(CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH - SEE NOTE 35)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

FINANCIAL STATEMENTS FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2018 AND INDEPENDENT AUDITOR'S REPORT

Deloitte.

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

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

A) Report on the Audit of the Financial Statements

1) Opinion

We have audited the financial statements of İskenderun Demir ve Çelik A.Ş. ("the Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with Turkish Financial Reporting Standards (TFRS).

2) Basis for Opinion

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

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3) Key Audit Matters

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

Key Audit Matter	How the matter was addressed in the audit
Revenue recognition Revenue is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods. Due to the nature of the Company's operations, there are some goods invoiced and cash collection is completed although the Company retains physical possession. Those goods are kept at premises of the Company as of the financial reporting date. Significant risks and rewards of ownership of these goods might be transferred to the buyers. Therefore, revenue recognition for those goods in the correct accounting period is a key matter for our audit (Note 22). With reference to the above explanations, as a part of sales cut-off principle, recognition of revenue in the correct period is identified as a key audit matter. Please refer to notes 2.7.1 and 22 to the financial statements for the Company's disclosures on revenue recognition, including the related accounting policy.	We performed the following procedures in relation to the revenue recognition: The design and implementation of the controls on the revenue process have been evaluated. The Company's sales and delivery procedures have been analyzed. Terms of trade and delivery with respect to contracts made with customers have been examined and the timing of revenue recognition in the financial statements for the different shipment arrangements has been assessed. For substantive audit procedures, special emphasis is given for transactions where the goods billed but revenue has not been earned. Significant portion of revenue which is generated from main shareholder is confirmed in substantive audit procedures.

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3) Key Audit Matters (cont'd)

Key Audit Matter	How the matter was addressed in the audit
Units of production depreciation calculation As explained in Note 2.7.3 (accounting policies) and Note 13 (notes to the financial statements), the Company applies units of production depreciation calculation method for relevant land improvements, machinery and equipment and vehicles. Units of production depreciation calculation is made for large number of assets and determining the remaining life and production capacities involve estimates. Therefore, there is risk that there may be an error on calculation of depreciation.	Procedures performed related with Units of production depreciation calculation risk are as follows: • Review of the expert report for the estimation of production capacity dated 22 February 2017. • Comparison of net book values of property, plant and equipment that are included in the report with net book values in the financial statements • Evaluation of competence and capabilities of the management's expert • Evaluation of the production capacity estimates by comparing with the estimations used in previous periods by negotiating with the Company management • Analysis of production amount of yearly production and production capacity • Recalculation of depreciation amount of the year In addition, we assessed the adequacy of the disclosures in Note 13 to property, plant and equipment under TFRS.

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

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

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

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

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

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

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

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

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

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

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

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

B) Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 402 of TCC, nothing has come to our attention that may cause us to believe that the Company's set of accounts and financial statements prepared for the period 1 January-31 December 2018 does not comply with TCC and the provisions of the Company's articles of association in relation to financial reporting.

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

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

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

Osman Arslan, SMMM
Partner

İstanbul, 7 February 2019

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ASSETS	Note	(Audited) Current Period 31 December 2018 USD'000	(Audited) Current Period 31 December 2018 TRY'000	(Audited) Previous Period 31 December 2017 USD'000	(Audited) Previous Period 31 December 2017 TRY'000
Current Assets		**2.007.885**	**10.563.284**	**1.645.963**	**6.208.412**
Cash and Cash Equivalents	4	11.874	62.468	3.154	11.895
Trade Receivables	9	254.944	1.341.234	193.886	731.318
Due From Related Parties	*31*	*119.855*	*630.546*	*145.639*	*549.336*
Other Trade Receivables	*9*	*135.089*	*710.688*	*48.247*	*181.982*
Other Receivables	10	936.588	4.927.297	882.034	3.326.945
Due From Related Parties	*31*	*936.279*	*4.925.669*	*881.550*	*3.325.120*
Other Receivables	*10*	*309*	*1.628*	*484*	*1.825*
Inventories	11	776.888	4.087.128	559.052	2.108.689
Prepaid Expenses	12	5.141	27.048	5.564	20.987
Other Current Assets	19	22.450	118.109	2.273	8.578
Non Current Assets		**1.980.323**	**10.418.280**	**2.023.916**	**7.634.003**
Other Receivables	10	1.676	8.817	3.338	12.591
Financial Investments	5	27	143	3.562	13.437
Investments Accounted For Using Equity Method	6	27.616	145.284	-	-
Property, Plant and Equipment	13	1.887.876	9.931.925	1.968.696	7.425.726
Intangible Assets	14	44.245	232.767	45.129	170.223
Prepaid Expenses	12	18.883	99.344	3.191	12.026
Due From Related Parties	*31*	*7.362*	*38.729*	-	-
Other Prepaid Expenses	*12*	*11.522*	*60.615*	*3.191*	*12.026*
TOTAL ASSETS		**3.988.208**	**20.981.564**	**3.669.879**	**13.842.415**

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

LIABILITIES	Note	(Audited) Current Period 31 December 2018 USD'000	(Audited) Current 31 December 2018 TRY'000	(Audited) Previous Period 31 December 2017 USD'000	(Audited) Previous Period 31 December 2017 TRY'000
Current Liabilities		**597.047**	**3.141.004**	**628.815**	**2.371.825**
Short Term Borrowings	8	259.065	1.362.917	239.789	904.459
Short Term Portion of Long Term Borrowings	8	21.003	110.494	34.918	131.708
Trade Payables	9	209.965	1.104.607	116.506	439.446
Due to Related Parties	*31*	*33.930*	*178.503*	*12.862*	*48.513*
Other Trade Payables	*9*	*176.035*	*926.104*	*103.644*	*390.933*
Other Payables	10	3.553	18.692	4.593	17.326
Deferred Revenue	20	4.887	25.708	7.865	29.667
Current Tax Liabilities	29	82.254	432.731	176.270	664.873
Short Term Provisions	17	6.235	32.802	7.459	28.133
Payables for Employee Benefits	16	9.497	49.964	22.769	85.884
Other Current Liabilities	19	588	3.089	18.646	70.329
Non Current Liabilities		**401.602**	**2.112.792**	**398.156**	**1.501.805**
Long Term Borrowings	8	56.947	299.593	80.349	303.070
Derivative Financial Instruments	7	46	242	42	158
Provisions for Employee Benefits	16	51.911	273.100	67.472	254.496
Deferred Tax Liabilities	29	292.698	1.539.857	250.293	944.081
EQUITY		**2.989.559**	**15.727.768**	**2.642.908**	**9.968.785**
Share Capital	21	1.474.105	2.900.000	1.474.105	2.900.000
Inflation Adjustment to Capital	21	85	164	85	164
Other Comprehensive Income/Expense Not to be Reclassified to Profit/ (Loss)	21	(16.292)	7.870.167	(19.915)	4.190.063
Foreign Currency Translation Reserves	*21*	*-*	*7.904.416*	*-*	*4.242.923*
Actuarial (Loss)/ Gain Funds	*21*	*(16.292)*	*(34.249)*	*(19.915)*	*(52.860)*
Restricted Reserves Assorted from Profit	21	230.889	771.641	149.786	447.790
Retained Earnings	21	449.367	76.917	385.246	48.457
Net Profit for the Period		851.405	4.108.879	653.601	2.382.311
TOTAL LIABILITIES AND EQUITY		**3.988.208**	**20.981.564**	**3.669.879**	**13.842.415**

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Note	(Audited) Current Period 1 January - 31 December 2018 USD'000	(Audited) Current Period 1 January - 31 December 2018 TRY'000	(Audited) Previous Period 1 January - 31 December 2017 USD'000	(Audited) Previous Period 1 January - 31 December 2017 TRY'000
Revenue	22	3.290.916	15.881.960	2.917.101	10.632.542
Cost of Sales	22	(2.219.170)	(10.709.716)	(2.085.707)	(7.602.193)
GROSS PROFIT		**1.071.746**	**5.172.244**	**831.394**	**3.030.349**
Marketing Expenses	24	(19.527)	(94.236)	(20.698)	(75.442)
General Administrative Expenses	24	(28.793)	(138.957)	(30.183)	(110.014)
Research and Development Expenses		(46)	(220)	(34)	(124)
Other Operating Income	25	31.808	153.507	24.493	89.274
Other Operating Expenses	25	(10.851)	(52.364)	(12.287)	(44.785)
OPERATING PROFIT		**1.044.337**	**5.039.974**	**792.685**	**2.889.258**
Income from Investing Activities	26	1.895	9.147	38	137
Expenses from Investing Activities	26	(5.442)	(26.265)	(121)	(441)
Share of Investments' Profit Accounted by Using The Equity Method	6	1.152	5.558	-	-
OPERATING PROFIT BEFORE FINANCE INCOME (EXPENSES)		**1.041.942**	**5.028.414**	**792.602**	**2.888.954**
Finance Income	27	142.960	809.591	51.287	209.324
Finance Expense	28	(16.940)	(81.753)	(22.625)	(82.467)
PROFIT BEFORE TAX		**1.167.962**	**5.756.252**	**821.264**	**3.015.811**
Tax (Expense) Income	29	(316.557)	(1.647.373)	(167.663)	(633.500)
Current Corporate Tax (Expense) Income		(275.173)	(1.447.656)	(176.270)	(664.873)
Deferred Tax (Expense) Income		(41.384)	(199.717)	8.607	31.373
NET PROFIT FOR THE PERIOD		**851.405**	**4.108.879**	**653.601**	**2.382.311**
EARNINGS PER SHARE			1,4169		0,8215
(TRY 1 Nominal value per share)					

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Note	(Audited) Current Period 1 January - 31 December 2018 USD'000	(Audited) Current Period 1 January - 31 December 2018 TRY'000	(Audited) Current Period 1 January - 31 December 2017 USD'000	(Audited) Current Period 1 January - 31 December 2017 TRY'000
PROFIT FOR THE PERIOD		**851.405**	**4.108.879**	**653.601**	**2.382.311**
OTHER COMPREHENSIVE INCOME					
Not to be reclassified subsequently to profit or loss					
Foreign Currency Translation Gain		-	3.661.493	-	692.711
Actuarial Gain/(Loss) of Defined Benefit Plans	16	4.645	23.860	(1.521)	(5.128)
Tax Effect of Actuarial Gain/(Loss) of Defined Benefit Plans	29	(1.022)	(5.249)	304	1.026
To be reclassified subsequently to profit or loss					
Change in Cash Flow Hedging Reserves		-	-	2.648	9.318
Tax Effect of Change in Cash Flow Hedging Reserves	29	-	-	(530)	(1.864)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		**3.623**	**3.680.104**	**901**	**696.063**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**855.028**	**7.788.983**	**654.502**	**3.078.374**

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

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

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

(Audited)	Share Capital	Inflation Adjustment to Capital	Foreign Currency Translation Reserves	Actuarial (Loss)/ Gain Funds	Cash Flow Hedging Gain (Loss)	Restricted Reserves Assorted from Profit	Retained Earnings	Net Profit for the Period	**Total Shareholders' Equity**
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	-	-	-	-	-	-	-	4.108.879	4.108.879
Other comprehensive income/(loss)	-	-	3.661.493	18.611	-	-	-	-	3.680.104
Total comprehensive income/(loss)	-	-	3.661.493	18.611	-	-	-	4.108.879	7.788.983
Dividends (*)	-	-	-	-	-	-	(2.030.000)	-	(2.030.000)
Transfers	-	-	-	-	-	323.851	2.058.460	(2.382.311)	-
31 December 2018	**2.900.000**	**164**	**7.904.416**	**(34.249)**	**-**	**771.641**	**76.917**	**4.108.879**	**15.727.768**
(Audited)									
1 January 2017	**2.900.000**	**164**	**3.550.212**	**(48.758)**	**(7.454)**	**240.817**	**907.581**	**942.849**	**8.485.411**
Net profit for the period	-	-	-	-	-	-	-	2.382.311	2.382.311
Other comprehensive income/(loss)	-	-	692.711	(4.102)	7.454	-	-	-	696.063
Total comprehensive income/(loss)	-	-	692.711	(4.102)	7.454	-	-	2.382.311	3.078.374
Dividends (*)	-	-	-	-	-	-	(1.595.000)	-	(1.595.000)
Transfers	-	-	-	-	-	206.973	735.876	(942.849)	-
31 December 2017	**2.900.000**	**164**	**4.242.923**	**(52.860)**	**-**	**447.790**	**48.457**	**2.382.311**	**9.968.785**

(*) In annual General Assembly dated March 29, 2018, it has been approved to distribute TRY 2.030.000 thousand of net profit of 2017 (30 March 2017: TRY 812.000 thousand, 5 December 2017: TRY 783.000 thousand) (gross dividend per share: TRY 0,70 (30 March 2017: TRY 0,28, 5 December 2017: TRY 0,27)) The dividend payment started at 29 May 2018 and completed.

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

	Note	(Audited) Current Period 1 January - 31 December 2018 USD'000	(Audited) Current Period 1 January - 31 December 2018 TRY'000	(Audited) Previous Period 1 January - 31 December 2017 USD'000	(Audited) Previous Period 1 January - 31 December 2017 TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES		**648.842**	**3.252.411**	**819.033**	**2.861.282**
Profit (Loss) for The Period		**851.405**	**4.108.879**	**653.601**	**2.382.311**
Adjustments to Reconcile Profit (Loss)		**402.017**	**2.059.802**	**302.063**	**1.123.383**
Adjustments for Depreciation and Amortisation Expenses	22/24	106.995	516.361	111.542	406.559
Adjustments for Impairment Loss (Reversal of Impairment Loss)		3.999	19.297	6.456	23.532
Adjustments for Provision (Reversal of Provision) for Receivables	*9/10*	*441*	*2.129*	*(350)*	*(1.275)*
Adjustments for Provision (Reversal of Provision) for Inventories	*11*	*1.533*	*7.397*	*6.806*	*24.807*
Adjustments for Provision (Reversal of Provision) for Property, Plant and Equipment	*13*	*2.025*	*9.771*	*-*	*-*
Adjustments for Provisions		13.843	66.806	12.722	46.374
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	*16*	*12.881*	*62.163*	*11.932*	*43.498*
Adjustments for Provision (Reversal of Provision) for Pending Claims and/or Lawsuits	*17*	*962*	*4.643*	*790*	*2.876*
Adjustments for Interest (Income) and Expenses		(39.008)	(188.255)	(13.675)	(49.840)
Adjustments for Interest Income	*27*	*(46.510)*	*(224.459)*	*(22.805)*	*(83.122)*
Adjustments for Interest Expense	*28*	*9.578*	*46.222*	*9.851*	*35.909*
Unearned Financial Income from Credit Sales		*(2.076)*	*(10.018)*	*(721)*	*(2.627)*
Adjustments for Unrealised Foreign Exchange Differences		(739)	(3.569)	10.837	39.502
Adjustments for Fair Value (Gains) Losses		-	-	6.435	23.452
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments	*28*	*-*	*-*	*6.435*	*23.452*
Adjustments for Undistributed Profits of Investments Accounted for Using Equity Method	6	(1.152)	(5.558)	-	-
Adjustments for Tax (Income) Expenses	29	316.557	1.647.373	167.663	633.500
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		1.522	7.347	83	304
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment	*26*	*1.522*	*7.347*	*83*	*304*
Changes in Working Capital		**(231.031)**	**(1.215.428)**	**(40.278)**	**(304.365)**
Adjustments for Decrease (Increase) in Trade Receivables		(59.241)	(311.658)	(23.400)	(131.610)
Decrease (Increase) in Trade Receivables from Related Parties		*25.784*	*135.647*	*(49.166)*	*(209.827)*
Decrease (Increase) in Trade Receivables from Third Parties		*(85.025)*	*(447.305)*	*25.766*	*78.217*
Adjustments for Decrease (Increase) in Other Receivables Related from Operations		6.873	36.158	858	(2.849)
Decrease (Increase) in Other Receivables from Operations from Third Parties		*6.873*	*36.158*	*858*	*(2.849)*
Decrease (Increase) in Derivative Financial Instruments		-	-	9.060	31.885
Adjustments for Decrease (Increase) in Inventories		(212.550)	(1.118.204)	(23.933)	(231.851)
Decrease (Increase) in Prepaid Expenses		(3.845)	(20.229)	(2.024)	(8.673)
Adjustments for Increase (Decrease) in Trade Payables		93.459	491.679	1.109	33.342
Increase (Decrease) in Trade Payable to Related Parties		*21.068*	*110.837*	*(5.097)*	*(14.688)*
Increase (Decrease) in Trade Payable to Third Parties		*72.391*	*380.842*	*6.206*	*48.030*
Adjustments for Increase (Decrease) in Other Payables Related from Operations		(14.518)	(76.378)	1.778	13.175
Increase (Decrease) in Other Payables to Third Parties Related from Operations		*(14.518)*	*(76.378)*	*1.778*	*13.175*
Increase (Decrease) in Derivative Liabilities		4	21	(9.124)	(32.906)
Adjustments for Other Increase (Decrease) in Working Capital		(41.213)	(216.817)	5.398	25.122
Decrease (Increase) in Other Assets Related from Operations		*(20.177)*	*(106.149)*	*756*	*2.083*
Increase (Decrease) in Other Payables Related from Operations		*(21.036)*	*(110.668)*	*4.642*	*23.039*
Cash Flows Provided by Operating Activities		**1.022.391**	**4.953.253**	**915.386**	**3.201.329**
Payments Related to Provisions for Employee Termination Benefits	16	(4.083)	(19.711)	(7.476)	(27.250)
Payments Related to Other Provisions	17	(277)	(1.333)	(157)	(572)
Income Taxes Refund (Paid)		(369.189)	(1.679.798)	(88.720)	(312.225)
CASH FLOWS FROM INVESTING ACTIVITIES		**70.009**	**323.397**	**(54.091)**	**(198.372)**
Cash Outflows Arising From Purchase of Shares or Capital Increase of Associates and/or Joint		(22.929)	(87.334)	(3.527)	(13.315)
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		5.056	24.400	45	163
Cash Inflow from Sales of Property, Plant and Equipment	*13/14/26*	*5.056*	*24.400*	*45*	*163*
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(37.606)	(181.487)	(51.399)	(187.344)
Cash Outflow from Purchase of Property, Plant and Equipment	*13*	*(37.139)*	*(179.233)*	*(50.717)*	*(184.857)*
Cash Outflow from Purchase of Intangible Assets	*14*	*(467)*	*(2.254)*	*(682)*	*(2.487)*
Cash Advances and Debts Given		(11.424)	(63.985)	790	2.124
Cash Advance and Debts Given to Related Parties		*(7.362)*	*(38.729)*	*-*	*-*
Other Cash Advances and Debts Given		*(4.062)*	*(25.256)*	*790*	*2.124*
CASH FLOWS FROM FINANCING ACTIVITIES		**(476.800)**	**(3.012.655)**	**(759.658)**	**(2.913.271)**
Cash Inflow from Borrowings	8	496.633	2.313.095	305.849	1.110.596
Cash Inflow from Loans		*496.633*	*2.313.095*	*305.849*	*1.110.596*
Cash Outflow from Repayments of Borrowings	8	(512.080)	(1.865.159)	(358.261)	(1.206.615)
Cash Outflow from Loan Repayments		*(512.080)*	*(1.865.159)*	*(358.261)*	*(1.206.615)*
Decrease in Other Payables to Related Parties	31	(54.729)	(1.600.549)	(276.510)	(1.193.056)
Dividends Paid		(441.957)	(2.028.914)	(422.770)	(1.595.000)
Interest Paid	8	(11.433)	(56.822)	(8.740)	(32.015)
Interest Received		46.766	225.694	774	2.819
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		**102.033**	**(83.641)**	**5.284**	**(250.361)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(93.313)	134.214	(6.128)	248.187
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**8.720**	**50.573**	**(844)**	**(2.174)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	*4*	3.154	11.895	3.998	14.069
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	*4*	**11.874**	**62.468**	**3.154**	**11.895**

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

NOTE 1 – COMPANY'S ORGANIZATION AND NATURE OF OPERATIONS

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

The Company had become an affiliated company of the Turkish Iron and Steel Administration with the decision no 93/T-85 dated 10 September 1993 of Supreme Planning Committee.Then with the decision no 98/20 of Privatization Committee dated 2 March 1998, the Company was transferred to Turkish Privatization Administration.Ultimately, shares of the Company were transferred to Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ("Erdemir") in 31 January 2002 by the Turkish Privatization Administration with the decision no 2001/08 which dated 8 February 2001. The immediate parent of Ereğli Demir ve Çelik Fabrikaları T.A.Ş is Ataer Holding A.Ş. The ultimate controlling party is Ordu Yardımlaşma Kurumu (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	2018 Share (%)	2017 Share (%)
Teknopark Hatay A.Ş.	Turkey	R&D Centre	5	5
İsdemir Linde Gaz Ortaklığı A.Ş.	Turkey	Energy	50	50

(*)Erdemir's share in the Company's capital has decreased to 94,87% from 95,07% after the sales of shares of the Erdemir with the value of TRY 42.391 thousand in aggregate at TRY 7,5 par value per share (total par value of TRY 5.652 thousand) on 13 April 2018 . With the change of such share ratio, since the requirements in the BIAŞ Listing Regulations have met, the shares of "ISDMR" which is formerly traded on Pre-Market Trading Platform have been started to be traded at Star Market as of 19 April 2018

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

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

	31 December 2018 Personnel	31 December 2017 Personnel
Paid Hourly Personnel	2.980	3.107
Paid Monthly Personnel	1.744	1.756
	4.724	4.863

NOTE 2 – BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Basis of Presentation

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

The accompanying 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.

The financial statements and disclosures have been prepared in accordance with the resolution of CMB dated 7 June 2013 about the "illustrations of financial statements and application guidance".

<u>Functional and Reporting Currency</u>

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

<u>Presentation currency translation</u>

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

a) The assets and liabilities on financial position as of 31 December 2018 are translated from US Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 5,2609=US $ 1 and TRY 6,0280=EUR 1 on the balance sheet date (31 December 2017: TRY 3,7719= US $ 1, TRY 4,5155=EUR 1).
b) For the year ended 31 December 2018, income statements are translated from the 12 months average TRY 4,8260 = US $ 1 and TRY 5,6772=EUR 1 rates of 2017 January - December period (31 December 2017: TRY 3,6449 = US $ 1 TRY 4,1139 = 1 EUR).
c) Exchange differences are shown in other comprehensive income as of foreign currency translation reserve.
d) The differences between presentation of statutory and historical figures are recognised as translation differences under equity. All capital, capital measures and other measures are represented with their statutory figures, other equity accounts are represented with their historic cost figures in the accompanying financial statements.

<u>USD amounts presented in the financial statements</u>

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

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

2.1 Basis of Presentation (cont'd)

Shares in subsidiaries and joint ventures

			Share of capital and right to vote of Company (%)	
Shares in Subsidiaries and Joint Ventures	Business Area	Valid Currency	31 December 2018	31 December 2017
Teknopark Hatay A.Ş.	R&D Centre	TRY	5%	5%
İsdemir Linde Gaz Ortaklığı A.Ş.	Industrial Gas Production and Sales	US Dollars	50%	50%

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with TFRS 5. Under the equity method, an investment in associate or a joint venture is initially recognized in the statement of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate or a joint venture. When the Company's share of losses of an associate or a joint venture exceeds the Company's interest in that associate or a joint venture (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate or a joint venture), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate or a joint venture.

When a group entity transacts with an associate or a joint venture of the Company, profits and losses esulting from the transactions with the associate or joint venture are recognised in the Company's financial statements only to the extent of interests in the associate or joint venture that are not related to the Company.

Going concern

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

Approval of the financial statements

The financial statements have been approved on 7 February 2019 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

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

2.2 Restatement and errors in the accounting policies and estimates

Any change in the accounting policies resulted from the first time adoption of a new standards is made either retrospectively or prospectively in accordance with the transition requirements of the standards. Changes without any transition requirement, material changes in accounting policies or material errors are corrected, retrospectively by restating the prior period financial statements. If changes in accounting estimates are related to only one period, they are recognized in the period when changes are applied; if changes in estimates are related to future periods, they are recognized both in the period where the change is applied and future periods prospectively. Details of these changes are given in Note 2.6.

2.3 Comparative Information and Restatement of Financial Statements with Prior Periods

The Company's financial statements are presented in accordance with the communiqué numbered II-14.1 "Communiqué on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") announced by the Capital Markets Board ("CMB"). The Company's financial statements are prepared in comparison with the previous period in order to allow for the determination of the financial position and performance trends in accordance with a new illustrative financial statements and guidance that has been effective from the interim periods ended after 30 June 2013. The following arrangements have been made in the prior period financial statements.

	(Previously reported) 31 December 2017	(Restated) 31 December 2017	(Difference 31 December 2017
Account			
Revenue(1)	10.612.473	10.632.542	20.069
Other Operating Income(1) (2) (4)	81.399	89.274	7.875
Other Operating Expense(3)	(45.226)	(44.785)	441
Income From Investing Activities (2)	-	137	137
Expense From Investing Activities (3)	-	(441)	(441)
Finance Income(4)	237.405	209.324	(28.081)
			-

(1) *Interest income from credit sales amounting to TRY 20.069 thousand reported in "Other Operating Income" was reclassified to "Revenue" on the profit and loss statement for the period ended 31 December 2017.*

(2) *Gain on sales of tangible assets amounting to TRY 137 thousand reported as "Other Operating Income" before, was reclassified to "Income from Investing Activities" on the profit and loss statement for the period ended 31 December 2017.*

(3) *Losses on sales of tangible assets amounting to TRY (441) thousand reported as "Other Operating Expenses (-)" before, was reclassified to "Expenses from Investing Activities (-)" on the profit and loss statement for the period ended 31 December 2017.*

(4) *Foreign exchange gains from trade receivables and payables (net) amounting to TRY 28.081 thousand reported as "Finance Income" before, was reclassified to "Other Operating Income" on the profit and loss statement for the period ended 31 December 2017.*

2.4 Significant Judgments and Estimates of the Company on Application of Accounting Policies

The Company, according to TAS makes estimates and assumptions prospectively while preparing its financial statements. These accounting estimates are rarely identical to the actual results. The estimates and assumptions that may cause significant adjustments to the carrying values of assets and liabilities in the following reporting periods are listed below:

2.4.1 Useful lives of property, plant and equipment and intangible assets

The Company calculates depreciation for the fixed assets by taking into account their production amounts and useful lives that are stated in Note 2.7.3 and 2.7.4 (Note 13, Note 14).

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

2.4 Significant Judgments and Estimates of the Company on Application of Accounting Policies (cont'd)

2.4.2 Deferred tax

The Company recognizes deferred tax on the temporary timing differences between the carrying amounts of assets and liabilities in the financial statements prepared in accordance with TFRS and statutory financial statements which is used in the computation of taxable profit. The related differences are generally due to the timing difference of the tax base of some income and expense items between financial statements prepared in accordance with statutory and TFRS (Note 29).

2.4.3 Fair values of derivative financial instruments

The Company values its derivative financial instruments by using the foreign exchange and interest rate estimations and based on the valuation estimates of the market values as of the balance sheet date (Note 7).

2.4.4 Provision for doubtful receivables

Allowance for doubtful receivables reflect the future loss that the Company anticipates to incur from the trade receivables as of the balance sheet date which is subject to collection risk considering the current economic conditions. During the impairment test for the receivables, the debtors are assessed with their prior year performances, their credit risk in the current market, their performance after the balance sheet date up to the issuing date of the financial statements; and also the renegotiation conditions with these debtors are considered. As of the reporting date, the provision for doubtful receivables is presented in Note 9 and Note 10.

2.4.5 Provision for inventories

During the assessment of the provision for inventory the following are considered; analyzing the inventories physically and historically, considering the employment and usefulness of the inventories respecting to the technical personnel view. Sales prices listed and related data by sales prices of realized sales after balance sheet date, average discount rates given for sale and expected cost incurred to sell are used to determine the net realizable value of the inventories. As a result of this, the provision for inventories with the net realizable values below the costs and the slow moving inventories are presented in Note 11.

2.4.6 Provisions for employee benefits

Actuarial assumptions about discount rates, inflation rates, future salary increases and employee turnover rates are made to calculate the Company's provision for employee benefits. The details related with the defined benefit plans are stated in Note 16.

2.4.7 Provision for lawsuits

Provision for lawsuits is evaluated by the Company Management based on opinions of Company's Legal Council and legal consultants. The Company Management determines the amount of provisions based on best estimates. As of the balance sheet date, the provision for lawsuits is stated in Note 17.

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

2.4 Significant Judgments and Estimates of the Company on Application of Accounting Policies (cont'd)

2.4.8 Impairments on Assets

The Company performs impairment tests for assets that are subject to depreciation and amortization in case of being not possible to prevent recovery of the assets at each reporting period. Assets are carried at the lowest levels which there are separately identifiable cash flows for evaluation of impairment (cash generating units). As a result of the impairment works performs by the Company management, as of the reporting date any impairment except calculated provision on non-financial assets has not been estimated.

2.4.9 Impairment of Financial Assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

2.4.10 Loss provision calculation

When measuring ECL the Company uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

2.5 Offsetting

Financial assets and liabilities are offset and the net amounts are reported with their net values in the balance sheet where either there is a legally enforceable right to offset the recognized amounts or there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.6 Adoption of New and Revised Financial Reporting Standards

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

Effects of these standards and interpretations on Company's financial position and performance summarized following paragraphs.

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

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

TFRS 9 Financial Instruments

(a) Classification and measurement of financial assets

In the current year, the Company has applied TFRS 9 Financial Instruments (2017 version) and the related consequential amendments to other TFRS Standards that are effective for an annual period that begins on or after 1 January 2018.

TFRS 9 introduced new requirements for:

1) The classification and measurement of financial assets and financial liabilities,
2) Impairment of financial assets, and
3) General hedge accounting.

Details of these new requirements as well as their impact on the Company's financial statements are described below.

The Company has applied TFRS 9 in accordance with the transition provisions set out in TFRS 9.

The date of initial application (i.e. the date on which the Company has assessed its existing financial assets and financial liabilities in terms of the requirements of TFRS 9) is 1 January 2018. Accordingly, the Company has applied the requirements of TFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

All recognised financial assets that are within the scope of TFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the aforegoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and
- the Company may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

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

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

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

TFRS 9 Financial Instruments (cont'd)

(a) Classification and measurement of financial assets (cont'd)

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

The directors of the Company reviewed and assessed the Company's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of TFRS 9 has had the following impact on the Company's financial assets as regards their classification and measurement.

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

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

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

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

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

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

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

TFRS 9 Financial Instruments (cont'd)

(a) Classification and measurement of financial assets (cont'd)

Changes regarding the classification of financial assets in terms of TFRS 9 are summarised below.

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

Related changes in classification do not result in changes in measurement of the financial assets and liabilities.

(b) Impairment on financial assets

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

Trade receivables, receivables from related parties and contractual assets;

- Company has preferred to apply "simplified approach" defined in TFRS 9 for the recognition of impairment losses on trade receivables, carried at amortised cost and that do not comprise of any significant finance component (those with maturity less than 12 months). In accordance with the simplified approach, Company measures the loss allowances regarding its trade receivables at an amount equal to "lifetime expected credit losses" except incurred credit losses in which trade receivables are already impaired for a specific reason.
- Company uses a provision matrix for the calculation of the expected credit losses on trade receivables. The provision matrix calculates fixed provision rates depending on the number of days that a trade receivable is past due and those provision rates are reviewed and, revised if necessary, in every reporting period. The changes in the expected credit losses on trade receivables are accounted for under "other operating income/expenses" account of the statement of income

(c) Classification and measurement of financial liabilities

A significant change introduced by TFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

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

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

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

TFRS 9 Financial Instruments (cont'd)

(c) Classification and measurement of financial liabilities (cont'd)

Specifically, TFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under TAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

Changes regarding the classification of financial liabilities in terms of TFRS 9 are summarised below.

Financial Liabilities	Previous Classification According to TAS 39	New Classification According to TFRS 9
Financial derrivative instruments	Fair value differences reflected in income statement	Fair value differences reflected in income statement
Borrowings	Amortised cost	Amortised cost
Other liabilities	Amortised cost	Amortised cost
Trade payables	Amortised cost	Amortised cost

The application of TFRS 9 has had no impact on the classification and measurement of the Company's financial liabilities.

(d) General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting.

Specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Company's risk management activities have also been introduced.

In accordance with TFRS 9's transition provisions for hedge accounting, the Company has applied the TFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 January 2018. The Company's qualifying hedging relationships in place as at 1 January 2018 also qualify for hedge accounting in accordance with TFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on 1 January 2018. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under TFRS 9's effectiveness assessment requirements.

The Company has also not designated any hedging relationships under TFRS 9 that would not have met the qualifying hedge accounting criteria under TMS 39.

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

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

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

TFRS 9 Financial Instruments (cont'd)

Impact of application of TFRS 15 Revenue from Contracts with Customers

Impact on the Financial Statements

In the current year, the Company has applied TFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. TFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in TFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Company's financial statements are described below.

TFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position.

Accounting policies related with revenue items explained in Note 2.7.1. Implementation of TFRS 15 does not have significant effect on the Company's financials and the Company's performance.

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

The amendments clarify the standard in respect of the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature. Changer in TFRS 2 hasn't significant effect on Company's financials.

Amendments to TMS 40 *Transfers of Investment Property*

Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.

Annual Improvements to TFRS Standards 2014–2016 Cycle

TMS 28: Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. Annual improvements to TFRS Standards 2014-2016 cycle have no impact on the Company's financial statements.

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

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

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

TFRS Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

- 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.

New and revised TFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, The Company has not applied the following new and revised TFRS Standards that have been issued but are not yet effective:

- TFRS 16 Leases [(1)]
- Amendments to TMS 28 *Long-term Interests in Associates and Joint Ventures* [(1)]
- IFRIC 23 *Uncertainty over Income Tax Treatments* [(1)]
- TFRS 10 and TMS 28 (amendments) *Financial Statements Sale of Contribution of Assets between an Investor and its Associate or Joint Venture* [(1)]
- Amendments to *TMS 19 Employee Benefits Plan Amendment, Curtailment or Settlement* [(1)]
- Annual Improvements to TFRS Standards 2015–2017 Cycle *Amendments to TFRS 3 Business* [(1)] *Combinations, TFRS 11 Joint Arrangements*, *TMS 12 Income Taxes and TMS 23 Borrowing Costs* [(1)]

[1] Effective from periods on or after 1 January 2019.

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods, except as noted below:

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 will supersede the current lease guidance including TMS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of TFRS 16 for the Company will be 1 January 2019.

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

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

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

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

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

Impact of the new definition of a lease

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

The change in definition of a lease mainly relates to the concept of control. TFRS 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.

TFRS 16 Leases (cont'd)

The Company will apply the definition of a lease and related guidance set out in TFRS 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). In preparation for the first-time application of TFRS 16, the Company has carried out an implementation project. The project has shown that the new definition in TFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Company.

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

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

TFRS 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 TMS 12.

TFRS 10 Financial Statements and TMS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

Amendments to TMS 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).

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

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

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

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

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

Annual Improvements to TFRS Standards 2015–2017 Cycle

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

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

2.7 Valuation Principles Applied / Significant Accounting Policies

Accounting policies implemented during preparation of financial statements as follows:

2.7.1 Revenue recognition

In accordance with TAS 15 "Revenue Standard from Customer Contracts", effective from 1 January 2018, the Company recognizes revenue in the financial statements in the following five-stage model.

- Identification of contracts with customers
- Identification of performance obligations in contracts
- Determination of the transaction price in contracts
- Distribution of transaction fee to performance obligations
- Revenue recognition

The Company evaluates the goods or services that has committed in each contract with the customers and determines each commitment to transfer the goods or services as a separate performance obligation. For each performance obligation, it is determined at the beginning of the contract that the performance obligation will be fulfilled over a period of time or at a certain time. If the company transfers the control of a good or service over time and thus (hence) fulfills the performance obligations related to the sales over a period of time , it records revenue to the financial statements over a period of time by measuring the progress of the fulfillment of the performance obligations.

As the Company transfers its promised flat and long products to its customers and fulfills the performance obligation, it records the transaction price corresponding to this performance obligation in its financial statements as revenue. The goods or services are transferred when the goods or services are checked (or passed) by the customers.

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

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

2.7.1 Revenue recognition (cont'd)

When the Company evaluates the transfer of control of the goods or services sold to the customer, it takes into account the conditions listed below:

- Ownership of the Company's right to collect goods or services,
- The customer's ownership of the legal property
- Transfer of the possession of goods or services,
- the ownership of significant risks and rewards arising from the ownership of the goods or services,
- The customer's recognition of the goods or services,

At the beginning of the contract, the Company does not correct the effect of an important financing component at the commitment price if the customer foresees that the period between the date of transfer of the goods or services to which the customer commits is one year or less. On the other hand, in the event that there is an important financing element within the proceeds, the revenue value is determined by discounting the future collections with the interest rate within the financing element. The difference is recognized as other income from operating activities on an accrual basis.

Revenue is recognized in accordance with TAS 18 until 31 December 2017.

Dividend, interest and rental income

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Company's interest income from sales with maturities is recognized in other operating income.

The Company's dividend income from equity investments is recognized when shareholders can get dividends.
Rental income from real estates is recognized on a straight-line basis over the term of the relevant lease.

2.7.2 Inventories

Inventories are valued at the lower of cost or net realizable value. The costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority valued by using the monthly weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.7.3 Property, plant and equipment

The Company's tangible fixed assets operating in the production of iron ore and high silicon flat steel are stated in the balance sheet at their fair value amounts at the date of acquisition. Any increase arising from the revaluation of the existing assets is recorded under the revaluation reserve, in the shareholders' equity. A decrease in carrying amount arising on the revaluation of assets is charged to the income statement to the extent that it exceeds the balance in the revaluation reserve that is related to the previous revaluation.

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

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

2.7.3 Property, plant and equipment (cont’d)

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of property, plant and equipment is the higher of net selling price and value in use.

In assessing the value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement.

Depreciation is recognized so as to write off the cost or valuation of assets, other than freehold land and properties under construction, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The rates that are used to depreciate the fixed assets are as follows:

	Rates
Buildings	2-16%
Land improvements	2-33% and units of production level
Machinery and equipment	3-50% and units of production level
Vehicles	5-25% and units of production level
Furniture and fixtures	5-33%
Other tangible fixed assets	5-25%

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.7.4 Intangible assets

Intangible assets purchased before 30 June 2013 are recognized at their acquisition cost indexed for inflation effects as at 30 June 2013, on the other hand the purchases made in and after 30 June 2013 are recognized at acquisition cost less any amortization and impairment loss. Intangible assets are amortized principally on a straight-line basis over their estimated useful lives and production amounts. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, and any changes in the estimate are accounted for on a prospective basis.

The amortization rates of the intangible assets are stated below:

	Rates
Rights	2-33%

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

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

2.7.5 Impairment of assets

Assets subject to depreciation and amortization are tested for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of net selling price and value in use. Recoverable amounts are estimated for individual assets (for the cash-generating unit). Non-financial assets that are impaired are evaluated for reversal of impairment amount at each reporting date.

2.7.6 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, one that takes a substantial period of time to get ready for use or sale, are capitalized as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale. Investment revenues arising from the temporary utilization of the unused portion of facility loans are netted off from the costs eligible for capitalization.

All other borrowing costs are recognized directly in the income statement of the period in which they are incurred.

2.7.7 Financial Instruments

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

The Company classifies its financial assets as (a) Business model used for managing financial assets, (b) financial assets subsequently measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss based on the characteristics of contractual cash flows. The Company reclassifies all financial assets effected from the change in the business model it uses for the management of financial assets. The reclassification of financial assets is applied prospectively from the reclassification date. In such cases, no adjustment is made to gains, losses (including any gains or losses of impairment) or interest previously recognized in the financial statements.

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

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

2.7.7 Financial instruments (cont'd)

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset; the Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met.

(i) Amortised cost and effective interest method

Interest income on financial assets carried at amortized cost is calculated using the effective interest method. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. This income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset:

a) Credit-impaired financial assets when purchased or generated. For such financial assets, the Company applies the effective interest rate on the amortized cost of a financial asset based on the loan from the date of the recognition in the financial statements.
b) Non-financial assets that are impaired at the time of acquisition or generation but subsequently become a financial asset that has been impaired. For such financial assets, the Company applies the effective interest rate to the amortized cost of the asset in the subsequent reporting periods.

Interest income is recognised in profit or loss and is included in the "finance income – interest income" line item (Note 27).

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI.

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

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

2.7.7 Financial instruments (cont'd)

(ii) Financial assets at FVTPL Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI (see (i) to (iii) above) are measured at FVTPL. Specifically:

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy).

<u>Foreign exchange gains and losses</u>

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically,

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other gains and losses' line item;
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss in the 'other gains and losses' line item. Other exchange differences are recognised in other comprehensive income in the investments revaluation reserve;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other gains and losses' line item (and
- for equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the investments revaluation reserve.

<u>Impairment of financial assets</u>

The Company recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as financial guarantee contracts. No impairment loss is recognised for investments in equity instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company utilizes a simplified approach for trade receivables, contract assets and lease receivables that does not have significant financing component and calculates the allowance for impairment against the lifetime ECL of the related financial assets.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

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

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

2.7.7 Financial instruments (cont'd)

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities

Financial liabilities are classified as at FVTPL on initial recognition. On initial recognition of liabilities other than those that are recognised at FVTPL, transaction costs directly attributable to the acquisition or issuance thereof are also recognised in the fair value.

A financial liability is subsequently classified at amortized cost except:

a) Financial liabilities at FVTPL: These liabilities including derivative instruments are subsequently measured at fair value.
b) Financial liabilities arising if the transfer of the financial asset does not meet the conditions of derecognition from the financial statements or if the ongoing relationship approach is applied: When the Company continues to present an asset based on the ongoing relationship approach, a liability in relation to this is also recognised in the financial statements. The transferred asset and the related liability are measured to reflect the rights and liabilities that the Company continues to hold. The transferred liability is measured in the same manner as the net book value of the transferred asset.
c) A contingent consideration recognized in the financial statements by the entity acquired in a business combination where TFRS 3 is applied: After initial recognition, the related contingent consideration is measured as at FVTPL.

The Company does not reclassify any financial liability.

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

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

2.7.7 Financial instruments (cont'd)

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, options and interest rate swaps. Further details of derivative financial instruments are disclosed in note 7.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Company has both legal right and intention to offset. The impact of the Master Netting Agreements on the Company's financial position is disclosed in note. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge accounting

The Company designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations as appropriate. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

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

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

2.7.7 Financial instruments (cont'd)

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Company adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again. The Company designates the full change in the fair value of a forward contract (i.e. including the forward elements) as the hedging instrument for all of its hedging relationships involving forward contracts.

Note 7 sets out details of the fair values of the derivative instruments used for hedging purposes.

Movements in the hedging reserve in equity are detailed in note 7.

Financial instruments recognized in accordance with TAS 39 until 31 December 2017

2.7.8 The effects of foreign exchange rate changes

Foreign currency transactions are recorded at the rates of exchange prevailing on the dates of the transactions. Assets and liabilities denominated in foreign currencies are converted at the exchange rates prevailing on the balance sheet date.

The Company records foreign currency (currencies other than the functional currency of the related company) transactions using exchange rates of the date the transaction is completed. Foreign currency monetary items are evaluated with exchange rates as of reporting date and arising foreign exchange income/expenses are recorded in statement of income. All monetary assets and liabilities are evaluated with exchange rates of the reporting date and related foreign currency translation differences are transferred to statement of income. Non-monetary foreign currency items that are recognized at cost are evaluated with historic exchange rates. Non-monetary foreign currency items that are recognized at fair value are evaluated with exchange rates of the dates their fair values are determined.

2.7.9 Subsequent events

Subsequent events include all events that take place between the balance sheet date and the date of authorization for the release of the balance sheet, although the events occurred after the announcements related to the net profit/loss or even after the public disclosure of other selective financial information.

In the case that events occur requiring an adjustment, the Company adjusts the amounts recognized in its financial statements to reflect the adjustments after the balance sheet date. Post period end events that are not adjusting events are disclosed in the notes when material.

2.7.10 Provisions, contingent liabilities and contingent assets

Provisions are recognized when the Company has a present obligation as a result of a past legal or subtle event, where it is probable that the Company will be required to settle that obligation and when a reliable estimate can be made of the amount of the obligation. Contingent liabilities are assessed continuously to determine the probability of outflow of the economically beneficial assets. For contingent liabilities, when an outflow of resources embodying economic benefits are probable, provision is recognized for this contingent liability in the period when the probability has changed, except for the cases where a reliable estimate cannot be made.

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

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

2.7.10 Provisions, contingent liabilities and contingent assets (cont'd)

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

2.7.11 Related parties

A related party is a person or entity that is related to reporting entity, the entity that is preparing its financial statements.

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

(b) An entity is related to a reporting entity if any of the following conditions applies:

   - (i) The entity and the reporting entity are members of the same 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 benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
   - (vi) The entity is controlled or jointly controlled by a person identified in (a).
   - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

2.7.12 Taxation and deferred income taxes

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in future and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

2.7.12 Taxation and deferred income taxes (cont'd)

Deferred tax

Deferred tax is determined by calculating the temporary differences between the carrying amounts of assets/liabilities in the financial statements and the corresponding tax bases, used in the computation of the taxable profit, using currently enacted tax rates. Deferred tax liabilities are generally recognized for all taxable temporary differences where deferred tax assets resulting from deductible temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.
Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized if it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in the income statement, except when they relate to the items credited or debited directly to the equity (in this case the deferred tax related to these items is also recognized directly in the equity), or where they arise from the initial accounting of a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

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

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

2.7.13 Employee benefits

According to the Turkish and Romanian law and union agreements, employee termination payments are made to employees in the case of retiring or involuntarily leaving. Such payments are considered as a part of defined retirement benefit plan in accordance with TAS19 (revised) "Employee Benefits" ("TAS 19").

The termination indemnities accounted in the balance sheet and seniority incentive premium in accordance with the union agreements in force represent the present value of the residual obligation. Actuarial gains and losses, on the other hand, are recognized in the statement of other comprehensive income.

The Company makes certain assumptions about discount rates, inflation rates, future salary increases and employee turnover rates in calculation of provisions for employee benefits. The present value of employee benefits is calculated by an independent actuary and some changes are done in accounting assumptions used in calculations. The impact of the changes in assumptions is recognized in the statement of income. The details related with the defined benefit plans are stated in Note 16.

Liabilities due to unused vacations classified as provisions due to employee benefits are accrued and discounted if the discount effect is material.

The Company operating in Turkey are required to pay social insurance premiums to the Social Security Agency. As long as it pays these insurance premiums, the Company does not have any further obligation. These premiums are reflected in the payroll expenses incurred in the period.

2.7.14 Government grants and incentives

Government grants and incentives are recognized at fair value when there is assurance that these grants and incentives will be received and the Company has met all conditions required. Government grants and incentives related to costs are recognized as revenue during the periods they are matched with the costs they will cover.

2.7.15 Statement of cash flows

Cash flows during the period are classified and reported as operating, investing and financing activities in the statement of cash flows.

Cash flows arising from operating activities represent the cash flows that are used in or provided by the Company's steel products and metal sales activities.

Cash flows arising from investment activities represent the cash flows that are used in or provided by the investing activities (direct investments and financial investments) of the Company.

Cash flows arising from financing activities represent the cash proceeds from the financing activities of the Company and the repayments of these funds.

Cash and cash equivalents comprises of the cash on hand, the demand deposits and highly liquid other short-term investments which their maturities are three months or less from the date of acquisition, are readily convertible to cash and are not subject to a significant risk of changes in value.

The translation difference that occurs due to translation from functional currency to presentation currency is shown as translation difference on cash flow statement.

2.7.16 Share capital and dividends

Common shares are classified as equity. Dividends on common shares are recognized in equity in the period which they are approved and declared.

NOTE 3 – SEGMENTAL REPORTING

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

NOTE 4 – CASH AND CASH EQUIVALENTS

The detail of cash and cash equivalents as of reporting period is as follows:

	31 December 2018	31 December 2017
Banks – demand deposits	62.468	11.895
	62.468	11.895

The breakdown of demand deposits is presented below:

	31 December 2018	31 December 2017
US Dollars	46.622	8.919
TRY	15.310	2.802
EURO	501	162
GB Pound	10	10
Other	25	2
	62.468	11.895

NOTE 5 – FINANCIAL INVESTMENTS

Long term financial investments:

	31 December 2018	31 December 2017
Fair value through in profit or loss	-	13.437
Available for sale financial assets	143	-
	143	13.437

As of reporting period, ratios and amounts of subsidiaries of the Company are as followings:

Company	Ratio (%)	31 December 2018	Ratio (%)	31 December 2017
Financial investments without an active market				
Teknopark Hatay A.Ş.	5	143	5	102
Joint venture				
İsdemir Linde Gaz Ortaklığı A.Ş.	50	-	50	13.335
		143		13.437

As of 2017, non-operating joint venture İsdemir Linde Gaz Ortaklığı A.Ş. was presented under financial investments with cost amount since the effect on financials are not material.

In 2018, the Company, as it started its operations, has been accounted for using the equity method in the financial statements.(Note 6)

NOTE 6 – INVESTMETS ACCOUNTED FOR USING EQUITY METHOD

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

	Right to vote ratio %	31 December 2018	Business segment
Join Venture			
İsdemir Linde Gaz Ortaklığı A.Ş.	50	145.284	Industrial Gas Production and Sale

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

	31 December 2018	31 December 2017
Total assets	380.489	278.444
Total liabilities	89.921	246.568
Net assets	290.568	31.876
Company's share on net assets	145.284	15.938

	31 December 2018	31 December 2017
Share capital	201.667	27.000

In General Assembly dated 8 March 2018 of Isdemir Linde Gaz A.Ş. it was decided to increase its share capital by TRY 174.666.600 (USD 45.857.492 equivalent) from TRY 27.000.000 to TRY 201.666.600. Increased capital amount paid by shareholders on 9 March 2018.

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

	1 January - 31 December 2018
Revenue	82.922
Net profit (loss) for the period	11.116
Company's share on net profit	5.558

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 67.230 thousand (its effect in the profit or loss statement of Isdemir is TRY 33.615 thousand) is not included in the financial statements prepared as of 31 December 2018.

NOTE 7 – FINANCIAL DERIVATIVE INSTRUMENTS

The detail of financial derivative instruments as of reporting period is as follows:

	31 December 2018		31 December 2017	
	Asset	Liability	Asset	Liability
Fair value hedging derivative financial instruments				
Basis swap contracts	-	242	-	158
	-	242	-	158

Derivative instruments for fair value hedge

As of reporting period, the details of swap transactions for fair value hedge are as follows:

		Assets		Labilities	
31 December 2018		Nominal value	Fair value	Nominal value	Fair value
Basis interest swap contracts					
USD basis floating interest collection / Basis floating interest payment	Between 1-5 years	-	-	37.136	242
		-	-	37.136	242

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

As of the reporting date, the Company has no derivative instruments for cash flow hedge purposes. (31 December 2017 : None)

NOTE 8 – BORROWINGS

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

	31 December 2018	31 December 2017
Short term borrowings	1.362.917	904.459
Current portion of long term borrowings	110.494	131.708
Total short term borrowings	1.473.411	1.036.167
Total long term borrowings	299.593	303.070
	1.773.004	1.339.237

NOTE 8 – BORROWINGS (cont'd)

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

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

Interest Type	Type of Currency	Weight Average Rate of Interest (%)	Short Term Portion	Long Term Portion	31 December 2018
No interest	TRY	-	3.386	-	3.386
Fixed	US Dollars	2,18	901.072	-	901.072
Floating	US Dollars	Libor+1,36	43.570	26.625	70.195
Floating	EURO	Euribor+2,12	88.139	276.445	364.584
			1.036.167	303.070	1.339.237

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

	31 December 2018	31 December 2017
Within 1 year	1.473.411	1.036.167
Between 1 – 2 years	94.423	79.170
Between 2 – 3 years	82.043	70.293
Between 3 – 4 years	82.043	61.418
Between 4 – 5 years	41.084	61.418
Five years or more	-	30.771
	1.773.004	1.339.237

NOTE 8 – BORROWINGS (cont'd)

Reconciliation of net financial borrowings as of reporting period is as follows:

	31 December 2018	31 December 2017
Opening balance	1.339.237	1.393.345
Interest expenses	46.222	34.424
Interest paid	(56.822)	(32.015)
Unrealised foreign exchange differences	(3.569)	39.502
Cash inflow from loans	2.313.095	1.110.596
Cash outflow from loan repayment	(1.865.159)	(1.206.615)
Closing balance	1.773.004	1.339.237

NOTE 9 – TRADE RECEIVABLES AND PAYABLES

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

	31 December 2018	31 December 2017
Short term trade receivables		
Trade receivables	713.269	183.823
Due from related parties (Note 31)	630.546	549.336
Provision for doubtful trade receivables (-)	(2.581)	(1.841)
	1.341.234	731.318

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

	1 January – 31 December 2018	1 January – 31 December 2017
Opening balance	1.841	8.475
Provision for the period	78	67
Doubtful receivables collected (-)	-	(4.179)
Provision released (-)	(23)	(4.332)
Translation difference	685	1.810
Closing balance	2.581	1.841

According to the market conditions and product types, a certain interest charge is applied for deferred trade receivables and overdue interest is applied for overdue trade receivables.

As the Company provides services and products to a large number of customers, collection risk is widely distributed amongst these customers and there is no significant credit risk exposure. Therefore, the Company does not provide for any further provision beyond the doubtful receivables provisions that the Company has already provided for in the financial statements.

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

The detail of overdue receivables included in trade receivables as of the reporting date is disclosed in the management of credit risk management (Note 32).

As of the balance sheet date, there are no significant receivables in trade receivables past due. The Company provides provision according to the balances of all unsecured receivables under legal follow up.

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

Short term trade payables	31 December 2018	31 December 2017
Trade payables	926.104	392.686
Due to related parties (Note 31)	178.503	48.513
Discount on trade payables (-)	-	(1.753)
	1.104.607	439.446

NOTE 10 – OTHER RECEIVABLES AND PAYABLES

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

Short term other receivables	31 December 2018	31 December 2017
Other receivables from related parties (Note 31)	4.925.669	3.325.120
Receivables from water system construction	1.504	1.701
Deposits and guarantees given	124	124
	4.927.297	3.326.945

Long term other receivables	31 December 2018	31 December 2017
Receivables from Privatization Authority	75.142	73.193
Receivables from water system construction	8.817	12.591
Provision for receivables from Privatization Authority (-)	(75.142)	(73.193)
	8.817	12.591

Privatization Administration Litigation

In the litigation filed by the Company for indemnification of the payments made by the Company as per the share transfer agreement, with the File No 2015/125 E to the 19th Commercial Court of First Instance in Ankara against the Privatization Administration, the Court decided to accept the claim partially and to give right to collect the amount of TRY 52.857 thousand with the interest to be accrued thereon from 26 January 2012 and pay such amounts to the Company. The ruling was appealed by TR Prime Ministry Privatization Administration, where after 11th Chamber Office of the Supreme Court approved the resolution of the 19th Commercial Court of First Instance in Ankara, and such approval decision was notified to the Company. As the adjustment process against the approval decision was not eliminated yet, the Company has continued to carry the provisions for these receivables in the financial statements.

NOTE 10 – OTHER RECEIVABLES AND PAYABLES (cont'd)

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

	1 January – 31 December 2018	1 January – 31 December 2017
Opening balance	73.193	70.236
Provision for the period	2.457	2.990
Provision released (-)	(383)	-
Other doubtful receivables collected (-)	(414)	-
Translation difference	289	(33)
Closing balance	75.142	73.193

Short term other payables	31 December 2018	31 December 2017
Taxes payable	9.396	10.099
Deposits and guarantees received	6.788	5.570
Dividend payables to shareholders	2.508	1.657
	18.692	17.326

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

NOTE 11 – INVENTORIES

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

	31 December 2018	31 December 2017
Raw materials	1.210.583	646.014
Work in progress	878.818	352.359
Finished goods	694.917	264.781
Spare parts	400.724	274.453
Goods in transit	763.087	505.755
Other inventories	276.245	157.947
Allowance for impairment on inventories (-)	(137.246)	(92.620)
	4.087.128	2.108.689

The movement of the allowance for impairment on inventories:

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance	92.620	62.463
Provision for the period	9.944	27.471
Provision released (-)	(2.547)	(2.664)
Translation difference	37.229	5.350
Closing balance	137.246	92.620

NOTE 11 – INVENTORIES (cont'd)

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 22).

NOTE 12 – PREPAID EXPENSES

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

	31 December 2018	31 December 2017
Insurance expenses	24.915	17.091
Order advances given	88	2.573
Prepaid utility allowance to employees	1.842	1.323
Other prepaid expenses	203	-
	27.048	20.987

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

	31 December 2018	31 December 2017
Order advances given	73.821	9.836
Due to related parties (Note 31)	*38.729*	-
Other order advances given	*35.092*	*9.836*
Insurance expenses	15.836	-
Other prepaid expenses	9.687	2.190
	99.344	12.026

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Machinery and equipment	Vehicles	Furniture and Fixtures	Other Property, Plant and Equipment	Construction in Progress (CIP)	Total
Cost									
Opening balance as of 1 January	80.999	2.441.555	2.787.139	10.247.880	886.241	416.205	24.683	178.229	17.062.931
Translation difference	31.959	966.776	1.102.182	4.055.143	351.347	165.220	11.101	66.460	6.750.188
Additions	-	5.404	3.367	48.944	9.433	11.255	1.111	99.719	179.233
Transfers from CIP (*)	63	27.335	18.018	65.650	8.191	1.569	127	(127.983)	(7.030)
Disposals	(247)	(69)	-	(7.216)	(1.048)	(2.623)	(163)	(14.991)	(26.357)
Closing balance as of 31 December 2018	112.774	3.441.001	3.910.706	14.410.401	1.254.164	591.626	36.859	201.434	23.958.965
Accumulated Depreciation									
Opening balance as of 1 January	-	(1.795.350)	(1.800.760)	(5.354.427)	(442.931)	(181.086)	(19.758)	(42.893)	(9.637.205)
Translation difference	-	(714.418)	(718.073)	(2.144.309)	(177.740)	(73.239)	(9.238)	(16.931)	(3.853.948)
Charge for the period	-	(61.387)	(75.692)	(341.402)	(33.103)	(21.999)	(2.134)	-	(535.717)
Impairment (**)	-	(1.720)	(4.236)	(3.772)	-	(28)	(15)	-	(9.771)
Disposals	-	56	-	5.758	1.048	2.576	163	-	9.601
Closing balance as of 31 December 2018	-	(2.572.819)	(2.598.761)	(7.838.152)	(652.726)	(273.776)	(30.982)	(59.824)	(14.027.040)
Net book value as of 31 December 2017	80.999	646.205	986.379	4.893.453	443.310	235.119	4.925	135.336	7.425.726
Net book value as of 31 December 2018	112.774	868.182	1.311.945	6.572.249	601.438	317.850	5.877	141.610	9.931.925

(*) TRY 7.030 thousand is transferred to intangible assets (Note 14).
(**) The Company reviewed the amount of non usable fixed asset which is not able to generate independent cash flows. Accordingly, the review led to the recognition of an impairment loss of TRY (9.771) thousand that has been recognized in profit or loss under investing activities expenses (Note 26)

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

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Land	Land Improvements	Buildings	Machinery and equipment	Vehicles	Furniture and Fixtures	Other Property, Plant and Equipment	Construction in Progress (CIP)	Total
Cost									
Opening balance as of 1 January	75.432	2.250.369	2.590.793	9.442.056	819.505	381.071	21.422	167.029	15.747.677
Translation difference	5.422	162.587	186.382	682.302	59.111	27.625	1.818	11.967	1.137.214
Additions	-	369	432	41.198	6.701	8.026	1.422	126.709	184.857
Transfers from CIP (*)	145	28.385	9.760	83.042	5.170	368	120	(127.476)	(486)
Disposals	-	(155)	(228)	(718)	(4.246)	(885)	(99)	-	(6.331)
Closing balance as of 31 December 2017	80.999	2.441.555	2.787.139	10.247.880	886.241	416.205	24.683	178.229	17.062.931
Accumulated Depreciation									
Opening balance as of 1 January	-	(1.632.806)	(1.625.555)	(4.753.465)	(395.096)	(154.002)	(16.851)	(40.019)	(8.617.794)
Translation difference	-	(118.770)	(118.694)	(350.070)	(29.026)	(11.598)	(1.489)	(2.874)	(632.521)
Charge for the period	-	(43.828)	(56.536)	(251.494)	(23.052)	(16.327)	(1.517)	-	(392.754)
Impairment	-	-	-	-	-	-	-	-	-
Disposals	-	54	25	602	4.243	841	99	-	5.864
Closing balance as of 31 December 2017	-	(1.795.350)	(1.800.760)	(5.354.427)	(442.931)	(181.086)	(19.758)	(42.893)	(9.637.205)
Net book value as of 31 December 2016	75.432	617.563	965.238	4.688.591	424.409	227.069	4.571	127.010	7.129.883
Net book value as of 31 December 2017	80.999	646.205	986.379	4.893.453	443.310	235.119	4.925	135.336	7.425.726

(*) TRY 486 thousand is transferred to intangible assets (Note 14).

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT (cont'd)

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

	31 December 2018	31 December 2017
Associated with cost of production	517.154	379.235
General administrative expenses	3.142	2.315
Marketing, sales and distribution expenses	15.421	11.204
	535.717	392.754

NOTE 14 – INTANGIBLE ASSETS

	Rights	Total
Cost		
Opening balance as of 1 January	281.361	281.361
Translation difference	111.907	111.907
Additions	2.254	2.254
Transfers from CIP	7.030	7.030
Closing balance as of 31 December 2018	402.552	402.552
Accumulated amortization		
Opening balance as of 1 January	(111.138)	(111.138)
Translation difference	(45.095)	(45.095)
Charge for the period	(13.552)	(13.552)
Closing balance as of 31 December 2018	(169.785)	(169.785)
Net book value as of 31 December 2017	170.223	170.223
Net book value as of 31 December 2018	232.767	232.767

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

NOTE 14 – INTANGIBLE ASSETS (cont'd)

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

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

	31 December 2018	31 December 2017
Associated with cost of production	13.552	9.489
	13.552	9.489

NOTE 15 – GOVERNMENT GRANTS AND INCENTIVES

These grants and incentives can be used by all companies, which meet the related legislative requirements and those grants have no sectoral differences:

- ✓ Incentives under the jurisdiction of the research and development law (100% corporate tax exemption etc.),
- ✓ Cash incentives from Tübitak – Teydeb for cost of research and development,
- ✓ Inward processing permission certificates and Social Security Institution incentives,
- ✓ Insurance premium employer share incentive.

NOTE 16 – EMPLOYEE BENEFITS

The Company's short term payables for employee benefits are as follows:

	31 December 2018	31 December 2017
Due to personnel	38.585	65.249
Social security premiums payable	11.379	20.635
	49.964	85.884

NOTE 16 – EMPLOYEE BENEFITS (cont'd)

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

	31 December 2018	31 December 2017
Provisions for employee termination benefits	220.511	212.842
Provisions for seniority incentive premium	21.228	16.385
Provision for unpaid vacations	31.361	25.269
	273.100	254.496

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

As of 31 December 2018, the amount payable consists of one month's salary limited to a maximum of TRY 5.434,42 (31 December 2017: TRY 4.732,48) As of 1 January 2019, the employee termination benefit has been updated to a maximum of TRY 6.017,60.

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

The employee termination benefit has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees. TAS 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the Company's obligation under defined benefit plans. The obligation as of 31 December 2018 has been calculated by an independent actuary. The actuarial assumptions used in the calculation of the present value of the future probable obligation are as follows:

	31 December 2018	31 December 2017
Discount rate	%16,00	%11,50
Inflation rate	%11,30	%8,30
Salary increase	reel %1,5	reel %1,5
Maximum liability increase	%11,30	%8,30

Discount rates are determined considering the expected duration of the retirement obligations and the currency in which the obligations will be paid. In calculations as of 31 December 2018, a fixed discount rate is used. Long term inflation estimates are made using an approach consistent with discount rate estimates and long term inflation rate fixed over years is used.

The anticipated rate of resignation which do not result in the payment of employee benefits is also considered in the calculation. The anticipated rate of resignation is assumed to be related with the past experience, therefore past experiences of employees are analyzed and considered in the calculation. In the actuarial calculation as of 31 December 2018, 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.

NOTE 16 – EMPLOYEE BENEFITS (cont'd)

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

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance	212.842	188.399
Service cost	18.202	17.154
Interest cost	28.462	19.498
Actuarial loss	(23.860)	5.128
Termination benefits paid	(15.899)	(17.440)
Translation difference	764	103
Closing balance	220.511	212.842

The sensitivity analysis of the assumptions which was used for the calculation of provision for employment termination benefits as of 31 December 2018 as follows:

	Interest rate	
Change in Rate	1% increase	1% decrease
Change in employee benefits liability	(17.782)	20.382
	Inflation rate	
Change in Rate	1% increase	1% decrease
Change in employee benefits liability	21.103	(18.638)

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

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

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance	16.385	17.305
Service cost	2.106	1.768
Interest cost	2.352	1.622
Actuarial loss/(gain)	2.697	3.362
Termination benefits paid	(2.053)	(7.667)
Translation difference	(259)	(5)
Closing balance	21.228	16.385

NOTE 16 – EMPLOYEE BENEFITS (cont'd)

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

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance	25.269	27.261
Provision for the period	32.856	18.047
Vacation paid during the period (-)	(1.759)	(2.143)
Provisions released (-)	(24.512)	(17.953)
Translation difference	(493)	57
Closing balance	31.361	25.269

NOTE 17– PROVISIONS

The Company's short term provisions are as follows:

	31 December 2018	31 December 2017
Provision for lawsuits	24.051	21.441
Penalty provision for employment shortage of disabled person	7.301	5.480
Provision for land occupation	1.450	1.212
	32.802	28.133

As of reporting period, lawsuits filed by and against the Company are as follows:

	31 December 2018	31 December 2017
Lawsuits filed by the Company	212.622	171.184
Provision for lawsuits filed by the Company	78.221	77.238

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

	31 December 2018	31 December 2017
Lawsuits filed against the Company	18.028	16.825
Provision for lawsuits filed by the Company	24.051	21.441

The Decision of the Constitutional Court for Electricity and Air Gas Tax

The claims filed every month for refunding of taxes paid and deduction thereof from Electric and Coal Gas Tax collected by the Municipality on the Electric and Coal Gas consumption quantity produced by the Company in the facilities and used for industrial production of the Company were concluded in the court of first instance and the Council of State against the Company. Thereafter, the Company used its right on 15.01.2015 to apply the Supreme Court individually. As a result of the General Assembly Resolution of the Supreme Court the Company was notified on 25.12.2018, and stated that the property rights of the Company were violated, and retrial was decided for the applicable claims to eliminate the consequences of the violation of the property rights.

NOTE 17 – PROVISIONS (cont'd)

The movement of the short term provisions is as follows:

	1 January 2018	Change for the period	Payments	Provision released	Translation difference	31 December 2018
Provision for lawsuits	21.441	7.000	(852)	(4.866)	1.328	24.051
Penalty prov. for employment shortage of disabled pers.	5.480	1.875	-	-	(54)	7.301
Provision for land occupation	1.212	634	(481)	-	85	1.450
	28.133	9.509	(1.333)	(4.866)	1.359	32.802

	1 January 2017	Change for the period	Payments	Provision released	Translation difference	31 December 2017
Provision for lawsuits	20.910	7.515	(572)	(6.657)	245	21.441
Penalty prov. for employment shortage of disabled pers.	3.993	1.491	-	-	(4)	5.480
Provision released	696	527	-	-	(11)	1.212
	25.599	9.533	(572)	(6.657)	230	28.133

NOTE 18 – COMMITMENTS

The guarantees received by the Company are as follows:

	31 December 2018	31 December 2017
Letters of guarantees received	326.481	224.067
	326.481	224.067

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

	31 December 2018	31 December 2017
A. Total CPM given for the Company's own legal entity	34.343	64.349
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	-	82.500
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	-	-
D. Other CPM given	-	-
i. Total CPM given in favour of parent entity	-	-
ii. Total CPM given in favour of other Group companies out of the scope of clause B and C	-	-
iii. Total CPM given in favour of other 3rd parties out of the scope of clause C	-	-
	34.343	146.849

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

The breakdown of the Company's collaterals given regarding service purchases according to their TRY equivalents of foreign currency is as follows:

	31 December 2018	31 December 2017
TRY	22.287	137.818
EURO	12.056	9.031
	34.343	146.849

NOTE 19 – OTHER ASSETS AND LIABILITIES

As of the balance sheet date, the details of the Company's other assets and liabilities are as follows:

Other current assets

	31 December 2018	31 December 2017
Other VAT receivable	47.586	2.720
Deferred VAT	68.105	-
Prepaid taxes and funds	1.028	943
Other current assets	1.390	4.915
	118.109	8.578

Other current liabilities

	31 December 2018	31 December 2017
VAT payable	-	66.052
Other current liabilities	3.089	4.277
	3.089	70.329

NOTE 20 – DEFERRED REVENUE

As of the balance sheet date, the details of the Company's short term deferred revenue are as follows:

	31 December 2018	31 December 2017
Advances received	24.609	28.085
Deferred income	1.099	1.582
	25.708	29.667

NOTE 21 – EQUITY

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

	(%)	31 December 2018	(%)	31 December 2017
Shareholders				
Ereğli Demir ve Çelik Fabrikaları T.A.Ş.	94,87	2.751.326	95,07	2.756.978
Quoted in Stock Exchange	5,13	148.674	4,93	143.022
Historical capital		2.900.000		2.900.000
Effect of inflation		164		164
Restated capital		2.900.164		2.900.164

NOTE 21 – EQUITY (cont'd)

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

Other equity items	31 December 2018	31 December 2017
Foreign Currency Translation Reserves	7.904.416	4.242.923
Actuarial (Loss)/ Gain Funds	(34.249)	(52.860)
Restricted Reserves Assorted from Profit	771.641	447.790
_Legal Reserves	*771.641*	*447.790*
Retained Earnings	76.917	48.457
	8.718.725	4.686.310

According to the Turkish Commercial Code ("TCC"), legal reserves split up as the first legal reserves and the second legal reserves. According to the Turkish Commercial Code 5% of the profit shall be allocated as the first legal reserves, up to 20% of the paid/ issued capital. After deducting dividends amounting to 5% of the paid/issued capital from the part decided to be allocated; ten percent of the remaining balance shall be appropriated to second legal reserves. Also according to the "TCC" 5% of the net profit for the period after taxation is estimated to be allocated as legal reserves up until reaching 50% of the paid/issued capital.

Other sources which might be used in dividend distribution, except the net profit for the period, in statutory books of the Company are equal to TRY 343.428 thousand as of 31 December 2018.

The amendment in TAS-19 "Employee Benefits" does not permit the actuarial gain /loss considered in the calculation of provision for employee termination benefits to be accounted for under the statement of income. The gains and losses arising from the changes in the actuarial assumption have been accounted for by "Actuarial (Loss)/Gain Funds" under the equity. The funds for actuarial gains/ (losses) in the employee termination benefits is not in a position to be reclassified under profit and loss.

As it stated in Note 2.1, foreign currency translation reserve arises from expressing the assets and liabilities of the Company's foreign operations in reporting currency TRY by using exchange rates prevailing on the balance sheet date. Exchange differences arising, if any, are recognized under translation reserve in equity.

NOTE 22 – SALES AND COST OF SALES

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 24.609 thousand. The Company planning to recognize related revenue amount as a revenue in a year.

	1 January - 31 December 2018	1 January - 31 December 2017
Sales Revenue		
Domestic sales	12.245.670	8.867.684
Export sales	3.164.174	1.496.128
Other revenues (*)	443.649	264.671
Interest income from sales with maturities	35.128	20.069
Sales returns (-)	(6.661)	(16.010)
	15.881.960	10.632.542
Cost of sales (-)	(10.709.716)	(7.602.193)
Gross profit	5.172.244	3.030.349

(*)The total amount of by product exports in other revenues is TRY 180.104 thousand (31 December 2017: TRY 119.255 thousand).

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

	1 January - 31 December 2018	1 January - 31 December 2017
Raw material usage	(8.710.039)	(5.982.770)
Personnel costs	(547.576)	(519.205)
Energy costs	(292.379)	(220.807)
Depreciation and amortization expenses	(497.798)	(393.040)
Factory overheads	(186.134)	(191.858)
Other cost of goods sold	(271.401)	(177.566)
Non-operating costs (*)	(9.643)	(9.242)
Freight costs for sales delivered to customers	(149.981)	(77.521)
Inventory write-downs within the period (Note 11)	(9.944)	(27.471)
Reversal of inventory write-downs (Note 11)	2.547	2.664
Other	(37.368)	(5.377)
	(10.709.716)	(7.602.193)

(*) TRY (9.643) of unallocated expenses due to the planned/ unplanned halt in the production plant of the Company, has been accounted directly under cost of goods sold (31 December 2017: TRY 9.242 thousand).

NOTE 23 – RESEARCH AND DEVELOPMENT EXPENSES, MARKETING EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

The breakdown of operational expenses according to their nature for the reporting periods is as follows:

	1 January 31 December 2018	1 January 31 December 2017
Marketing expenses (-)	(94.236)	(75.442)
General administrative expenses (-)	(138.957)	(110.014)
Research and development expenses (-)	(220)	(124)
	(233.413)	(185.580)

NOTE 24 – OPERATING EXPENSES ACCORDING TO THEIR NATURE

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

	1 January - 31 December 2018	1 January - 31 December 2017
Personnel expenses (-)	(22.750)	(22.039)
Depreciation and amortization(-)	(15.421)	(11.204)
Tax, duty and charges (-)	(890)	(500)
Service expenses (-)	(55.175)	(41.699)
	(94.236)	(75.442)

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

	1 January - 31 December 2018	1 January - 31 December 2017
Personnel expenses (-)	(44.731)	(41.757)
Depreciation and amortization expenses(-)	(3.142)	(2.315)
Provision for doubtful receivables (-)	(2.129)	1.275
Tax, duty and charges (-)	(12.821)	(5.844)
Service expenses (-)	(76.134)	(61.373)
	(138.957)	(110.014)

NOTE 25 – OTHER OPERATING INCOME/EXPENSES

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

Other operating income	1 January - 31 December 2018	1 January - 31 December 2017
Interest income from sales with maturities	82.818	28.081
Discount income	13.385	8.893
Provisions released	4.866	6.657
Service income	5.774	9.973
Maintenance repair and rent income	12.845	9.765
Lawsuit income	279	7.437
Indemnity and penalty detention income	14.476	2.820
Insurance indemnity income	3.236	699
Warehouse income	2.362	3.285
Gain on sale of tangible assets	339	-
Gain on sale of investment properties	-	7.931
Other income and gains	13.127	3.733
	153.507	89.274

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

Other operating expenses (-)	1 January - 31 December 2018	1 January - 31 December 2017
Provision expenses	(8.875)	(9.006)
Donation expenses	(2.369)	(1.372)
Discount expenses	(5.297)	(10.468)
Port facility pre-licence expenses	(20.572)	(6.443)
Lawsuit compensation expenses	(3.376)	(1.885)
Penalty expenses	(579)	(363)
Stock exchange registration expenses	(684)	(482)
Other expenses and losses	(8.781)	(14.766)
	(50.533)	(44.785)

NOTE 26 – INVESTING ACTIVITIES INCOME/EXPENSES

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

Income from Investing Activities	1 January - 31 December 2018	1 January - 31 December 2017
Gain on sales of tangible assets	9.147	137
	9.147	137

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

Expenses from Investing Activities	1 January - 31 December 2018	1 January - 31 December 2017
Loss on disposal of tangible assets	(16.494)	(441)
Impairment of property, plant and equipment (Note 13)	(9.771)	-
	(26.265)	(441)

NOTE 27 – FINANCE INCOME

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

Financial incomes	1 January - 31 December 2018	1 January - 31 December 2017
İnterest income on bank deposits	507	192
Foreign exchange gains (net)	585.021	125.975
İnterest income on related party	223.952	82.930
Other financial incomes	111	227
	809.591	209.324

NOTE 28 – FINANCE EXPENSES

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

Finance expenses (-)	1 January 31 December 2018	1 January 31 December 2017
Interest expenses on borrowings	(46.222)	(34.424)
Interest cost of employee benefits	(30.814)	(21.120)
Interest expenses on related party	-	(1.485)
Guarantee expenses	(4.717)	(1.986)
Fair value differences of derivative financial instruments	-	(23.452)
	(81.753)	(82.467)

NOTE 29 – TAX ASSETS AND LIABILITIES

The breakdown of profit for the period tax liability for the reporting period is as follows:

	31 December 2018	31 December 2017
Corporate tax payable:		
Current corporate tax expense	1.447.656	664.873
Deferred tax (income)/expense	(1.014.925)	-
	432.731	664.873

	1 January - 31 December 2018	1 January - 31 December 2017
Taxation:		
Current corporate tax expense	1.447.656	664.873
Deferred tax expense	199.717	(31.373)
	1.647.373	633.500

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 the corporate tax paid by the Company in 2018 is TRY 1.679.798 thousand (31 December 2017: TRY 312.225 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%.

Deferred tax

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

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

NOTE 29 – TAX ASSETS AND LIABILITIES (cont'd)

The breakdown of deferred tax assets and liabilities for the reporting period is as follows:

	31 December 2018	31 December 2017
Deferred tax assets:		
Provisions for employee benefits	55.997	50.899
Investment incentive	-	52.771
Provision for lawsuits	5.610	4.531
Adjustment of receivable rediscount	5.406	6.449
Provision for other doubtful receivables	16.531	14.639
Other	15.030	13.575
	98.574	142.864
Deferred tax liabilities:		
Tangible and intangible fixed assets	(1.627.016)	(1.078.590)
Amortized cost adjustment on loans	(3.790)	(1.026)
Inventories	(7.515)	(6.380)
Other	(110)	(949)
	(1.638.431)	(1.086.945)
Presentation of deferred tax assets/(liabilities):	(1.539.857)	(944.081)

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

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

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance	(944.081)	(910.331)
Deferred tax expense	(199.717)	31.373
The amount in comprehensive income/(expense)	(5.249)	(838)
Translation difference	(390.810)	(64.285)
Closing balance	(1.539.857)	(944.081)

Reconciliation of tax provision is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Profit before tax	5.756.252	3.015.811
Statutory tax rate	22%	20%
Calculated tax acc. to effective tax rate	(1.266.375)	(603.162)
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	(310)	(687)
- Effect of currency translation to non taxable assets (*)	(380.688)	(72.608)
- Investment incentives	-	42.957
Tax expense in reported in the consolidate statement of income	(1.647.373)	(633.500)

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

NOTE 29 – TAX ASSETS AND LIABILITIES (cont'd)

Deferred tax (cont'd)

As of reporting period, the details of the tax gains/(losses) of the other comprehensive income/(expense) are as follows:

	1 January-31 December 2018		
Other comprehensive income/(loss) in the current period	Amount before tax	Tax income / (expense)	Amount after tax
Change in actuarial (loss)/gain	23.860	(5.249)	18.611
Change in foreign currency translation reserves	3.661.493	-	3.661.493
	3.685.353	(5.249)	3.680.104

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

NOTE 30 – EARNINGS PER SHARE

	1 January - 31 December 2018	1 January - 31 December 2017
Number of shares outstanding	290.000.000.000	290.000.000.000
Net profit attributable to equity holders - TRY thousand	4.108.879	2.382.311
Profit per share with 1 TRY nominal value TRY %	1,4169 / %141,69	0,8215 / %82,15

NOTE 31 – RELATED PARTY DISCLOSURES

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

The details of receivables of the Company from related parties are disclosed below:

Due from related parties (short term)	31 December 2018	31 December 2017
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (1)	619.547	530.485
Erdemir Romania S.R.L. (2)	-	3.192
Adana Çimento Sanayi T.A.Ş. (3)	8.525	10.194
Aslan Çimento A.Ş. (3)	1.413	1.368
OYAK Beton A.Ş. (3)	337	-
Mardin Çimento Sanayi ve Ticaret A.Ş. (3)	-	277
İsdemir Linde Gaz Ortaklığı A.Ş. (4)	724	3.820
	630.546	549.336

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

Other receivables from related parties (short term)	31 December 2018	31 December 2017
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (1)	4.925.669	3.325.120
	4.925.669	3.325.120

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

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

Prepaid expenses (long term)	31 December 2018	31 December 2017
OYAK Savunma ve Güvenlik Sistemleri A.Ş. (3)	38.729	-
	38.729	-

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 Managing Company

NOTE 31 – RELATED PARTY DISCLOSURES (cont'd)

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

Due to related parties (short term)	31 December 2018	31 December 2017
Erdemir Madencilik San. ve Tic. A.Ş. [2]	117.789	11.696
OYAK Pazarlama Hizmet ve Turizm A.Ş. [3]	4.268	2.791
Erdemir Asia Pacific PTE LTD [2]	20	14.062
Omsan Lojistik A.Ş. [3]	4.848	4.268
OYAK Savunma ve Güvenlik Sistemleri A.Ş. [3]	4.236	2.515
OYAK Denizcilik ve Liman İşletmeleri A.Ş. [3]	4.103	4.538
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. [2]	1.975	-
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. [2]	1.462	1.141
Omsan Denizcilik A.Ş. [3]	-	7.187
OYAK Grup Sigorta ve Reasürans Brokerliği A.Ş. [3]	35.971	-
Diğer	3.831	315
	178.503	48.513

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

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

Major sales to related parties	1 January – 31 December 2018	1 January – 31 December 2017
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. [1]	10.306.821	6.586.807
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. [2]	357.526	218.034
Adana Çimento Sanayi T.A.Ş. [3]	27.674	20.527
Mardin Çimento Sanayi ve Ticaret A.Ş. [3]	1.046	1.104
Erdemir Asia Pacific PTE LTD [2]	-	90.967
Omsan Lojistik A.Ş. [3]	648	518
Erdemir Romania S.R.L. [2]	29	29.614
Aslan Çimento A.Ş. [3]	2.575	2.177
OYAK Denizcilik ve Liman İşletmeleri A.Ş. [3]	12.090	9.219
OYAK Savunma ve Güvenlik Sistemleri A.Ş. [3]	699	707
İsdemir Linde Gaz Ortaklığı A.Ş. [4]	49.642	3.341
Other	1.911	1.336
	10.760.661	6.964.351

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

NOTE 31 – RELATED PARTY DISCLOSURES (cont'd)

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

Major purchases from related parties	1 January – 31 December 2018	1 January – 31 December 2017
Erdemir Madencilik San. ve Tic. A.Ş. (2)	787.342	545.680
Erdemir Asia Pacific PTE LTD (2)	292.371	200.583
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (1)	158.592	146.949
OYAK Pazarlama Hizmet ve Turizm A.Ş. (3)	40.626	28.147
Omsan Denizcilik A.Ş. (3)	54.057	36.477
OYAK Savunma ve Güvenlik Sistemleri A.Ş. (3)	23.667	19.257
Omsan Lojistik A.Ş. (3)	41.533	36.552
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. (2)	14.429	11.077
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. (2)	21.229	18.602
İsdemir Linde Gaz Ortaklığı A.Ş. (4)	77.229	-
OYAK Denizcilik ve Liman İşletmeleri A.Ş. (3)	69.152	41.223
OYAK Grup Sigorta ve Reasürans Brokerliği A.Ş. (3)	46.481	-
Other	5.548	5.313
	1.632.256	1.089.860

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

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

The Company earned TRY 256.063 thousand of revenue from related party transactions of the twelve-month period of 2018, amounting to TRY 223.952 thousand of interest income and TRY 32.111 thousand of interest accrued on term. (December 2017: TRY 98.066 thousand)

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

The period end balances are secured and their collections will be done in cash. Other receivables from related parties balances are non-secured, interest free and their collections will be done in cash. As of 31 December 2018, the Company provides no provision for the receivables from related parties (31 December 2017: None).

For the year ended 31 December 2018, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Company is TRY 4.916 thousand (31 December 2017: TRY 5.241 thousand).

NOTE 32 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

Additional information about financial instruments

(a) Capital risk management

The Company manages its capital through the optimization of the debt and the equity balance that minimizes the financial risk.

Through the forecasts regularly prepared by the Company, the future capital amount, debt to equity ratio and similar ratios are forecasted and required precautions are taken to strengthen the capital.

The capital structure of the Company consists of debt which includes the financial liabilities disclosed in Note 8, cash and cash equivalents and equity attributable to equity holders of the parent company, comprising issued capital, reserves and retained earnings as disclosed in Note 21.

The Company's Board of Directors analyzes the capital structure in regular meetings. During these analyses, the Board of Directors also evaluates the risks associated with each class of capital together with the cost of capital. The Company, by considering the decisions of the Board of Directors, aims to balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

As of reporting period the net debt/equity ratio is as follows:

	Note	31 December 2018	31 December 2017
Total borrowings	8	1.773.004	1.339.237
Less: Other receivables from related parties	31	4.925.669	3.325.120
Less: Cash and cash equivalents	4	62.468	11.895
Net debt		(3.215.133)	(1.997.778)
Total adjusted equity (*)		15.762.017	10.021.645
Total resources		12.546.884	8.023.867
Net debt / Total adjusted equity ratio		-20%	-20%
Distribution net debt / Total adjusted equity		-26/126	-25/125

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

(b) Significant accounting policies

The Company's accounting policies related to the financial instruments are disclosed in Note 2 "Summary of Significant Accounting Policies, 2.7.7 Financial Instruments".

(c) Market risk

The Company is exposed primarily to the financial risks of changes in foreign exchange rates and interest rates. The Company utilizes the following financial instruments to manage the risks associated with the foreign exchange rates and interest rates. Also, the Company follows price changes and market conditions regularly and takes action in pricing instantaneously.

The Company prefers floating interest rates for long term borrowings. To hedge against the interest risk the Company uses interest swap agreements for some of its borrowings.
In the current period, there is no significant change in the Company's exposure to the market risks or the manner which it manages and measures risk when compared to the previous year.

NOTE 32 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(d) Credit risk management

Trade receivables include a large number of customers from various industries and regions. There is no risk concentration on a specific customer or a Company of customers. The majority trade receivables are assured by bank letters of guarantee and/or credit limits. The credit reviews are performed continuously over the accounts receivable balance of the customers. The Company does not have a significant credit risk arising from any customer.

Credir risk of financial instruments	Receivables				Bank Deposits	Derivative financial instruments
	Trade Receivables		Other Receivables			
31 December 2018	Related Party	Other Party	Related Party	Other Party		
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	630.546	710.688	4.925.669	10.445	62.468	-
_Secured part of the maximum credit risk exposure via collateral etc.	619.540	710.240	4.925.669	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	630.546	710.688	4.925.669	10.445	62.468	-
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	-	-	-	-	-
_secured part via collateral etc.	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
_Overdue (gross carrying amount)	-	2.581	-	75.142	-	-
_Impairment (-)	-	(2.581)	-	(75.142)	-	-
_Secured part via collateral etc.	-	-	-	-	-	-
_Not overdue (gross carrying amount)	-	-	-	-	-	-
_Impairment (-)	-	-	-	-	-	-
_Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-

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

NOTE 32 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(d) Credit risk management (cont'd)

Credir risk of financial instruments	Receivables				Bank Deposits	Derivative financial instruments
	Trade Receivables		Other Receivables			
31 December 2017	Related Party	Other Party	Related Party	Other Party		
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	549.336	181.982	3.325.120	14.416	11.895	-
_Secured part of the maximum credit risk exposure via collateral etc.	531.212	168.904	3.325.120	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	549.336	181.982	3.325.120	14.416	11.895	-
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	-	-	-	-	-
_secured part via collateral etc.	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
_Overdue (gross carrying amount)	-	1.841	-	73.193	-	-
_Impairment (-)	-	(1.841)	-	(73.193)	-	-
_Secured part via collateral etc.	-	-	-	-	-	-
_Not overdue (gross carrying amount)	-	-	-	-	-	-
_Impairment (-)	-	-	-	-	-	-
_Secured part via collateral etc.	-	-	-	-	-	-
E. Bilanço dışı kredi riski içeren unsurlar	-	-	-	-	-	-

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

NOTE 32 –NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

(e) Foreign currency risk management

As of 31 December 2018, stated in Note 2.7.8 the foreign currency position of the Company in terms of original currency is calculated as it as follows:

	31 December 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			

NOTE 32 –NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

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

	31 December 2017			
	TRY (Total in currency)	TRY (Original currency)	EURO (Original currency)	Jap.Yen (Original currency)
1. Trade Receivables	146.950	26.574	26.659	-
2a. Monetary financial assets	1.371.322	5.601	302.450	22
2b. Non- monetary financial assets	-	-	-	-
3. Other	12.285	12.087	44	-
4. Current assets (1+2+3)	**1.530.557**	**44.262**	**329.153**	**22**
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	21.648	21.163	108	-
8. Non-current assets (5+6+7)	**21.648**	**21.163**	**108**	**-**
9. Total assets (4+8)	**1.552.205**	**65.425**	**329.261**	**22**
10. Trade payables	168.907	156.004	2.857	-
11. Financial liabilities	88.301	-	19.555	-
12a. Other monetary financial liabilities	885.292	884.007	284	-
12b. Other non-monetary financial liabilities	-	-	-	-
13. Current liabilities (10+11+12)	**1.142.500**	**1.040.011**	**22.696**	**-**
14. Trade payables	-	-	-	-
15. Financial liabilities	277.087	-	61.364	-
16a. Other monetary financial liabilities	254.496	254.496	-	-
16b. Other non-monetary financial liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	**531.583**	**254.496**	**61.364**	**-**
18. Total liabilities (13+17)	**1.674.083**	**1.294.507**	**84.060**	**-**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	**-**	**-**	**-**	**-**
19a. Off-balance sheet foreign currency derivative financial assets	-	-	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	-	-	-	-
20. Net foreign currency asset/liability position (9-18+19)	**(121.878)**	**(1.229.082)**	**245.201**	**22**
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**(155.811)**	**(1.262.332)**	**245.049**	**22**
22. Fair value of derivative financial instruments used in foreign currency hedge	-	-	-	-
23. Hedged foreign currency assets	-	-	-	-
24. Hedged foreign currency liabilities	-	-	-	-
25. Exports	1.615.383			
26. Imports	5.189.950			

NOTE 32 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

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

As of 31 December 2018 asset and liability balances are translated by using the following exchange rates: TRY 5,2609 = US $ 1, TRY 6,0280 = EUR 1 (31 December 2017: TRY 3,7719 = US$ 1, TRY 4,5155 = EUR 1)

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2018	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
TOPLAM (4+8+12)	**252.405**	**(252.405)**

NOTE 32 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2017	Appreciation of foreign currency	Depreciation of foreign currency
1- TRY net asset/liability	(122.908)	122.908
2- Hedged portion from TRY risk (-)	-	-
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(122.908)	122.908
5- Euro net asset/liability	110.721	(110.721)
6- Hedged portion from Euro risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- Euro net effect (5+6+7)	110.721	(110.721)
9- Jap. Yen net asset/liability	-	-
10- Hedged portion from Jap. Yen risk (-)	-	-
11- Effect of capitalization (-)	-	-
12- Jap. Yen net effect (9+10+11)	-	-
TOPLAM (4+8+12)	**(12.187)**	**12.187**

(f) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities and maintaining adequate funds and reserves.

Liquidity risk tables

Conservative liquidity risk management includes maintaining sufficient cash, availability of sufficient amount of borrowings and funds and ability to settle market positions.

The Company manages its funding of actual and forecasted financial obligations by maintaining the availability of sufficient number of high quality loan providers.

The following table details the Company's remaining contractual maturity for its derivative and non derivative financial liabilities. Interests which will be paid on borrowings in the future are included in the relevant columns in the following table.

NOTE 32 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

31 December 2018

Contractual maturity analysis	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than five years (IV)
Non derivative financial liabilities						
Borrowings from banks	1.773.004	1.835.162	615.971	905.826	313.365	-
Trade payables	1.104.607	1.104.607	1.104.607	-	-	-
Other financial liabilities (*)	72.490	72.490	72.490	-	-	-
Total liabilities	**2.950.101**	**3.012.259**	**1.793.068**	**905.826**	**313.365**	**-**
Derivative financial liabilities						
Derivative cash inflows	-	-	-	-	-	-
Derivative cash outflows	(242)	(37.136)	-	-	(37.136)	-
	(242)	**(37.136)**	**-**	**-**	**(37.136)**	**-**

(*) Only the financial liabilities under other payables and liabilities are included.

NOTE 32 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

31 December 2017

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

(*) Only the financial liabilities under other payables and liabilities are included.

NOTE 32 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(g) Interest rate risk management

The majority of the Company's borrowings are based on floating interest rate terms. In order to manage the exposure to interest rate movements on certain portion of the bank borrowings, the Company uses interest rate swaps and changes floating rates to fixed rates.

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

Furthermore, for borrowings denominated in foreign currencies, except for US Dollars, the Company minimizes its interest rate risk by leveraging in foreign currencies that bear lower interest rate. In addition, a higher interest rate is applied to the trade receivables with a maturity when compared to the interest rate exposed for trade payables.

Interest rate sensitivity

The following sensitivity analysis is based on forecasted interest rate changes for the liabilities denominated in variable interest rates. The information details the Company's sensitivity to an increase/decrease of 0,50% for US Dollars and EURO, 0,25% for Japanese Yen and 1,00% for TRY denominated interest rates.

Since the principal payments of the loans with floating interest rates are not affected from changes in interest rates, the risk exposure of the Company loans is measured using a sensitivity analysis instead of a Value at Risk calculation.

Interest Position Table

	31 December 2018	31 December 2017
Floating Interest Rate Financial Instruments		
Financial liabilities	410.088	434.779

For the year round, if the US Dollars, EURO and Japanese Yen denominated interest rates increase/decrease by 100 base points in TRY, 50 base points in US Dollars and EURO and 25 base points in Japanese Yen respectively ceteris paribus, the profit before taxation and non-controlling interest after considering the effect of capitalization and hedging would be lower/higher TRY 1.849 thousand (31 December 2017: TRY 1.941 thousand).

NOTE 33 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES)

Additional information about financial instruments

Categories of the financial instruments and their fair values

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	Cash and cash equivalent	Available for sale financial assets	Derivative financial instruments through other comprehensive income/loss	Derivative financial instruments through profit/loss	Carrying value	Note
31 December 2018						
Financial Assets						
Cash and cash equivalents	-	-	62.468	-	62.468	4
Trade receivables	-	-	1.341.234	-	1.341.234	9
Financial investments	-	-	-	143	143	5
Other financial assets	-	-	4.936.114		4.936.114	10
Financial Liabilities						
Financial liabilities	-	-	1.773.004	-	1.773.004	8
Trade payables	-	-	1.104.607	-	1.104.607	9
Other liabilities	-	-	72.490	-	72.490	10/16/20
Derivative financial instruments	-	-	-	242	242	8
31 December 2017						
Financial Assets						
Cash and cash equivalents	11.895	-	-	-	11.895	4
Trade receivables	731.318	-	-	-	731.318	9
Financial investments	-	13.437	-	-	13.437	5
Other financial assets	3.339.536	-	-	-	3.339.536	10
Financial Liabilities						
Financial liabilities	-	-	1.339.237	-	1.339.237	8
Trade payables	-	-	439.446	-	439.446	9
Other liabilities	-	-	100.561	-	100.561	10/16/20
Derivative financial instruments	-	-	-	158	158	8

NOTE 33 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (cont'd)

Additional information about financial instruments (cont'd)

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

31 December 2018

Financial asset and liabilities at fair value		Fair value level as of reporting date		
	Book Value	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)	-

31 December 2017

Financial asset and liabilities at fair value		Fair value level as of reporting date		
	Book Value	Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	(158)	-	(158)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	-	-	-	-
Total	(158)	-	(158)	-

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 34 – SUBSEQUENT EVENTS

None.

NOTE 35 – OTHER ISSUES AFFECTING THE FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION

Convenience translation to English:

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