1.168	623	623
Other	(31.168)	(16.141)	(14.885)	(9.367)
	<u>(6.793.065)</u>	<u>(3.552.789)</u>	<u>(4.418.696)</u>	<u>(2.468.307)</u>

(*) Due to the planned/unplanned halt production of plant of the Company’s, operations were suspended temporarily in the current period. As a result of this, unallocated overheads, TRY (9.314) thousand, has been accounted directly under cost of goods sold. (30 June 2018 : TRY (6.938) thousand)

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

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

The breakdown of marketing expenses according to their nature for the reporting period is as follows:

	1 January - 30 June 2019	1 April 30 June 2019	1 January - 30 June 2018	1 April 30 June 2018
Personnel expenses (-)	(12.545)	(6.728)	(10.619)	(5.688)
Depreciation and amortization(-)	(9.356)	(4.875)	(6.403)	(3.425)
Tax, duty and charges (-)	(389)	(203)	(377)	(192)
Service expenses (-)	(32.684)	(16.608)	(23.515)	(12.442)
	<u>(54.974)</u>	<u>(28.414)</u>	<u>(40.914)</u>	<u>(21.747)</u>

The breakdown of general administrative expenses according to their nature for the reporting period is as follows:

	1 January - 30 June 2019	1 April 30 June 2019	1 January - 30 June 2018	1 April 30 June 2018
Personnel expenses (-)	(23.647)	(13.523)	(21.366)	(11.278)
Depreciation and amortization expenses(-)	(1.728)	(916)	(1.335)	(704)
Right of use amortization expense (-)	(718)	(718)	-	-
Provision for doubtful receivables (-)	(5.043)	(1.582)	(1.182)	(594)
Tax, duty and charges (-)	(5.408)	(2.364)	(4.810)	(2.608)
Service expenses (-)	(40.658)	(20.503)	(32.087)	(17.664)
	<u>(77.202)</u>	<u>(39.606)</u>	<u>(60.780)</u>	<u>(32.848)</u>

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

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

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

The breakdown of other operating income for the reporting period is as follows:

	1 January - 30 June 2019	1 April 30 June 2019	1 January - 30 June 2018	1 April 30 June 2018
<u>Other operating income</u>				
Foreign exchange difference from trade receivables and liabilities	14.712	6.041	18.666	13.955
Discount income	124	62	11.338	770
Provisions released	881	461	1.567	1.315
Service income	3.529	1.912	2.716	1.464
Maintenance repair and rent income	6.184	3.051	6.728	3.419
Lawsuit income	60	24	88	43
Indemnity and penalty detention income	2.825	2.128	1.825	1.034
Insurance indemnity income	1.619	445	2.692	2.602
Warehouse income	1.245	480	737	517
Customer default interest income	96	71	48	9
Other income and gains	13.108	8.966	6.988	5.172
	<u>44.383</u>	<u>23.641</u>	<u>53.393</u>	<u>30.300</u>

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

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

The breakdown of other operating expenses for the reporting period is as follows:

	1 January - 30 June 2019	1 April 30 June 2019	1 January - 30 June 2018	1 April 30 June 2018
<u>Other operating expenses (-)</u>				
Provision expenses	(7.096)	(2.107)	(4.305)	(2.290)
Donation expenses	(1.080)	(619)	(1.096)	(727)
Discount expenses	-	-	(2.237)	(108)
Amortisation expenses of right of use	(3.274)	4.124	(6.137)	(4.478)
Lawsuit compensation expenses	(1.204)	(403)	(1.325)	(853)
Penalty expenses	(257)	(179)	(200)	(46)
Service expenses	(1.062)	(495)	(957)	(566)
Stock exchange registration expenses	(1.075)	(49)	(579)	(49)
Other expenses and losses	(7.833)	(2.981)	(2.814)	(442)
	<u>(22.881)</u>	<u>(2.709)</u>	<u>(19.650)</u>	<u>(9.559)</u>

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

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

NOTE 16 – FINANCE INCOME AND EXPENSES

The breakdown of financial income for the reporting period is as follows:

	1 January - 30 June 2019	1 April 30 June 2019	1 January - 30 June 2018	1 April 30 June 2018
<u>Financial incomes</u>				
Interest income on bank deposits	1.218	797	138	76
Foreign exchange gains	432.266	353.247	421.325	361.361
Interest income from related party	91.614	37.878	81.782	48.081
Other financial incomes	-	-	94	6
	<u>525.098</u>	<u>391.922</u>	<u>503.339</u>	<u>409.524</u>

The breakdown of financial expenses for the reporting period is as follows:

	1 January - 30 June 2019	1 April 30 June 2019	1 January - 30 June 2018	1 April 30 June 2018
<u>Finance expenses (-)</u>				
Interest expenses on borrowings	(29.054)	(13.487)	(16.492)	(9.359)
Interest cost of employee benefits	(18.312)	(9.203)	(12.588)	(6.350)
Interest expenses from lease	(12.680)	(12.680)	-	-
Guarantee expenses	(5.440)	(1.766)	(981)	(336)
	<u>(65.486)</u>	<u>(37.136)</u>	<u>(30.061)</u>	<u>(16.045)</u>

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PERIOD ENDED 30 JUNE 2019**

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

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

Additional information about financial instruments

Foreign currency risk management

As of reporting period, the foreign currency position of the Company in terms of original currency is calculated as it as follows:

	30 June 2019			
	TRY (Total in currency)	TRY (Original currency)	EURO (Original currency)	Jap.Yen (Original currency)
1. Trade Receivables	304.615	18.189	43.724	-
2a. Monetary financial assets	3.153.001	124.035	462.388	22
2b. Non- monetary financial assets	-	-	-	-
3. Other	23.326	23.116	32	-
4. Current assets (1+2+3)	3.480.942	165.340	506.144	22
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	234.979	234.979	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	79.356	1.723	11.851	-
8. Non-current assets (5+6+7)	314.335	236.702	11.851	-
9. Total assets (4+8)	3.795.277	402.042	517.995	22
10. Trade payables	472.563	454.831	2.680	3.300
11. Financial liabilities	144.158	51.730	14.110	-
12a. Other monetary financial liabilities	505.817	500.696	782	-
12b. Other non-monetary financial liabilities	-	-	-	-
13. Current liabilities (10+11+12)	1.122.538	1.007.257	17.572	3.300
14. Trade payables	-	-	-	-
15. Financial liabilities	426.187	158.613	40.847	-
16a. Other monetary financial liabilities	301.895	301.895	-	-
16b. Other non-monetary financial liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	728.082	460.508	40.847	-
18. Total liabilities (13+17)	1.850.620	1.467.765	58.419	3.300
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	-	-	-	-
19a. Off-balance sheet foreign currency derivative financial assets	-	-	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	-	-	-	-
20. Net foreign currency asset/liability position (9- 18+19)	1.944.657	(1.065.723)	459.576	(3.278)
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	1.841.975	(1.090.562)	447.693	(3.278)
22. Fair value of derivative financial instruments used in foreign currency hedge	-	-	-	-
23. Hedged foreign currency assets	-	-	-	-
24. Hedged foreign currency liabilities	-	-	-	-
25. Exports	2.131.884			
26. Imports	4.232.899			

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

Additional information about financial instruments (cont’d)

Foreign currency risk management (cont’d)

	31 December 2018			
	TRY (Total in currency)	TRY (Original currency)	EURO (Original currency)	Jap.Yen (Original currency)
1. Trade Receivables	436.626	18.949	69.289	-
2a. Monetary financial assets	3.605.345	159.548	571.632	22
2b. Non- monetary financial assets	-	-	-	-
3. Other	27.846	3.136	4.099	-
4. Current assets (1+2+3)	4.069.817	181.633	645.020	22
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	8.960	8.960	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	43.295	14.516	4.774	-
8. Non-current assets (5+6+7)	52.255	23.476	4.774	-
9. Total assets (4+8)	4.122.072	205.109	649.794	22
10. Trade payables	398.639	369.945	4.739	2.739
11. Financial liabilities	97.149	11.688	14.177	-
12a. Other monetary financial liabilities	541.922	539.095	469	-
12b. Other non-monetary financial liabilities	-	-	-	-
13. Current liabilities (10+11+12)	1.037.710	920.728	19.385	2.739
14. Trade payables	-	-	-	-
15. Financial liabilities	287.214	-	47.647	-
16a. Other monetary financial liabilities	273.100	273.100	-	-
16b. Other non-monetary financial liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	560.314	273.100	47.647	-
18. Total liabilities (13+17)	1.598.024	1.193.828	67.032	2.739
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	-	-	-	-
19a. Off-balance sheet foreign currency derivative financial assets	-	-	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	-	-	-	-
20. Net foreign currency asset/liability position (9- 18+19)	2.524.048	(988.719)	582.762	(2.717)
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15- 16a)	2.452.907	(1.006.371)	573.889	(2.717)
22. Fair value of derivative financial instruments used in foreign currency hedge	-	-	-	-
23. Hedged foreign currency assets	-	-	-	-
24. Hedged foreign currency liabilities	-	-	-	-
25. Exports	3.344.278			
26. Imports	7.665.767			

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

Additional information about financial instruments (cont’d)

Foreign currency risk management (cont’d)

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

As of 30 June 2019 asset and liability balances are translated by using the following exchange rates: TRY 5,7551 = US \$ 1, TRY 6,5507 = EUR 1 (31 December 2018: TRY 5,2609 = US\$ 1, TRY 6,0280 = EUR 1)

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency	Depreciation of foreign currency
30 June 2019		
1- TRY net asset/liability	(106.572)	106.572
2- Hedged portion from TRY risk (-)	-	-
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(106.572)	106.572
5- Euro net asset/liability	301.054	(301.054)
6- Hedged portion from Euro risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- Euro net effect (5+6+7)	301.054	(301.054)
9- Jap. Yen net asset/liability	(16)	16
10- Hedged portion from Jap. Yen risk (-)	-	-
11- Effect of capitalization (-)	-	-
12- Jap. Yen net effect (9+10+11)	(16)	16
TOTAL (4+8+12)	194.466	(194.466)

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

Additional information about financial instruments (cont’d)

Foreign currency risk management (cont’d)

31 December 2018	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency	Depreciation of foreign currency
1- TRY net asset/liability	(98.872)	98.872
2- Hedged portion from TRY risk (-)	-	-
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(98.872)	98.872
5- Euro net asset/liability	351.289	(351.289)
6- Hedged portion from Euro risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- Euro net effect (5+6+7)	351.289	(351.289)
9- Jap. Yen net asset/liability	(12)	12
10- Hedged portion from Jap. Yen risk (-)	-	-
11- Effect of capitalization (-)	-	-
12- Jap. Yen net effect (9+10+11)	(12)	12
TOTAL (4+8+12)	252.405	(252.405)

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

Additional information about financial instruments (cont’d)

Categories of the financial instruments and their fair values

	Financial assets/liabilities at amortized cost	Derivative financial instruments through profit/loss	Carrying value
30 June 2019			
<u>Financial Assets</u>			
Cash and cash equivalents	170.899	-	170.899
Trade receivables	1.196.808	-	1.196.808
Financial investments	-	156	156
Other financial assets	3.048.768		3.048.768
<u>Financial Liabilities</u>			
Financial liabilities	1.540.635	-	1.540.635
Trade payables	1.182.256	-	1.182.256
Other liabilities	85.553	-	85.553
Derivative financial instruments	-	186	186
31 December 2018			
<u>Financial Assets</u>			
Cash and cash equivalents	62.468	-	62.468
Trade receivables	1.341.234	-	1.341.234
Financial investments	-	143	143
Other financial assets	4.936.114	-	4.936.114
<u>Financial Liabilities</u>			
Financial liabilities	1.773.004	-	1.773.004
Trade payables	1.104.607	-	1.104.607
Other liabilities	72.490	-	72.490
Derivative financial instruments	-	242	242

30 June 2019

Financial asset and liabilities at fair value	Book Value	Fair value level as of reporting date		
		Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	(186)	-	(186)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	-	-	-	-
Total	(186)	-	(186)	-

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

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

Additional information about financial instruments (cont’d)

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

31 December 2018

Financial asset and liabilities at fair value	Book Value	Fair value level as of		
		reporting date		
		Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	(242)	-	(242)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	-	-	-	-
Total	(242)	-	(242)	-

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

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

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

NOTE 18 – SUBSEQUENT EVENTS

None.

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

Convenience translation to English:

As of 30 June 2019, the accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying financial statements differ from International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board with respect to the application of inflation accounting, certain reclassifications and also for certain disclosures requirement of the POA/CMB. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with IFRS.