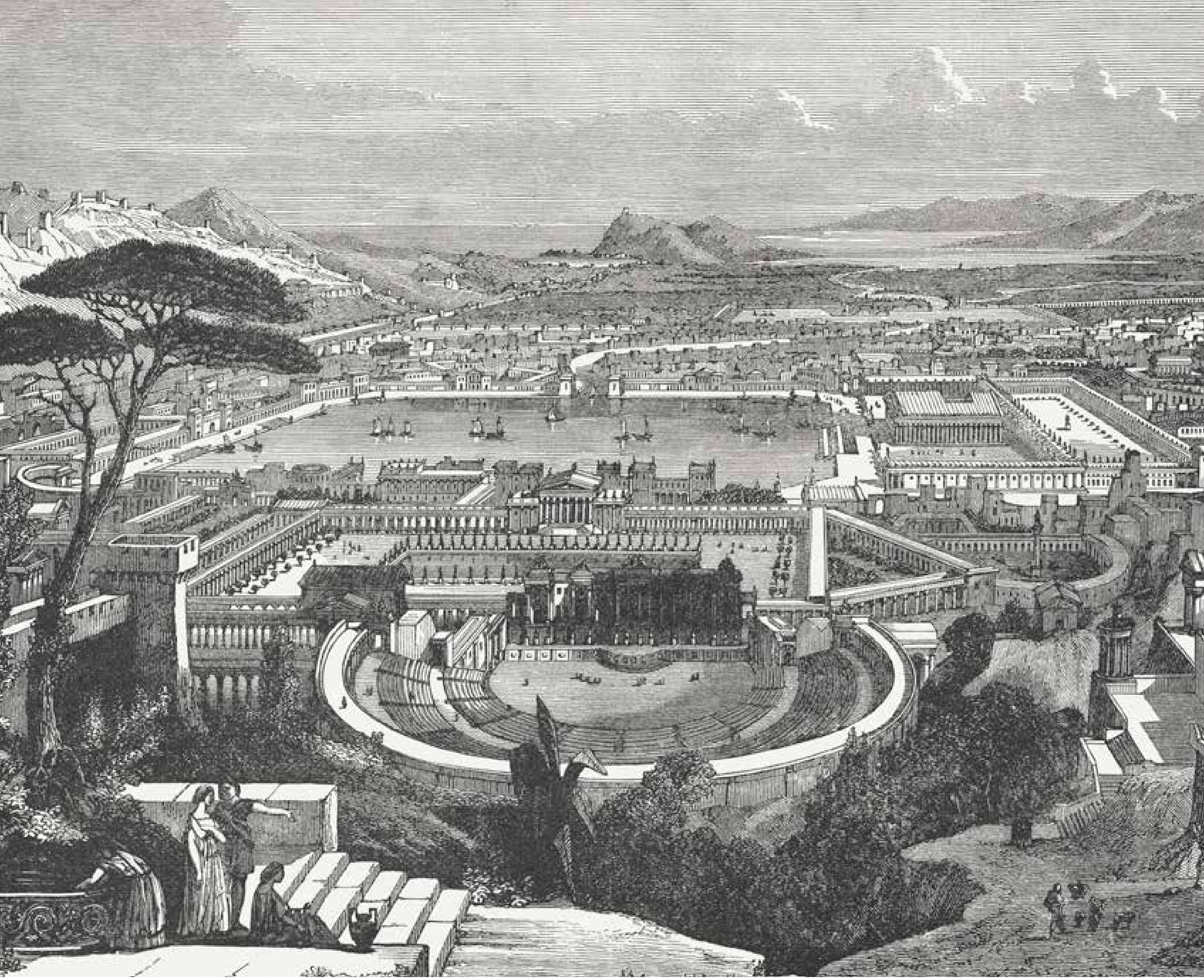


STRONG INTEGRATION, **ENDURING HERITAGE**

MINING METALLURGY
GROUP

INTEGRATED ANNUAL REPORT 2019

CONTENTS

Cover photo: The ancient city of Ephesus

ABOUT THIS REPORT

As OYAK Mining Metallurgy Group's first integrated annual report, this document contains information about the Group's economic, social, and environmental management approaches and performance results. For the first time this year, OYAK Mining Metallurgy Group is presenting a comprehensive report covering all aspects of its members' operations rather than having Group companies publish individual annual and sustainability reports of their own. Besides presenting the Group's financial and non-financial results, this report also assesses how OYAK Mining Metallurgy Group manages its business strategies, its corporate culture, its stakeholder relations, and its risks and opportunities in line with its goal of creating long-term value.

Scope and Reporting Standards

This report describes the management approaches, goals, and investments which OYAK Mining Metallurgy Group has formulated in line with sectoral and global trends and with broad stakeholder participation.

Although focusing largely on the Group's two production companies, Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (Erdemir) and İskenderun Demir ve Çelik A.Ş. (İsdemir), this report also provides information about other OYAK Mining Metallurgy Group members. The Company to which the information being presented applies is identified in each section of the report. This report covers the period beginning on 1 January 2019 and ending on 31 December 2019.

This report has been prepared so as to be compatible with the "Integrated Reporting Framework" published by the International Integrated Reporting Council as well as with the Global Reporting Initiative's GRI Standards "Core" option.

Auditing

The financial results presented in this report are taken from OYAK Mining Metallurgy Group's independently-audited consolidated financial statements. No figures other than these financial results have been independently audited or verified.

Feedback

This report may be accessed online from OYAK Mining Metallurgy Group's official website located at www.erdemir.com.tr. Please send any comments or suggestions you may have to our grupiletisim@erdemir.com.tr e-mail address.

We put people at the center of our business model and of all of our operations. Our aim is to create value for all of our stakeholders and for society at large.

MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

INTEGRATED MANAGEMENT APPROACH

Valued stakeholders,

As Turkey's biggest steelmaker and supplier to the country's industrial endeavors, OYAK Mining Metallurgy Group has important responsibilities in shaping the course of its sector. In line with this, we seek to create long-term value through an integrated management approach and a people-focused business model at whose heart we put sustainable growth and responsible production. Supplying products that play an important role in the development of such sectors as automotives, white goods, and construction, we contribute to the Turkish economy by meeting the domestic market's need for steel. Giving great importance to open and transparent communication, we keep all of our stakeholders informed about our financial, R&D, environment, and social performance.

In 2019 we sold 7,250 thousand tons of flat finished products and 1,057 thousand tons of long finished products. In line with the Group's strategy of pursuing growth in external markets in response to the contraction in our home market, we increased our exports by 6% as compared with 2018.

We continue to distinguish ourselves in domestic and international markets by virtue of the products we make and the services we provide while also tapping into new investment opportunities in the face of changing dynamics. Our Group's strategy of managing risks by anticipating them and acting accordingly is what helps we maintain our sectoral leadership. In order to ensure our sustainable growth, we keep a close watch on risks and opportunities that might impact on our Group by taking such issues as climate change, diminishing natural resources, and the transition to a circular economy into account. In line with this, last year we focused our investments in three areas: reducing our environmental impact, innovative occupational health and safety practices, and product development.

Last year we continued our R&D investments with no loss of momentum in order both to respond to the changing and growing needs of domestic and international markets and to make the high-quality steel that Turkish industry needs. We continue to transform both our own sector and other sectors for which iron and steel are inputs, especially through the innovative products and steelmaking improvements that it comes up with. As in previous years, we last year continued to address our customers' changing expectations with superior-quality products enhanced by R&D and innovation processes informed by the Group's long experience while also securing competitive advantages for ourselves by reducing costs. Our R&D center, the first of its kind in its sector, continues to grow year after year. As of end-2019, the center had completed 29 projects and was currently working on another 45.

We put people at the center of our business model and of all of our operations. Our aim is to create value for all of our stakeholders and for society at large. We support regional development and the entire Turkish economy in our capacity both as one of the country's biggest job-providers and as a creator of indirect employment for about 285 thousand people in the locales where our operations are carried out.

Within the Group, our aim is to foster a corporate culture that embraces differences without exception while acting with team spirit in the conduct of all of our business and other processes.

On the occasion of our first integrated report we have prepared and shared with you, we thank all of our stakeholders who have contributed to our successes.

Süleyman Savaş Erdem
Chairman of the Board of Directors

BOARD OF DIRECTORS

SÜLEYMAN SAVAŞ ERDEM

CHAIRMAN OF THE BOARD OF DIRECTORS

(REPRESENTATIVE OF OYTAŞ İÇ VE DIŞ TİCARET A.Ş.)

TOKER ÖZCAN

HEAD OF OYAK MINING METALLURGY GROUP - VICE CHAIRMAN OF THE BOARD OF DIRECTORS AND EXECUTIVE DIRECTOR

(REPRESENTATIVE OF OYAK PAZARLAMA HİZMET VE TURİZM A.Ş.)

TAHSİN YAZAR

MEMBER OF THE BOARD OF DIRECTORS

(REPRESENTATIVE OF REPUBLIC OF TURKEY MINISTRY OF TREASURY AND FINANCE-PRIVATIZATION ADMINISTRATION)

BARAN ÇELİK

MEMBER OF THE BOARD OF DIRECTORS

(REPRESENTATIVE OF OYKA KAĞIT AMBALAJ SANAYİİ VE TİCARET A.Ş.)

GÜLİZ KAYA

MEMBER OF THE BOARD OF DIRECTORS

(REPRESENTATIVE OF OYAK DENİZCİLİK VE LİMAN İŞLETMELERİ A.Ş.)

ASLIHAN DÖĞER

MEMBER OF THE BOARD OF DIRECTORS

(REPRESENTATIVE OF OMSAN LOJİSTİK A.Ş.)

YUNUS ARINCI

INDEPENDENT MEMBER OF THE BOARD OF DIRECTORS

ALİ FİDAN

INDEPENDENT MEMBER OF THE BOARD OF DIRECTORS

KURTULUŞ BEDRİ VAROĞLU

INDEPENDENT MEMBER OF THE BOARD OF DIRECTORS

Being one of the Turkey's biggest industrial companies, our primary goal is to continue contributing to the country's economy and industry in the future just as we have done in the past.

MESSAGE FROM THE HEAD OF GROUP

EFFECTIVE COST MANAGEMENT

Valued stakeholders,

It gives me pleasure to be coming before you with this first integrated annual report providing a comprehensive overview of OYAK Mining Metallurgy Group's integrated approach and value creation.

Responding to global and sectoral changes through a business model focused on sustainable growth, responsible production, and people, our strong financial growth enables us to continue creating value for all of our stakeholders.

Contrary to expectations, 2019 was a year in which the world's business and economic activity faltered, trade wars accelerated, and protectionist measures obstructed the movement of goods and services between countries. Global growth fell to the lowest level witnessed in a decade. Difficult a year as it was overall, 2019 posed special challenges for our own sector. Turkey's steel market shrank by 15% last year even as imports continued to hold onto their 50% share of the domestic market, thereby leading to quite an unfair competitive environment. Market conditions resulting from the addition of measures taken by USA and Europe to this already uneven playing field led us to come up with some creative solutions. Surrounded by challenges, we overcame them: in 2019 we increased our total proceeds to TL 27,465 million and registered EBITDA and net profit margins of 20.1% and 12.1% respectively.

When putting together our 2020 roadmap, we took quite a few global and regional parameters into account. The nearly zero rate of global growth achieved in 2019 is indicative of curbed global trade growth on the order of 2.3% in 2020: global trade is evidently not giving out any positive signals just yet. In the case of our own sector, the year-on growth in worldwide consumption of steel is expected to be a mere 1.7%. The protectionist measures that countries have been taking are altering the ways in which companies have been doing business with one another for many years. This suggests that global trade wars are going to lead to permanent changes around the world. In light of all of this, we foresee that 2020 is going to be as full of uncertainties and challenges as 2019 was at the very least.

When setting out our 2020 goals, we focused on mindfulness for efficiency, costs, and growth while remaining aware both of the preeminent importance of preventing work-related accidents and of our environmental responsibilities.

Being one of the Turkey's biggest industrial companies, our primary goal is to continue contributing to the country's economy and industry in the future just as we have done in the past. We want to hand our country on to future generations as a nation whose economy is advanced and whose standard of living is high. Aware of our responsibilities in order to achieve this objective, we are continuing our growth-focused efforts as an industrial concern which is strongly competitive thanks to effective cost and capacity management, whose financial performance is outstanding, and which both grows itself and nourishes growth in others.

As OYAK Mining Metallurgy Group, we regard the following issues as having the utmost priority in terms of their importance to both global and regional wellbeing and development:

- Climate change
- Energy management
- Occupational health and safety
- Product quality
- Circular economy
- Waste management

In The Global Risks Report 2020 published by the World Economic Forum, the three highest-priority risks are either climate change or else associated with climate change. That being so, we need to ready ourselves for a time when the world's production and consumption habits are being altered by climate change. Mindful of our responsibilities as OYAK Mining Metallurgy Group, we keep a close watch on such risks and we regularly revise our plans for the future accordingly.

Our R&D and innovation efforts enhance our competitive strength and enable us to respond to our stakeholders' needs. Our Group keeps a close watch on what customers want and addresses those wants by focusing on quality and product development. In 2019 a total of 22 new steel grades were developed: 15 hot-rolled, 2 cold-rolled, 4 tinned, and 1 galvanized. We will continue to expand our product portfolio in the period ahead in line with customer expectations while also focusing on quality and profitability.

Over the last three years, we have invested USD 675 million in sustainability, product development, productivity, R&D, innovation, and environment-related projects. We believe that efforts such as these will be the primary sources of our competitive strength in the years ahead.

In keeping with our "Zero Accident" principle, the utmost attention is being given to occupational health and safety parameters throughout our Group. Through our Behavior-Focused Safety Management System, we promote safe-behavior awareness among our employees from the very first day they are hired.

Ultimately our goal is to resolutely maintain our identity as an industrial concern which contributes to the Turkish economy and which both grows itself and nourishes growth in others. Pledging to continue creating value for all of our stakeholders, I therefore extend my thanks to our stakeholders, our customers, our suppliers, and all of our other business partners for making that possible.

Toker Özcan
Head of OYAK Mining Metallurgy Group - Vice Chairman of the Board of Directors and Executive Director

SENIOR MANAGEMENT

CAN ÖRÜNG
Enterprise Architecture and Human Resources Group Vice President / Information Technology Group Vice President (Acting)

İBRAHİM ÖZBUNAR
General Manager of Ersem (Acting)

FATİH ÇITAK
Marketing and Sales Group Vice President (Acting)

HALİL YILDIRIM
General Manager of Erdemir Maden

SALİH CEM ORAL
General Manager of Erdemir

TOKER ÖZCAN
Head of OYAK Mining Metallurgy Group

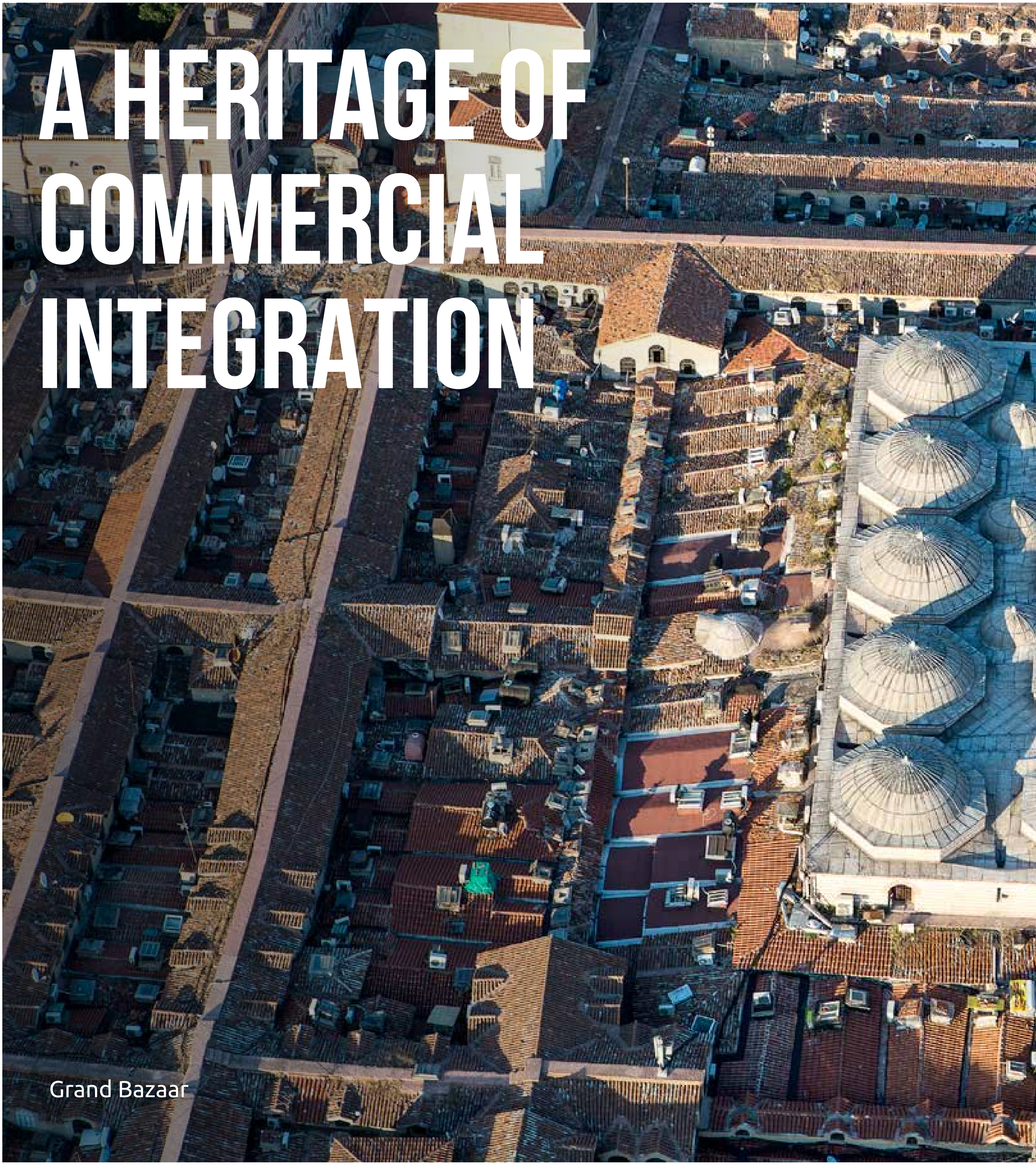
SÜLEYMAN SAVAŞ ERDEM
Chairman of the Board of Directors

EMRAH SİLAV
Financial Management and Financial Affairs Group Vice President

MESUT KEYFLİ
General Manager of İsdemir

İ. KÜRŞAD KORKMAZ
Procurement Group Vice President

A HERITAGE OF COMMERCIAL INTEGRATION



Grand Bazaar

Not just the world's oldest but also its biggest shopping mall, İstanbul's Grand Bazaar is a huge labyrinth of many dozens of covered streets and about four thousand shops occupying a total area of 45,000 square meters.

CORPORATE PROFILE

One of Turkey's biggest industrial concerns, OYAK Mining Metallurgy Group is active in the areas of flat and long steel production, steel service center operations, mining, industrial gas production, engineering, and project management services.

One of Turkey's biggest industrial concerns, OYAK Mining Metallurgy Group is active in the areas of flat and long steel production, steel service center operations, mining, industrial gas production, engineering, and project management services.

The Group's flagship company is Erdemir, which was founded in 1965 at a time when government decisions were being taken to re-invigorate Turkey's industrialization processes. After Erdemir was established to meet Turkey's demand for flat products, İsdemir was commissioned in 1975 in order to meet the demand for long products and semi-products.

Erdemir, which bought İsdemir in 2002, joined OYAK Group after the privatization process in 2006. Operating under OYAK Mining Metallurgy Group since 2017, the Group's domestic companies include Erdemir and İsdemir, as well as Erdemir Maden, which operates mining sites in Sivas and Malatya, Erdemir Mühendislik, which provides engineering management services to Group companies, Ersem, which meets the sector's requirement for sized flat steel, the İsdemir Linde Gaz Ortaklığı, which produces industrial gas, and Erdemir Enerji which was established to operate in the generation of renewable energy.

Erdemir Romania, which produces silicon steel in Romania, and Erdemir Asia Pacific Pte. Co., which carries out the Group's purchasing, marketing, sales and business development activities in the Asia-Pacific region, represent OYAK Mining Metallurgy Group abroad.

Besides having the Turkish steelmaking industry's first ministry-certified R&D center, the Group also owns two seaports, one in Ereğli on the Black Sea and other in İskenderun on the Mediterranean, each of which is the biggest in its region.

IN 2018, OYAK MINING METALLURGY GROUP RANKED 4TH AMONG EU MEMBER STATES, 9TH IN EUROPE AND 45TH IN THE WORLD IN THE CRUDE STEEL PRODUCTION RANKING.

OYAK Mining Metallurgy Group is the main supplier of Turkish industry with its hot and cold rolled, galvanized, tin chrome coated flat steel, sheet, billet and wire rod products. The Group adds value to a wide array of sectors such as automotive, energy, construction, pipe, shipbuilding, home appliances, machinery, heat, heavy industry, packaging and renewable energy where it provides basic inputs, with its products and services.

OYAK Mining Metallurgy Group, one of Turkey's largest employers, offers employment to 11,428 employees, and supports both working life and public finance by meeting the social security rights of its employees at the highest level and without disruption in line with the laws.

In 2018, OYAK Mining Metallurgy Group ranked 4th among EU member states, 9th in Europe and 45th in the world in the crude steel production ranking.

According to 2019 figures, OYAK Mining Metallurgy Group produced 8.6 million tons of crude steel, thereby singlehandedly accounting for 26% of Turkey's total crude steel output. The Group also continues to be an important player in Turkey's steel exports: in 2019 it shipped 1.7 million tons of steel products to 227 customers in 58 countries.

Shareholding Structure

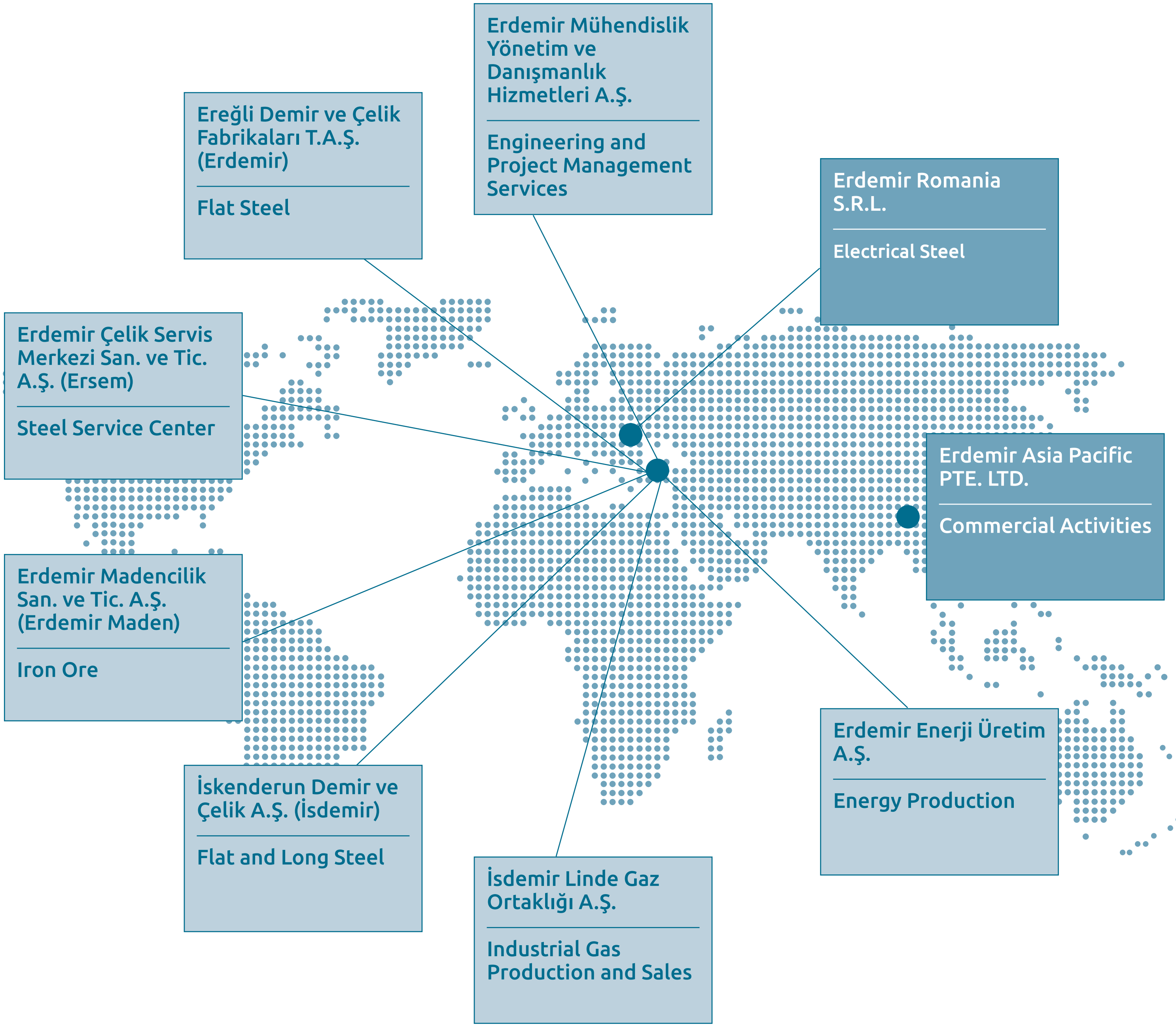
Erdemir

Shareholder	Share (TL thousand)	%
ATAER Holding A.Ş.	1,724,982	49.29
Quoted in Stock Exchange	1,667,181	47.63
Shares Held by Erdemir	107,837	3.08
Grand Total	**3,500,000**	**100.00**

İsdemir

Shareholder	Share (TL thousand)	%
Ereğli Demir ve Çelik Fabrikaları T.A.Ş.	2,751,326	94.87
Quoted in Stock Exchange	148,674	5.13
Grand Total	**2,900,000**	**100.00**

CORPORATE PROFILE



BESIDES HAVING THE TURKISH STEELMAKING INDUSTRY'S FIRST MINISTRY-CERTIFIED R&D CENTER, THE GROUP ALSO OWNS TWO SEAPORTS, ONE IN EREĞLİ ON THE BLACK SEA AND OTHER IN İSKENDERUN ON THE MEDITERRANEAN, EACH OF WHICH IS THE BIGGEST IN ITS REGION.

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (Erdemir)

Erdemir, Turkey's largest integrated flat steel producer, entered operation in 1965. Unwaveringly continuing its investments in line with the needs of the country's industry, the Company has reached a final product capacity of approximately 4 million tons of crude steel and approximately 5 million tons of final products.

Erdemir produces hot rolled steel, cold rolled steel, sheet, tin, chrome and galvanized coated sheet at international quality standards in its plants established in Ereğli, in Turkey's Black Sea region. The Company provides basic inputs for a wide range of industries including the automotive, white goods, energy, pipe profile, rolling mill, general manufacturing, electrical-electronics, machinery, heat insulators, shipbuilding, defence, packaging and renewable energy sectors.

Erdemir is Turkey's only steel sheet manufacturer, while also being home to Turkey's first steel R&D center in the Turkish steel industry to have been approved by the Ministry of Science, Industry and Technology of the Republic of Turkey and one of Turkey's biggest ports in the Black Sea region.

İskenderun Demir ve Çelik A.Ş. (İsdemir)

Founded in Hatay, part of the İskenderun region, in 1970, İsdemir is an integrated iron and steel plant with the highest liquid steel capacity in Turkey. İsdemir is Turkey's largest iron and steel factory based on its production capacity and was the third to be established. It was transferred to Erdemir in 2002 on the condition that İsdemir would initiate production of flat products.

İsdemir, the only integrated plant producing flat and long products in Turkey, now commands an annual capacity of 5.8 million tons of liquid steel, 3.5 million tons of flat products, 0.6 million tons of wire rod and 2.5 million tons of billet.

CORPORATE PROFILE

Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. (Ersem)

Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. (Ersem) was established in October 2001 and began operating in Gebze in 2002 with an annual capacity of 150 thousand tons of cold slitting line and 100 thousand tons of cold cut-to-length line. The Company offers steel service center services to companies operating in various branches of the industry such as general machinery and manufacturing, heat industry, electric electronics as well as automotive and white goods.

Ersem quickly responds to customers' instant requests, dispatches products of the desired quality and size, on time and at the demanded location, manages stocks, responds to expectations such as production in narrow tolerances and delivery in small batches. Ersem, Turkey's largest steel service center with a total of slitting and length cutting capacity of 1,950,000 tons, has four production plants in Gebze, Ereğli, İskenderun and Manisa.

Erdemir Madencilik San. ve Tic. A.Ş. (Erdemir Maden)

Erdemir Maden, which began ore production in Divriği, in the Sivas region, in 1938 and has continued its operations as the Iron Mines Enterprise since 1940, joined Erdemir in 2004.

Erdemir Maden, which is our country's only pellet plant that responds to the needs of iron and steel industry, has a pellet capacity of 1.5 million tons and lump ore production capacity of 750 thousand tons. Erdemir Maden produces hematite fragment and fine ore as well as pellet.

Erdemir Maden is Turkey's biggest iron-ore extraction and production company. The Company owns and operates an ore concentration and pelletizing plant located in Sivas's Divriği township and also holds a total of eleven mineral-extraction licenses: 9 for iron ore and one each for coal and manganese.

Erdemir Maden is the source of 33% of Turkey's iron ore and singlehandedly supplies 12% of the country's iron-ore requirements.

THE OWNER OF THE ONLY PELLETIZING PLANT SUPPLYING THE TURKISH IRON & STEEL INDUSTRY'S NEEDS, ERDEMİR MADEN IS TURKEY'S BIGGEST IRON-ORE EXTRACTION AND PRODUCTION COMPANY AND HOLDS A TOTAL OF ELEVEN MINERAL-EXTRACTION LICENSES.

OYAK MINING METALLURGY GROUP'S INTERNATIONAL OPERATIONS CONSIST OF ERDEMİR ROMANIA, WHICH PRODUCES SILICATE STEEL IN THAT COUNTRY, AND ERDEMİR ASIA PACIFIC PTE LTD, WHICH CONDUCTS THE GROUP'S PROCUREMENTS, MARKETING, SALES, AND BUSINESS DEVELOPMENT OPERATIONS IN THE ASIA-PACIFIC REGION.

Erdemir Romanya S.R.L.

Erdemir Romania, which was founded in the city of Targoviste in Romania, joined the Group in 2002. Erdemir Romania produces electrical steel (silicon flat steel), which is a key input in the electric motors, transformers and generators. Erdemir Romania is in an important position in Europe in its field, with 20% of its production used in the Romanian domestic market, with the remaining 80% exported to various countries, mainly in Europe.

Erdemir Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş.

Erdemir Mühendislik offers the Group companies a wide range of engineering and project management services ranging from planning to implementation in their investments to ensure that the companies achieve their profitability, product diversity, efficiency and quality objectives.

İsdemir Linde Gaz Ortaklığı A.Ş.

In line with İsdemir's goal of meeting the additional industrial gas needs and reducing the costs associated with the existing industrial gas system, the İsdemir Linde Gas Partnership Joint Stock Company was established in a 50% -50% partnership with Linde Gas Turkey. The Company started operations in December 2016.

Erdemir Asia Pacific Pte. Ltd.

The Company was founded in Singapore as a 100% Erdemir subsidiary and has been carrying out Erdemir's commercial activities in the Far East since its establishment in 2014.

Erdemir Enerji Üretim A.Ş.

The Company was established to produce renewable energy, with 100% of its capital owned by Erdemir

OYAK MINING METALLURGY GROUP IN 2019

8,307 THOUSAND TONS
OF FINISHED PRODUCTS SOLD

26%
THE SOURCE OF 26% OF TURKEY'S CRUDE STEEL PRODUCTION

NET PROFIT
USD 585 MILLION

ERDEMİR RANKS 9TH IN THE FORTUNE TURKEY 500 LIST
9TH

NET SALES REVENUES
USD 4,844 MILLION

IN 2018 ERDEMİR AND İSDEMİR TOGETHER GENERATED MORE TAX REVENUES THAN ANY OTHER PRIVATELY-OWNED COMPANY IN TURKEY
1ST

USD 675 MILLION WORTH OF INVESTMENT
SINCE 2017

1,938 THOUSAND TONS
OF IRON ORE PRODUCTION

EBITDA
USD 974 MILLION

İSTANBUL CHAMBER OF INDUSTRY 500 LIST:
ERDEMİR RANKS 8TH
İSDEMİR RANKS 7TH
ERSEM RANKS 67TH
ERDEMİR MADEN RANKS 247TH

1.7 MILLION TONS
EXPORTS

ERDEMİR CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE RATING: 9.49

ERDEMİR SHARES INCLUDED IN THE BIST SUSTAINABILITY INDEX FOR THE LAST FIVE YEARS

İSDEMİR INCLUDED IN THE BIST SUSTAINABILITY INDEX SINCE OCTOBER 2019

11,428 EMPLOYEES

48.9 HOURS TRAINING/ EMPLOYEE

ERDEMİR'S SUPERIOR SAFETY PERFORMANCE EARNED IT A PRESTIGIOUS BRITISH SAFETY COUNCIL INTERNATIONAL SAFETY AWARD

IN 2018 ERDEMİR RANKED 66TH AMONG TURKISH COMPANIES WITH THE HIGHEST R&D EXPENDITURES

485,511 MWH ELECTRICITY CONSERVED AND USD 28.7 MILLION IN SAVINGS GENERATED BY ENERGY-EFFICIENCY PROJECTS

WOMEN ACCOUNT FOR 19.2% OF NEW HIRES

ERDEMİR'S POWER STATION OPTIMIZATION PROJECT TOOK FIRST PLACE IN THE TURKISH PRODUCTIVITY AWARDS AND SECOND PLACE IN THE "OUTSTANDING ENERGY MANAGEMENT" CATEGORY AT THE ENERCON EUROPE 2019 ENERGY CONFERENCE

AT THE "STEEL EXPORT STARS" AWARDS, ERDEMİR PLACED SECOND IN THE "COLD / COATED FLAT EXPORTS" CATEGORY WHILE İSDEMİR PLACED SECOND AND THIRD IN THE "BIGGEST INCREASE IN LARGE-SCALE EXPORTS" AND THE "HOT FLAT EXPORTS" CATEGORIES RESPECTIVELY

1.86 BILLION M^3 OF WATER RECOVERED AND REUSED

USD 4.4 MILLION IN R&D EXPENDITURES

2018 ANNUAL REPORT RECEIVES 24 LEAGUE OF AMERICAN COMMUNICATIONS PROFESSIONALS "VISION" AWARDS IN FOUR SEPARATE CATEGORIES

STRATEGIC APPROACH

As it continues to improve its growth and financial performance, OYAK Mining Metallurgy Group focuses on creating value for all of its stakeholders. The three fundamentals underpinning the Group's value-creation efforts are sustainable growth, responsible production, and a people-focused approach.

Sustainable Growth

As one of Turkey's biggest industrial companies, OYAK Mining Metallurgy Group pursues balanced growth in domestic and international markets by protecting its strong financial performance through effective cost and capacity management.

By supplying the steel that is a crucially important input for Turkish industry, OYAK Mining Metallurgy Group contributes to economic growth by meeting the needs of its home market and reducing that market's dependence on imports.

Focus points

- Contribute to industrial and economic growth in Turkey as the sector's leader
- Manage costs competitively
- Protect flat-product domestic and international market shares
- Increase high-added-value grades in all product groups
- Increase long-product market share
- Be a trusted, zero-error solution partner for customers
- Enhance the Company's value and corporate brand reputation
- Increase resource and investment productivity

Responsible Production

OYAK Mining Metallurgy Group focuses on responsible production in order to ensure its sustainable growth. It is OYAK Mining Metallurgy Group's principle to minimize its environmental impact (including but not limited to its contributions to climate change), to play a role in the transition to a circular economy, and to achieve the best performance in occupational health and safety (OHS) through innovative practices.

OYAK Mining Metallurgy Group focuses on R&D investments both to develop its responsible production processes and to make products that address customers' needs.

Focus points

- Transparent and accountable management
- R&D focus in production processes
- Reduce environmental impact and develop leading OHS practices
- Develop products and services in line with current trends and technologies
- End-to-end integrated digital transformation that addresses needs

People-Centered Approach

OYAK Mining Metallurgy Group adheres to a people-centered approach that seeks to create value for its employees as well as for all other stakeholders who are affected by its operations. OYAK Mining Metallurgy Group seeks to contribute to socioeconomic wellbeing in local communities by supporting employment and regional development in localities where it conducts its operations.

Recognizing that its employees are its most important capital, OYAK Mining Metallurgy Group invests in improving their skills and competencies and in increasing their satisfaction.

Focus points

- Contribute to social wellbeing in operational territories
- Have a strong employer brand
- Strengthen a high-performance culture
- Have employees who embrace corporate priorities and values and who work as a team
- Have a corporate culture that is innovative and inspiring

OYAK Mining Metallurgy Group employs a variety of metrics in order to keep track of its strategic-issue management performance.

Strategic approach		Focus points		Metrics
1	Sustainable Growth	1.1	Contribute to industrial and economic growth in Turkey as the sector's leader	EBITDA
				Finished-product sales tonnage
				Finished-product production tonnage
				Pig iron production tonnage
		1.2	Competitive cost management	Conversion costs
		1.3	Protecting domestic and international market shares	Market share
		1.4	Increase high-added-value grades in all product groups	Increase the shares of high-added-value grades
		1.5	Be a trusted, zero-error solution partner for customers	Customer satisfaction survey scores
				Complaint-resolution times
				On-time delivery rates
		1.6	Enhance the Company's value and corporate brand reputation	Corporate reputation survey score
		1.7	Increase operational productivity	Overall equipment effectiveness
				Asset management performance

<table>
<tr><th colspan="2">Strategic approach</th><th colspan="2">Focus points</th><th>Metrics</th></tr>
<tr><td rowspan="11">2</td><td rowspan="11">Responsible Production</td><td>2.1</td><td>Transparent and accountable management</td><td>Corporate governance principles compliance rating</td></tr>
<tr><td rowspan="2">2.2</td><td rowspan="2">Production process R&D focus</td><td>R&D budget/Group sales revenues ratio</td></tr>
<tr><td>Savings generated by R&D projects during the most recent three years</td></tr>
<tr><td rowspan="4">2.3</td><td rowspan="4">Reduce environmental impact and develop leading OHS practices</td><td>Environmental performance index</td></tr>
<tr><td>Accident frequency rate</td></tr>
<tr><td>Average OHS training time/employee</td></tr>
<tr><td>OHS systematics implementation rate</td></tr>
<tr><td rowspan="4">2.4</td><td rowspan="4">Develop products and services in line with current trends and technologies</td><td>New-product sales tonnage</td></tr>
<tr><td>Ratio of new steel grades developed in the most recent three years to last year’s turnover</td></tr>
<tr><td>Number of new grades developed</td></tr>
<tr><td>Sales generated by new grades developed/supported in the most recent three years</td></tr>
<tr><td></td><td></td><td>2.5</td><td>End-to-end integrated digital transformation that addresses needs</td><td>Compliance with digital transformation project schedules</td></tr>
<tr><td rowspan="5">3</td><td rowspan="5">People-Centered Approach</td><td>3.1</td><td>Contribute to social wellbeing in operational territories</td><td>Corporate social responsibility projects</td></tr>
<tr><td>3.2</td><td>Have a strong employer brand</td><td>Employee turnover rate</td></tr>
<tr><td rowspan="3">3.3</td><td rowspan="3">Have employees who embrace corporate priorities and values and who work as a team</td><td>Average training time/employee</td></tr>
<tr><td>Number employee suggestions implemented/employee</td></tr>
<tr><td>Employee satisfaction survey</td></tr>
</table>

BUSINESS MODEL

INPUTS

FINANCIAL CAPITAL

Financial capital maximizes investors' returns by ensuring that the Company's financial structure is strong and by allowing the Company's costs to be managed more effectively and its financial risks to be managed more proactively.

- **High equity multiplier: 1.49**
- **Parent-company equity: USD 5.1 billion**
- **Operating capital: USD 1.7 billion**

SOCIAL CAPITAL

Undertaking projects that will contribute to social development and ensuring that communication is open and flows in both directions are important for creating enduring value for stakeholders.

- **Open, uninterrupted communication with all stakeholders**
- **Active, cooperation-based relations with public agencies and organizations**
- **Respectful, understanding relationships with local communities and non-governmental organizations.**

PRODUCED CAPITAL

Investments in plant and equipment are essential for efficient, quality production.

- **Tangible and intangible assets: USD 3.6 billion**
- **Production facilities and service centers in Turkey (Zonguldak, Hatay, Kocaeli, and Manisa) and in Romania (Targoviste)**
- **Total plant investment in the most recent three years: USD 276 million**

HUMAN CAPITAL

Recognizing its employees as its most important resource, OYAK Mining Metallurgy Group develops their competencies and leadership skills while also striving to provide all of its personnel with a healthy and safe workplace environment.

- **11,428 employees**
- **Experienced senior management team**
- **Employees whose levels of experience, technological knowledge, and loyalty are high**

INTELLECTUAL CAPITAL

OYAK Mining Metallurgy Group's competitive strength is sustained by its sectoral knowledge and experience and by its nonstop R&D investment.

- **55 R&D employees**
- **Business-model integration of employees' innovative ideas and suggestions (6,874 team members (net), 30,670 suggestions implemented)**
- **Groupwise digitalization projects**

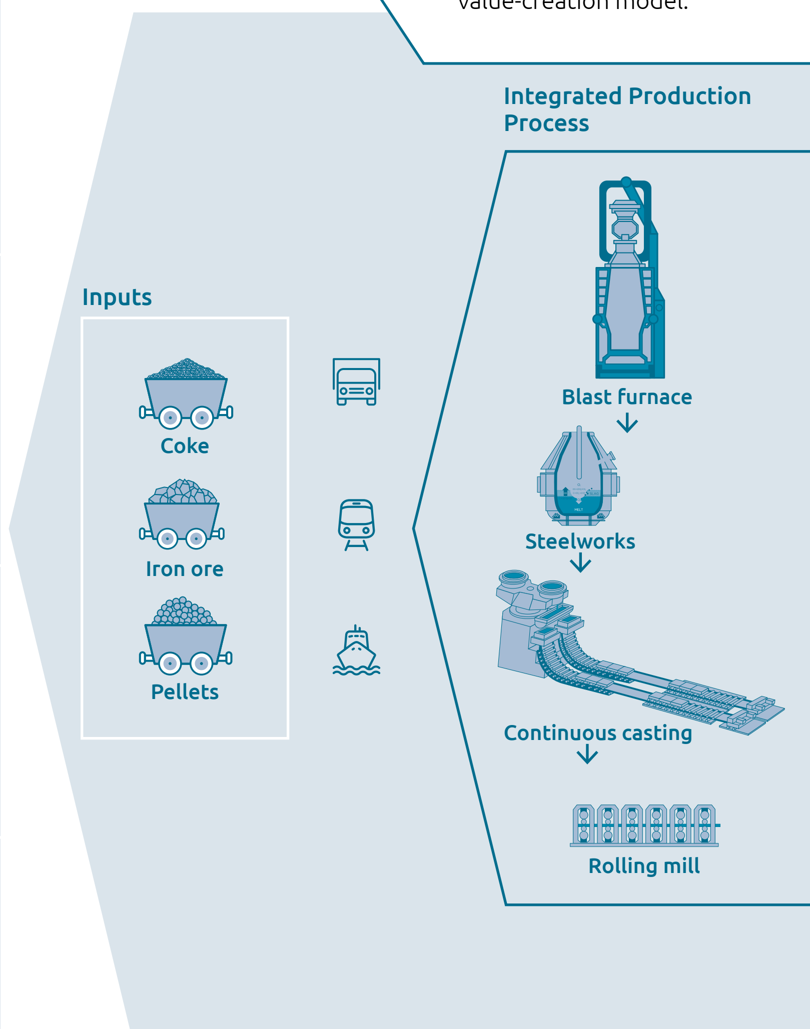
NATURAL CAPITAL

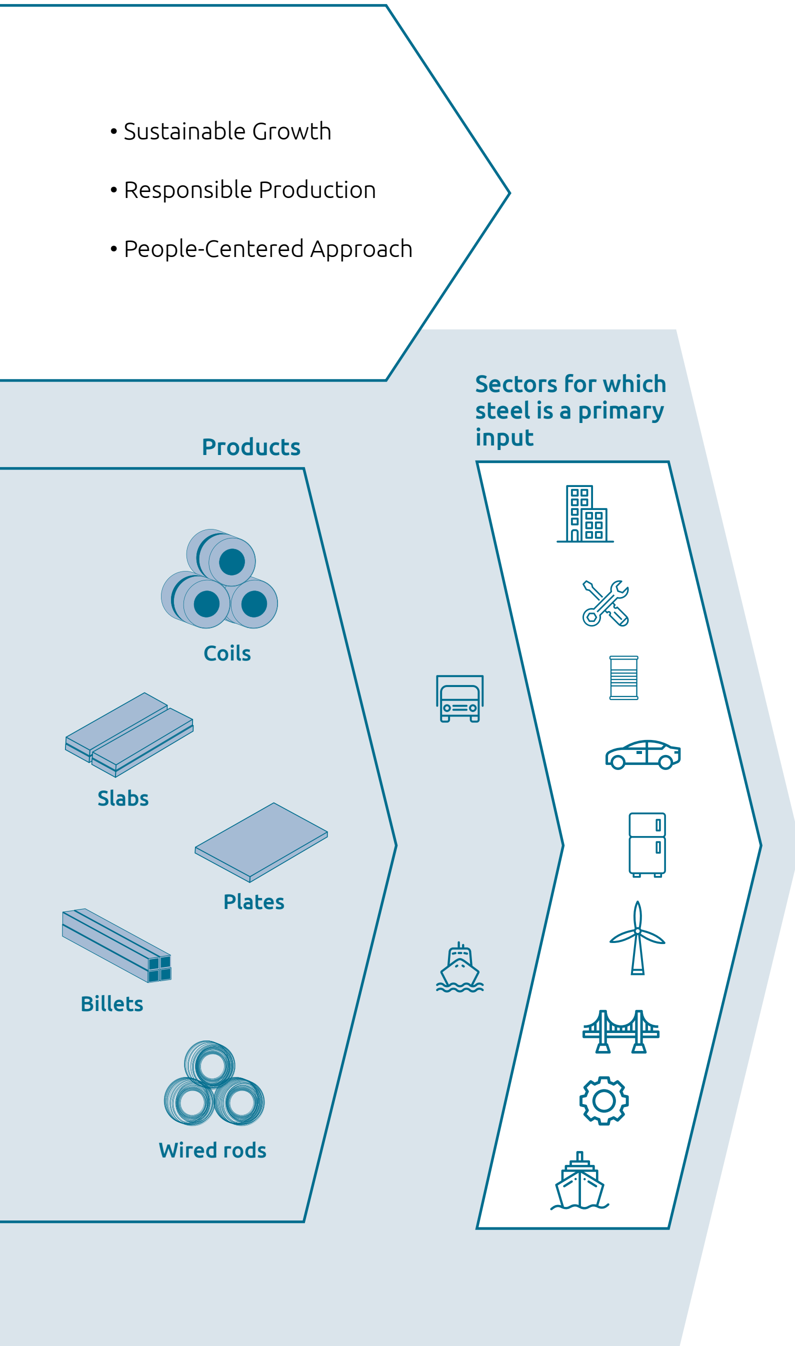
The primary raw materials consumed in steelmaking are such natural resources as iron ore and coal.

- **Surface water consumption: 457,066,230 m³**
- **Groundwater consumption: 2,842,870 m³**
- **Scrap steel consumption: 1.7 million tons**

STRATEGIC APPROACH

A strategic approach formulated in line with priority issues as well as with risks and opportunities provides the basis of OYAK Mining Metallurgy Group's value-creation model.





OUTPUTS

- Revenues: USD 4.8 billion
- EBITDA: USD 974 million
- Dividend productivity: High
- Increase in share value: 25%

- Social-responsibility expenditures: TL 4.8 million
- NGO memberships: 61

- Flat finished products: 7.26 million tons
- Long finished products: 1.03 million tons
- Iron ore: 1.94 million tons

- Average training time/employee: 48.9 hours
- Average OHS training time/employee: 23.4 hours

- As of end-2019: 29 projects completed, 45 projects in progress
- Patent and utility models applications: 14
- New steel grades: 22
- Benefit generated by implemented employee suggestions: USD 11.2 million

- Total reused water: 1,085,977,402 m^3
- Carbon emission reduction from energy efficiency projects: 260,348 tons
- Energy conserved by energy efficiency projects in 2019: 485,511,091 kWh
- Waste reused in processes: 680 thousand tons

BUSINESS MODEL

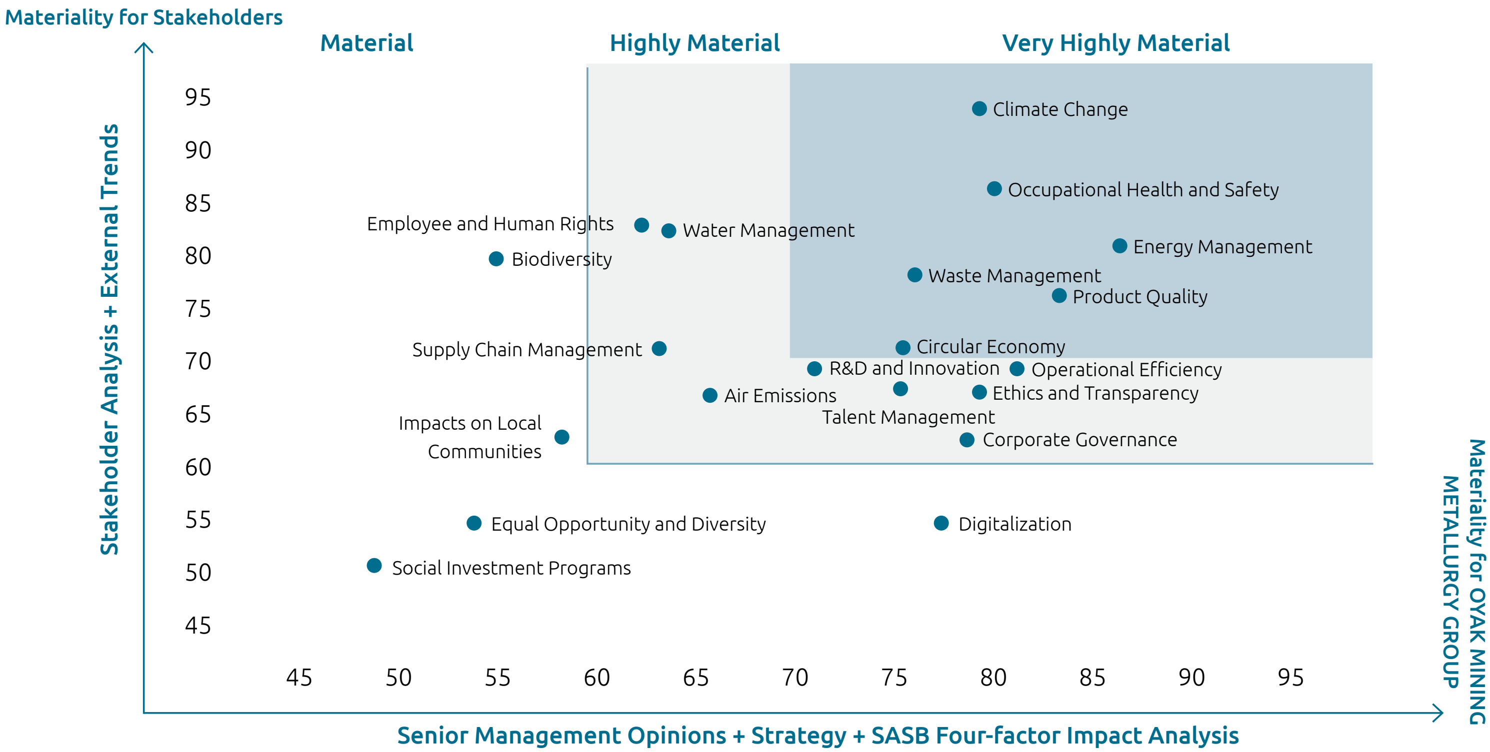
Stakeholder Relations and Materiality Analysis

Stakeholder relations and materiality analysis provide important inputs informing OYAK Mining Metallurgy Group's strategies and business models. The results of materiality analysis guide the formulation of Company strategies by making it possible to understand stakeholders' changing expectations and to get a better idea of risks and trends. When conducting this analysis, a broad sampling of stakeholders is queried, with topics ranging from external trends to impact assessment being included in the analysis process.

THE RESULTS OF MATERIALITY ANALYSIS GUIDE THE FORMULATION OF COMPANY STRATEGIES BY MAKING IT POSSIBLE TO UNDERSTAND STAKEHOLDERS' CHANGING EXPECTATIONS AND TO GET A BETTER IDEA OF RISKS AND TRENDS.

Creating a topic list	An extensive literature search was carried out and a long list of topics ranging from financial and legal framework developments to innovation and from competition to environment-related risks and opportunities was drawn up.
Stakeholder and external trend analysis	Online surveys were conducted in which different stakeholder groups that had been identified by means of a comprehensive stakeholder analysis were asked to prioritize the topics in the long list. In addition to the results of these surveys, global and sectoral trends, the priorities of other companies in the same sector, and the findings of international agencies' reports were also included in the analysis.
Senior management opinions and impact analysis	Senior management opinions, business strategies, and Sustainability Accounting Standards Board four-factor impact analysis results served as input in the identification of Company priorities. Impact analysis focused on financial, legal-framework, innovation, and competition-related risks and opportunities.
Identifying material topics	A short list of six topics identified as having the greatest importance both among the stakeholder priorities determined in line with stakeholder and external trend analysis and among the Company priorities determined in line with senior management opinions and impact analysis was finalized and then approved by senior management.

The six topics identified as having the highest priority for both stakeholders and OYAK Mining Metallurgy Group were climate change, energy management, occupational health and safety, product quality, the circular economy, and waste management. For OYAK Mining Metallurgy Group, whose operations are carried out in sectors that are exposed to some of the severest health and safety risks, occupational health and safety is a high-priority issue while the fact that steelmaking generates substantial CO_2 emissions increases the importance of climate-change and energy-management issues. Both waste management and circular economy are important topics not only because steel is a material that can be recovered and reused over and over again but also because some steelmaking by-products such as slag can be used for other applications.

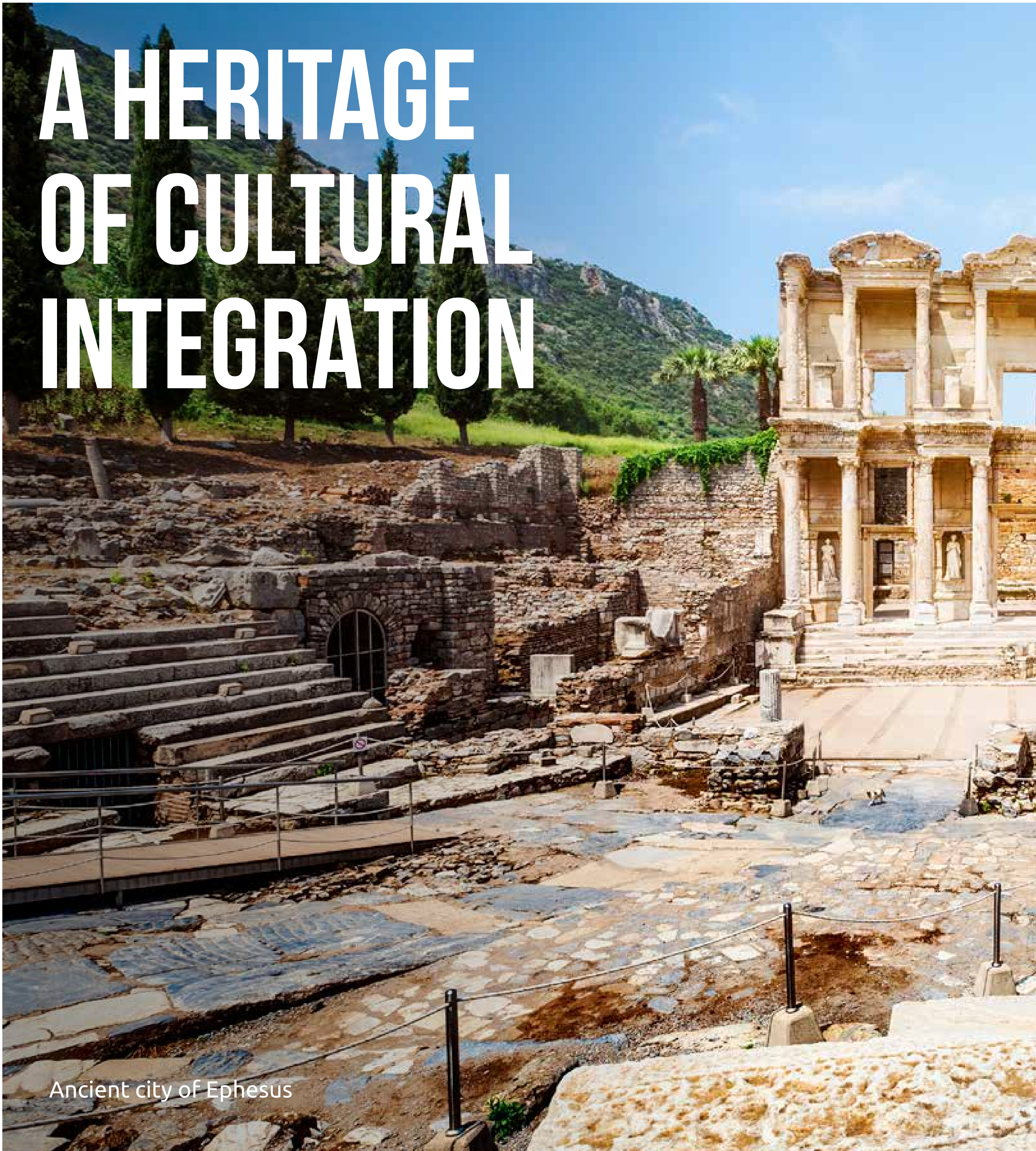


OYAK MINING METALLURGY GROUP BELIEVES THAT EFFECTIVE STAKEHOLDER ENGAGEMENT AND COMMUNICATION ARE ESSENTIAL FOR THE CREATION OF LONG-TERM VALUE.

OYAK Mining Metallurgy Group intends to continue the stakeholder analysis that it carried out in 2019 with the aim of including stakeholders' opinions in its decision-making mechanisms. The results of stakeholder analysis have so far revealed that while all stakeholders expect OYAK Mining Metallurgy Group to be in the forefront of the steelmaking industry's sustainable transformation and that occupational health and safety, quality, and energy are issues which the Group is managing well, external stakeholders say they wish they had access to more information about what OYAK Mining Metallurgy Group is doing.

OYAK Mining Metallurgy Group puts stakeholders at the heart of its business model. The Group believes that effective stakeholder engagement and communication are essential for the creation of long-term value. A variety of communication methods are used in order to understand stakeholders' opinions, demands, and expectations.

Stakeholder Group	Communication Method
Employees	Company intranet, intra-group TV, annual & sustainability reports, website, stakeholder analysis, social media, employee loyalty surveys, in-house newspaper, face-to-face interviews, events for employees and their families, suggestion system
Suppliers	One-on-one meetings, requests for tenders, annual & sustainability reports, websites, stakeholder analysis, social media
Public Agencies and Organizations	One-on-one meetings, annual & sustainability reports, websites, stakeholder analysis
Local Communities	Public environmental impact assessment meetings, websites, stakeholder interviews, social media
Customers	One-on-one meetings, trade fairs, marketing activities, after-sales communications, periodic technical meetings, annual & sustainability reports, seminars & conferences, websites, stakeholder analysis, social media
Sectoral Organizations, Associations, and NGOs	Collaborations, participation in working groups, annual & sustainability reports, websites, stakeholder analysis, social media
Investors	General meetings, investor conferences & meetings, one-on-one meetings, annual & sustainability reports, websites, stakeholder analysis, social media



Ancient city of Ephesus

One of ancient Anatolia's most important urban settlements, the site of Ephesus has been continuously occupied since the Neolithic period some 9,000 years ago. The city remained a major commercial and cultural center during the Archaic, Classical, Hellenistic, Roman, Byzantine, Anatolian Feudal, and Ottoman eras.

2019 OVERVIEW
ECONOMIC AND SECTORAL REVIEW

During 2019, the world economy suffered its worst period since the 2009 global economic crisis as trade wars gained momentum and global trade growth has faltered for the first time in a decade.

Having performed strongly in 2017 and into the first half of 2018, from midyear on to year-end the world economy subsequently suffered its worst period since the 2009 global economic crisis as trade wars gained momentum. Referring to the prevailing torpid growth as a “broad-based slowdown”, the International Monetary Fund (IMF) revised its 2019 global growth projection downward on five separate occasions during the year, with the last projection at a mere 3.0%. The IMF foresees that growth will recover in 2020-2021 and approach the ten-year average of 3.6%.

With 2019 now behind us, the most significant risk factors confronting us are:

- Developments in trade policy, especially as related to the US-China trade war
- The weakness of global growth and global manufacturing
- Slowdown in EU economies
- Geopolitical developments (Brexit, national elections, sanctions)
- Tensions in the Middle East brought on and perpetuated by Iranian sanctions
- Persistently slow growth in China, Europe, and Japan
- The steadily increasing level of indebtedness in China
- Uncertainties caused by the 2020 round of US elections.

Global trade growth has faltered for the first time in a decade. Having begun to wane in 2018, the growth in global industrial output registered negative in October 2019. The Purchasing Managers’ Index (PMI), which was below 50 at the outset of 2019, continued to slide for the next six months and was not able to return to 50 until November. Owing to the risk factors outlined above, the global manufacturing PMI is expected to remain flat during 2020.

In late 2019 the US Federal Reserve Bank changed course for the first time in seven years and embraced a policy of monetary expansion once again. Owing to this about-face, global economic activity can be expected to regain momentum in the first half of 2020. The performance of the global economy will determine the degree to which manufacturing industries benefit from this change and are able to recover.

2020 is likely to be a year in which the same risk factors will continue to have an impact on the global activity. Foremost among those risk factors is the progress that is made in US-China trade negotiations. Whatever that progress is will become the hallmark of 2020 and will shape the course of global economic growth.

IN THE FIRST HALF OF 2020, WHICH IS SEEN TO BE A YEAR THAT RISK FACTORS PRESERVE THEIR IMPACT, GLOBAL ECONOMIC ACTIVITY CAN BE EXPECTED TO REGAIN MOMENTUM.

2019 TURNED OUT TO BE A YEAR IN WHICH TURKEY MADE THE TRANSITION FROM CONTRACTION TO RENEWED GROWTH AND RECORDED RECORD-BREAKING EXPORTS AND CURRENT SURPLUSES.

THE TURKISH ECONOMY

Thanks both to measures that were announced and to structural changes that were carried out with respect to ongoing external risks and to internal developments, the Turkish economy was sheltered from the severest of the effects to which developing countries in particular were exposed. 2019 thus turned out to be a year in which Turkey made the transition from contraction to renewed growth and recorded record-breaking current surpluses.

Although negative growth had originally been forecast for Turkey's economy in 2019, as year-end drew nearer we witnessed a number of international agencies updating their projections and allowing for the possibility of positive growth rather than a sharp contraction. Owing to the effects of efforts to boost demand, the Turkish economy is expected to register a 3.0% growth rate in 2020.

Supported by signals of a recovery in global economic activity and responding also to positive developments in domestic demand, real-sector production is projected to increase. Recovery in automotives and construction–two key aspects of production–presumably will have a similar effect across the real sector as a whole.

THE GLOBAL STEEL INDUSTRY

The adverse changes in global economic balances that began in 2018 began making themselves seriously felt in the world's steelmaking industry in 2019. Weakening demand and countries' protectionist measures hampered worldwide trade in steel and triggered a rapid drop in steel prices while the contraction in demand also negatively impacted on production. Led largely by China, global demand for steel grew by 3.9% in 2019 according to the World Steel Association. In China, which singlehandedly uses half of the world's steel, the twelve-month rise in consumption was around 8%. In countries other than China however, last year's growth in consumption is likely to have been similar to that of the year before.

With the support of domestic demand, China increased its steel production by around 8% in 2019. Driven by this increase in Chinese production, worldwide output of steel continued to rise in the first six months of the year but elsewhere in the world the growth was rather more modest during the same period. A production downturn that began after mid-2019 became increasingly steeper as year-end approached. In the EU, where demand was hit particularly hard by a deteriorating economic outlook, steel production fell by around 4%.

For 2020-2021, the expectation is that global market conditions will return to balance and that steel production and consumption will both begin to rise again albeit only modestly.

ECONOMIC AND SECTORAL REVIEW

Supplying inputs for so many other sectors, steel sector has strategic importance for the economy of the country.

THE TURKISH STEEL INDUSTRY

With domestic demand for steel continuing to shrink in 2019 owing to the downturn in Turkey's construction industry, a deteriorating global economic outlook constrained the real sector's export-oriented production as well. Suffering from both effects, domestic steel consumption repeated the 15% decline that it experienced in 2018 and fell by another 15% in 2019. In absolute terms, steel consumption declined from 36 million tons to 26 million tons between end-2017 and end-2019. Of this 10-million-ton contraction in consumption, flat and long products accounted for 3-million and 7-million ton shares respectively.

In 2018 Turkey's steelmakers countered the effects of weak domestic demand by having recourse to export markets and thus were able to sustain their production levels. In 2019 by contrast, they were unable to do the same thing owing to export-market conditions made tougher by tariffs and so there was a 10% drop in steel output last year. Although Turkey managed to retain its standing as the world's eighth biggest steelmaker, its one-year fall in production was bigger than that of any other country in the world's top ten league table.

Because it supplies inputs for so many other sectors, steelmaking has strategic importance. A robust steel industry is a matter of vital economic and industrial necessity in Turkey, just as it is in every country with a strong industrial base. The fact that imported steel continues to supply about 45% of domestic consumption even as overall consumption is in decline remains a critical issue for our country. It is worth noting that countries whose domestic steel consumption is even less satisfied by imports than Turkey's is take tough measures to protect their own steel industries. Suffering from consumption losses in both its home and foreign markets owing to tariffs, quotas, and other trade distortions, Turkey's steel industry is the only one that is not being protected. At a time when steel consumption is falling in the two sectors–construction and manufacturing–that normally use more than any other, one would expect the share contributed by imports to fall significantly as well. That is not what is happening however: imports are still supplying nearly half of all domestic demand.

THE FACT THAT IMPORTED STEEL CONTINUES TO SUPPLY ABOUT 45% OF DOMESTIC CONSUMPTION EVEN AS OVERALL CONSUMPTION IS IN DECLINE REMAINS A CRITICAL ISSUE FOR OUR COUNTRY.

Global growth is expected to renormalize and recover modestly in 2020 at about 3.4% or so.

AS FOR THE GLOBAL STEEL INDUSTRY, EXPECTATIONS ARE THAT ITS PERFORMANCE IN 2020 IS GOING TO BE RELATIVELY LESS THAN WHAT IT WAS IN 2019. STEEL CONSUMPTION WORLDWIDE IS NOT EXPECTED TO GROW BY MORE THAN 1.7%.

THE OUTLOOK FOR 2020

Unable to cope with increasing uncertainty and mounting risks, the world economy experienced the lowest rate of growth witnessed in a decade in 2019.

Although the global economy's fragilities appear to be more or less unchanged as we embark upon 2020, the conventional wisdom that the worst of 2019's economic risks are behind us is growing stronger and this in turn strengthens the outlook for the global economy. Global growth is expected to renormalize and recover modestly in 2020 at about 3.4% or so.

In the United States, the US Federal Reserve Bank may continue to support monetary expansion in the expectation that the benefits arising from any relaxation in trade wars are likely to be limited. Taking into account such geopolitical risks as faltering global growth, ongoing trade wars, and Brexit, many countries' central banks may cut interest rates in order to give a boost to consumption.

Progress in Chinese-US trade talks holds out the prospects of triggering an uptrend in the recovery process. At end-2018, China was still implementing incentives policies aimed at supporting domestic demand. If China's government continues to make up for the shortfall in demand in such ways as these, it should be possible for the country's economic growth to be in the 6% range in 2020.

As for the global steel industry, expectations are that its performance in 2020 is going to be relatively less than what it was in 2019. Steel consumption worldwide is not expected to grow by more than 1.7%, although global economic recovery could lead to modest increases in countries other than China. It is thought that improvements in the US economy's growth, inflation, and interest rates will afford some relief to emerging economies and to steel consumption.

Having rapidly accommodated itself to 2019's volatile market conditions, in 2020 the Turkish steel industry will seek to deepen its presence in both existing and new markets even as it continues to abide by World Trade Organization rules and to compete fairly in the face of quotas and similar unfair practices in many parts of the world.

DEVELOPMENTS IN ERDEMİR AND İSDEMİR SHARE PRICES

Erdemir is Turkey's one of the broadest publicly traded companies with a free float of 47.63% and is included in the BIST 30 index.

Erdemir

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (Erdemir) shares have been traded on the stock exchange with the ticker symbol EREGL since the foundation of Borsa İstanbul in 1986. Erdemir is Turkey's one of the broadest publicly traded companies with a free float of 47.63% and is included in the BIST 30 index. The majority of Erdemir's shares that are traded on the Borsa İstanbul are in the hands of institutional investors.

Having begun trading in 2019 at TL 7.22/share, Erdemir shares completed the year at TL 9.04, which corresponds to a 25% increase in value and is attributable to the Company's financial and operational success as well as to the high dividends which it pays. As of end-2019, Erdemir's market value amounted to TL 31.64 billion. During the same twelve-month period, the BIST 100 index (31.12.2018=100) also increased by 25%.

İsdemir

On 28 March 2016, shares in İskenderun Demir ve Çelik A.Ş. (İsdemir) began trading on Borsa İstanbul's Pre-Market Trading Platform (BIST PMTP) under the "ISDMR" symbol. These shares were sold by the firm's parent company Ereğli Demir ve Çelik Fabrikaları T.A.Ş. Having crossed the BIST-mandated 5% publicly-traded stock threshold and satisfied the exchange's other requirements, İsdemir shares began trading in the BIST Star (Main) Group 2 market on 19 April 2018.

Having begun trading in 2019 at TL 5.66/share, İsdemir shares completed the year at TL 8.01, which corresponds to a 42% increase in value. As of end-2019, İsdemir's market value amounted to TL 23,229 million.

HAVING BEGUN TRADING AT TL 5.66 IN 2019, İSDEMİR'S SHARES SUBSEQUENTLY INCREASED BY 42% IN VALUE AND CLOSED THE YEAR AT TL 8.01.

Ticker Symbols

Erdemir

Borsa İstanbul: EREGL

Bloomberg: EREGL TI

Reuters: EREGL.IS

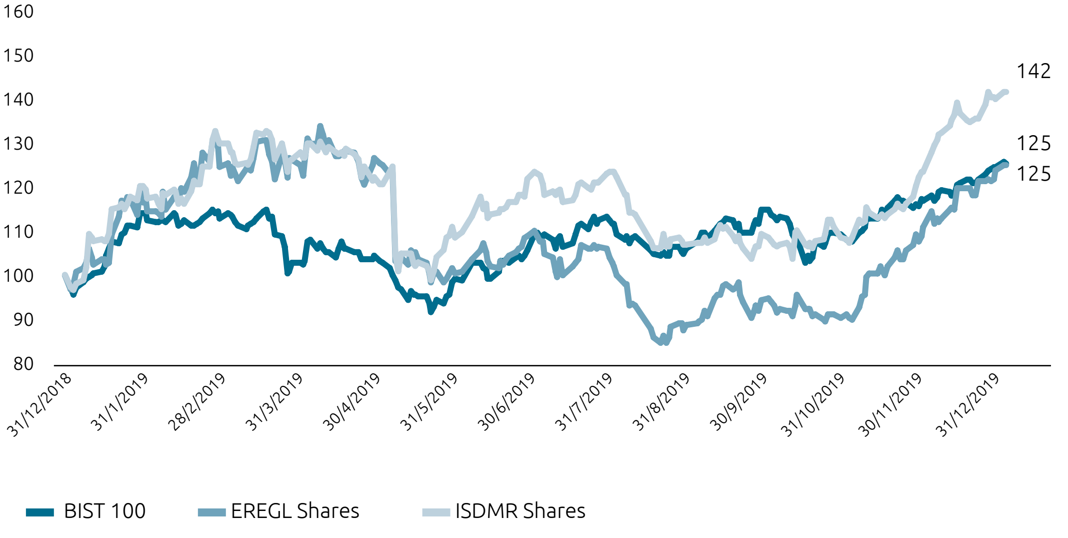
İsdemir

Borsa İstanbul: ISDMR

Bloomberg: ISDMR TI

Reuters: ISDMR.IS

ERDEMİR vs. İSDEMİR vs. BIST 100 INDEX (31.12.2018=100)



INVESTMENTS

Whenever investing in its operations or in plant resources, OYAK Mining Metallurgy Group focuses on minimizing costs, maximizing productivity, and pursuing innovation.

A total of 28 investments were undertaken at Erdemir and İsdemir during 2019.

Since 2017, OYAK Mining Metallurgy Group has spent USD 276 million in product development, efficiency, R&D, innovation, and environmental-impact-mitigation investments at Erdemir and İsdemir. The Group has laid out a three-year investment plan that calls for the undertaking of USD 1.5 billion worth of similar projects in line with its strategic objectives.

Investments Completed in 2019

Erdemir No. 2 Continuous Galvanizing Line Project

Erdemir's No. 2 Continuous Galvanizing Line Project, which has high-tech capabilities to produce superior-quality custom products for the automotives industry, was completed and the works were commissioned.

Erdemir No. 2 Cold Rolling Mill Pickling Tandem Line Product-Range & Capacity-Increase Project

Cold-product production capacity was enlarged by investments which increased width limits and throughput and which replaced equipment in need of modernization.

İsdemir Power Station Dust-Retention & Water Cooling System Modernization

The dust-retention and water-cooling system capacities of the steel shop's secondary metallurgical electric crucible were increased.

Continuing Investments in 2019

Erdemir No. 2 Blast Furnace Renovation Project

The goal of this project is to renovate the 2nd blast furnace, which is in need of relining, so as to reduce production losses and costs. Detailed engineering work and project-related purchasing processes, procurements, manufacturing, and site-related works are currently in progress.

Erdemir No. 2 Hot Rolling Mill Quality & Sustainability Investments Project

Hot rolling mill quality and sustainability investments are intended to improve product quality and customer satisfaction. The project that the first phase has been completed will provide increase in product quality.

Erdemir R&D Center and Simulation Center Project

The main purpose of establishing an R&D Simulation Center is to determine the R&D projects that will create value in OYAK Mining Metallurgy Group and the continuation of these projects in order to achieve the targeted results. Raw material and product development activities will be carried out within the scope of the project.

The raw material studies are aimed at the recycling of wastes, determining lower-cost alternative materials and technologies and to develop processes. The product development studies, on the other hand, are aimed at developing new steel grades, determining the production process parameters of the new grades, designing technical suggestions for the solution of problems which may arise during the production process, and the use of new products. Project-related construction work has been completed and the building has been turned over to R&D for it to use. Work on commissioning the simulators is currently in progress.

Erdemir No. 6 Steam Boiler Project

The goal of this project is to improve and maximize the efficiency of using the heat in blast-furnace gasses to generate steam. The project's detailed engineering, equipment manufacturing, and delivery works are currently in progress.

Erdemir Basic Oxygen Furnace Convertors Modernization Project

The goal of this project is to ensure the sustainability of steelmaking processes by modernizing equipment that will prevent wear and deformations that might otherwise lead to production stoppages.

OYAK MINING METALLURGY GROUP HAS LAID OUT A THREE-YEAR INVESTMENT PLAN THAT CALLS FOR THE UNDERTAKING OF USD 1.5 BILLION WORTH OF PROJECTS IN LINE WITH THE GROUP'S STRATEGIC OBJECTIVES.

THE MAIN OBJECTIVE OF SETTING UP AN R&D SIMULATION CENTER IS TO DETERMINE WHAT R&D PROJECTS WILL CREATE VALUE AND TO ENSURE THAT THE PROJECTS ARE CONDUCTED SO AS TO ACHIEVE THEIR INTENDED RESULTS.

İsdemir New No.1 Blast Furnace Project

The project aims to increase volumes of the final product, achieved through an increase in the furnace volume, an increase of the production of pig iron and through conversion of the increased blast furnace gas into the electricity generation, while preventing losses resulting from the relining of the No.3 Furnace.

İsdemir No. 3 Coke Battery Renovation Project

The goals of this project are to modernize İsdemir's No. 3 coke battery, to increase by-product sales, and to conserve energy by increasing the amount of electricity that can be generated by the increased volume of coke gas that is given off.

İsdemir Vacuum Degassing Plant Project

İsdemir intends to set up a vacuum degassing plant so as to make it possible for it to produce low-hydrogen, low-nitrogen, and ultra-low-carbon high-quality steel grades. The goals of this project are to improve carbon-removal, reduce processing time, and prevent crucible production losses.

New Investments in 2019

Erdemir New Sinter Project

The goals of this project are to set up a desulfurization plant and to improve pellet and coke economy by increasing the percentage of sinter used in blast furnaces.

Erdemir Steel Shop Secondary Dust Collection System Capacity Increase Project

Under this project, a new dust collection system will be installed as an addition to the existing secondary dust collection system.

Erdemir No. 1 Slab Furnace Modernization Project

The goals of this project are (1) to eliminate quality defects caused by slab furnace No. 1 thereby reducing the need to use slab furnace No. 4 instead and (2) to improve the performance of slab furnace No. 1 in the production of strip.

İsdemir New Sinter Plant

The goals of this project are to increase the percentage of sinter being used and to reduce pellet and coke consumption.

İsdemir No.1 Blast Furnace Top Recovery Turbine (TRT) Project

The goal of this project is to use the pressure of the gas released by the new No. 1 blast furnace to generate additional electricity.

PRODUCTION & SALES

OYAK Mining Metallurgy Group produced a total of 8,608,000 tons of crude steel in 2019.

Production

In 2019 OYAK Mining Metallurgy Group's Ereğli facilities produced a total of 4,082 thousand tons of flat products of which 1,637 thousand tons were cold-rolled and 2,445 thousand tons were hot-rolled while the Group's İskenderun facilities produced a total of 4,201 finished products of which 1,026 thousand tons were long products and 3,175 thousand tons were hot-rolled products.

Production (thousand tons)	2017	2018	2019
Hot Metal	8,389	8,351	7,805
Ereğli	3,270	3,078	2,747
İskenderun	5,119	5,273	5,058
Liquid Steel	9,392	9,322	8,787
Ereğli	3,672	3,482	3,161
İskenderun	5,720	5,840	5,626
Crude Steel	9,203	9,145	8,608
Ereğli (Slab)	3,565	3,387	3,072
İskenderun (Slab)	4,300	4,746	4,511
İskenderun (Billet)	1,338	1,012	1,025
Flat Steel	7,713	7,743	7,257
Ereğli (Tin Plate)	264	225	244
Ereğli (Galvanized)	329	334	401
Ereğli (Cold Rolled)	1,230	1,142	992
Ereğli (Hot Rolled)	2,293	2,216	2,101
Ereğli (Plate)	346	405	344
İskenderun (Hot Rolled)	3,127	3,399	3,164
İskenderun (Slab-Non-Group)	124	22	11
Long Steel	1,328	980	1,026
Billet	688	432	438
Wire Rod	640	548	588
Iron Ore	1,996	1,770	1,938
Pellet	1,501	1,513	1,547
Other	495	257	391

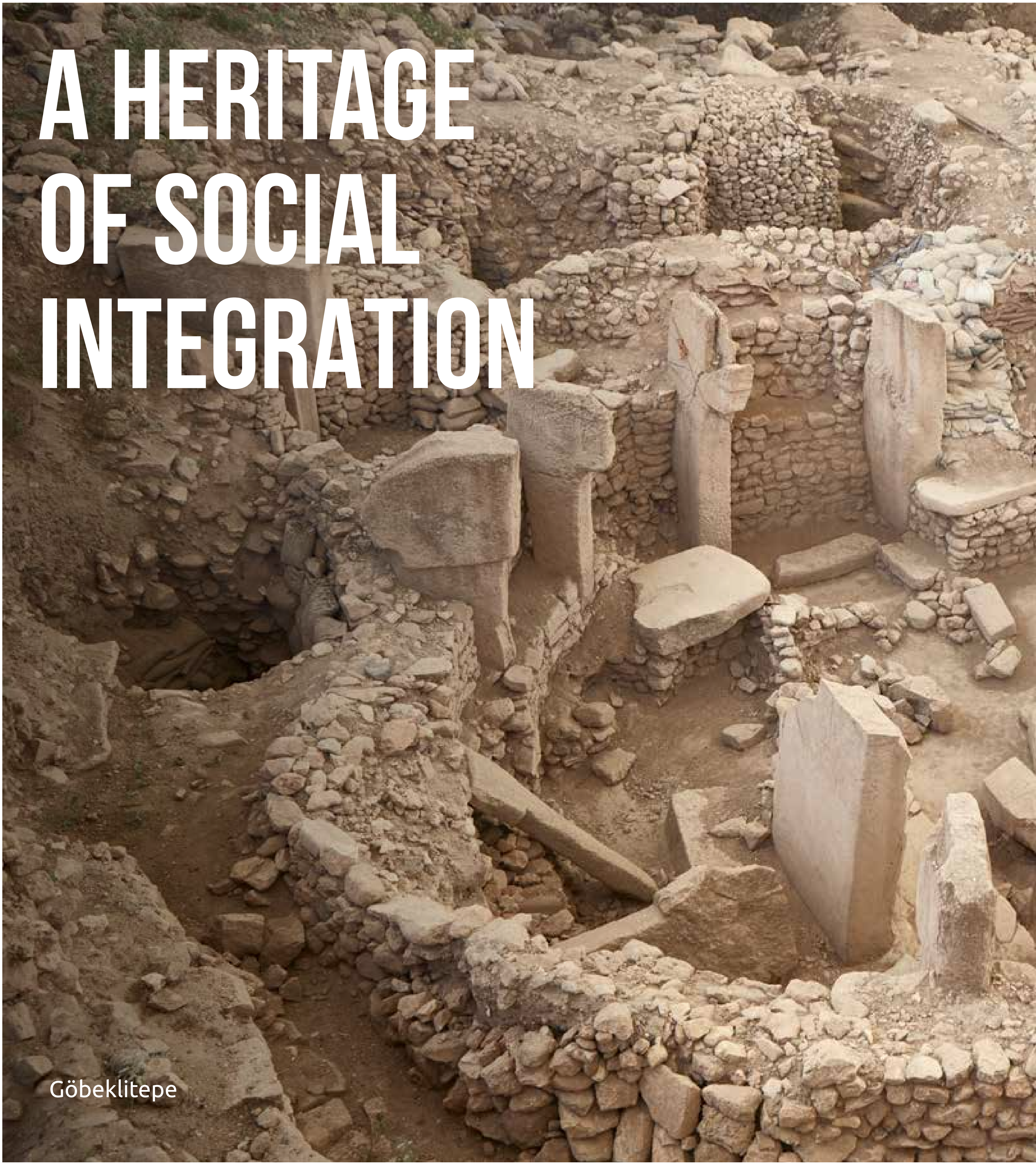
OYAK MINING METALLURGY GROUP'S LONG-PRODUCT SALES INCREASED BY 15% AND WEIGHED IN AT 1.1 MILLION TONS IN 2019.

Sales

In 2019 OYAK Mining Metallurgy Group's Ereğli facilities sold a total of 4,128 thousand tons of finished products while its İskenderun facilities sold a total of 4,179 thousand tons of the same. Of the Ereğli facilities' total sales of finished products, 1,043 thousand tons were made through the Group's Ersem subsidiary. Sales of flat products amounted to 7.2 million tons while sales of long products weighed in at 1.1 million tons.

21% of the Group's total sales were made to customers in other countries: 1,723 thousand tons of finished products, consisting of 1,504 thousand tons of flat products and 219 thousand tons of long products, were exported in 2019.

SALES (thousand tons)	2017	2018	2019
Flat Finished Product	7,594	7,482	7,250
Ereğli (Tin Plate)	267	221	246
Ereğli (Galvanized)	63	64	100
Ereğli (Cold Rolled)	919	880	734
Ereğli (Hot Rolled)	1,802	1,710	1,678
Ereğli (Plate)	343	370	327
İskenderun (Hot Rolled)	2,908	3,142	3,110
İskenderun (Slab)	123	19	12
Ersem (Galvanized)	289	259	273
Ersem (Cold Rolled)	370	327	343
Ersem (Hot Rolled)	510	490	427
Long Finished Product	1,364	919	1,057
Billet	717	395	456
Wire-Rod	647	524	601
Iron Ore	2,052	1,880	1,941
Pellet	1,485	1,510	1,544
Other	567	370	397



A HERITAGE OF SOCIAL INTEGRATION

Göbeklitepe

The product of tremendous human organizational ability and imagination dating as far back as 12,000 years, Göbeklitepe is a manmade hill in southeastern Anatolia. A Neolithic sanctuary whose location, dimensions, and architecturally complex temples and structures make it unique, Göbeklitepe was designated a UNESCO World Heritage Site in 2018.

CORPORATE GOVERNANCE

OYAK Mining Metallurgy Group espouses all the accepted fundamental principles of corporate governance: fairness, transparency, accountability and responsibility.

By analyzing risks and opportunities, strong corporate governance makes it possible to achieve long-term sustainable success and to create value for shareholders and all other stakeholders. A company's sustainability is no longer affected just by its management/administration-related risks and uncertainties however but also by its environmental and social risks as well. All these risks can be managed only by means of an integrated approach to corporate governance.

OYAK Mining Metallurgy Group espouses all the accepted fundamental principles of corporate governance: fairness, transparency, accountability and responsibility. OYAK Mining Metallurgy Group behaves with the utmost care and diligence when complying with the requirements of capital markets law and with the regulations and decisions of the Capital Markets Board. OYAK Mining Metallurgy Group keeps the public regularly advised of its performance on such issues by means of the corporate governance compliance statements that it issues.

A copy of OYAK Mining Metallurgy Group's corporate governance rating report may be found at the address given below.

Corporate Governance Rating

Erdemir's (Ereğli Demir ve Çelik Fabrikaları T.A.Ş.) corporate governance principles compliance report was prepared by Kobirate International Credit Rating and Corporate Governance Service Inc. According to this report, **Erdemir's existing 9.27 (92.74%) corporate governance rating was raised to 9.49 (94.86%) as of 26 July 2019.** This score not only shows that the Company is substantially in compliance with the corporate governance principles published by the Capital Markets Board but is also evidence that potential risks are being detected and kept under control to a substantial degree.

Borsa İstanbul Sustainability Index

Only companies whose shares are traded on Borsa İstanbul (the İstanbul stock exchange) and whose corporate sustainability performance is rated high are included in the exchange's BIST Sustainability Index. OYAK Mining Metallurgy Group company Erdemir became the first steelmaker to be included in this index in November 2015; in November 2019, İsdemir became the second steelmaker when it was included as well.

OYAK Mining Metallurgy Group Board of Directors and its structure

OYAK Mining Metallurgy Group Board of Directors consists of nine members, two of whom are women, and three of whom are independent directors. In keeping with the separation of powers and authorities principle, the Company's chairman and its general manager (chief executive officer) are different individuals.

ERDEMIR'S EXISTING 9.27 (92.74%) CORPORATE GOVERNANCE RATING WAS RAISED TO 9.49 (94.86%) AS OF 26 JULY 2019.

For Corporate Governance Rating Report: https://www.oyakmadenmetalurji.com.tr/Sites/1/upload/files/Kurumsal_Yonetim_Derecelendirme_Raporu_26.07.2019-2520.pdf

Board of Directors

Board of Directors	Position	Appointment Date
OYTAŞ İç ve Dış Ticaret A.Ş. (Representative: Süleyman Savaş ERDEM)	Chairman of the Board of Directors	27 May 2013 (*)
OYAK Pazarlama Hizmet ve Turizm A.Ş. (Representative: Toker ÖZCAN)	Vice Chairman of the Board of Directors and Executive Director	13 September 2012 (*)
Republic of Turkey Treasury and Finance Ministry Privatization Administration (Representative: Tahsin YAZAR)	Member of the Board of Directors	20 September 2012 (*)
OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş. (Representative: Baran ÇELİK)	Member of the Board of Directors	12 September 2012 (*)
OYAK Denizcilik ve Liman İşletmeleri A.Ş. (Representative: Güliz KAYA)	Member of the Board of Directors	12 September 2012 (*)
OMSAN Lojistik A.Ş. (Representative: Aslıhan DÖĞER)	Member of the Board of Directors	11 September 2012 (*)
Yunus ARINCI	Independent Member of the Board of Directors	31 March 2016
Ali FİDAN	Independent Member of the Board of Directors	31 March 2017
Kurtuluş Bedri VAROĞLU	Independent Member of the Board of Directors	31 March 2017

(*) The date on which this director representing a corporate shareholder took office.

Senior Management

Senior Management	Position	Appointment Date	Education	Professional Experience
Toker ÖZCAN	Vice Chairman of the Board of Directors and Executive Director	12 October 2018	Middle East Technical University – Mechanical Engineering	27 Years
İbrahim Emrah SİLAV	Financial Management and Financial Affairs Group Vice President	01 December 2017	Middle East Technical University – Economics	20 Years
Fatih ÇITAK (Acting)	Marketing and Sales Group Vice President	18 January 2020	İstanbul Technical University – Industrial Engineering	22 Years
İsmail Kürşad KORKMAZ	Procurement Group Vice President	21 February 2017	Middle East Technical University – Political Science and Public Administration	24 Years
Can ÖRÜNG	Enterprise Architecture and Human Resources Group Vice President	07 February 2017	İstanbul Technical University – Business Engineering	18 Years
Can ÖRÜNG (Acting)	Information Technology Group Vice President			
Salih Cem ORAL	General Manager of Ereğli Demir ve Çelik Fabrikaları T.A.Ş.	06 June 2018	İstanbul Technical University – Metallurgical Engineering	26 Years
Mesut KEYFLİ	General Manager of İskenderun Demir ve Çelik A.Ş.	12 October 2018	İstanbul Technical University – Electrical Engineering	30 Years
Halil YILDIRIM	General Manager of Erdemir Madencilik Sanayi ve Ticaret A.Ş.	02 September 2013	Sivas Cumhuriyet University – Geology Engineering	22 Years
İbrahim ÖZBUNAR (Acting)	General Manager of Erdemir Çelik Servis Merkezi Sanayi ve Ticaret A.Ş.	17 January 2020	Ege University – Agriculture Engineering	24 Years

CORPORATE GOVERNANCE

Committees and Their Responsibilities

In the fulfillment of its duties and responsibilities, OYAK Mining Metallurgy Group Board of Directors is assisted by a corporate governance committee, an audit committee, and a risk detection committee whose members are company directors. Owing to the number of seats on the board, one director may be on more than one of these committees. Committees may invite experts to attend their meetings in order to solicit such persons' views and opinions. The results of committee meetings are written up as reports that are circulated among all members of the board.

Because sustainability management is concerned with social, environmental, and ethical issues, it is the responsibility of the Strategic Planning & Sustainability Department, which reports to OYAK Mining Metallurgy Group's Operational Excellence Directorate. This unit identifies strategies and goals and monitors implementation. Its operations are supervised directly by OYAK Mining Metallurgy Group's chief executive officer.

Ethical Principles & Compliance

OYAK Mining Metallurgy Group has published a set of Code of Ethics and Business Conduct setting out OYAK Mining Metallurgy Group' ethical behavior-related expectations, standards, and practices that are fundamental to all of the Group's business relationships and dealings. These principles apply equally not only to everyone who is directly employed by OYAK Mining Metallurgy Group but also to non-employees who act on behalf of and to those who work for parties that act on behalf of OYAK Mining Metallurgy Group. OYAK Mining Metallurgy Group has published an Anticorruption Policy which specifies what corrupt practices are and how they are to be dealt with.

Every OYAK Mining Metallurgy Group employee, or supplier, or any other stakeholder may direct any matter involving compliance with OYAK Mining Metallurgy Group's ethical guidelines and/or anticorruption policy to the Group's etik@erdemiretik.com.tr address or to its 0850 211 3000 Ethics Hotline. Communications sent through either of these channels may be forwarded to the Head of Internal Audit, who reports to OYAK Mining Metallurgy Group's chairman. Those who report ethical violations may do so anonymously or not as they wish. The identities of those who report infractions will be kept confidential and such information will be dealt with in accordance with the rules of confidentiality. The Head of Internal Audit is responsible for examining and investigating matters concerning OYAK Mining Metallurgy Group Code of Ethics and Business Conduct and Anticorruption Policy. Ethics Committee is responsible for resolving incompliances of OYAK Mining Metallurgy Group Code of Ethics and Business Conduct and of OYAK Mining Metallurgy Group Anticorruption Policy and for imposing penalties and sanctions when they are deemed to be necessary. Ethics Committee consists of the Managing Director, top managers of Group Human Resources and Group Legal Departments. Head of Internal Audit acts as the secretary of the Ethics Committee. Once a year, Code of Ethics and Business Conduct compliance acknowledgment forms that are submitted by OYAK Mining Metallurgy Group personnel are compiled in electronic format, the results are examined jointly by human resources and internal audit units, and action is taken as is deemed to be necessary.

Before they begin working for any OYAK Mining Metallurgy Group company, newly-hired personnel are given information about OYAK Mining Metallurgy Group ethical guidelines. OYAK Mining Metallurgy Group personnel are given training to enhance their awareness of ethical guideline and anticorruption issues. Every year, monthly paid employees undergo OYAK Mining Metallurgy Group Code of Ethics and Business Conduct and OYAK Mining Metallurgy Group Anticorruption Policy e-training, which includes case studies and examples of the kinds of behavior that are expected of them in situations such as they might encounter in the performance of their jobs.

OYAK MINING METALLURGY GROUP CODE OF ETHICS AND BUSINESS CONDUCT SET OUT THE GROUP'S ETHICAL BEHAVIOR-RELATED EXPECTATIONS, STANDARDS, AND PRACTICES THAT ARE FUNDAMENTAL TO ALL OF THE GROUP'S BUSINESS RELATIONSHIPS AND DEALINGS.

For Code of Ethics and Business Conduct: https://www.oyakmadenmetalurji.com.tr/homepage#/corporate/code-of-ethics-and-business-conduct/
For Anti-Corruption Policy: https://www.oyakmadenmetalurji.com.tr/homepage#/corporate/anticorruption-policy/

ALL OYAK MINING METALLURGY GROUP BUSINESS PROCESSES ARE AUDITED WITH A RISK-FOCUSED AND ADDED-VALUE APPROACH AND WITH REFERENCE TO INTERNATIONALLY-ACCEPTED INTERNAL-AUDIT PROFESSIONAL STANDARDS AND PRACTICES.

Internal Audit System

The Internal Audit Directorate is responsible for performing risk-focused audits of OYAK Mining Metallurgy Group's activities and operations to determine the effectiveness of the Group's risk management, control, and governance functions. This unit's purpose, authorities, and responsibilities are governed by published OYAK Mining Metallurgy Group Internal Audit Regulations and the unit's operations are supervised directly by OYAK Mining Metallurgy Group Chairman and Executive Director. Internal Audit Directorate reports results of internal audit activities and effectiveness internal control system to Audit Committee at least once a year and upon request.

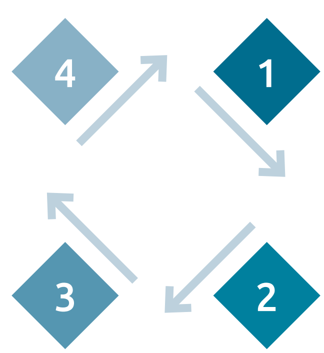
All OYAK Mining Metallurgy Group business processes are audited with a risk-focused and added-value approach, with reference to internationally-accepted internal-audit professional standards and practices, and within the framework of an annual audit calendar approved by OYAK Mining Metallurgy Group Board Chairman and Executive Director. During the conduct of such audits, the business-process control environment is assessed systematically with control-related recommendations being made in situations where they are deemed to be necessary. The progress of approved corrective action plans is followed and reported at the Company-management level.

Risk Management

OYAK Mining Metallurgy Group proactively manages its risks and opportunities in order to ensure that its business model remains both value-oriented and sustainable. Among the risks which the Group most frequently must contend with are external risks (slow global growth, trade wars, protectionism, cyber threats, climate change, etc.) and internal risks arising from commercial activities and production operations.

A central OYAK Mining Metallurgy Group Corporate Risk Management Department has groupwise responsibility for identifying events and issues with the potential to affect Group companies, for managing existing risks, and for identifying potential risks early on and managing them appropriately. The Corporate Risk Management Department reports operationally to the Group Vice President responsible for Financial Management & Financial Affairs, who has risk-related issues conveyed to the Board of Directors twice a month through the Risk Detection Committee. Risk management operations are subject to internal, external, and independent oversight.

An OYAK Mining Metallurgy Group Corporate Risk Management Procedure has been published to ensure that any risks or opportunities capable of affecting OYAK Mining Metallurgy Group's assets, reputation, and/or profitability, are systematically and comprehensively defined, assessed, economically verified, and monitored.



Risk Identification
Internal risks are defined by each unit through a comprehensive annual review of the unit's functions and operations. External risks with the potential to change are also identified and monitored on a monthly basis. Newly-emerging internal and external risks are added to the risk catalogue as soon as they are identified.

Materiality
The criticality of individual risks is determined on the basis of an assessment of their impact and probability taking existing control measures into account. In addition to this systematic approach, various scenarios are devised and calculations are carried out on significantly important risk issues when necessary.

Risk Improvement
Whenever the possibility of a risk's materialization exceeds even one of its critical-impact tolerance levels, detailed action plans are drawn up to reduce the risk to acceptable levels. These plans set out options ranging from short-term gains to long-term, comprehensive investment plans.

Monitoring & Reporting
Defined risks and the progress of action plans being carried out are regularly monitored and reported.

CORPORATE GOVERNANCE

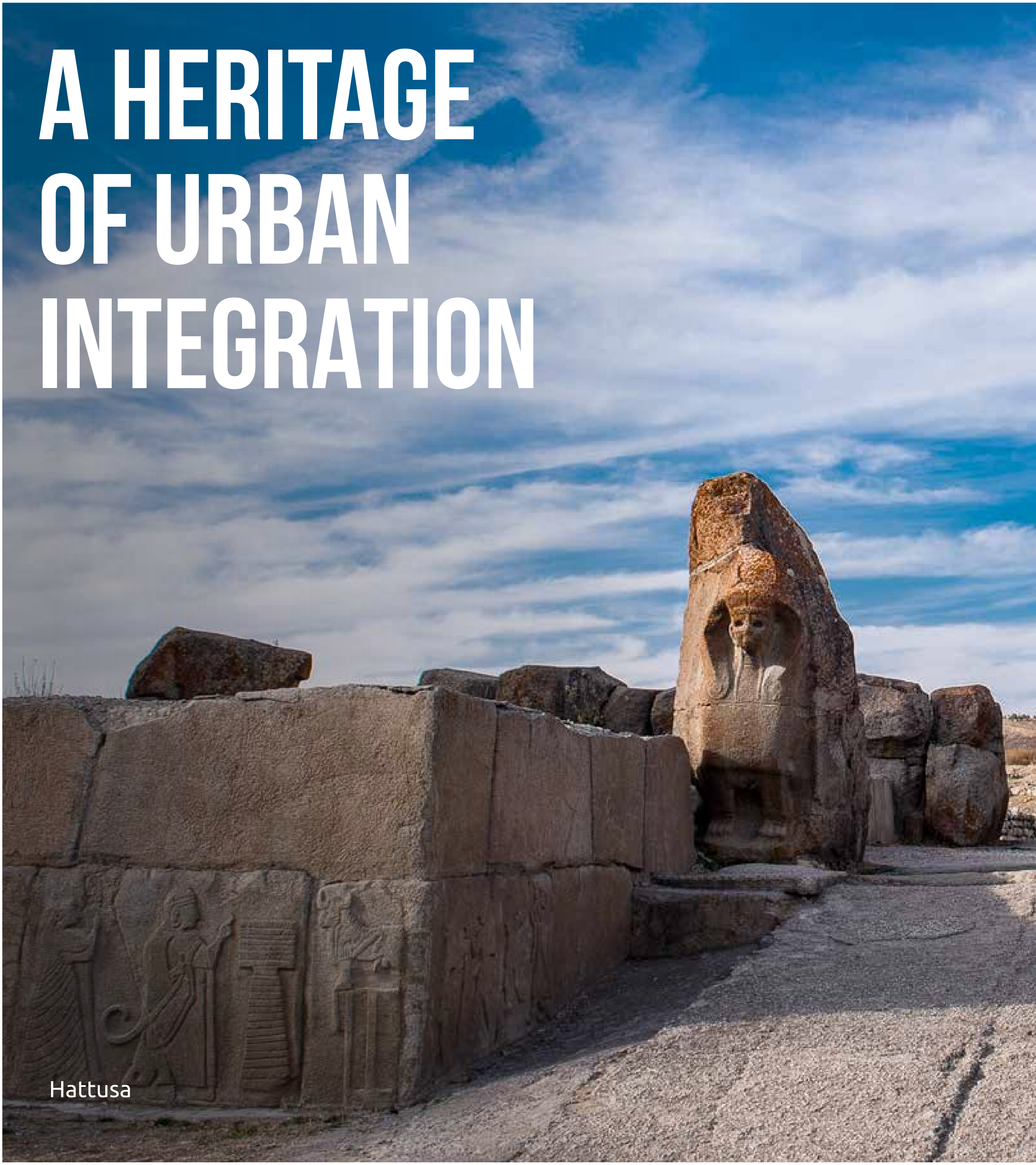
As a result of their remediation in 2019, the criticality of eight risks was reduced. Appropriate risk-mitigation action is carried out in order to keep other risks below their tolerance level and the progress of these efforts is monitored regularly.

In addition to such systematic measures, scenarios are created for risk issues that are considered to be important, with detailed assessments being made of the potential impact of such risks.

Financial Risks	
Risk	**How Managed?**
Exchange Rate Risk	When managing exchange rate (currency) risks that arise from transactions denominated in currencies other than a functional one, OYAK Mining Metallurgy Group's basic approach is to protect itself from such risks by means of financial derivatives. According to OYAK Mining Metallurgy Group's Financial Risk Management Policy, transaction-based exchange-rate risks are to be considered under three main headings identified as "Sales-Based Risks", "Payments-Based Risks", and "Collection Risks Not Associated With Sales" and are to be managed by means of appropriate financial instruments. Transactions are audited and reported in accordance with normal compliance-auditing processes.
Interest Rate Risk	According to OYAK Mining Metallurgy Group's Financial Risk Management Policy, creating and managing a portfolio of financial assets and liabilities with a balanced interest rate structure is a fundamental tenet of the Group's approach to managing interest rate risk. However the Group may also manage the risks arising from types of interest that currently exist or might exist in a portfolio of assets and liabilities for such reasons as cost advantage, maturity advantage, and so on through derivatives other than taking "natural" hedging positions.
Price Risk	Owing to the sector in which it operates, OYAK Mining Metallurgy Group is affected by movements in coal, iron ore, steel, and similar commodity prices. Models are developed to determine the impact which price risks will have on profitability and other financial indicators and the results of running these models are reported. According to OYAK Mining Metallurgy Group's Financial Risk Management Policy, guaranteeing the sales-profitability of contract-based and/or forward sales is a fundamental tenet of its approach to managing price risk. OYAK Mining Metallurgy Group uses hedging-based derivatives to protect the agreed-upon sales-profitability of contract-based and/or forward sales from movements in product, raw material, and auxiliary material prices and to keep its price risk exposure within acceptable limits.
Liquidity Risk	According to OYAK Mining Metallurgy Group's Financial Risk Management Policy, keeping a level of cash and cash equivalents sufficient to meet financial obligations on hand and readily available is a fundamental tenet of the Group's approach to managing liquidity risk. OYAK Mining Metallurgy Group has formulated a liquidity risk policy compatible with its short, medium, and long-term funding and liquidity requirements. Systematically monitoring its projected and actual cashflows and ensuring that it always has adequate funding reserves and borrowing limits available, the Group manages its liquidity risk exposure by matching the maturities of its financial assets and liabilities.
Counterparty Risk	According to OYAK Mining Metallurgy Group's Financial Risk Management Policy, keeping values that are exposed to counterparty risk in balance and within quantifiable limits is a fundamental tenet of the Group's approach to managing counterparty risk. In order to manage counterparty risk arising from customers, OYAK Mining Metallurgy Group makes use of bank-backed collateral and/or letters of credit, which is a generally-accepted practice throughout the world. Counterparty risks associated with financial institutions is managed by assigning limits for each financial institution according to the Group's Financial Institution Model and by monitoring the current status of risk exposure according to these limits.

Non-Financial Risks	
Risk	**How Managed?**
Environment Risks	In order to improve its operational efficiency, OYAK Mining Metallurgy Group keeps a close watch on new technologies while also seeking to reduce the environmental impact of its operations by incorporating such innovations into them. OYAK Mining Metallurgy Group strives to use limited natural resources effectively and to protect the biodiversity of localities in which it is operationally active. The Group conforms to international standards and certifications in its management of environment-related matters. Another issued to which OYAK Mining Metallurgy Group gives importance is water management and water risk. The Group seeks to reduce its water footprint and to decrease the amounts of waste water that it discharges in order to deal with the water-resource depletion arising from climate change, population growth, urbanization, etc. The water needed for the conduct of OYAK Mining Metallurgy Group company Erdemir's industrial operations is drawn from the reservoir of the nearby Kızılcapınar dam, whose exclusive operating rights belong to Erdemir. An application has also been submitted for permission to build a hydroelectric power plant associated with the dam to generate electricity.
Climate Change Risks	OYAK Mining Metallurgy Group's production and supply chain operations are at risk of disruption as a result of extreme weather events associated with climate change, which also potentially exposes the Group to carbon costs in line with new regulations that may be introduced. The sector in which OYAK Mining Metallurgy Group operates is carbon-intensive, so the potential cost of such new regulations is a matter of no little concern. OYAK Mining Metallurgy Group keeps an especially close watch on the possible advent of carbon markets and of new rules being introduced for the sake of combating climate change. OYAK Mining Metallurgy Group contributes to Turkey's participation (which is being coordinated by the Ministry of Environment and Urbanization) in the World Bank Group-financed Partnership for Market Readiness that is working on the development of emission trading systems, carbon taxes, and similar carbon-pricing mechanisms. It does so by playing an active role as a provider of guidance on legal-framework-development and harmonization issues. OYAK Mining Metallurgy Group constantly strives to use energy and other resources more efficiently and to reduce its carbon footprint through operational improvements made possible by the introduction of new technologies. Under its climate change policy, OYAK Mining Metallurgy Group commits itself to:; • Assessing climate change risks and opportunities and dealing with their effects by means of an effective carbon management system; • Undertaking investments and developing good practices aimed at reducing carbon emissions; • Working with suppliers and supporting them in their efforts to reduce their own carbon emissions; • Contributing to the steelmaking industry's efforts to combat climate change by working together with governmental, non-governmental, and other stakeholder-group actors. OYAK Mining Metallurgy Group regards efforts to combat climate change as an opportunity for it to undertake investments in renewable energy.
OHS Risks	The sectors in which OYAK Mining Metallurgy Group carries out its operations are exposed to some of the severest work-related health and safety risks of all. In order to defend its stature as the Turkish steelmaking industry's biggest and most highly respected employer, the Group conducts all of its operations with a mindfulness for employee health and safety. In order to manage occupational health and safety risks effectively, separate organizational teams have been created that focus particularly on the management of OHS risks. Besides endangering employees' lives and physical wellbeing, any failure to manage OHS risks properly exposes OYAK Mining Metallurgy Group to reputation loss, criminal and civil action, and employer-brand risks
Supply Chain Risks	Supply chain disruptions resulting from the Group's dependence on imports can affect production operations and input costs. In line with this, investments are undertaken to extend the useful life and increase the capacity of the Group's ore production and enrichment plant in order to reduce import dependency by making greater use of locally-available raw materials.

A HERITAGE OF URBAN INTEGRATION



Hattusa

An important Anatolian urban center that served as the capital of the Hittite Empire from the 17th to the 13th century BCE, the earliest traces of human settlement at the site of Hattusa are from the sixth millennium BCE. Excavations at the huge site have revealed five cultural levels.

SUSTAINABLE GROWTH

OYAK Mining Metallurgy Group strives to achieve excellence in the conduct of all of its operations in order to support efficiency throughout its entire value-creation chain.

Producing the steel that is needed by sectors ranging from construction to automotives and from heavy industry to white goods, OYAK Mining Metallurgy Group is Turkey's biggest steelmaker. **As one of the main suppliers of steel to Turkish industry, OYAK Mining Metallurgy Group is the world's 45th biggest producer of steel.**[1] The Group plays an important role in the growth and development of every sector to which it supplies inputs. By meeting domestic demand, OYAK Mining Metallurgy Group helps to reduce import dependency while also contributing to Turkey's economic growth. By keeping capacity and costs in balance, OYAK Mining Metallurgy Group helps support sustainable growth.

OYAK Mining Metallurgy Group supplies consistently-high-quality products that meet the needs of customers operating in many different sectors. The Group strives to achieve excellence in the conduct of all of its operations in order to support efficiency throughout its entire value-creation chain while also supporting the companies that it works with by encouraging them to comply with its supply chain standards, practices, and principles.

[1] World Steel in Figures 2019, https://www.worldsteel.org/en/dam/jcr:96d7a585-e6b2-4d63-b943-4cd9ab621a91/World%2520Steel%2520in%2520Figures%25202019.pdf

Financial Performance

The iron & steel industry serves as the engine of many national economies and in this respect, Turkey is one of the world's leading countries from the standpoints of both production and consumption, ranking as the eighth biggest producer and consumer of steel. In 2019 Turkish steel consumption was down by 15% year-on and weighed in at 26 million tons. Owing to reduced domestic consumption and also to the proliferation of protectionist measures in other countries, Turkish steel production was down by 13% in 2019 and amounted to 34 million tons.

Because of the mounting trade wars and faltering global trade and investment, the steel industry suffered one of its worst years since the global financial crisis in 2019, registering the lowest growth rate witnessed in a decade. Despite plummeting steel prices and a 15% contraction in its home market for steel, OYAK Mining Metallurgy Group succeeded in increasing its total revenues to TL 27,465 million while registering EBITDA and net profit margins of 20.1% and 12.0% respectively.

Operating with a high capital gearing ratio on the order of 1.49, OYAK Mining Metallurgy Group is able to generate strong cashflows and to defend its solid capital structure while also inspiring confidence among all of its stakeholders.

OYAK MINING METALLURGY GROUP CONTINUES TO GENERATE STRONG CASHFLOWS AND TO DEFEND ITS SOLID CAPITAL STRUCTURE.

Last year OYAK Mining Metallurgy Group announced a cash dividend of TL 4,830,000,000 (TL 1.38/ share) from its 2018 profits. This dividend was paid on 8-10 May 2019.

	Currency	2017	2018	2019
Net Sales Revenue	**(TL million)**	18,736	27,015	27,465
	(USD million)	5,140	5,598	4,844
Operating Profit Before Finance Income (Expenses)	**(TL million)**	4,894	7,682	4,457
	(USD million)	1,343	1,592	786
EBITDA	**(TL million)**	5,453	8,302	5,521
	(USD million)	1,496	1,720	974
Net Profit (Equity Holders of the Parent)	**(TL million)**	3,754	5,598	3,317
	(USD million)	1,030	1,160	585
Current Assets	**(TL million)**	14,842	22,512	24,137
	(USD million)	3,935	4,279	4,063
Fixed Assets	**(TL million)**	13,534	19,270	22,536
	(USD million)	3,588	3,663	3,794
Total Assets	**(TL million)**	28,376	41,782	46,673
	(USD million)	7,523	7,942	7,857
Short Term	**(TL million)**	5,524	7,887	9,450
	(USD million)	1,465	1,499	1,591
Long Term Liabilities	**(TL million)**	3,623	4,640	5,975
	(USD million)	961	882	1,006
Equity Attributable to Equity Holders of the Parent	**(TL million)**	18,684	28,367	30,299
	(USD million)	4,954	5,392	5,099

SUSTAINABLE GROWTH

A Solution Partner for Customers

By focusing on keeping the quality of all of the products in its portfolio high, OYAK Mining Metallurgy Group increases customer satisfaction and maintains its competitive clout. It invests in operational excellence in order to enhance productivity throughout its value-creation chain and to protect the quality and cost advantages of its products. As a steelmaker that produces flat and long products that conform to national and international standards, an ability to offer quality products that conform to customers' needs is an important factor contributing to OYAK Mining Metallurgy Group's success.

OYAK Mining Metallurgy Group's product catalogue encompasses a broad range of 501 flat and 305 long steel grades.

Constantly expanding the range of products that it offers in order to meet customers' changing needs, in 2019 OYAK Mining Metallurgy Group added 22 new flat and 3 new steel products to its catalogue.

In 2019 the Group sold goods to 1,100 customers among which 64 new customers that preferred OYAK Mining Metallurgy Group for the first time. A breakdown of sales by tonnage shows that the biggest customer groups are distribution channels and rolling mills, pipe & profile-based projects, and export customers.

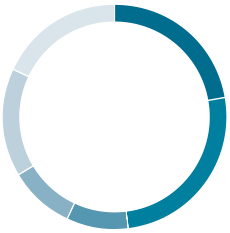
Listening to customers and understanding their expectations plays an important role in improving existing products and developing new ones. **Specially-designed online portals make it easy for customers to send feedback to the Group.**

The Customer Feedback Process

As of end-2019, 98% of the instances of customer feedback received by Ersem, Erdemir, and İsdemir had been resolved.

Improvements are made in products and processes so as to keep them in alignment with customer feedback. Aftersales Services sends monthly customer feedback evaluation reports

Customer Profile as per Sales Ratio



- Pipe and Profile-Based Projects **23.3%**
- Distribution Channels and Rolling Mills **25.9%**
- Automotive **9.0%**
- General Industry **9.4%**
- Construction and Building **15.4%**
- Exports **18.0%**

OYAK Mining Metallurgy Group regards customer feedback as a key input for its new product development, strategic investment planning, and customer technical services processes.

Soliciting and receiving feedback

Customer feedback is constantly solicited and received during sales and product team visits to customers as well as through Erdemir Online website at www.erdemironline.com. All such feedback is carefully examined.

Preliminary examination

Customer feedback is given a preliminary examination within 24 hours of its receipt.

Technical examination

Depending on the nature of the feedback, it may undergo technical and/or laboratory examination.

Resolution & settlement

Based on the results of feedback examinations, action is taken and solutions are arrived at. If any settlements of a commercial nature are involved, they are dealt with entirely online through the Erdemir Online website.

PRODUCT DEVELOPMENT WITHIN OYAK MINING METALLURGY GROUP IS INFORMED ENTIRELY IN LINE WITH CUSTOMERS' NEEDS.

to all concerned units. Quality meetings are conducted regularly by Product Management and by factory operations and quality teams. Customer satisfaction meetings are held, during which action plans are developed for dealing with problems and resolution processes are followed up. Whenever there is a development that makes new investment necessary, the information and data obtained from meetings is used as input for investment feasibility reports. The progress of customer feedback that is deemed to be critical is reviewed and assessed during weekly senior management meetings. Product-perception surveys are conducted on a regular basis in order to understand customers' expectations, particularly in regard to production, quality, and technical team performance. The results of these surveys are circulated among all OYAK Mining Metallurgy Group plants.

Product development within OYAK Mining Metallurgy Group is informed entirely in line with customers' needs. During visits to customers, OYAK Mining Metallurgy Group product-development management, R&D, quality, and operations teams focus on how products can be developed or improved to make them better at supporting customers' competitiveness.

Customer-satisfaction surveys are conducted every year in order to determine the degree to which OYAK Mining Metallurgy Group customers are satisfied with the Group's products and services. **Even more customers responded to the 2019 poll than expected. With scorings ranging between -65 and +135 points, the average customer-satisfaction rating of +90 was not only higher than previous years but was also above the steelmaking industry average.**

Examples of OYAK Mining Metallurgy Group Product Development & Improvement

- At present, Turkey is entirely dependent on imports to satisfy its needs for the heat-treated steels that are an essential input especially in such sectors as defense, heavy-duty machinery & equipment manufacturing, and mining. Thanks to the product-development efforts undertaken together with OYAK Mining Metallurgy Group company Miilux Oy, such steels can now be made in Turkey. It is expected that this production will contribute to about a USD 15 million reduction in the cost of the country's import-dependency.
- Improvements in high carbon steel coil production have more than trebled OYAK Mining Metallurgy Group's sales and reduced the country's import dependency in that product group.
- As a result of projects undertaken jointly with heating-industry customers, unit of crack-susceptibility (UCS) values hitherto unseen in steelmaking have been achieved. An OYAK Mining Metallurgy Group patent application has been filed for this technology.
- A project to develop ferritic bainitic (FB) steels, which combine high strength with good cold working and welding capabilities and which are currently not being produced in Turkey, was approved last year. As this project moves forward, it is expected that OYAK Mining Metallurgy Group will get a bigger share of new projects in the automotives industry, where FB steel is in high demand.
- Thanks to product development and improvement projects undertaken to support renewable energy-sector investments, sales of OYAK Mining Metallurgy Group products made for wind farms have more than doubled every year since 2016. OYAK Mining Metallurgy Group is now the main supplier of the high-strength steel plates used in the construction of wind turbine towers in Turkey.
- Responding to customers' needs and requests, OYAK Mining Metallurgy Group undertakes major investments such as a new galvanizing line and the modernization of its cold-rolling mill. Projects like these significantly increase the contributions which the Group makes towards supplying the finished and semi-finished steel products that Turkish industry requires.

SUSTAINABLE GROWTH

OPEX

Employee engagement and contributions continue to be an engine moving OYAK Mining Metallurgy Group's ongoing improvements forward. Employees' hands-on experience and innovative ideas are transformed into value by means of kaizen projects, suggestions for improvement and operational excellence (OPEX) projects which are undertaken based on statistical analysis and design of experiment techniques. It is through systems and projects like these that employees contribute to the continuous improvement of OYAK Mining Metallurgy Group's occupational health and safety, environment, customer satisfaction, quality, and operational performance.

OPEX projects are undertaken on an ongoing basis for such reasons as lowering production costs, extending equipment life, conserving energy, optimizing raw-material use, and improving product quality. The OPEX projects that were completed in 2019 are expected to result in bottom-line improvements corresponding to USD 1.5 million at Erdemir and of USD 10.3 million at İsdemir.

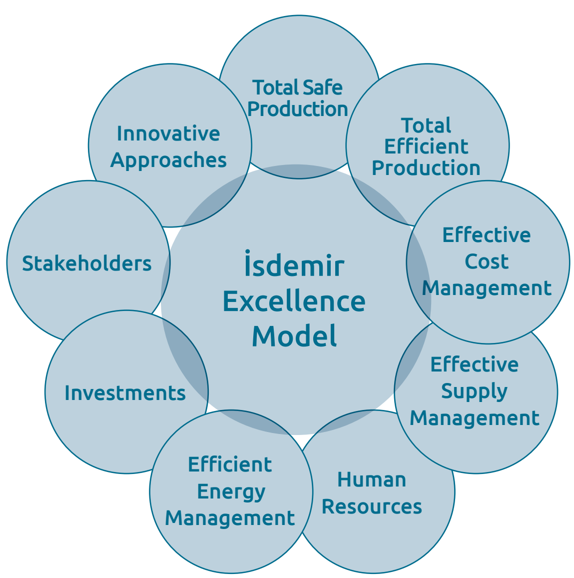
Every year, in order to generalize OPEX Projects at Erdemir and İsdemir, Statistical Data Analysis, Design of Experiment, Statistical Modeling for Managers and Measurement System Analysis trainings are given supported by Minitab software.

Such training was provided to 44 Erdemir personnel and to 54 İsdemir personnel in 2019.

During 2019, Erdemir and İsdemir employees once again spotted many opportunities to make improvements in operations and processes across a broad front ranging from occupational health and safety to environmental performance and from customer satisfaction to lean business processes and energy conservation. 26,797 employee suggestions were submitted at Erdemir, of which 16,180 were implemented in 2019; at İsdemir these numbers were 40,306 and 14,490 respectively. Of the ideas that were submitted through company employee suggestion systems and whose potential returns were calculated in 2019, 249 resulted in bottom-line improvements corresponding to USD 5.9 million at Erdemir and 212 resulted in bottom-line improvements corresponding to USD 5.3 million at İsdemir. Of the 1,621 Kaizen projects undertaken at Erdemir last year, 1,503 were completed and resulted in bottom-line improvements corresponding to USD 40.2 million; at İsdemir, these numbers were 1,711, 1,366, and USD 13.3 million respectively.

İsdemir Excellence Model (İMM)

In keeping with its "New ideas & innovative thinking" approach, OYAK Mining Metallurgy Group also engages in efforts to promote operational excellence practices throughout its entire value-creation chain. The İsdemir Excellence Model (İMM) that was launched with the slogan "Maximize Financial Value by Protecting People and the Environment" at İsdemir in 2017 was also introduced at Erdemir in 2018. İsdemir Excellence Model (İMM) serves as an online platform by means of which all employees may contribute to their company's performance and success. İsdemir Excellence Model (İMM) also makes it possible both to determine the degree to which projects undertaken within OYAK Mining Metallurgy Group conform to the model and to closely monitor project progress and performance at every stage.



İSDEMIR EXCELLENCE MODEL (İMM) GIVES EVERY EMPLOYEE A CHANCE TO CONTRIBUTE TO THEIR COMPANY'S PERFORMANCE AND SUCCESS.

OYAK MINING METALLURGY GROUP SUPPLIERS ARE EXAMINED WITHIN THE FRAMEWORK OF THE GROUP'S PROCUREMENTS STRATEGIES AND ARE CLASSIFIED ACCORDING TO THEIR MARKET POSITIONS.

In functional terms, the model consists of Management-Level Function Owners, Function Leaders, Function Teams, and Unit Teams. For each function, performance criteria are defined in line with company objectives and project-based, time-constrained teams consisting of monthly and hourly employees are formed. These teams, whose members each focus on their particular area of expertise, help spread good practices throughout the Company and create added value for it.

Since the model's introduction, İsdemir Excellence Model (İMM) teams have undertaken a total of 4,755 projects at Erdemir and İsdemir, of which 2,123 have been completed. Factoring out multiple-team participation, the total number of employees taking part in all these projects is 6,874. The completed İsdemir Excellence Model (İMM) projects are believed to have resulted in bottom-line improvements corresponding to USD 216 million.

Examples of OPEX projects

- An İsdemir Efficient Energy Management function project that was undertaken keeps steel production continuing without capacity loss in situations where air separation plants break down or are stopped for maintenance. It also reduces total energy consumption. This project has resulted in savings worth USD 18.4 million and improved production-unit/energy-consumption performance.
- An Erdemir Efficient Energy Management function project that was undertaken has reduced electricity consumption by renewing the fans that supply air to blast furnace burners, thereby providing better airflow control as a result of replacing flat-outlet valves with variable speed drives. This project has generated savings worth USD 3.2 million.

Supply Chain

In its capacity as Turkey's biggest integrated steelmaker, effective supply chain management is critically important to all of OYAK Mining Metallurgy Group's operations. Integrated production requires that all of the raw materials, auxiliary materials, and expendables (incidentally-consumed supplies) needed in order for production to continue be purchased and made available where and when required and at the quality desired of them. Purchasing units draw up comprehensive plans so as to ensure that sufficient quantities of all necessary supplies are always on hand while also managing procurements processes so as to ensure their effectiveness from the standpoints of cost, quality, and timing. Besides addressing the needs of production, procurements processes must also ensure other essential goods and services are purchased in ways that are beneficial to OYAK Mining Metallurgy Group companies.

During 2019, OYAK Mining Metallurgy Group companies worked with 4,087 suppliers, of which 3,461 are firms based in Turkey.

When developing and implementing procurement strategies, individual suppliers are examined and classified according to their market positions. As required by OYAK Mining Metallurgy Group Transparency Policy, the progress of procurements above specified thresholds must be announced on the Group's e-procurements platform until the close of the tendering process. Firms wishing to submit bids are required to use the supplier application form provided on the website and to complete it by supplying all relevant information. During the bid-submission and evaluation process, direct and indirect suppliers are expected to conform

OYAK Mining Metallurgy Group is always on the lookout for new suppliers and sources of material in order to safeguard its supply chain security.

to the ethical-behavior requirements set out on the Group's corporate website. Firms that satisfy criteria and have been duly approved are subsequently added to OYAK Mining Metallurgy Group's supplier pool. Improvements are made in supplier application and engagement processes based on the results of supplier-assessment projects.

Full details about OYAK Mining Metallurgy Group's Supplier Code of Conduct may be found at address provided below.

Although OYAK Mining Metallurgy Group companies purchase many different kinds of goods and services, the main categories into which they fall are "Raw materials", "Supplies", "Services", "Logistics", and "Project-based works". Depending on the criticality of their goods or services to the Group's operations, suppliers and their premises may be visited by OYAK Mining Metallurgy Group officers. During such visits, every aspect of the supplier's operations from production to quality control systems is observed and checked.

Expanding OYAK Mining Metallurgy Group's Supplier Portfolio

In order to ensure that it always has access to the supplies that it needs when it needs them, OYAK Mining Metallurgy Group is constantly on the lookout for new suppliers and sources of materials. Group company officers attend industry conferences, fairs, and other events, during which they identify potential suppliers. Potential suppliers who have successfully made it through an initial trial period are added to OYAK Mining Metallurgy Group Suppliers Pool.

Among the many supply chain management objectives which have been identified for managing the various product groups that OYAK Mining Metallurgy Group keeps in stock, three are of key importance:

- Entering into long-term contracts with major suppliers so as to safeguard the delivery, quality, and price security of the Group's procurements;
- Identifying particular material, service, or supplier-based dependencies from which procurements processes may suffer;
- Reducing such dependencies and supporting supplier-pool development by seeking out and visiting alternative sources of materials and services.

Supply Chain Risk Analysis and Performance Evaluation

To ensure that supply chain management processes are sustainable and effective, supply chain risks are analyzed and action plans are developed accordingly. Taking into account such issues as whether there are several suppliers or just one and every supplier's legal status, reputation, financial circumstances, geopolitical location, and corporate governance-compliance, these analyses show the existing and potential impact that a supplier may have on OYAK Mining Metallurgy Group's procurements. Based on the results of this analysis, every supplier is assigned a score and those whose scores are too low are asked to correct them.

For Supplier Code of Conduct: https://www.erdemir.com.tr/Sites/1/upload/files/Tedarikci.Davranis%CC%A7.I%CC%87lkeleri-2595.pdf

TO ENSURE THAT SUPPLY CHAIN MANAGEMENT IS SUSTAINABLE, RISKS ARE ANALYZED AND ACTION PLANS ARE DEVELOPED ACCORDINGLY.

OYAK Mining Metallurgy Group suppliers are normally expected to hold ISO 9001 Quality Management System certification; however if they do not, they must complete and submit an OYAK Mining Metallurgy Group supplier-assessment form. The information provided in these forms is subject to verification. Firms are provided with feedback based on the results of SWOT (Strengths, Weaknesses, Opportunities, Threats) analyses. Suppliers are given time during which they are expected to correct any aspects of their operations which are deemed to be in need of improvement.

Companies that supply materials, equipment, and services that directly impact on OYAK Mining Metallurgy Group production quality are also subject to performance evaluations. A supplier's performance is evaluated on the basis of price, quality, delivery, and service with points being assigned for each of these criteria. According to their scores, suppliers are classified as "A", "B", "C", or "D", with "A" being the highest. OYAK Mining Metallurgy Group will continue to do business with a class A supplier, will warn class B suppliers and expect them to take corrective action, and will work with class C suppliers in the development and implementation of improvement plans; it will not do business with class D suppliers however and will remove them from the pool instead.

25 suppliers underwent risk evaluations and 51 suppliers underwent performance evaluations in 2019, while corrective measures were initiated at 20 firms.

In order to integrate issues to which it gives priority on account of its sustainability strategies into its procurements processes, OYAK Mining Metallurgy Group has drawn up the following list of criteria by which suppliers are to be evaluated:

- Does the supplier have environment, OHS, and energy management systems?
- Has the supplier published a human rights policy and are its practices consistent with human rights?
- Is the supplier qualified to transport dangerous goods?
- How does the supplier address environmental-protection and energy-efficiency issues?
- Does the supplier have sufficient capacity and acceptable references?
- Has the supplier published sustainability strategies and does it invest in them?

Fuels used by ships

Another supplier-related issue that is of importance to OYAK Mining Metallurgy Group is concerned with the fuels used by ships. In contracts that OYAK Mining Metallurgy Group companies enter into with suppliers, there is a stipulation that the vessels which are used in the conduct of suppliers' operations must be certified as being compliant with internationally-accepted environmental quality and safety standards (for example the International Oil Pollution Prevention Certificate) and that such certification must remain valid during the lifetime of the contract.

RESPONSIBLE PRODUCTION

It is OYAK Mining Metallurgy Group's principle to minimize its environmental impact and to play a role in the transition to a circular economy through its innovative practices.

OYAK Mining Metallurgy Group focuses on responsible production in order to ensure its own sustainable growth.

Giving the utmost attention to employee health and safety, the Group provides its personnel with a safe and healthy workplace environment while also making it a principle to minimize its environmental impact and to play a role in the transition to a circular economy through innovative practices.

Occupational Health and Safety

The sectors in which OYAK Mining Metallurgy Group carries out its operations are exposed to some of the severest health and safety risks of all. Work-related accidents and workplace safety are issues that can have a serious impact both on business continuity and on a company's public reputation. Out of its awareness of this, **OYAK Mining Metallurgy Group conducts all of its operations with a mindfulness for its employees' health and safety.** Occupational health and safety (OHS) is a core component of responsible production attitudes and approaches.

The goal of **producing accident-free steel** is the most fundamental element of the Group's OHS strategy and approach. This means that accident incidence and severity rates should be zero. OHS risks are managed using the latest technologies and approaches. **Potential risks are identified by means of a behavior-based safety management system whose aim is to promote OHS awareness that is both comprehensive and ingrained by prioritizing the promotion of a sustainable safety culture that is shaped by employees' personal involvement and ideas.** While Group companies' executives lead the way in improving OHS performance, it is the responsibility of personnel at all levels to actively contribute to OHS culture and efforts.

OYAK MINING METALLURGY GROUP CONDUCTS ALL OF ITS OPERATIONS WITH A MINDFULNESS FOR ITS EMPLOYEES' HEALTH AND SAFETY.

DIGITALIZATION IS AN ISSUE TO WHICH THE UTMOST ATTENTION IS GIVEN WHENEVER IMPROVING PROCESSES THROUGHOUT OYAK MINING METALLURGY GROUP.

OYAK Mining Metallurgy Group demonstrates its OHS commitments through the management system policies by which it abides. OHS issues are currently subject to OHSAS 18001 Occupational Health and Safety Management System oversight at Erdemir and İsdemir and work is currently in progress at both companies to be audited and qualify for ISO 45001 certification.

OHS issues are dealt with at the highest level throughout OYAK Mining Metallurgy Group. Erdemir's and İsdemir's OHS committees are chaired by those companies' executive vice presidents for operations while Erdemir Maden's committee is headed by the Company's general manager. Thus at all three companies, the officers directly responsible for managing OHS issues are at most two reporting levels below the CEO.

OHS Risk Assessment

In the assessment of OHS risks, risks are considered comprehensively so that all due precautions can be taken and work-related accidents and illnesses can be prevented. The goals of these assessments are to identify issues whose OHS and process safety management is in need of improvement, to eliminate unsafe conditions and/or behavior by dealing with any failings, and to ensure the continuity of OHS awareness by transforming it into a culture.

When work-related accidents or near-misses do occur, incident presentations are conducted with the aim of learning lessons from them so as to prevent similar incidents from occurring again in the future. Other OYAK Mining Metallurgy Group practices that contribute to improving OHS performance include Announced/Unannounced Safety Tours, OHS Field Tours, the Emergency Management System and associated drills and exercises, OHS Committee meetings, the İsdemir Excellence Model, the Behavior-Based Safety System, Legal-Compliance Checks, Supplier-Compliance Checks, Near-Miss Reporting, Analysis & Prevention, and 5S methodology-related activities.

Digitalization

Digitalization is an issue to which the utmost attention is given whenever improving processes throughout OYAK Mining Metallurgy Group. The risk-auditing software that is currently being used at Erdemir is being installed at İsdemir as well. Under an OHS Risk Assessment Software project that is being carried out to contribute to OHS processes, the Fine-Kinney framework is used to analyze hazards and risks. Under the same project, hazards and their sources as well as risks are identified in accordance with the TS ISO 45001 Occupational health and safety standard. Unsafe workplace conditions are improved by taking proactive measures to head off risks, thereby providing a safer workplace environment for employees and other stakeholders.

RESPONSIBLE PRODUCTION

Occupational Health and Safety Culture

The Occupational Health and Safety Culture Behavior-Based Safety Management System is one of the OHS practices that OYAK Mining Metallurgy Group has introduced to promote workplace-safety behavior throughout the Group. Intended to encourage all employees to spot OHS risks, to buy into the Group's OHS culture, and to replace frequently-encountered risky modes of behavior with safer ones, this system is currently in operation at both Erdemir and İsdemir. The system focuses on five main categories of accidents identified by the World Steel Association (worldsteel): Working at heights, Falling objects, Moving machinery, Process safety incidents (connecting/disconnecting energy sources; explosions, fires, gas releases), and On-site traffic safety. Under this system, OHS-related behavior-based training is provided in order to ensure that everyone is speaking the same language and has the same awareness of safety hazards while observations are carried out in order to identify instances of risky behavior. OHS training consists of modules compatible with the Experiential Learning Model that are intended to deter risky behavior and reinforce safe behavior among employees. Observations in the field are conducted so that whenever instances of risky behavior are detected, employees are given immediate feedback in order to encourage safe behavior.

Workplace safety operations at both Erdemir and İsdemir are guided by the requirements of the EU's Seveso II directive concerning the control of major-accident hazards involving dangerous substances. Potentially hazardous equipment in every operational unit is identified according to whether the substances associated with it are classified as hazardous or not. This equipment is subjected to qualitative (HAZOP) and quantitative (Bow-Tie) risks assessment and analysis and regulations are drawn up for dealing with various accident scenarios. For each scenario, the root causes of accidents and the precautions needed to prevent their occurrence are identified and employees are provided with training accordingly.

Safety Tours

Announced/Unannounced Safety Tours are conducted with the aims of identifying OHS-related issues that are in need of improvement, eliminating unsafe conditions by resolving such issues, and strengthening safety-culture awareness among all employees. The findings of these tours are entered into the OHS Systematics Tracking system, which makes it possible for the current status of all improvements to be observed in real time. A total of 229 safety tours were conducted at Erdemir in 2019, of which 63 were unit-specific and 166 were general, while at İsdemir the numbers were 100, 77, and 23 respectively. At Erdemir Maden last year, there were 78 safety tours, of which 34 were announced and 44 were unannounced. In 2019, 5,556 instances of non-compliance were identified at Erdemir, of which 95% were subsequently corrected, while of the 13,571 instances of non-compliance that were identified at İsdemir, 93% were corrected.

As part of compliance with Seveso II guidelines and as required by Turkey's "Regulation on the protection of workers against exposure to dangerous or explosive atmospheres" and by Turkey's "Regulation on equipment and protective systems for use in potentially explosive atmospheres", documents have been drawn up for workplace areas that are exposed to explosion risks. Areas which are exposed to such risks are classified. For each classification, the specifications with which equipment used in these areas must comply in order to prevent explosions from occurring are identified and improvements are made accordingly.

ERDEMİR AND İSDEMIR CONFORM TO SEVESO GUIDELINES IN ORDER BOTH TO KEEP POTENTIAL INDUSTRIAL ACCIDENTS FROM HAPPENING AND TO REDUCE THE SERIOUSNESS OF THOSE THAT DO OCCUR.

AVERAGE OHS TRAINING TIME/EMPLOYEE OYAK MINING METALLURGY GROUP IN 2019 WAS 23.4 HOURS.

Occupational Health and Safety Training

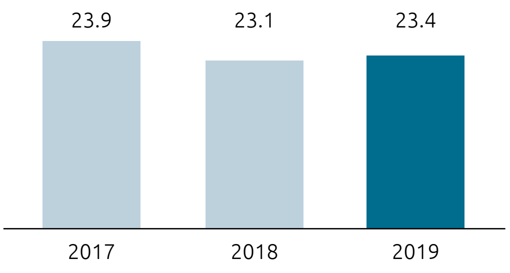
Training is the most important means of fostering a culture of safety. **Activities are carried out throughout OYAK Mining Metallurgy Group to reduce OHS risks, reinforce positive changes in behavior, and promote general safety awareness.** Depending on the particular requirements of their jobs and workplaces, employees are provided with training on such subjects as Basic Occupational Safety, Gas Safety & Use of Equipment, Techniques for Hoisting with Slings, Working at Height, Fire Protection & Prevention, OHS Systematics, Risk Assessment, Use of Personal Protective Equipment, Workplace-Specific Risks, Emergency Response Team Management, Applied Bow-Tie Analysis Training, Process-Specific Safety Issues, Change Management, Hazardous Equipment Identification Training & Implementation, and Maintenance & Installation Requirements Awareness.

Average OHS training time/employee in 2019 was 23.4 hours.

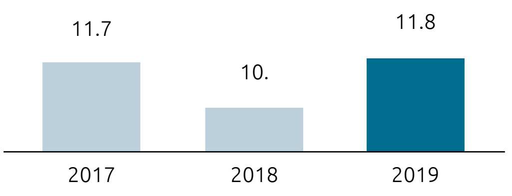
Although OHS training at OYAK Mining Metallurgy Group focuses primarily on its own employees, training is also provided to subcontractor personnel as circumstances warrant. Average OHS time/subcontractor employee training at Erdemir, İsdemir, and Erdemir Romania was 12 hours in 2019.

In addition to Group and subcontractor personnel, importance is also given to making sure that visitors at the Group's workplaces are aware of OHS issues. Such information is provided to them through videos while brochures and verbal explanations are given to tell visitors what they should do in an emergency. Visitors to the Group's workplaces are required to sign a "Visitor OHS Information Form" stating that they have been duly informed about workplace hazards and risks.

Training Hours per Employee
(OYAK Mining Metallurgy Group employees)



Training Hours per Employee
(Subcontractor employees)



RESPONSIBLE PRODUCTION

Both Erdemir and İsdemir take part in worldsteel's annual Steel Safety Day program, under which steelmakers around the world provide the association with information about the most common work-related accidents and causes and about good practices for dealing with them. Pre-announced safety tours conforming to an association-specified format are carried out and any instances of non-compliance that are identified are reported on Steel Safety Day, normally 28 April.

Awards & recognitions

- Erdemir's OHS practices earned the Company the British Safety Council's International British Safety Award in 2019. In a field of 590 contenders from all over the world, Erdemir's superior performance and good practices made it the first member of Turkey's steelmaking industry to be honored in this way.
- At a "Mining For People" Mining Industry Award Ceremony & Sectoral Vision Meeting organized jointly by the Ministry of Energy & Natural Resources, the Ministry of Trade, and the İstanbul Mineral Exporters Association, Erdemir Maden placed first in the "Turkey's Safest Mining Company" category.

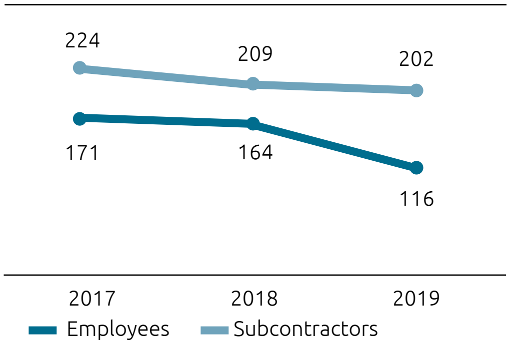
Occupational Health and Safety Performance

Because OYAK Mining Metallurgy Group's operations are subject to severe accident and health risks, proactive measures are taken to prevent accidents from occurring while efforts are also made to reduce the frequency of work-related illnesses such as chronic lung disease, hearing loss, musculoskeletal disorders, and back and neck injuries. **The Group's OHS-related expenditures and investments increased fourfold in 2019.**

The number of work-related accidents in 2019 among OYAK Mining Metallurgy Group employees was 32% lower than it was in 2017 while among subcontractor personnel the decrease was 10%. **Besides providing a safer and more productive workplace environment, this performance corresponds to a 76% reduction in the economic value of lost manpower attributable to accidents.[1]**

2019	Accident Frequency Rate	Accident Severity Rate
Erdemir	4.89	0.778
İsdemir	0.74	0.075
Ersem	5.60	0.490
Erdemir Maden	1.21	0.024
Erdemir Romania	0	0

Total Number of Accidents*



* The total number of work-related accidents whether or not they resulted in "lost working days". Subcontractors' performance results reflect only those of Class A subcontractors and are based on data provided by Erdemir, İsdemir, and Erdemir Maden.

During the commissioning of the No. 2 Blast Furnace at Erdemir in 2019, one employee was killed in an explosion caused by trapped gas. To determine the root cause of the accident and prevent any recurrences, a detailed post-accident investigation was carried out in which technical data was reviewed and risks were assessed. Based on the conclusions of this investigation, standing operating procedures concerning precautions that must be taken during the conduct of operations were revised while all personnel employed where the accident occurred were given training on both the reasons that the accident happened and the measures that must be taken.

[1] Includes Erdemir, İsdemir and Erdemir Maden data.

THE ECONOMIC VALUE OF MANPOWER LOSSES ATTRIBUTABLE TO WORK-RELATED ACCIDENTS WAS DOWN BY 76% YEAR-ON IN 2019.

WHILE CONTINUING TO PURSUE GROWTH, OYAK MINING METALLURGY GROUP INVESTS IN TECHNOLOGIES WHOSE PERFORMANCE CONFORMS TO THE HIGHEST STANDARDS BUT WHOSE ENVIRONMENTAL IMPACT IS THE LOWEST.

Environmental Performance

Steelmaking involves processes that are energy-dense and heavily-dependent on natural resources such as iron ore and water. The industry's CO_2 emissions also contribute to global climate change. For this reason, reducing such emissions is a high-priority issue in efforts to combat climate change. Climate change, natural resources depletion, and rapid loss of biodiversity all pose serious risks for the steel industry.

While continuing to pursue growth, OYAK Mining Metallurgy Group also focuses on the issues of reducing its environmental impact and of improving its operational efficiency and it invests in technologies whose performance conforms to the highest standards but whose environmental impact is the lowest. OYAK Mining Metallurgy Group develops and implements policies and processes that seek to reduce its environmental impact and energy use not just in its own operations but also throughout its entire value-creation chain.

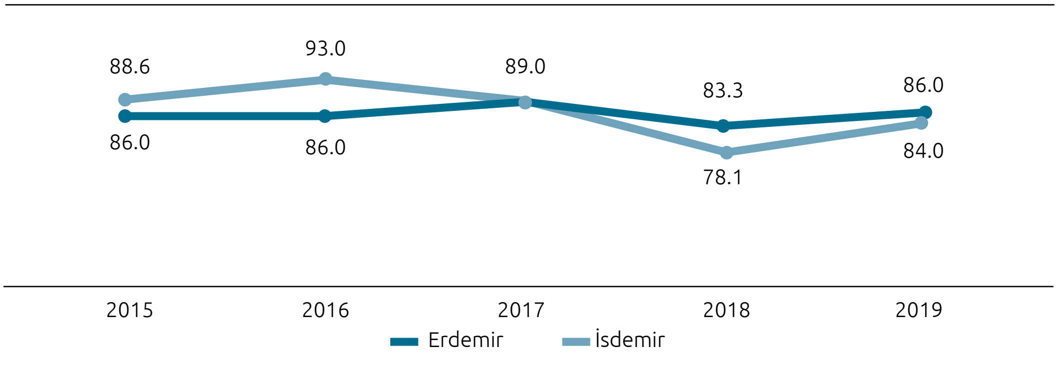
When addressing environmental management issues, the Group adheres to internationally-recognized standards and certifications. Erdemir, İsdemir, and Erdemir Romania have been awarded ISO 14001:2015 Environmental Management System and ISO 50001 Energy Management System certifications.

In addition to national and international standards-compliance and certifications, OYAK Mining Metallurgy Group also keeps track of its environmental targets and performance by means of a proprietary Environmental Performance Index (EPI) which it has developed in-house and which defines the environmental impact of the Group's products and services, keeps track of the effectiveness of the Group's environmental management systems, assesses the impact that operations have on their locales, and is informed by locally, nationally, and internationally-sourced data. EPI shows the degree to which operations conform to three sets of target criteria: permit & licenses, compliance with legal regulations and operational success. After being assessed, environmental performance is reported to senior management, which is responsible for making its own assessment and, while also being mindful of changes in laws and regulations at both the national and international levels and of the steel industry's environmental priorities, for developing OYAK Mining Metallurgy Group's environmental management strategies accordingly.

EPI scores are included in the operational targets which are set for many OYAK Mining Metallurgy Group units. This inclusion encourages the units' employees to understand and internalize environmental performance targets and recognize them as their own.

In 2018 the number of criteria included in calculating EPI scores was increased and, for that reason, that year's scores were somewhat lower than they had been in previous years.

ENVIRONMENTAL PERFORMANCE INDEX



RESPONSIBLE PRODUCTION

Efforts are being made and additional ones are being planned to steadily improve EPI scores every year.

Employees are given training on environmental and sustainability issues in order to encourage them to internalize such matters. A total of 1,207 subcontractor personnel have been given Environmental Awareness Enhancement Training at Erdemir while 5,542 subcontractor personnel have been given Environmental Management System Training at İsdemir. Training about Erdemir's environment-related activities has been given to 549 employees at that company. A total of 1,094 of İsdemir's employees have taken part in "Environmental awareness & Environmental management at İsdemir" and "Conscientious use of the environment" training.

At Erdemir and İsdemir 170 people have taken part in general-awareness and 170 people have taken part in job-specific training on International Carriage of Dangerous Goods by Road (ADR) issues.

At Erdemir Maden, 193 employees have been provided with training on environmental laws and regulations and environmental awareness issues.

Erdemir organized "Environmental Awareness" events at three schools as social responsibility projects. A similar event was organized by İsdemir at the Company's daycare center for employees' children.

The total value of all environment-related investments and expenditures at Erdemir and İsdemir was USD 9 million in 2019.

Climate Change

As is also the case with many other sectors, climate change is one of the most important issues confronting the steelmaking industry today. In order to keep the global temperature rise below the 1.5 °C limit posited by the Intergovernmental Panel on Climate Change and to stave off the more extreme consequences of global warming, priority must be given to significantly reducing carbon emissions. In order for such a reduction to be achieved in the steel industry, it is very important that new technologies be developed and introduced and that effective inter-sectoral collaborations be established. New ideas and approaches in steelmaking such as using hydrogen in place of coking coal, carbon capture and storage, and switching to cleaner electric arc furnaces present substantial opportunities in efforts to combat climate change.

Both penalties and reputation loss stemming from failure to comply with climate change and environment-related laws and regulations and operational and/or supply chain disruptions as a result of extreme weather events are foremost among the risks that the iron & steel industry faces. OYAK Mining Metallurgy Group keeps a worldwide watch on current efficiency-improvement projects aimed at reducing carbon emissions while its Erdemir Enerji Üretim A.Ş. subsidiary invests in renewable energy projects and develops multi-stakeholder collaborations, especially in the public sector.

When calculating its carbon emissions, OYAK Mining Metallurgy Group takes into account all the fuels and carbon-containing raw materials that it uses. It tracks and reports its carbon emissions performance by means of monthly calculations of the tons of CO_2 that are emitted for every ton of crude steel produced. Each year, the previous year's CO_2 emissions calculations are independently verified and reported to the Ministry of Environment and Urbanization for inclusion in the ministry's database. Carbon emissions reduction is one of the parameters that OYAK Mining Metallurgy Group takes into consideration in its investments and R&D projects. Also under investigation are innovative methods for scrubbing CO_2 from steelmaking process exhaust gases. A letter of intent has been signed with the TÜBİTAK Marmara Research Center to undertake joint projects investigating the retention of CO_2 from process exhaust gases, the use of coal gasification technologies in steelmaking, and the exploration of alternative iron-reduction technologies. As a result of energy-efficiency projects carried out at Erdemir and İsdemir in 2019, a 260,348 ton reduction in the companies' CO_2 emissions was achieved.

OYAK MINING METALLURGY GROUP KEEPS A WORLDWIDE WATCH ON CURRENT EFFICIENCY-IMPROVEMENT PROJECTS AIMED AT REDUCING CARBON EMISSIONS WHILE ALSO DEVELOPING MULTI-STAKEHOLDER COLLABORATIONS, ESPECIALLY IN THE PUBLIC SECTOR.

OYAK MINING METALLURGY GROUP UNDERTAKES INVESTMENTS TO KEEP ITS ATMOSPHERIC EMISSIONS BELOW LEGALLY-MANDATED LIMITS.

Systematic efforts to improve energy efficiency not only conserve electricity but also help reduce carbon emissions. Having all been awarded ISO 50001 Energy Management System certification, Erdemir, İsdemir, and Erdemir Romania are able to save substantial amounts of electricity thanks to their own on-site power plants and effective energy-management systems. The 485,511,019 kWh of electricity saved by these companies' energy efficiency projects in 2019 reduced their overall energy costs by USD 28.7 million.

OYAK Mining Metallurgy Group plays an active role in Turkey's environment ministry-coordinated participation in the Partnership for Market Readiness (PMR) project being financed by the World Bank. This project explores ways to reduce greenhouse gas emissions by pricing carbon through instruments such as emissions trading and carbon taxes. In 2019 OYAK Mining Metallurgy Group participated in Phase II Legal Framework & Institutional Capacity Development and Climate Law workshops related to an Emissions Trading System pilot project.

Atmospheric Emissions

Transporting, storing, heating, and/or processing raw materials that are used in steelmaking results in pollutants (solid particles, liquid aerosols, toxic gases etc.) being released into the atmosphere. These are referred to as "atmospheric emissions" and advances in technology and changes in the legal framework to improve air quality have led to a significant reduction in them in the last two decades.

The Group's actions are informed by its awareness of the impact that these emissions have on people and the environment and it undertakes investments to reduce them in order to improve air quality both in its plants and in its plants' locales. It is through such investments that atmospheric emissions are kept below legally-mandated limits.

At the Erdemir plant, projects are being undertaken to renew the No. 2 blast furnace and to commission a fourth coke battery. When these projects, whose environmental impact assessments are currently in progress, come on stream it is expected that there will be improvements in the plant's carbon and atmospheric emissions performance.

A project for elimination of POPs remnants and Reduction of POPs emission is currently being carried out together with the United Nations Industrial Development Organization (UNIDO), the United Nations Development Program (UNDP), and the Ministry of Environment and Urbanization. Part of this project involves the replacement of electric transformers that contain polychlorinated biphenyl (PCB), an organic compound that causes serious human health problems. All transformers containing PCB are scheduled for removal and disposal in 2020. Improvements in İsdemir's sintering plant have also been included in this project. Under İsdemir's Power Station Dust-Retention & Water Cooling System Modernization project, the introduction of new technology currently in use all over the world has reduced dust emissions from the plant's chimney by a factor of 62 and rooftop dust concentrations by a factor of 9.

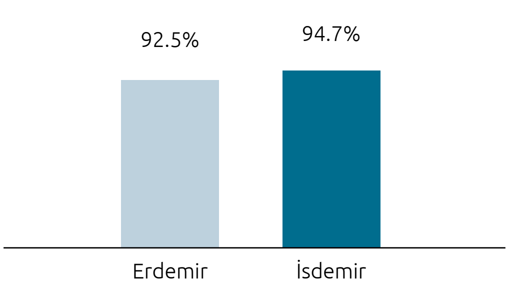
RESPONSIBLE PRODUCTION

Water Management

The problems that we are witnessing in water resources are expected to become even more widespread due to climate change. Disruption in precipitation patterns poses a serious risk for the steel industry inasmuch as the industry uses a great deal of water as an input in its production processes. It is therefore very important that water be managed well and effectively. Good management of waste water presents great opportunities for our sector by making its use of water more efficient. New technologies are now making it possible to reuse water in production and this reduces the pressure on water resources.

OYAK Mining Metallurgy Group engages in efforts to maximize the rate at which process water is recirculated in the conduct of its operations so as to reduce the amounts of water that need to be discharged. A great deal of the water that is used by plants is taken from publicly-owned reservoirs. Some of this water is allocated for use as potable water with the remainder being directed to plants for use in production. Closed-circuit systems that have been installed to reduce water use in production processes help minimize the amounts of water that must be taken from reservoirs. In 2019, 92.5% of the water used at the Erdemir plant was recirculated and İsdemir did even better with a 94.7% recirculation rate. The 1,085,977,402 m^3 of water that was saved in this way at the two plants generated financial savings amounting to USD 41 million in value.

Rate of Recirculation



In 2019, Water Management Process and Water Management System installation works were started in Erdemir. This project is expected to reduce the amounts of water that must be taken from natural sources by increasing water-reuse in production processes that require water.

The water used in all facilities is discharged in accordance with legal regulations. Continuous Wastewater Monitoring Systems have been installed in all OYAK Mining Metallurgy Group plants. At points where process water is discharged, samples are taken and are analyzed by these systems according to such parameters as pH, temperature, and dissolved oxygen and suspended solids. In order to ensure that mandatory limits are being complied with, these samples are taken and checked every two weeks for analysis by the plants' own systems and once every three months for analysis by an authorized outside laboratory.

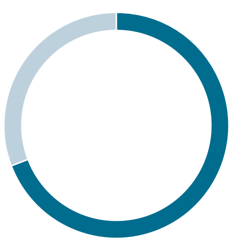
Circular Economy and Waste Management

Using raw materials more efficiently in production, increasing the percentage of by-products that are reused in production, and the fact that steel can be recycled countless times, creates great opportunities for steelmakers from the standpoint of economic circularity and waste management. While posing both risks and opportunities for the industry, the efficient management of waste and the transition to a circular economy holds out the prospects not only of improving legal compliance but also of reducing operational costs.

OYAK MINING METALLURGY GROUP PRIORITIZES AT-SOURCE REDUCTION OF PRODUCTION WASTE WHILE ALSO INCREASING THE AMOUNTS OF SUCH WASTE THAT ARE RECOVERED AND REUSED.

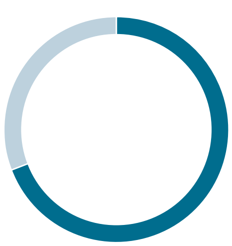
IN 2019 OYAK MINING METALLURGY GROUP CONTRIBUTED TO CIRCULAR ECONOMY BY USING A TOTAL OF 1.7 MILLION TONS OF SCRAP STEEL.

Erdemir Solid Waste Recovery Rate



Recovered **69%**
Disposed **31%**

İsdemir Solid Waste Recovery Rate



Recovered **72%**
Disposed **28%**

OYAK Mining Metallurgy Group prioritizes at-source reduction of production waste while also increasing the amounts of such waste that are recovered and reused. Such an approach helps reduce greenhouse gas emissions as well as the amounts of iron ore that must be used while also conserving limited natural resources. The use of production-generated by-products such as slag and tar in other industrial applications also contributes to circular economy.

The sale of slag from Erdemir's and İsdemir's blast furnaces and steelworks have generated revenues on the order of USD 7.5 million in value.

In 2019 the Group also contributed to economic circularity by using a total of 1.7 million tons of scrap steel in its operations.

Hazardous Waste

Hazardous wastes generated as a result of production are disposed, stored or sold as input to other industries for energy recovery. Although oily scale, wastes such as waste oil, diesel oil and fuel oil are sold for energy recovery, while oily scale is safely stored. At Erdemir, 522 tons of the plant's hazardous waste has been made economically useful in this way. At İsdemir, about half of its 1,913 tons of hazardous waste is used to generate electricity in the cement-making industry.

Non-Hazardous Waste

Non-hazardous wastes such as refractory bricks and wood are also dealt with in accordance with OYAK Mining Metallurgy Group's waste-management procedures.

Erdemir Maden's plant has begun to contribute to economic circularity by enriching low-grade ores. Under a project that was launched in order to address the steadily-growing demand for iron and steel in the face of an increasing lack of naturally-available iron ore whose quality is sufficient to satisfy that demand, the Company has begun extracting hematite from mine tailings. **Since its inception, this project has recovered 287 thousand tons of economically useful ore and the goal is to increase this to 600 thousand tons by the project's end.**

Waste Recovery

Solid wastes generated during the conduct of plants' production operations are made economically useful in different ways such as raw material inputs, in fuel production, or through recycling. In 2019 Group companies continued to sort their solid waste and dispatch it to appropriate firms. In 2019, 69% of Erdemir's solid waste was recovered and reused and İsdemir did even better with a 72% recovery and reuse rate. The combined 4,070 tons of solid waste that was sold by the two companies generated revenues amounting to USD 1.2 million in value. In addition, some of the raw materials used in sintering operations are derived from waste, which not only contributes to economic circularity but also results in substantial savings in costs. The 375 thousand and 305 thousand tons of solid waste that were recovered and reused at Erdemir and İsdemir respectively in 2019 generated financial savings amounting to USD 22 million in value.

Zero Waste Policy

In 2018 pilot projects were launched at Erdemir and İsdemir to recover and recycle all of the paper, plastic, and metal refuse generated at the two companies. These projects were continued and their scope was expanded in 2019. The progress of the projects, which is tracked in the Zero Waste Information Subsystem of the Ministry of Environment and Urbanization's Integrated Environmental Information System, showed steady improvements in performance all year long.

During 2019, 200 tons of paper, 448 tons of plastic, and 572 tons of non-ferrous metal were collected as a result of these Erdemir and İsdemir projects. **The recycled waste of both companies conserved 5,616 m³** of water and prevented the release of 67,275 tons of greenhouse gas emissions. The recycling of non-hazardous waste in 2019 generated financial savings amounting to USD 5.4 million in value.

RESPONSIBLE PRODUCTION

Biodiversity Approach

OYAK Mining Metallurgy Group strives to conduct its operations without causing harm to the plant or animal species of the localities in which it has a presence. In addition to projects that contribute to biodiversity such as reforesting and the preservation of indigenous and/or heritage crops, the Group's approach to addressing biodiversity is one that seeks to create long-term value. For this reason OYAK Mining Metallurgy Group works with NGOs that have expertise in dealing with such matters to have impact analyses carried out in areas where the Group has plant operations. As a result of preliminary discussions, various species which are endemic to Ereğli, İskenderun, Divriği and which are endangered have been identified. The biodiversity approach which has been formulated encompasses impact analysis, species identification, and conservation.

R&D and Innovation

Both R&D and innovation play an important role in the resolution of global problems. OYAK Mining Metallurgy Group successfully seeks to improve processes, reduce costs, identify alternative raw materials, identify potential new materials and technologies, recover waste, and make more efficient use of natural and energy resources in order to develop high-added-value new products in line with its customers' increasing needs and expectations. Producing also for automotives and energy sectors that have significant impacts on climate change, the Group helps its customers active in these sectors improve their own environmental performance and reduce their own carbon emissions thanks to its R&D and innovation efforts.

OYAK Mining Metallurgy Group's sectoral expertise, its R&D activities, and the feedback it receives from its customers and all stakeholders are important components of the Group's intellectual capital. By making use of that capital in the conduct of its R&D and innovation processes, OYAK Mining Metallurgy Group responds to its customers' changing needs and it secures competitive advantages for itself by offering added-value products at lower costs. The Group develops its business by means of innovative products and processes that are the outcome of its focus on technology, environmental health, and productivity.

OYAK MINING METALLURGY GROUP HELPS ITS CUSTOMERS ACTIVE IN AUTOMOTIVES AND ENERGY SECTORS IMPROVE THEIR OWN ENVIRONMENTAL PERFORMANCE AND REDUCE THEIR OWN CARBON EMISSIONS THANKS TO ITS R&D AND INNOVATION EFFORTS.

2020 R&D and Innovation goals	Intended output	Focus issues
Increase the effectiveness of the Group's high-tech R&D center in the development of products, raw materials, and processes	· Recover waste · Improve process performance · Improve product quality	· Use resources efficiently · Satisfy customer expectations · Develop institutional capacity

Raw material development strategies	Product development strategies	Process development strategies
Minimize waste and optimize raw material use, blend models	New product groups (automotives, defense industry, wear-resistant products), enhance product features, offer solutions	Clean steel production, defect-free production, process continuity, cost reduction, productivity, environmental impact reduction

NEW ADDITIONS HAVE INCREASED THE NUMBER OF FLAT STEEL PRODUCT GRADES IN OYAK MINING METALLURGY GROUP'S CATALOGUE TO 501.

Fully equipped to engage in advanced-level steel research that Turkey might require, OYAK Mining Metallurgy Group engages in R&D activities which support its vision of increasing its competitive strength and shaping the future, and which contribute its raw material, process, and product-development strategies. OYAK Mining Metallurgy Group R&D Center conducts its operations under four main groups: Hot Rolled Product and Process, Cold Rolled Product and Process, Steelmaking and Casting Technologies, Raw Materials and Ironmaking. As of end-2019, the center had completed 29 projects and was working on 45.

OYAK Mining Metallurgy Group R&D Center employs a staff of 55 people consisting of 29 researchers, 20 technicians, and 6 support personnel. Because of the importance that is given to improving employees' knowledge and skills, training is provided on current technology issues and developments. In 2019 R&D personnel were provided with specific training on 38 separate technical subjects. The center's personnel are also encouraged to engage in postgraduate studies. In 2019, members of the R&D team took part in one national and nine international professional events to which a total of ten submissions were contributed. The 68 submissions which R&D Center team members have had published to date make a significant contribution to OYAK Mining Metallurgy Group's intellectual capital. In 2019 OYAK Mining Metallurgy Group spent USD 4.4 million on R&D–21% more than it did in 2018.

In 2019, 14 patent and utility model applications were submitted, bringing the total number to 36. Of these patent and utility model applications, 31 were undergoing examination and 5 had been accepted and registered as of end-2019.

Six of the projects submitted for inclusion in TÜBİTAK's Technology and Innovation Funding Programs Directorate (TEYDEB) 1501 Industrial R&D Project Support Program since 2014 have been successfully completed while another three projects that are being funded under the same program are currently in progress.

New products and processes developed by OYAK Mining Metallurgy Group continue to position the Group as the industry's pioneer.

As a result of the joint efforts of the Group's R&D and Quality Metallurgy units to come up with new products that will increase OYAK Mining Metallurgy Group's competitive strength and market share, 22 new steel grades consisting of 15 hot rolled, 2 cold rolled, 4 tinplate, and 1 galvanized have been developed and put on sale. **With these additions, the total number of flat steel product grades in OYAK Mining Metallurgy Group's catalogue has reached 501. The introduction of 12 new grades in long products has increased the number in that group currently on sale to 305.** The development four new products and their addition to the catalogue has increased the total number of product types to 91.

RESPONSIBLE PRODUCTION

In 2019 the Group continued to develop flat and long products suitable for sectors ranging from automotives to construction and for applications such as structural and heat-treatable steel. Projects have been launched to reduce high-strength low-alloy (HSLA) and petroleum pipeline steel grade steel production costs. Additionally in response to internal and external customer requests, the Group is currently conducting various material investigation and process optimization studies to improve customer satisfaction.

Particular attention was given to developing high-strength materials for the automotive industry to use in the design of automobile bodies that will help improve fuel economy and reduce carbon emissions. These studies focus on steel grades with high-strength and high-formability. Accordingly, work is being carried out to develop special next-generation steels to address the expectations of automotive industry. **In 2020 the plan is for R&D work to move existing projects a step forward by concentrating on high-added-value next-generation steel grades and coatings.**

Under the heading of cost-reduction projects, particular attention was given to dual-phase (DP) steels, interstitial free (IF) steels, and ultra-low-carbon (ULC) steels.

Tinplate/Tin Free Steel (TFS) Development

The Tinplate/Tin Free Steel (TFS) group consists of packaging steels that are used to manufacture easy-open ends. Based on current trends and the packaging industry's expectations of this product group, there is a need for materials that are thinner, easier to form, and less subject to earing defects. Among the R&D center projects that are currently in progress, some are looking into the design and formulation of types of tinplate that have these particular properties. As a member of the International Tin Association (Tinplate Group), whose membership represents all segments of the industry, OYAK Mining Metallurgy Group has joined the association's CRFREE (Chromium-Free) project, which is exploring tinplate passivation technologies.

Next-Generation Steels

OYAK Mining Metallurgy Group is undertaking projects to produce next-generation steels on pilot scale and to improve production-process efficiency in order to become competent in the production of high-performance, high-added-value next-generation alloys.

In 2020 process-development projects will focus on reducing production costs, developing low-density steels, expanding the product line through the prototype production of advanced high-strength and other special steels, and increasing customer satisfaction by further improving the quality of liquid steel and finished products through clean steel production works.

Coke Battery Productivity

The goals of this project are to increase productivity and to reduce the cost of coal blend by using non-coking and semi-coking grades of coal in the blend. Successful results have been achieved through semi-industrial efforts to increase coke battery efficiency.

Carbon Emissions Reduction

Under the heading of combating climate change, research is being carried out to reduce carbon emissions and to equip Erdemir with technologies appropriate for this. Innovative methods for capturing CO_2 from steelmaking process exhaust gases are also under investigation.

PROJECTS CURRENTLY IN PROGRESS AT THE R&D CENTER ARE EXPLORING WAYS TO EQUIP TINPLATE WITH THE PROPERTIES THAT ARE EXPECTED OF IT.

THE GOAL OF INVESTMENTS THAT ARE UNDERTAKEN TO DEVELOP R&D CAPACITY IS TO BEGIN PILOT PRODUCTION.

Product Life-Cycle Assessment

Under the heading of product life-cycle assessment, the plan in 2020 is to determine the amount of CO_2 that is released and the amounts of energy and natural resources that need to be consumed in order to make one ton of steel. The ultimate goal of this project is to be able to compose detailed environmental product declarations (EPD) for individual product groups and thus give OYAK Mining Metallurgy Group access to new "green" markets.

R&D Investments

OYAK Mining Metallurgy Group undertakes investments aimed at further developing its R&D capacity. A vacuum induction melting furnace has been installed at Erdemir's R&D center. The goal is to begin pilot production and to commission the furnace in 2020.

A hot-rolling simulator has been installed with the goal of pilot scale development of advanced high-strength next-generation steel grades. The plan is to commission this simulator in 2020. A cold-rolling simulator is also planned to be commissioned in 2020.

A hot-dip process simulator (HDPS) is used to develop high-strength next-generation steel grades and to make improvements in existing products. This simulator also makes it possible to explore coatings that are alternative to zinc, such as aluminum-silicon and magnesium alloys.

Data on corrosion resistance of products are demanded by OYAK Mining Metallurgy Group's customers in automotive industry. In 2019 a cyclic corrosion test chamber was installed at the R&D center in order to investigate the corrosion resistance of newly developed coating types. In this chamber, products are sprayed with saline solutions in order to determine their resistance to corrosion under a variety of operating conditions.

Other OYAK Mining Metallurgy Group R&D investments include a hydrogen permeability tester that makes it possible to determine the suitability of steels that are used in the white goods industry to enamel coating applications and a welding machine that allows welding tests conforming to international standards to be carried out.

OYAK Mining Metallurgy Group's R&D and innovation ecosystem continues to expand

OYAK Mining Metallurgy Group supports an R&D culture to which all of its employees contribute ideas and which benefits from the knowledge and experience of the Group's suppliers. Employees' project ideas are evaluated on the basis of their innovativeness, their budget and resource requirements, their potential financial returns, and the business partnerships and collaborative undertakings to which they may give birth. Once projects have been approved, their progress is monitored and reported at regular intervals.

Meetings and seminars are organized on a regular basis and joint projects are carried out in order to benefit from suppliers' expertise and knowledge.

Projects undertaken jointly with customers are seen as opportunities for mutual learning and continuous improvement.

RESPONSIBLE PRODUCTION

Digitalization

Industries all around the world and the ways in which business is done are being transformed by the effects of digitalization. An ability to keep pace with this transformation and to adapt business processes with it gives one a competitive advantage. In addition to such benefits as improved efficiency and lower costs, the digitalization of production and associated processes makes them more nimble and thus facilitates the management of all business processes.

Software Development

In the management of OYAK Mining Metallurgy Group's software-development processes, agile methods are adhered to and solutions arrived at by combining software-development and information-technology operations (DevOps) are integrated into project-management processes.

When new software is being developed, attention is given to digitalization processes and to incorporating them into the Group's business intelligence project. In order to make decision-making processes faster and more systematic, detailed written and visual reports are generated from raw data in accordance with reporting and analysis requirements. Mobile applications are developed in order to allow managers at different levels to instantly access whatever data they may need from wherever they may be.

Many operations, such as those associated with internal modelling, feedback systems, performance management systems of hourly salaried, and OHS risk-assessments, which used to be conducted manually are now being handled automatically as a result of digitalization.

Digital Transformation of Production Processes

Production process automation at OYAK Mining Metallurgy Group continues to move forward rapidly while new technologies such as image processing and artificial intelligence are being incorporated into processes as well.

With the acceleration of production line automation projects and improvements in round-the-clock real-time system monitoring at Erdemir, it has become possible to intervene in processes without disrupting production. This also makes it possible to determine what processes will be affected by specific system errors and how the processes will be affected.

Image-processing software that uses artificial intelligence to spot surface errors being caused by production processes has been installed and is now being used at İsdemir.

Under a project concerning the unmanned operation of cranes in workplaces, a robotic crane system controlled by automatic work orders and proposition logic according to existing circumstances is currently undergoing testing.

Information Security

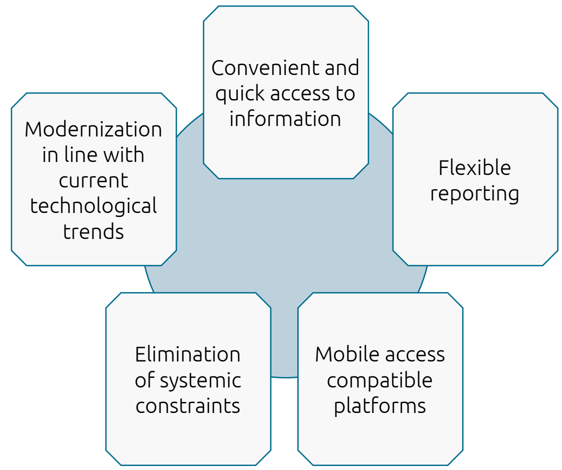
System penetration and vulnerability tests are carried out to determine OYAK Mining Metallurgy Group IT network's compliance with ISO 27001 Information Security Management System standards and any issues that are discovered are dealt with. Essential infrastructure assets are installed so as to ensure that system access is controlled, that database access is tracked, and that security services can be audited in real time. Employees undergo mandatory information security training to make them aware of information security (InfoSec) issues and to ensure that precautions are followed.

Attention is given to all cybersecurity warnings and advisories sent out by the National Computer Emergency Response Center and by the Energy Market Regulatory Authority and due action is taken accordingly.

In order both to increase user-level awareness of InfoSec issues and to prevent confidential OYAK Mining Metallurgy Group documents from being removed from company premises, a Data Tagging Project has been launched to classify and tag documents according to their confidentiality levels.

PRODUCTION PROCESS AUTOMATION AT OYAK MINING METALLURGY GROUP CONTINUES TO MOVE FORWARD RAPIDLY WITH NEW TECHNOLOGIES SUCH AS IMAGE PROCESSING AND ARTIFICIAL INTELLIGENCE BEING INCORPORATED INTO PROCESSES AS WELL.

The goals of the **Project 660** Customer Management Systems Program are to redesign the **"Product Description"** structure and to make customer-interfacing **"Sales & Deliveries"** processes more flexible and timely.



Project 660

The goals of Project 660 are to restructure sales processes and make them more flexible and to ensure that the needs arising in these processes can be met more quickly. The project's infrastructure-installation stages have been completed and software-development work is currently in progress. The user interface and user experience modules of the project's mobile and web-based apps are also being designed taking the particular requirements of each platform into account so as to maximize the user experience and user satisfaction.

Project 360

Launched at Ersem, the goal of Project 360 is to facilitate the productive and effective management of that company's processes as they undergo their migration to OYAK Mining Metallurgy Group enterprise resource planning system. The project's objectives are to keep pace with and meet changing needs and to respond quickly and flexibly to customers' demands. When the new system is installed and becomes operational it will be fully integrated with OYAK Mining Metallurgy Group's human resources system, banks' systems, Erdemir's and İsdemir's systems, and customers' systems.

Integrated Auditing System Project

As a result of this project, continuous auditing and control mechanisms have been installed throughout the Group and all OYAK Mining Metallurgy Group auditing activities are being carried out interactively on line. OYAK Mining Metallurgy Group Integrated Auditing System is partitioned into Risk Management, Process Control, and Audit Management modules.

Besides automating the Internal Control Unit's oversight of routine risks and check points, the system also makes it possible for the unit to focus its resources instead more on monitoring strategic risks and providing more valuable advisory services.

Digital Human Resources Project

The goal of OYAK Mining Metallurgy Group Digital Human Resources Project is to standardize human resources processes throughout the Group, thereby making them more effective, flexible, and scalable. Originally embracing the Group's Personnel Information and Performance Management systems, comprehensive human resources management was achieved as of 2019 with the inclusion of the Selection, Placement & Organizational Management, the Skills Management, Task & Job Description, Remuneration & Fringe Benefits Management, and Employee Progression systems as well.

A PEOPLE-CENTERED APPROACH

With 11,428 people on its payroll, OYAK Mining Metallurgy Group is one of Turkey's biggest job-creators.

OYAK Mining Metallurgy Group puts people at the center of its business model and of all of its operations. The Group creates value not just for its own employees but for society as a whole. Recognizing people as its most important capital resource, OYAK Mining Metallurgy Group focuses on improving its employees' working conditions and developing its employees' skills while also investing in increasing its employees' job satisfaction. At the same time and in its capacity as a job-creator, OYAK Mining Metallurgy Group contributes to socioeconomic development by supporting local development while also carrying out projects that create social value.

Employees

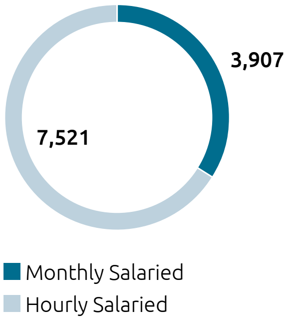
OYAK Mining Metallurgy Group is aware of the importance of well-trained human resources in its competitive and future success. With 11,428 people on its payroll, OYAK Mining Metallurgy Group is one of Turkey's biggest job-creators. At the same time, the Group also recognizes that providing a workplace environment that is worthy of skilled people's loyalty and job-commitment is foremost among its priorities.

In order to standardize and harmonize human resources practices throughout the Group, OYAK Mining Metallurgy Group makes use of published procedures and instructions covering the management of processes involving everything from hiring to termination and from performance management to promotions, transfers, and remuneration.

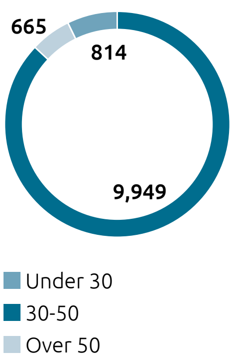
66% of the Group's personnel are paid hourly wages and 34% are paid monthly salaries.

OYAK Mining Metallurgy Group seeks to have a fair, safe, and supportive working environment. OYAK Mining Metallurgy Group companies' recruitment, hiring, and other human resources operations are carried out without discrimination as to gender, language, race, ethnicity, political affiliation, conviction, faith, sect, age, physical disability, or other reasons and their decisions and actions are based solely on an objective assessment of an individual's fitness for job and personality traits. Attention is also given to being mindful of social gender equality. In order to increase the number of women in the Group's employ, which was 6% in 2019, OYAK Mining Metallurgy Group is seeking to increase the number of intermediate job positions (especially in operations) in which women may be employed in capacities other than traditional ones.

Breakdown of Employees by Category (Person)

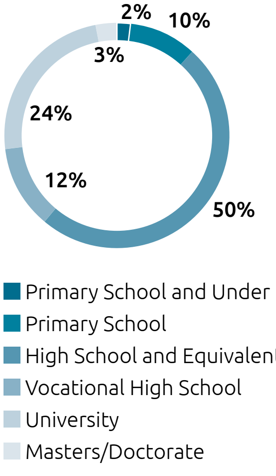


Breakdown of Employees by Age (Person)



EMPLOYEE REMUNERATION WITHIN OYAK MINING METALLURGY GROUP IS INFORMED BY A SYSTEMATIC APPROACH IN WHICH REMUNERATION IS BASED ON A PAY SCALE THAT APPLIES TO EVERY JOB POSITION AT OYAK MINING METALLURGY GROUP.

Breakdown of Employees by Education Level



Digital HR

As is true in many other areas, digitalization and emerging technologies present opportunities to improve the effectiveness and efficiency of human resources processes and operations. Giving a high level of importance and priority to both human resources and to technology, in 2018 OYAK Mining Metallurgy Group launched a digitalization program with the goal of standardizing and improving human resources approaches, practices, processes, and infrastructure assets by eliminating disparities and discrepancies within the Group. As a result of this program, the Group has created a digital human resources management platform which can be used by all companies, which is user-friendly, and which is flexible and scalable. While also ensuring that human resources processes are managed more effectively based on information that is more accurate, comprehensive, and accessible, the project makes it possible for many human resources processes such as selection & placement, personnel information management, task & job descriptions, remuneration & fringe benefits, skills management, and training & progression to be conducted through this platform.

Performance Management

Skills management is one of the most important elements of performance management. All salaried employees undergo competency-based performance evaluations twice a year. The results of these evaluations have an impact on career management and performance-based pay processes as well as on training and development planning. An in-house-developed feedback system is used to support feedback processes while also ensuring that performance continues to be managed throughout the year rather than just at six-month intervals. This system supports continuous improvement in performance by making it possible for feedback processes between employees and their supervisors to be conducted regularly and on the basis of shared criteria.

Remuneration & Fringe Benefits

Employee remuneration within OYAK Mining Metallurgy Group is informed by a systematic approach. Hourly employees are paid wages and fringe benefits as stipulated in their collective bargaining agreements. Salaried employees' pay and fringe benefits are determined according to a defined, systematic, and internationally valid methodology. Remuneration is based on a pay scale that applies to every job position within OYAK Mining Metallurgy Group.

Salaried employees' fringe benefits consist of private health insurance, merit raises, and employer's contributions to their private pension account. Hourly employees are paid bonuses and other fringe benefits in accordance with the terms of their collective bargaining agreements. In addition to these fringe benefits, OYAK Mining Metallurgy Group employees are also entitled to such company-provided benefits as housing, daycare for children, and social facilities.

A PEOPLE-CENTERED APPROACH

Skills Management

For OYAK Mining Metallurgy Group, it is essential that investments in employee training and development create value for both employee and employer and that such investments be associated with OYAK Mining Metallurgy Group strategic objectives. **Ensuring that employees are performing jobs for which they are the best suited and improving employees' personal and professional/occupational abilities make up the core of OYAK Mining Metallurgy Group's skills-management approach.**

The goal of this approach is to make employees responsible for their own development while providing them with support and guidance that encourages them to constantly learn and improve themselves and their abilities and, in the case of management personnel, to also develop their leadership skills. All hourly and salaried personnel take part in development programs which are designed according to the particular needs of each target audience (for example young professionals) and in which use is made of new learning techniques.

Average job-specific training time provided in 2019 was 27.3 hours/employee[1]. With the inclusion of mandatory OHS training, this figure is 48.9 hours. Subcontractor personnel employed in Erdemir's and İsdemir's operations were provided with a total of 54,481 hours of job-specific training, which averages to 12.9 hours/person and is 19% more than it was in 2018. With the inclusion of mandatory OHS training, this figure is 24.6 hours.

Various leadership and technical development programs for personnel were also designed and conducted during 2019.

[1] Includes all Group companies.

ENSURING THAT EMPLOYEES ARE PERFORMING JOBS FOR WHICH THEY ARE THE BEST SUITED AND IMPROVING EMPLOYEES' PERSONAL AND PROFESSIONAL/ OCCUPATIONAL ABILITIES MAKE UP THE CORE OF OYAK MINING METALLURGY GROUP'S SKILLS-MANAGEMENT APPROACH.

Leadership Faculty

Managerial Development Program for Executives	This Leadership Faculty managerial development program is designed to improve executives' management and business-practice skills. Another of the program's goals is to foster a common management language by increasing communication and collaboration among executives undertaking different duties throughout OYAK Mining Metallurgy Group. Comprising three modules and one follow-up interview and lasting for six months, the program makes use of a variety of learning methods such as group coaching, reinforcement, and follow-up sessions in addition to classroom training. The program's first module, conducted in November and December 2019, was attended by 54 executives.
Managerial Development Program for Managers & Chief Engineers	This Leadership Faculty managerial development program is designed to improve the management and business-practice skills of managers and chief engineers and to foster a common management language among them. In addition to classroom training, the program makes use of one-on-one coaching, shared experiential learning, and reinforcement sessions. It is planned to begin this program in 2020 and for it to be attended by about 200 managers and chief engineers.

THE 14 MAINTENANCE ENGINEER DEVELOPMENT PROGRAM MAINTENANCE TRAINING COURSES THAT WERE CONDUCTED IN 2019 WERE ATTENDED BY 292 PEOPLE.

Technical Faculties

Iron & Steel Faculty	The Iron & Steel Faculty is designed to improve the competencies of engineers and chief engineers in parallel with their technical, career, and professional progression. The faculty, whose instruction is to be coordinated with İstanbul Technical University in 2020, is intended to serve as a model for Turkey's steelmaking industry. The Maintenance Engineer Development Program, the first to be conducted at the faculty, focuses on what maintenance engineers do and on the qualifications and competencies they should have in order to satisfy the requirements of their positions. The 14 maintenance training courses that were conducted at the Iron & Steel Faculty in 2019 were attended by 292 people.
Marketing & Sales Faculty	The Marketing & Sales Faculty has been set up to support OYAK Mining Metallurgy Group's unique approach to marketing and sales and to strengthen the professional and personal competencies of marketing & sales team managers and specialists. Starting out with 60 participants and planned to run for a year, the faculty's program consists of four separate modules: "Changing Global Dynamics", "Data-Driven Management", "From Product To Customer", and "Self-Awareness & Relationship Management".
Procurements Faculty	The Procurements Faculty is designed to improve the procurements-related knowledge and skills of managers and specialists. The goal of the faculty's twelve-month program, which is to be attended by 30 people at a time, is to strengthen the participants' professional and technical competencies. Covering such subjects as "Strategic Purchasing & Category Management", "Supplier Performance, Relationship & Contract Management", and "Supply Chain Risk Management", the program consists of classroom training along with reinforcement and simulation sessions. The program's design work was completed in 2019 and the first-module instruction was begun in February 2020.

Aware of the added value that young, talented, and successful people can create in the jobs they do and in order to attract such individuals to the Group, OYAK Mining Metallurgy Group provides traineeship positions to highschool and university students. During their orientation program, these students are given a chance to become familiar with OYAK Mining Metallurgy Group and its companies. Short and long-term traineeship opportunities were provided to a total of 684 (349 vocational high school and 335 university) students during 2019.

Employee Communication and Social Interaction

OYAK Mining Metallurgy Group gives importance to developing communication with and among its employees in order to foster a positive and harmonious working environment. Employees are encouraged to take part in social and community activities in line with the Group's social-responsibility awareness.

Employees may communicate any complaints, suggestions, and thoughts they may have about any OYAK Mining Metallurgy Group-related process in face-to-face meetings, by notifying the Ethics Committee, and through

A PEOPLE-CENTERED APPROACH

IN THE CONDUCT OF ITS OPERATIONS, OYAK MINING METALLURGY GROUP SEEKS TO CREATE VALUE FOR ALL OF ITS STAKEHOLDERS.

OYAK Mining Metallurgy Group Suggestion and Kaizen systems. Communication is also strengthened by means of a feedback system which gets employees and supervisors to personally interact once a week and which also serves as a digital-platform mentoring system.

Employees may become members of social clubs that engage in such activities as sightseeing, jogging, theater, music, and sports. Other OYAK Mining Metallurgy Group social-interaction include New Year's Eve parties, trekking, and basketball, volleyball, and football matches and tournaments.

Contributing to Society

In the conduct of its operations, OYAK Mining Metallurgy Group seeks to create value for all of its stakeholders. The Group contributes to the social and economic wellbeing of the communities in which it has a presence by creating employment and by undertaking socially-beneficial projects whose aim is to address local needs.

OYAK Mining Metallurgy Group promotes social and economic development and helps improve the quality of life in the localities where it conducts its operations through projects involving many different subjects such as supporting education, culture, and art and protecting biodiversity. The Group also cooperates with government agencies and organizations and with local NGOs so as to increase the impact of its projects by making them beneficial to a larger audience. OYAK Mining Metallurgy Group contributed a total of TL 4,761,000 to socially-beneficial projects in 2019.

Supporting Education, Social Welfare, and Culture & Art

In keeping with its understanding of what supporting social development means, OYAK Mining Metallurgy Group focuses especially on projects related to education and to culture & art. The goals of these projects are to improve the quality of public education and make educational opportunities accessible to more people and to promote cultural and artistic activities.

To date, OYAK Mining Metallurgy Group has financed the construction of nine public schools and donated them to the Ministry of Education. OYAK Mining Metallurgy Group takes care of the electricity, water, heating, cleaning, and similar needs of the public schools in Ereğli and İskenderun neighborhoods where housing is provided for Erdemir and İsdemir personnel. In localities where it has an operational presence, the Group supports educational institutions' scientific, culture & art, and sport events and activities, contributes to improvements in physical conditions, and provides support when dealing with equipment and technical issues.

OYAK Mining Metallurgy Group also provides gratuitous materials & equipment assistance to support the academic activities of colleges and universities. Since 2018, the Group has been supporting the activities of Zonguldak Bülent Ecevit University's Grizu-263 Space Team, an independently-supported group of students enrolled in the university's engineering faculty. In 2018 and again in 2019, this team placed second in the annual student design-build-launch competition for space-related topics organized jointly by the American Astronautical Society and the American Institute of Aeronautics and Astronautics and sponsored by the US National Aeronautics and Space Administration. Grizu-263 also won the Turkish championship in Türksat's 2019 satellite competition. OYAK Mining Metallurgy Group is currently supporting the team in its project to build Turkey's first PocketQube, a miniaturized satellite for space research. In 2019 OYAK Mining Metallurgy Group also provided backing and materials in support of a TÜBİTAK project being undertaken at İskenderun University.

OYAK Mining Metallurgy Group undertakes projects to support cultural and artistic development, especially projects that encourage young people to take part in cultural and artistic activities. It does this by hosting admission-free competitions and events.

"Erdemir Steel & Life" is a sculpture competition that group company Erdemir first organized in 2005 and which has been held as a biennial since 2013. The aims of this

OYAK MINING METALLURGY GROUP UNDERTAKES PROJECTS TO SUPPORT CULTURAL AND ARTISTIC DEVELOPMENT, ESPECIALLY PROJECTS THAT ENCOURAGE YOUNG PEOPLE TO TAKE PART IN CULTURAL AND ARTISTIC ACTIVITIES. IT DOES THIS BY HOSTING ADMISSION-FREE COMPETITIONS AND EVENTS.

competition are to support talented young artists who will play a role in the development of sculptural art, to contribute to art education in Turkey, and to draw attention to the diverse ways that steel can be used through the medium of art. The Group's Erdemir and İsdemir plants also supply steel for use in the sculptures that are entered into the competition.

The program of admission-free children's theater performances that Erdemir began in its home town of Ereğli in 2009 has been touring other parts of the country where OYAK Mining Metallurgy Group has operations since 2015. Last year 2,850 kids in Ereğli, İskenderun, Sivas, and İstanbul attended Erdemir Children's Theater performances.

OYAK Mining Metallurgy Group also undertakes and supports efforts in aid of people with disabilities. It supports the activities of the Physically Handicapped Persons' Association in Ereğli and also donates electric-powered wheelchairs to it.

"Let the Fields Be Ploughed and the Tradition Continue" Project

Protecting biodiversity is important not just for environmental sustainability but also for economic and social wellbeing. **Besides being mindful of managing the impact of its operations on biodiversity resources, OYAK Mining Metallurgy Group also works with government agencies and NGOs in their efforts to protect biodiversity. One way in which it does this is through its "Let the Fields Be Ploughed and the Tradition Continue" project, whose aim is to preserve indigenous plant species and heritage crops.**

In partnership with the Karadeniz Ereğli Township Food, Agriculture & Livestock Directorate, the Zonguldak-Ereğli Township National Education Directorate, and the Ottoman Strawberry Preservation & Grower Protection Society, Erdemir has launched one such project to keep a variety of strawberry that is indigenous to this Black Sea region of Turkey and whose cultivation has all but ceased from disappearing altogether. By encouraging farmers to plant this crop Erdemir is also helping to protect the region's biodiversity and species resources.

Launched in 2016, the project succeeded in breeding new Ottoman strawberry seedlings from locally-sourced cultivars. Land suitable for seedling cultivation was readied and fertilized and a disused school building nearby was turned into a "Strawberry Center". In 2018, some ten thousand Ottoman strawberry seedlings that had been raised and held in cold storage were turned over to twenty volunteer growers by the local Food, Agriculture & Livestock Directorate. The same year, the project received the "Finance & Economics" award at the 13th annual Felis Sustainability & Social Responsibility Awards ceremony. As of end-2019, about half a ton of Ottoman strawberries had been produced under the project, which has been extended for another three years under an agreement entered into by the parties involved.

APPENDIX

Management Systems

Management Standard	Erdemir	İsdemir	Ersem	Erdemir Romania	Erdemir Maden
TS EN ISO 9001:2015 Quality Management System	✓	✓	✓	✓	-
TS EN ISO 14001:2015 Environment Management System	✓	✓	-	✓	-
ISO 45001:2018 Occupational Health and Safety Management System	✓	✓	✓	✓	✓ (OHSAS 18001)
IATF 16949:2016 Quality Management System for the Automotive Industry	✓	✓	✓	-	-
TS EN ISO 50001 Energy Management System	✓	✓	-	✓	-
TS EN ISO/IEC 17025:2012 General Requirements for the Competence of Testing and Calibration Laboratories	✓	-	-	-	-
TS EN ISO/IEC 17025:2012 Laboratory Qualification Certificate	-	✓	-	-	-
TS ISO/IEC 27001:2013 Information Security Management System	✓	✓	✓	-	-

Social Performance Indicators[1]

Number of Employees as per Gender and Category	2017		2018		2019	
	Women	Men	Women	Men	Women	Men
Monthly-salaried	540	3,417	546	3,339	569	3,338
Hourly-salaried	80	7,940	69	7,657	64	7,457
Number of unionizied employees	65	4,611	61	7,439	51	7,236
Total number of employees	11,977		11,611		11,428	

Number of Employees as per Age	2017		2018		2019	
	Women	Men	Women	Men	Women	Men
Below 30	84	852	95	740	85	727
Between 30-50	503	9,990	490	9,710	516	9,435
Over 50	33	515	30	546	32	633

Number of Employees as per Education Level	2017		2018		2019	
	Women	Men	Women	Men	Women	Men
Primary school and under	3	349	3	291	0	259
Primary school	12	1,288	11	1,196	10	1,081
High school and equivalent	110	5,775	104	5,647	98	5,569
Vocational high school	53	1,282	49	1,262	55	1,281
University	358	2,375	364	2,314	386	2,305
Masters/Doctorate	84	288	150	220	84	300

[1] Social performance indicators include all OYAK Mining Metallurgy Group companies.

Parental Leave	2017		2018		2019	
	Women	Men	Women	Men	Women	Men
Number of employees left for parental leave	25	546	14	513	18	455
Number of employees returned from parental leave	19	546	7	513	15	455

Number of Employees Left as per Gender and Age - Employee Turnover	2017		2018		2019	
	Women	Men	Women	Men	Women	Men
Total number of employees left	64	627	63	616	62	537
Below 30	13	35	13	73	11	33
Between 30-50	44	417	42	364	41	318
Over 50	7	175	8	179	10	186

Trainings	2017	2018	2019
Training hours (excluding OHS training)	417,306	345,757	312,158
Average number of training hours	34.8	29.8	27.3

Environmental Performance Indicators[2]

Amount of Electrical Energy Production from Waste Heat (kwh)	2017	2018	2019
Total	840,107,138	1,234,169,374	651,332,954

Total Non-Hazardous Wastes (ton)	2017	2018	2019
Total	853,667	1,057,022	1,350,256

Total Hazardous Wastes (ton)	2017	2018	2019
Total	10,828	11,884	11,404

Product Amount for which By-Product Certificate Received (ton)	2017	2018	2019
Total	1,114,801	128,896	338,893

Financial Savings (TL)	2017	2018	2019
Financial savings arousing from by-products	194,122,372	292,406,722	458,697,741
Financial savings arousing from non-hazardous waste recycling	4,924,128	21,192,158	30,717,593

Water Consumption (m^3)	2017	2018	2019
Surface water	460,753,135	451,836,216	457,066,230
Ground water	3,093,047	2,089,860	2,842,870
Amount of recovered/recirculated water	1,087,967,976	1,088,970,320	1,085,977,402

[2] Erdemir and İsdemir consolidated indicators.

APPENDIX

Corporate Memberships

Company	Name of the Association/Corporation	
Erdemir	Turkish Packaging Manufacturers Association (ASD)	
Erdemir	Vehicle and Onboard Equipment and Construction Equipment Manufacturers Association (ARÜSDER)	
Erdemir	R&D Centers Communication and Cooperation Platform (ARGEMİP)	
Erdemir	Association of Fastener Industrialists and Businessmen (BESİAD)	
Erdemir	Steel Exporters' Association (ÇİB)	
Erdemir	Foreign Economic Relations Board (DEİK)	**Business Councils:** Egypt - USA - Brazil - Canada - China - Australia - UK - Singapore - Spain - Italy - Romania
Erdemir	World Energy Council Turkish National Committee	
Erdemir	Ecovadis	
Erdemir	Education and Development Platform Association (TEGEP)	
Erdemir	Ethics and Reputation Association (TEİD)	
Erdemir	Chamber of Maritime Trade (IMEAK)	
Erdemir	Economic Development Foundation (İKV)	
Erdemir	İstanbul Ferrous and Non-Ferrous Metals Exporters' Association (İDMMİB)	
Erdemir	İstanbul Chamber of Industry (İSO)	
Erdemir	İstanbul Chamber of Commerce (İTO)	
Erdemir	Karadeniz Ereğli Education Foundation	
Erdemir	Karadeniz Ereğli Chamber of Commerce and Industry	
Erdemir	Association of Turkish Machine Manufacturers (MİB)	
Erdemir	Metal Packaging Manufacturers Association (MASD)	
Erdemir	International Chamber of Commerce Turkish National Committee (ICC)	
Erdemir	Business Council for Sustainable Development (SKD Turkey)	
Erdemir	International Tin Association (ITA)	
Erdemir	Integrated Reporting Türkiye (ERTA)	
Erdemir	Corporate Communicators Association (KİD)	
Erdemir	Turkish Ferrous and Non-Ferrous Metals Council (TOBB)	
Erdemir	Environment and Climate Change Standing Committee (TOBB)	
Erdemir	Türk Loydu (Turkish Lloyd)	
Erdemir	Turkish Constructional Steelwork Association (TUCSA)	
Erdemir	The Institute of Internal Auditing - Turkey (TİDE)	
Erdemir	Turkish Cogeneration Association	
Erdemir	Corporate Governance Association of Turkey (TKYD)	
Erdemir	Turkish Employers Association of Metal Industries (MESS)	
Erdemir	Turkish Investor Relations Society (TÜYİD)	
Erdemir	Transparency International	
Erdemir+İsdemir	Turkish Association of People Management (PERYÖN)	

Erdemir+İsdemir	World Steel Association	**Committees:** Committee on Economic Studies (ECON), Committee on Education & Training (ETCO), Committee on Environment (ECO), Committee on Raw Materials (RAMCO), Committee on Technology (TECO), Committee on Safety & Health (SHCO), Life Cycle Assessment (LCA) Expert Group, Sustainability Reporting Expert Group (SREG), World Auto Steel
Erdemir+İsdemir	Turkish Quality Association (KALDER)	
Erdemir+İsdemir	Port Operators Association of Turkey (TÜRKLİM)	
Erdemir+İsdemir	Turkish Steel Producers Association (TÇÜD)	**Committees:** Quality Committee, Energy Committee, OHS Committee, Environmental Committee, Raw Material Committee
Erdemir Romanya	Dambovita County Chamber of Commerce	
Erdemir Romanya	Romania Steel Producers Association (UNIROMSIDER)	
Erdemir Romanya	Romania-Turkish Businessmen Association (TIAD)	
Erdemir Maden	Ankara Chamber of Commerce (ATO)	
Erdemir Maden	Sivas Chamber of Industry	
Erdemir Maden	Turkish Miners Association (TMD)	
Ersem	White Goods Suppliers Association (BEYSAD)	
Ersem	Steel Exporters' Association (ÇİB)	
Ersem	Eastern Anatolian Exporters Association (DAİB)	
Ersem	Gebze Chamber of Commerce	
Ersem	İstanbul Ferrous and Non-Ferrous Metals Exporters' Association (İDMMİB)	
Ersem	Kocaeli Chamber of Industry	
Ersem	Manisa Chamber of Commerce and Industry	
Ersem	Automotive Suppliers Association of Turkey (TAYSAD)	
İsdemir	Mediterranean Exporters' Association (AKİB)	
İsdemir	Steel Exporters' Association (ÇİB)	
İsdemir	Dörtyol Chamber of Commerce and Industry	
İsdemir	Chamber of Maritime Trade (IMEAK)	
İsdemir	İskenderun Chamber of Commerce and Industry	
İsdemir	Middle Anatolian Exporters Association -Machinery and Accessories	
İsdemir	Turkish Ferrous and Non-Ferrous Metals Council (TOBB)	
Erdemir Asia Pacific	International Tin Association (ITA)	

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ("Company"), one of the public companies in Turkey with the broadest base, enjoys a leading position in its field in the Turkish industry, and is well aware of its responsibilities towards its stakeholders. In this context, the Company has adopted the concepts of "equality", "transparency", "accountability" and "responsibility", which form the basis of corporate governance in its activities, and has taken maximum care and effort to comply with the Capital Markets Law and the secondary regulations and decisions of the Capital Markets Board (CMB).

In line with the corporate governance efforts, the Company has started to operate corporate governance mechanisms in accordance with the principles since 26.06.2012. Our Company, which is included in the BIST Corporate Governance Index ("XKURY") as of 29.07.2015 and also is subject to corporate governance rating every year by the rating agency KOBİRATE, which is authorized to perform activities in Turkey in accordance with the rating methodology approved by the CMB. Corporate Governance Rating Reports are available on our Corporate Website (www.erdemir.com.tr).

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. believes in the importance of ensuring full compliance with the Principles of the Corporate Governance. In the activity period ended on 31 December 2019, the Company has continued to adopt the mandatory corporate governance principles that are included in the Corporate Governance Communiqué annexed to the relevant legislation.

The Company pays utmost attention to compliance with voluntary principles that are not fully complied yet with in the relevant legislation and there is no conflict of interest between the stakeholders so far.

For the period ended at 31 December 2019, compliance with the corporate governance principles included in the Corporate Governance Communiqué and the explanations of those who have not yet achieved compliance are included in the annual report; Corporate Governance Compliance Report and Corporate Governance Information Form and other related sections of the report.

In the future, corporate governance practices of the Company, efforts to improve our corporate governance practices, including non-mandatory principles that have not been put into practice in a limited number, will be continued.

When there is a change in the Corporate Governance Compliance Report or Corporate Governance Information Form, there will be a material event disclosure and it will be published in the interim activity reports as well.

CORPORATE GOVERNANCE COMPLIANCE REPORT

Corporate Governance Compliance Report	Yes	Partial	No	Exempted	Not Applicable	Explanation
1.1. FACILITATING THE EXERCISE OF SHAREHOLDER RIGHTS						
1.1.2 - Up-to-date information and disclosures which may affect the exercise of shareholder rights are available to investors at the corporate website.	X					
1.2. RIGHT TO OBTAIN AND REVIEW INFORMATION						
1.2.1 - Management did not enter into any transaction that would complicate the conduct of special audit.	X					
1.3. GENERAL ASSEMBLY						
1.3.2 - The Company ensures the clarity of the General Assembly agenda, and that an item on the agenda does not cover multiple topics.	X					
1.3.7 - Insiders with privileged information have informed the board of directors about transactions conducted on their behalf within the scope of the Company's activities in order for these transactions to be presented at the General Shareholders' Meeting.	X					
1.3.8 - Members of the board of directors who are concerned with specific agenda items, auditors, and other related persons, as well as the officers who are responsible for the preparation of the financial statements were present at the General Shareholders' Meeting.	X					
1.3.10 - The agenda of the General Shareholders' Meeting included a separate item detailing the amounts and beneficiaries of all donations and contributions.	X					
1.3.11 - The General Shareholders' Meeting was held open to the public, including the stakeholders, without having the right to speak.					X	In 2019 fiscal year, there was no participation demand from the media.
1.4. VOTING RIGHTS						
1.4.1 - There is no restriction preventing shareholders from exercising their shareholder rights.	X					
1.4.2 - The Company does not have shares that carry privileged voting rights.		X				Company's capital is divided into shares Group A and Group B. 1 (one) share of certificate, issued to the bearer amounting to 1 Kr (one Kuruş) is A group. The right of usufruct shall be established in favor of and to the name of Privatization Administration on the shares of A Group with all rights appertaining thereto unless otherwise decided by Supreme Board of Privatization.
1.4.3 - The Company withholds from exercising its voting rights at the General Shareholders' Meeting of any company with which it has cross-ownership, in case such cross-ownership provides management control.					X	No cross-shareholding relations exist in the capital of the Company.

CORPORATE GOVERNANCE COMPLIANCE REPORT

Corporate Governance Compliance Report	Yes	Partial	No	Exempted	Not Applicable	Explanation
1.5. MINORITY RIGHTS						
1.5.1 - The Company pays maximum diligence to the exercise of minority rights.	X					
1.5.2 - The Articles of Association extend the use of minority rights to those who own less than one twenthieth of the outstanding shares, and expand the scope of the minority rights.			X			Even though minority rights are not determined less than one in twenty by the Articles of Association, in accordance with Article 38 of the Articles of Association, provisions of Turkish Commercial Code and Capital Market Law shall be applied to the issues that are not written in the Articles of Association in regard to minority rights.
1.6. DIVIDEND RIGHT						
1.6.1 - The dividend policy approved by the General Shareholders' Meeting is posted on the Company website.	X					
1.6.2 - The dividend distribution policy comprises the minimum information to ensure that the shareholders can have an opinion on the procedure and principles of dividend distributions in the future.	X					
1.6.3 - The reasons for retaining earnings, and their allocations, are stated in the relevant agenda item.	X					
1.6.4 - The board reviewed whether the dividend policy balances the benefits of the shareholders and those of the Company.	X					
1.7. TRANSFER OF SHARES						
1.7.1 - There are no restrictions preventing shares from being transferred.	X					
2.1. CORPORATE WEBSITE						
2.1.1. - The Company website includes all elements listed in Corporate Governance Principle 2.1.1.	X					
2.1.2 - The shareholding structure (names, privileges, number and ratio of shares, and beneficial owners of more than 5% of the issued share capital) is updated on the website at least every 6 months.	X					
2.1.4 - The Company website is prepared in other selected foreign languages, in a way to present exactly the same information with the Turkish content.	X					
2.2. ANNUAL REPORT						
2.2.1 - The board of directors ensures that the annual report represents a true and complete view of the Company's activities.	X					
2.2.2 - The annual report includes all elements listed in Corporate Governance Principle 2.2.2.	X					
3.1. CORPORATION'S POLICY ON STAKEHOLDERS						
3.1.1 - The rights of the stakeholders are protected pursuant to the relevant regulations, contracts and within the framework of bona fides principles.	X					
3.1.3 - Policies or procedures addressing stakeholders' rights are published on the Company's website.		X				Some of the policies and procedures related to the rights of stakeholders are published on the Company's website.
3.1.4 - A whistleblowing programme is in place for reporting legal and ethical issues.	X					
3.1.5 - The Company addresses conflicts of interest among stakeholders in a balanced manner.	X					

Corporate Governance Compliance Report	Yes	Partial	No	Exempted	Not Applicable	Explanation
3.2. SUPPORTING THE PARTICIPATION OF THE STAKEHOLDERS IN THE CORPORATION'S MANAGEMENT						
3.2.1 - The Articles of Association, or the internal regulations (terms of reference/manuals), regulate the participation of employees in management.			X			Although there is no provision in the articles of association, employees are encouraged to participate in management through internal practices.
3.2.2 - Surveys/other research techniques, consultation, interviews, observation method etc. were conducted to obtain opinions from stakeholders on decisions that significantly affect them.		X				The requests, suggestions and complaints of the stakeholders are taken and evaluated in important decisions that result in some of the stakeholders.
3.3. HUMAN RESOURCES POLICY						
3.3.1 - The Company has adopted an employment policy ensuring equal opportunities, and a succession plan for all key managerial positions.		X				Although there is an employment policy providing equality of opportunity, succession planning process is in progress.
3.3.2 - Recruitment criteria are documented.	X					
3.3.3 - The Company has a policy on human resources development, and organises trainings for employees.	X					
3.3.4 - Meetings have been organised to inform employees on the financial status of the Company, remuneration, career planning, education and health.		X				Although some informations have been carried out from time to time, information meetings have not been conducted since some studies are ongoing.
3.3.5 - Employees, or their representatives, were notified of decisions impacting them. The opinion of the related trade unions was also taken.	X					
3.3.6 - Job descriptions and performance criteria have been prepared for all employees, announced to them and taken into account to determine employee remuneration.	X					
3.3.7 - Measures (procedures, trainings, raising awareness, goals, monitoring, complaint mechanisms) have been taken to prevent discrimination, and to protect employees against any physical, mental, and emotional mistreatment.	X					
3.3.8 - The Company ensures freedom of association and supports the right for collective bargaining.	X					
3.3.9 - A safe working environment for employees is maintained.	X					
3.4. RELATIONS WITH CUSTOMERS AND SUPPLIERS						
3.4.1 - The Company measured its customer satisfaction, and operated to ensure full customer satisfaction.	X					
3.4.2 - Customers are notified of any delays in handling their requests.	X					
3.4.3 - The Company complied with the quality standards with respect to its products and services.	X					
3.4.4 - The Company has in place adequate controls to protect the confidentiality of sensitive information and business secrets of its customers and suppliers.	X					

CORPORATE GOVERNANCE COMPLIANCE REPORT

Corporate Governance Compliance Report	Yes	Partial	No	Exempted	Not Applicable	Explanation
3.5. ETHICAL RULES AND SOCIAL RESPONSIBILITY						
3.5.1 - The board of the corporation has adopted a code of ethics, disclosed on the corporate website.	X					
3.5.2 - The Company has been mindful of its social responsibility and has adopted measures to prevent corruption and bribery.	X					
4.1. ROLE OF THE BOARD OF DIRECTORS						
4.1.1 - The board of directors has ensured strategy and risks do not threaten the long-term interests of the Company, and that effective risk management is in place.	X					
4.1.2 - The agenda and minutes of board meetings indicate that the board of directors discussed and approved strategy, ensured resources were adequately allocated, and monitored company and management performance.	X					
4.2. ACTIVITIES OF THE BOARD OF DIRECTORS						
4.2.1 - The board of directors documented its meetings and reported its activities to the shareholders.	X					
4.2.2 - Duties and authorities of the members of the board of directors are disclosed in the annual report.	X					
4.2.3 - The board has ensured the Company has an internal control framework adequate for its activities, size and complexity.	X					
4.2.4 - Information on the functioning and effectiveness of the internal control system is provided in the annual report.	X					
4.2.5 - The roles of the Chairman and Chief Executive Officer are separated and defined.	X					
4.2.7 - The board of directors ensures that the Investor Relations department and the corporate governance committee work effectively. The board works closely with them when communicating and settling disputes with shareholders.	X					
4.2.8 - The Company has subscribed to a Directors and Officers liability insurance covering more than 25% of the capital.		X				There is an executive liability insurance for the damages caused by the board members during their duties but the total insurance does not exceed 25% of the capital.
4.3. STRUCTURE OF THE BOARD OF DIRECTORS						
4.3.9 - The board of directors has approved the policy on its own composition, setting a minimal target of 25% for female directors. The board annually evaluates its composition and nominates directors so as to be compliant with the policy.			X			The Board of Directors does not have a policy for a minimum 25% target rate for female members.
4.3.10 - At least one member of the audit committee has 5 years of experience in audit/ accounting and finance.	X					

Corporate Governance Compliance Report	Yes	Partial	No	Exempted	Not Applicable	Explanation
4.4. BOARD MEETING PROCEDURES						
4.4.1 - Each board member attended the majority of the board meetings in person.	X					
4.4.2 - The board has formally approved a minimum time by which information and documents relevant to the agenda items should be supplied to all board members.	X					
4.4.3 - The opinions of board members that could not attend the meeting, but did submit their opinion in written format, were presented to other members.	X					
4.4.4 - Each member of the board has one vote.	X					
4.4.5 - The board has a charter/written internal rules defining the meeting procedures of the board.	X					
4.4.6 - Board minutes document that all items on the agenda are discussed, and board resolutions include director's dissenting opinions if any.	X					
4.4.7 - There are limits to external commitments of board members. Shareholders are informed of board members' external commitments at the General Shareholders' Meeting.		X				There is no restriction for the Board Members to assume any other duties outside the Company. The Board Members' duties outside the Company were announced to the shareholders at the General Assembly Meeting.
4.5. BOARD COMMITTEES						
4.5.5 - Board members serve in only one of the Board's committees.			X			Due to the number of Board members, each board member is assigned to more than one committee.
4.5.6 - Committees have invited persons to the meetings as deemed necessary to obtain their views.	X					
4.5.7 - If external consultancy services are used, the independence of the provider is stated in the annual report.					X	In 2019, any committee did not receive consultancy services.
4.5.8 - Minutes of all committee meetings are kept and reported to board members.	X					
4.6. FINANCIAL RIGHTS						
4.6.1 - The board of directors has conducted a board performance evaluation to review whether it has discharged all its responsibilities effectively.			X			The performance of the Board of Directors was not evaluated.
4.6.4 - The Company did not extend any loans to its board directors or executives, nor extended their lending period or enhanced the amount of those loans, or improve conditions thereon, and did not extend loans under a personal credit title by third parties or provided guarantees such as surety in favour of them.	X					
4.6.5 - The individual remuneration of board members and executives is disclosed in the annual report.		X				Total salaries, bonuses and other benefits of the key management are shared in the annual report but not disclosed on a personal basis.

CORPORATE GOVERNANCE INFORMATION FORM

1. SHAREHOLDERS	
1.1. Facilitating the Exercise of Shareholders Rights	
The number of investor meetings (conference, seminar/etc.) organised by the Company during the year	63
1.2. Right to Obtain and Examine Information	
The number of special audit request(s)	0
The number of special audit requests that were accepted at the General Shareholders' Meeting	0
1.3. General Assembly	
Link to the PDP announcement that demonstrates the information requested by Principle 1.3.1. (a-d)	https://www.kap.org.tr/en/Bildirim/742048
Whether the Company provides materials for the General Shareholders' Meeting in English and Turkish at the same time	Yes
The links to the PDP announcements associated with the transactions that are not approved by the majority of independent directors or by unanimous votes of present board members in the context of Principle 1.3.9	There was no such transaction during the year.
The links to the PDP announcements associated with related party transactions in the context of Article 9 of the Communique on Corporate Governance (II-17.1)	There is no such transaction under Article 9.
The links to the PDP announcements associated with common and continuous transactions in the context of Article 10 of the Communique on Corporate Governance (II-17.1)	https://www.kap.org.tr/en/Bildirim/738605
The name of the section on the corporate website that demonstrates the donation policy of the Company	Investor Relations / Corporate Governance / Policies and Regulations / Donations and Contribution Policy
The relevant link to the PDP with minute of the General Shareholders' Meeting where the donation policy has been approved	https://www.kap.org.tr/tr/Bildirim/194744
The number of the provisions of the articles of association that discuss the participation of stakeholders to the General Shareholders' Meeting	None
Identified stakeholder groups that participated in the General Shareholders' Meeting, if any	There was no participation in the General Assembly meeting regarding 2018 activities except for the shareholders. However, there is no restriction on participation of stakeholders in the General Assembly.
1.4. Voting Rights	
Whether the shares of the Company have differential voting rights	Yes
In case that there are voting privileges, indicate the owner and percentage of the voting majority of shares.	Privatization Administration / 0.0% / One share of certificate, issued to the bearer amounting to one kurus.
The percentage of ownership of the largest shareholder	49.29%
1.5. Minority Rights	
Whether the scope of minority rights enlarged (in terms of content or the ratio) in the articles of the association	No
If yes, specify the relevant provision of the articles of association.	-
1.6. Dividend Right	
The name of the section on the corporate website that describes the dividend distribution policy	Investor Relations / Corporate Governance / Policies and Regulations / Dividend Distribution Policy
Minutes of the relevant agenda item in case the board of directors proposed to the general assembly not to distribute dividends, the reason for such proposal and information as to use of the dividend.	-
PDP link to the related general shareholder meeting minutes in case the board of directors proposed to the general assembly not to distribute dividends	-

General Assembly Meetings									
General Meeting Date	The number of information requests received by the Company regarding the clarification of the agenda of the General Shareholders' Meeting	Shareholder participation rate to the General Shareholders' Meeting	Percentage of shares directly present at the GSM	Percentage of shares represented by proxy	Specify the name of the page of the corporate website that contains the General Shareholders' Meeting minutes, and also indicates for each resolution the voting levels for or against	Specify the name of the page of the corporate website that contains all questions asked in the general assembly meeting and all responses to them	The number of the relevant item or paragraph of General Shareholders' Meeting minutes in relation to related party transactions	The number of declarations by insiders received by the board of directors	The link to the related PDP general shareholder meeting notification
21.03.2019	0	66%	0.02%	66%	Investor Relations / General Assembly / Minutes of General Assembly	Investor Relations / General Assembly / The questions asked on General Assembly Meetings	-	203	https://www.kap.org.tr/en/Bildirim/749186

2. DISCLOSURE AND TRANSPARENCY	
2.1. Corporate Website	
Specify the name of the sections of the website providing the information requested by the Principle 2.1.1.	Investor Relations / Corporate Governance, Reports and Presentations, Annual Reports, Disclosures and Announcements, General Assembly, FAQ
If applicable, specify the name of the sections of the website providing the list of shareholders (ultimate beneficiaries) who directly or indirectly own more than 5% of the shares.	Investor Relations / Corporate Governance / Ownership Structure
List of languages for which the website is available	Turkish, English
2.2. Annual Report	
The page numbers and/or name of the sections in the Annual Report that demonstrate the information requested by principle 2.2.2.	
a) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the duties of the members of the board of directors and executives conducted out of the Company and declarations on independence of board members	Investor Relations / Reports and Presentations / Interim Financial Reports / Declarations of Independent Board Members
b) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on committees formed within the board structure	Investor Relations / Annual Reports / Board of Directors Committee Operating Principles and Assessment of Committees' Effectiveness
c) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the number of board meetings in a year and the attendance of the members to these meetings	Investor Relations / Reports and Presentations / Interim Financial Reports / Number of Meetings of the Board of Directors and Attendance of the Board Members
ç) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on amendments in the legislation which may significantly affect the activities of the corporation	Investor Relations / Reports and Presentations / Interim Financial Reports / Information about Amendments in Legislation That May Significantly Affect the Company's Activities
d) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on significant lawsuits filed against the corporation and the possible results thereof	Investor Relations / Annual Reports / Notes to the Consolidated Financial Statements / Provision for Lawsuits
e) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the conflicts of interest of the corporation among the institutions that it purchases services on matters such as investment consulting and rating and the measures taken by the corporation in order to avoid from these conflicts of interest	Investor Relations / Annual Reports / Other Issues
f) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the cross ownership subsidiaries that the direct contribution to the capital exceeds 5%	No cross ownership subsidiaries that the direct contribution to the Company's capital exceeds 5%.
g) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on social rights and professional training of the employees and activities of corporate social responsibility in respect of the corporate activities that arises social and environmental results	Investor Relations / Annual Reports / Corporate Social Responsibility

CORPORATE GOVERNANCE INFORMATION FORM

3. STAKEHOLDERS	
3.1. Corporation's Policy on Stakeholders	
The name of the section on the corporate website that demonstrates the employee remedy or severance policy	Investor Relations / Corporate Governance / Policies and Regulations / Staff Compensation Policy
The number of definitive convictions the Company was subject to in relation to breach of employee rights	285
The position of the person responsible for the alert mechanism (i.e. whistleblowing mechanism)	Ethics Committee
The contact detail of the Company alert mechanism	Mail: etik@erdemiretik.com, Phone: 0 850 211 30 00
3.2. Supporting the Participation of the Stakeholders in the Corporation's Management	
Name of the section on the corporate website that demonstrates the internal regulation addressing the participation of employees on management bodies	-
Corporate bodies where employees are actually represented	Union
3.3. Human Resources Policy	
The role of the board on developing and ensuring that the Company has a succession plan for the key management positions	-
The name of the section on the corporate website that demonstrates the human resource policy covering equal opportunities and hiring principles. Also provide a summary of relevant parts of the human resource policy.	OYAK Mining Metallurgy Group / Career / HR Practices
Whether the Company provides an employee stock ownership programme	There isn't an employee stock ownership programme
The name of the section on the corporate website that demonstrates the human resource policy covering discrimination and mistreatments and the measures to prevent them. Also provide a summary of relevant parts of the human resource policy.	Investor Relations / Corporate Governance / Code of Ethics and Business Conduct / Responsibilities to Our Employees (We have our employees use their personal rights completely and accurately. Employees are treated with integrity and fairness. We are committed to providing a secure, healthy and non-discriminative work environment. We strive to support our employees' personal development, encourage them to volunteer in appropriate social and community activities as well as try to ensure their work-life balance.)
The number of definitive convictions the Company is subject to in relation to health and safety measures	30
3.5. Ethical Rules and Social Responsibility	
The name of the section on the corporate website that demonstrates the code of ethics	Investor Relations / Corporate Governance / Code of Ethics and Business Conduct
The name of the section on the Company website that demonstrates the corporate social responsibility report. If such a report does not exist, provide the information about any measures taken on environmental, social and corporate governance issues.	Sustainability / CSR Policy
Any measures combating any kind of corruption including embezzlement and bribery	OYAK Mining Metallurgy Group's Board members, employees and all third parties acting on the Group's behalf should avoid any act or behavior that may bring OYAK Mining Metallurgy Group under suspicion of corruption. Regardless of being in public or private sector, accepting or giving any cash/ non-cash benefit that may be in the scope of corruption is forbidden.

4. BOARD OF DIRECTORS-I	
4.2. Activity of the Board of Directors	
Date of the last board evaluation conducted	-
Whether the board evaluation was externally facilitated	No
Whether all board members released from their duties at the GSM	Yes
Name(s) of the board member(s) with specific delegated duties and authorities, and descriptions of such duties	Süleyman Savaş ERDEM - Chairman (Representative of OYTAŞ İç ve Dış Ticaret A.Ş.), Toker ÖZCAN - Deputy Chairman and Managing Director (Representative of OYAK Pazarlama Hizmet ve Turizm A.Ş.)
Number of reports presented by internal auditors to the audit committee or any relevant committee to the board	5
Specify the name of the section or page number of the annual report that provides the summary of the review of the effectiveness of internal controls	Investor Relations / Annual Reports / Internal Audit System
Name of the Chairman	Süleyman Savaş ERDEM - Chairman (Representative of OYTAŞ İç ve Dış Ticaret A.Ş.)
Name of the CEO	Salih Cem Oral
If the CEO and Chair functions are combined: provide the link to the relevant PDP announcement providing the rationale for such combined roles	CEO and Chairman are not the same person.
Link to the PDP notification stating that any damage that may be caused by the members of the board of directors during the discharge of their duties is insured for an amount exceeding 25% of the Company's capital	There is an executive liability insurance for the damages caused by the board members during their duties but the total insurance does not exceed 25% of the capital.
The name of the section on the corporate website that demonstrates current diversity policy targeting women directors	-
The number and ratio of female directors within the Board of Directors	2; 22%

CORPORATE GOVERNANCE INFORMATION FORM

Board Members

Name-Surname	Whether Executive Director or Not	Independent Board Member or not	The First Election Date To Board	Link To PDP Notification That Includes the Independency Declaration	Whether the Independent Director Considered By the Nomination Committee	Whether She/He is the Director Who Ceased to Satisfy the Independence or Not	Whether the Director has at Least 5 Years' Experience on Audit, Accounting and/or Finance or not
OYTAŞ İÇ VE DIŞ TİCARET ANONİM ŞİRKETİ (Represented by: Süleyman Savaş ERDEM)	Non-Executive	Dependent Member	27.05.2013		Not Considered	No	Yes
OYAK PAZARLAMA HİZMET VE TURİZM ANONİM ŞİRKETİ (Represented by: Toker ÖZCAN)	Executive	Dependent Member	13.09.2012		Not Considered	No	Yes
REPUBLIC OF TURKEY TREASURY AND FINANCE MINISTRY PRIVATIZATION ADMINISTRATION (Represented by: Tahsin YAZAR)	Non-Executive	Dependent Member	20.09.2012		Not Considered	No	Yes
OYKA KAĞIT AMBALAJ SANAYİİ VE TİCARET A.Ş. (Represented by: Baran ÇELİK)	Non-Executive	Dependent Member	12.09.2012		Not Considered	No	Yes
OYAK DENİZCİLİK VE LİMAN İŞLETMELERİ A.Ş. (Represented by: Güliz KAYA)	Non-Executive	Dependent Member	12.09.2012		Not Considered	No	Yes
OMSAN LOJİSTİK ANONİM ŞİRKETİ (Represented by: Aslıhan DÖĞER)	Non-Executive	Dependent Member	11.09.2012		Not Considered	No	Yes
Yunus ARINCI	Non-Executive	Independent Member	31.03.2016	https:// www.kap.org.tr / tr/Bildirim/ 657887	Considered	No	Yes
Ali FİDAN	Non-Executive	Independent Member	31.03.2017	https:// www.kap.org.tr / tr/Bildirim/ 657887	Considered	No	Yes
Kurtuluş Bedri VAROĞLU	Non-Executive	Independent Member	31.03.2017	https:// www.kap.org.tr / tr/Bildirim/ 657887	Considered	No	Yes

4. BOARD OF DIRECTORS-II	
4.4. Meeting Procedures of the Board of Directors	
Number of physical board meetings in the reporting period (meetings in person)	6
Director average attendance rate at board meetings	98%
Whether the board uses an electronic portal to support its work or not	Yes
Number of minimum days ahead of the board meeting to provide information to directors, as per the board charter	3-5 Days
The name of the section on the corporate website that demonstrates information about the board charter	There are internal regulations in which the working principles of the Board of Directors meetings are determined, but they are not published on the corporate website.
Number of maximum external commitments for board members as per the policy covering the number of external duties held by directors	-
4.5. Board Committees	
Page numbers or section names of the annual report where information about the board committees are presented	Investor Relations / Annual Reports / Board of Directors Committee Operating Principles and Assessment of Committees' Effectiveness
Link(s) to the PDP announcement(s) with the board committee charters	The working principles of the Committee are available on our corporate website. (Investor Relations / Corporate Governance / Policies and Regulations)

Composition of Board Committees-I

Names of the Board Committees	Name of Committees Defined as "Other" in the First Column	Name-Surname of Committee Members	Whether Committee Chair or Not	Whether Board Member or Not
Corporate Governance Committee	-	Kurtuluş Bedri VAROĞLU	Yes	Board member
Corporate Governance Committee	-	Yunus ARINCI	No	Board member
Corporate Governance Committee	-	İdil ÖNAY ERGİN	No	Not board member
Audit Committee	-	Yunus ARINCI	Yes	Board member
Audit Committee	-	Ali FİDAN	No	Board member
Committee of Early Detection of Risk	-	Ali FİDAN	Yes	Board member
Committee of Early Detection of Risk	-	Kurtuluş Bedri VAROĞLU	No	Board member

CORPORATE GOVERNANCE INFORMATION FORM

4. BOARD OF DIRECTORS-III	
4.5. Board Committees-II	
Specify where the activities of the audit committee are presented in your annual report or website (Page number or section name in the annual report/website)	Investor Relations / Annual Reports / Board of Directors Committee Operating Principles and Assessment of Committees' Effectiveness
Specify where the activities of the corporate governance committee are presented in your annual report or website (Page number or section name in the annual report/website)	Investor Relations / Annual Reports / Board of Directors Committee Operating Principles and Assessment of Committees' Effectiveness
Specify where the activities of the nomination committee are presented in your annual report or website (Page number or section name in the annual report/website)	Investor Relations / Annual Reports / Board of Directors Committee Operating Principles and Assessment of Committees' Effectiveness
Specify where the activities of the early detection of risk committee are presented in your annual report or website (Page number or section name in the annual report/website)	Investor Relations / Annual Reports / Board of Directors Committee Operating Principles and Assessment of Committees' Effectiveness
Specify where the activities of the remuneration committee are presented in your annual report or website (Page number or section name in the annual report/website)	Investor Relations / Annual Reports / Board of Directors Committee Operating Principles and Assessment of Committees' Effectiveness
4.6. Financial Rights	
Specify where the operational and financial targets and their achievement are presented in your annual report (Page number or section name in the annual report)	Investor Relations / Annual Reports / Other Issues
Specify the section of website where remuneration policy for executive and non-executive directors are presented.	Investor Relations / Policies and Regulations / Compensation Policy
Specify where the individual remuneration for board members and senior executives are presented in your annual report (Page number or section name in the annual report)	Investor Relations / Annual Reports / Notes to the Consolidated Financial Statements / Related Party Disclosures / Salaries, bonuses and other benefits of the key management

Composition of Board Committees-II

Names of the Board Committees	Name of committees defined as "Other" in the first column	The Percentage of Non-executive Directors	The Percentage of Independent Directors in the Committee	The Number of Meetings Held in Person	The Number of Reports on its Activities Submitted to the Board
Audit Committee	-	100%	100%	4	4
Corporate Governance Committee	-	100%	67%	6	3
Committee of Early Detection of Risk	-	100%	100%	6	6

BOARD OF DIRECTORS COMMITTEE OPERATING PRINCIPLES AND AN ASSESSMENT OF SUCH COMMITTEES' EFFECTIVENESS

Ereğli Demir ve Çelik Fabrikaları T.A.Ş.

Under the Company's Board of Directors resolution 9623 dated 2 April 2019, and pursuant to the provisions of Capital Markets Board Corporate Governance Communiqué 11-17.1, it was resolved:

- To appoint Independent Board Members Yunus ARINCI and Ali FİDAN to serve as the Audit Committee and Yunus ARINCI to be the committee's chairman;

- To appoint Independent Board Members Kurtuluş Bedri VAROĞLU and Yunus ARINCI and Investor Relations Manager İdil ÖNAY ERGİN to serve as the Corporate Governance Committee and Kurtuluş Bedri VAROĞLU to be committee's chairman;

- To appoint Independent Board Members Ali FİDAN and Kurtuluş Bedri VAROĞLU to serve as the Early Detection of Risk Committee and Ali FİDAN to be the committee's chairman.

Taking the structure of the Company's Board of Directors into account, the Board decided under resolution 9148 dated 29 June 2012 to delegate the authorities, duties, and responsibilities of both a Nomination Committee and a Remuneration Committee to the Corporate Governance Committee instead.

Committees' meeting schedules and their activities, and operational procedures are specified in sets of regulations that are published on our corporate websites www.oyakmadenmetalurji.com.tr and www.erdemir.com.tr. The decisions that such committees take are of an advisory nature and they are submitted as such to the Board of Directors, which has the final say.

During 2019, the Board of Directors' committees fulfilled their duties and responsibilities as required by corporate governance principles and their own regulations and they convened in accordance with their annual meeting schedules as indicated below.

- The Audit Committee convened four times; 7 February 2019, 26 April 2019, 8 August 2019, and 24 October 2019.

- The Corporate Governance Committee convened six times; 7 February 2019, 26 April 2019, 19 June 2019, 8 August 2019, and 24 October 2019, 27 November 2019.

- Early Detection of Risk Committee convened six times; 7 February 2019, 26 April 2019, 19 June 2019, 8 August 2019, 24 October 2019, and 27 November 2019.

Reports containing information about these committees' activities and the results of the committees' meetings were submitted to the Board of Directors.

As part of their areas of responsibility;

- The Audit Committee oversaw the operation and effectiveness of the Company's accounting system, public disclosure of financial information, independent auditing, and internal control and internal auditing system.

- The Corporate Governance Committee's activities consisted of:

  - Contributing to the determination and implementation processes of the Company's corporate governance principles and making solution-oriented suggestions to the Board of Directors on such matters; ascertaining whether or not corporate governance principles are being complied with at the Company and, if they are not, identifying both the reasons for and any conflicts of interest that may arise on account of such less than full compliance; making recommendations to the Board of Directors on ways to improve corporate governance practices.

  - Overseeing the activities of the Investor Relations Department.

  - Working on a transparent system for identifying, evaluating, and training candidates for seats on the Board of Directors and for executives with administrative responsibilities identifying policies and strategies for such a system.

  - Regularly assessing the structure and effectiveness of the Board of Directors; making recommendations to the Board of Directors concerning possible changes in such matters.

  - Determining and overseeing approaches, principles, and practices applicable to performance evaluations and career-planning processes of Board Members and managers under executive responsibilities.

  - Making suggestions pertaining to principles governing the remuneration of Board Members and managers under executive responsibilities taking the Company's long-term objectives into account.

- Early Detection of Risk Committee's activities consisted, as required by laws and regulations, of identifying risks with the potential to threaten the Company's existence, development, and/or continuity, ensuring that due precautions are taken with respect to risks that are identified and dealing with risk management issues.

BOARD OF DIRECTORS COMMITTEE OPERATING PRINCIPLES AND AN ASSESSMENT OF SUCH COMMITTEES' EFFECTIVENESS

İskenderun Demir ve Çelik A.Ş.

Under the Company's Board of Directors resolution 524 dated 22 March 2019, and pursuant to the provisions of Capital Markets Board Corporate Governance Communiqué 11-17.1, it was resolved:

- To appoint Independent Board Members Yunus ARINCI and Ali FİDAN to serve as the Audit Committee and Yunus ARINCI to be the committee's chairman;

- To appoint Independent Board Members Kurtuluş Bedri VAROĞLU and Yunus ARINCI and Investor Relations Manager İdil ÖNAY ERGİN to serve as the Corporate Governance Committee and Kurtuluş Bedri VAROĞLU to be committee's chairman;

- To appoint Independent Board Members Ali FİDAN and Kurtuluş Bedri VAROĞLU to serve as the Early Detection of Risk Committee and Ali FİDAN to be the committee's chairman.

Taking the structure of the Company's Board of Directors into account, the Board decided under resolution 523 dated 22 March 2019 to delegate the authorities, duties, and responsibilities of both a Nomination Committee and a Remuneration Committee to the Corporate Governance Committee instead.

Committees' meeting schedules and their activities, and operational procedures are specified in sets of regulations that are published on our corporate website www.isdemir.com.tr. The decisions that such committees take are of an advisory nature and they are submitted as such to the Board of Directors, which has the final say.

During 2019, the Board of Directors' committees fulfilled their duties and responsibilities as required by corporate governance principles and their own regulations and they convened in accordance with their annual meeting schedules as indicated below.

- The Audit Committee convened four times; 7 February 2019, 26 April 2019, 8 August 2019, and 24 October 2019.

- The Corporate Governance Committee convened six times; 7 February 2019, 26 April 2019, 19 June 2019, 8 August 2019, and 24 October 2019, 27 November 2019.

- Early Detection of Risk Committee convened six times; 7 February 2019, 26 April 2019, 19 June 2019, 8 August 2019, 24 October 2019, and 27 November 2019.

Reports containing information about these committees' activities and the results of the committees' meetings were submitted to the Board of Directors.

As part of their areas of responsibility;

- The Audit Committee oversaw the operation and effectiveness of the Company's accounting system, public disclosure of financial information, independent auditing, and internal control and internal auditing system.

- The Corporate Governance Committee's activities consisted of:

  o Contributing to the determination and implementation processes of the Company's corporate governance principles and making solution-oriented suggestions to the Board of Directors on such matters; ascertaining whether or not corporate governance principles are being complied with at the Company and, if they are not, identifying both the reasons for and any conflicts of interest that may arise on account of such less than full compliance; making recommendations to the Board of Directors on ways to improve corporate governance practices.

  o Overseeing the activities of the Investor Relations Department.

  o Working on a transparent system for identifying, evaluating, and training candidates for seats on the Board of Directors and for executives with administrative responsibilities identifying policies and strategies for such a system.

  o Regularly assessing the structure and effectiveness of the Board of Directors; making recommendations to the Board of Directors concerning possible changes in such matters.

  o Determining and overseeing approaches, principles, and practices applicable to performance evaluations and career-planning processes of Board Members and managers under executive responsibilities.

  o Making suggestions pertaining to principles governing the remuneration of Board Members and managers under executive responsibilities taking the Company's long-term objectives into account.

- Early Detection of Risk Committee's activities consisted, as required by laws and regulations, of identifying risks with the potential to threaten the Company's existence, development, and/or continuity, ensuring that due precautions are taken with respect to risks that are identified and dealing with risk management issues.

OTHER ISSUES

Ereğli Demir ve Çelik Fabrikaları T.A.Ş.

- Necessary arrangements are made in "Code of Ethics and Business Conduct" document in order to prevent conflicts of interest between the Company, its employees and institutions that provide services to the Company. The prevention of potential conflicts of interest between the Company and institutions providing investment advisory and rating services is assured through signed contracts. During 2019, no conflicts of interest occurred with these institutions.

- Our Company did not disclose any future expectations in 2019.

- In 2019, our Company had no significant buying or selling activity of assets, except those indicated on note 13 and note 14 of consolidated financial statements for the year ended 31 December 2019.

Apart from the developments mentioned above, there has been no significant development since 31 December 2019.

İskenderun Demir ve Çelik A.Ş.

- Necessary arrangements are made in "Code of Ethics and Business Conduct" document in order to prevent conflicts of interest between the Company, its employees and institutions that provide services to the Company. The prevention of potential conflicts of interest between the Company and institutions providing investment advisory and rating services is assured through signed contracts. During 2019, no conflicts of interest occurred with these institutions.

- Our Company did not disclose any future expectations in 2019.

- In 2019, our Company had no significant buying or selling activity of assets, except those indicated on note 13 and note 14 of consolidated financial statements for the year ended 31 December 2019.

Apart from the developments mentioned above, there has been no significant development since 31 December 2019.

AFFILIATED COMPANY REPORT

"During 2019, our Company was not-at the instigation either of its majority shareholder, the Turkish Armed Forces Pension Fund (OYAK), or of any OYAK affiliate- a party to any legal transaction that would have benefited either OYAK or an OYAK affiliate; neither did our Company take or avoid taking any action on the grounds that doing so would have been beneficial either to OYAK or to an OYAK affiliate. Based on Board of Directors Resolution number 9600 dated 7 February 2019, decision was taken to confirm that all of the business dealings between our Company and our majority shareholder and our majority shareholder's affiliates during 2019 took place under conditions that were consistent with market conditions and this report was prepared in accordance with true and honest accountability principles.

Within the frame of CMB's II-17.1 Corporate Governance Communiqué, common and continuous commercial trading and slab purchase transactions executed between our company and our subsidiary İskenderun Demir ve Çelik A.Ş. exceed 10% of the total cost of each sales and common and continuous commercial transaction executed between our company and our subsidiary Erdemir Çelik Servis Merkezi Sanayi ve Ticaret A.Ş. exceed 10% of the total sales revenue in 2019 and it is expected that these transactions will continue under the determined circumstances in 2020. Relevant transactions are consistent with the previous years and reasonable when compared to the market conditions."

STATEMENT OF RESPONSIBILITY

STATEMENT OF RESPONSIBILITY PURSUANT TO THE ARTICLE 9 OF THE CAPITAL MARKETS BOARD'S COMMUNIQUÉ ON PRINCIPLES OF FINANCIAL REPORTING IN CAPITAL MARKETS

BOARD OF DIRECTORS' RESOLUTION ON THE APPROVAL OF FINANCIAL STATEMENTS AND ANNUAL REPORT
RESOLUTION DATE: 11/02/2020
RESOLUTION NUMBER: 9671

We have reviewed the consolidated financial statements for the period 1 January - 31 December 2019, which are prepared by our Company and are subject to independent auditing, in accordance with Capital Market Board's (CMB) Communiqué Serial II, No: 14.1 "Basis of Financial Reporting in Capital Markets" and Turkish Accounting Standards/ Turkish Financial Reporting Standards (TMS/TFRS) in a CMB approved format and annual report prepared in accordance with Turkish Commercial Code and CMB Communique.

We hereby present to your information and declare that we are responsible for the following disclosures:

- We have reviewed the consolidated financial statements and annual report,
- Based on the information we possess within the scope of our duties and responsibilities in our Company, the consolidated financial statements and the annual report do not contain any incorrect statement or any omission of material facts that may result in misleading conclusion as of the date of the issuance,
- Based on the information we possess within the scope of our duties and responsibilities in our Company, the consolidated financial statements prepared in accordance with the financial reporting standards in effect provide an honest view of the assets, liabilities, financial position and profit and loss of the Company; The annual report prepared in accordance with the Turkish Commercial Code and CMB Communique provides an accurate view of the development and performance of the business and the consolidated financial position of the Company along with the principal risks and uncertainties the Company is exposed to.

Sincerely,

İbrahim Emrah SİLAV	**Ali FİDAN**	**Yunus ARINCI**
CFO	Member of the Audit Committee	Chairman of the Audit Committee

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

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2019 AND INDEPENDENT AUDITOR'S REPORT

(Convenience Translation of Independent Auditor's Report Originally Issued in Turkish)

INDEPENDENT AUDITOR'S REPORT

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 37)

Deloitte.

DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
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Ticari Sicil No: 304099

To the General Assembly of Ereğli Demir ve Çelik Fabrikaları T.A.Ş.

A) Report on the Audit of the Financial Statements

1) Opinion

We have audited the consolidated financial statements of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated 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 Consolidated 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 consolidated 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.

INDEPENDENT AUDITOR'S REPORT

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 37)

3) Key Audit Matters

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

Key Audit Matter	How the matter was addressed in the audit
Revenue recognition While conducting its assessments, the Group management takes into account the detailed conditions set out in TFRS 15 regarding the fulfilment of performance obligations and recognition of the transaction costs allocated to them as revenue, in particular whether the control of goods and services have passed to the customer. The Group recognizes revenue by analyzing whether the significant risks and rewards are transferred to the buyer according to the delivery terms of export sales. In this context, revenue recognition has been determined as one of the key audit matters since determining whether the revenue recognition criteria are met as well as determining whether the revenue is recorded in the financial statements in the correct period requires significant judgment of management. Please refer to notes 2.8.1 and 24 to the consolidated financial statements for the Group'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 Group'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 procedures, special emphasis is given for transactions where the goods billed but revenue has not been earned. Customers with the longest delivery period have been identified among the existing customers of the Group and a date range has been determined and sales lists have been provided from the relevant departments. The control of the completeness and accuracy of these lists have been tested. In addition, we assessed the adequacy of the disclosures in Note 24 under TFRS.

3) Key Audit Matters (cont'd)

Key Audit Matter	How the matter was addressed in the audit
Application of TFRS 16, "Leases" and its impacts on the consolidated financial statements and notes to the consolidated financial statements TFRS 16, "Leases" ("TFRS 16") is effective for periods beginning on or after 1 January 2019. The Group has preferred the simplified transition method in the first time adoption of TFRS 16 and has not restated comparative consolidated financial statements. The application of the new standard resulted in the recognition of right of use assets amounting to TL 244.950 thousand and increase in financial lease payables amounting to TL 246.650 thousand. The calculation of right of use assets and lease payables requires the assessment of the Group management. The substantial part of these estimates are interest rate used to discount cash flows and assessment of options to extend to terminate lease contracts. In addition to this, the notes to the consolidated financial statements of the Group as of 31 December 2019 are significantly affected by the application of TFRS 16. Therefore, the impacts of the first time adoption of TFRS 16 on the consolidated financial statements and the notes to the consolidated financial statements are determined as a key audit matter. Please refer to notes 2.7 and 16 to the consolidated financial statements for the amounts and disclosures, including the related accounting policies.	We performed the following procedures in relation to the application of TFRS 16, the impacts of the consolidated financial statements and notes to the consolidated financial statements: - Understanding and evaluating the significant process affecting financial reporting related to the adoption of TFRS 16, - Recalculation of the right of use assets and related financial lease liabilities on a sample basis in the consolidated financial statements. - Evaluating the compliance of inputs used in the calculation like rent increase rate, interest rate etc., - Selecting the lease contracts used in the calculation of right of use assets and financial liabilities on a sample basis and testing the compliance of the term of the lease contracts and the assessment of the extention options applied if such options exist with the provision of the contract, - Evaluating the completeness of the contract lists obtained from Group management, In addition, we assessed the adequacy of the disclosures under TFRS 16.

INDEPENDENT AUDITOR'S REPORT

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 37)

4) Emphasis of Matter

Without qualifying our opinion, we draw attention to the matter in Note 17 to the accompanying consolidated financial statements. The court cases related to Capital Market Board's ("CMB") claim that the Company had prepared its 31 December 2005 financial statements in accordance with International Financial Reporting Standards instead of Communique Serial XI, No: 25 on "Accounting Standards in Capital Markets" without taking the permission of the CMB in prior years were concluded against the Company at Council of State and such conclusions declared to the Company via notifications sent in July 2012. On 1 August 2012, the Company applied to the Administrative Court to remove the conflicting decisions of this court, but the Administrative Court decided to reject the application by the notification made on 17 February 2014. For the lawsuit filed by the Republic of Turkey Prime Ministry Privatization Administration ("PA") decision of the local court has been reversed by the Supreme Court 11th Civil Chamber with the decision dated 24 May 2017 and 2015/15771 Docket; 2017/3040 Decision number. The decision of reversal has been notified to the Company on 2 August 2017. The Company has applied for rectification. Legal process is ongoing as of the date of audit report and our opinion is not qualified in respect of this matter.

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 consolidated financial statements.

6) Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements (cont’d)

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 37)

6) Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (cont'd)

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

B) Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 398 of the Turkish Commercial Code No. 6102 ("TCC"), the auditor's report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Company on 11 February 2020.

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 Group's set of accounts and financial statements prepared for the period 1 January-31 December 2019 does not comply with TCC and the provisions of the Company's articles of association in relation to financial reporting.

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

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

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

Volkan Becerik, SMMM
Partner

İstanbul, 11 February 2020

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

(Amounts are expressed as Turkish Lira ("TRY Thousand") unless otherwise indicated.)
(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 37)

ASSETS	Note	(Audited) Current Period 31 December 2019 USD'000	(Audited) Current Period 31 December 2019 TRY'000	(Audited) Previous Period 31 December 2018 USD'000	(Audited) Previous Period 31 December 2018 TRY'000
CURRENT ASSETS		**4.063.282**	**24.136.704**	**4.279.144**	**22.512.149**
Cash and Cash Equivalents	4	1.782.772	10.590.024	1.645.980	8.659.336
Financial Investments	5	17.054	101.304	11.595	61.000
Trade Receivables		562.973	3.344.177	836.639	4.401.474
Due From Related Parties	*33*	*29.173*	*173.296*	*13.037*	*68.586*
Other Trade Receivables from Third Parties	*8*	*533.800*	*3.170.881*	*823.602*	*4.332.888*
Other Receivables		990	5.881	342	1.800
Due From Related Parties	*33*	*643*	*3.817*	-	-
Other Receivables from Third Parties	*9*	*347*	*2.064*	*342*	*1.800*
Financial Derivative Instruments	6	8.087	48.040	10.064	52.945
Inventories	10	1.570.513	9.329.163	1.689.853	8.890.150
Prepaid Expenses		16.874	100.233	17.108	90.005
Prepaid Expenses to Related Parties	*33*	*1.062*	*6.308*	-	-
Other Prepaid Expenses to Third Parties	*11*	*15.812*	*93.925*	*17.108*	*90.005*
Other Current Assets	21	104.019	617.882	67.563	355.439
NON CURRENT ASSETS		**3.793.798**	**22.535.921**	**3.662.864**	**19.269.961**
Financial Investments	5	27	161	1.539	8.095
Other Receivables		6.244	37.087	1.786	9.397
Due From Related Parties	*33*	*4.232*	*25.136*	-	-
Other Receivables from Third Parties	*9*	*2.012*	*11.951*	*1.786*	*9.397*
Financial Derivative Instruments	6	344	2.044	1.226	6.448
Investments Accounted for Using Equity Method	12	33.807	200.820	27.616	145.284
Investment Properties	13	51.044	303.214	45.993	241.962
Property, Plant and Equipment	14	3.476.984	20.653.981	3.432.913	18.060.211
Right of Use Assets	16	41.236	244.950	-	-
Intangible Assets	15	52.613	312.534	53.891	283.516
Prepaid Expenses		86.499	513.820	62.969	331.275
Prepaid Expenses to Related Parties	*33*	*4.313*	*25.620*	*12.976*	*68.266*
Other Prepaid Expenses to Third Parties	*11*	*82.186*	*488.200*	*49.993*	*263.009*
Deferred Tax Assets	31	7.055	41.911	12.840	67.552
Other Non Current Assets	21	37.945	225.399	22.091	116.221
TOTAL ASSETS		**7.857.080**	**46.672.625**	**7.942.008**	**41.782.110**

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

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

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

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 37)

LIABILITIES	Note	(Audited) Current Period 31 December 2019 USD'000	(Audited) Current Period 31 December 2019 TRY'000	(Audited) Previous Period 31 December 2018 USD'000	(Audited) Previous Period 31 December 2018 TRY'000
CURRENT LIABILITIES		**1.590.932**	**9.450.454**	**1.499.266**	**7.887.487**
Short Term Borrowings	7	703.600	4.179.522	694.574	3.654.083
Short Term Portion of Long Term Borrowings	7	232.285	1.379.822	202.703	1.066.402
Trade Payables		494.364	2.936.622	367.983	1.935.922
Due to Related Parties	*33*	*14.432*	*85.731*	*28.089*	*147.772*
Other Trade Payables to Third Parties	*8*	*479.932*	*2.850.891*	*339.894*	*1.788.150*
Payables for Employee Benefits	18	25.817	153.358	36.016	189.476
Other Payables	9	11.673	69.341	8.133	42.786
Financial Derivative Instruments	6	3.905	23.199	408	2.144
Deferred Revenue	22	42.227	250.833	52.622	276.841
Current Tax Liabilities	31	34.606	205.569	95.937	504.716
Short Term Provisions	19	40.724	241.909	38.164	200.777
Non Current Liabilities	21	1.731	10.279	2.726	14.340
		-	-	-	-
NON CURRENT LIABILITIES		**1.005.807**	**5.974.696**	**881.978**	**4.639.998**
		-	-	-	-
Long Term Borrowings	7	360.532	2.141.633	266.204	1.400.475
Financial Derivative Instruments	6	13.387	79.524	453	2.382
Long Term Provisions		135.909	807.324	127.239	669.391
Long term provisions for employee benefits	*18*	*135.909*	*807.324*	*127.239*	*669.391*
Deferred Tax Liabilities	31	495.663	2.944.337	487.787	2.566.196
Other Non Current Liabilities	21	316	1.878	295	1.554
		-	-	-	-
EQUITY		**5.260.341**	**31.247.475**	**5.560.764**	**29.254.625**
		-	-	-	-
Equity Attributable to Equity Holders of the Parent		**5.099.305**	**30.299.298**	**5.391.722**	**28.366.761**
Share Capital	23	1.818.371	3.500.000	1.818.371	3.500.000
Inflation Adjustment to Capital	23	81.366	156.613	81.366	156.613
Treasury Shares (-)	23	(60.387)	(116.232)	(60.387)	(116.232)
Share Issue Premium (Discounts)	23	55.303	106.447	55.303	106.447
Other Comprehensive Income (Expenses) Not to be Reclassified to Profit (Loss)		(53.206)	12.322.040	(47.992)	10.132.859
Revaluation Reserve of Tangible Assets		*10.628*	*58.952*	*10.760*	*51.239*
Actuarial (Loss) Gain funds		*(48.149)*	*(102.008)*	*(43.067)*	*(72.105)*
Foreign Currency Translation Reserves		*(15.685)*	*12.365.096*	*(15.685)*	*10.153.725*
Other Comprehensive Income (Expense) to be Reclassified to Profit (Loss)		(69.727)	5.470.236	(56.338)	4.362.222
Foreign Currency Translation Reserves		*(70.817)*	*5.463.762*	*(58.829)*	*4.349.119*
Cash Flow Hedging Gain (Loss)		*1.090*	*6.474*	*2.491*	*13.103*
Restricted Reserves Assorted from Profit	23	1.024.835	3.485.761	805.774	2.287.528
Retained Earnings	23	1.717.773	2.057.906	1.635.660	2.339.334
Net Profit for the Period		584.977	3.316.527	1.159.965	5.597.990
Non-Controlling Interests		**161.036**	**948.177**	**169.042**	**887.864**
TOTAL LIABILITIES AND EQUITY		**7.857.080**	**46.672.625**	**7.942.008**	**41.782.110**

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

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts are expressed as Turkish Lira ("TRY Thousand") unless otherwise indicated.)
(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 37)

	Note	(Audited) Current Period 1 January - 31 December 2019 USD'000	(Audited) Current Period 1 January - 31 December 2019 TRY'000	(Audited) Previous Period 1 January - 31 December 2018 USD'000	(Audited) Previous Period 1 January - 31 December 2018 TRY'000
Revenue	24	4.844.375	27.465.185	5.597.856	27.015.254
Cost of Sales	24	(3.960.495)	(22.454.025)	(3.860.745)	(18.631.954)
GROSS PROFIT		**883.880**	**5.011.160**	**1.737.111**	**8.383.300**
Marketing Expenses	26	(40.990)	(232.394)	(43.158)	(208.281)
General Administrative Expenses	26	(78.455)	(444.799)	(90.362)	(436.088)
Research and Development Expenses	26	(4.409)	(24.999)	(3.636)	(17.546)
Other Operating Income	27	41.264	233.949	54.893	264.913
Other Operating Expenses	27	(29.036)	(164.627)	(35.637)	(171.987)
OPERATING PROFIT		**772.254**	**4.378.290**	**1.619.211**	**7.814.311**
Income from Investing Activities	28	12.549	71.145	2.183	10.534
Expenses from Investing Activities	28	(5.460)	(30.956)	(30.673)	(148.029)
Share of Investments' Profit Accounted by Using The Equity Method	12	6.794	38.517	1.152	5.558
OPERATING PROFIT BEFORE FINANCE INCOME (EXPENSES)		**786.137**	**4.456.996**	**1.591.873**	**7.682.374**
Finance Income	29	186.285	1.124.097	212.569	1.234.773
Finance Expense	30	(90.609)	(513.709)	(59.360)	(286.470)
PROFIT BEFORE TAX		**881.813**	**5.067.384**	**1.745.082**	**8.630.677**
Tax (Expense) Income	31	(265.496)	(1.573.177)	(533.992)	(2.785.956)
Current Corporate Tax (Expense) Income		(251.026)	(1.491.142)	(480.371)	(2.527.182)
Deferred Tax (Expense) Income		(14.470)	(82.035)	(53.621)	(258.774)
NET PROFIT FOR THE PERIOD		**616.317**	**3.494.207**	**1.211.090**	**5.844.721**
Non-Controlling Interests		31.340	177.680	51.125	246.731
Equity Holders of the Parent		584.977	3.316.527	1.159.965	5.597.990
EARNINGS PER SHARE	32		0,9476		1,5994
(TRY 1 Nominal value per share)					

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

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

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts are expressed as Turkish Lira ("TRY Thousand") unless otherwise indicated.)
(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 37)

	Note	(Audited) Current Period 1 January - 31 December 2019 USD'000	(Audited) Current Period 1 January - 31 December 2019 TRY'000	(Audited) Previous Period 1 January - 31 December 2018 USD'000	(Audited) Previous Period 1 January - 31 December 2018 TRY'000
PROFIT FOR THE PERIOD		**616.317**	**3.494.207**	**1.211.090**	**5.844.721**
OTHER COMPREHENSIVE INCOME					
Not to be reclassified subsequently to profit or loss					
Increase (Decrease) in Revaluation Reserve of Tangible Assets		(139)	7.713	(369)	17.322
Actuarial Gain (Loss) of Defined Benefit Plans	18	(6.689)	(39.363)	10.056	51.444
Tax Effect of Actuarial Gain (Loss) of Defined Benefit Plans	31	1.472	8.660	(2.212)	(11.318)
Foreign Currency Translation Gain (Loss)		-	2.211.371	-	4.566.243
To be reclassified subsequently to profit or loss					
Gain (Loss) in Cash Flow Hedging Reserves		(1.796)	(8.499)	8.724	37.660
Tax Effect of Gain (Loss) in Cash Flow Hedging Reserves	31	395	1.870	(1.919)	(8.285)
Foreign Currency Translation Gain (Loss)		(12.957)	1.207.194	(22.149)	2.481.276
OTHER COMPRHENSIVE INCOME (LOSS)		**(19.714)**	**3.388.946**	**(7.869)**	**7.134.342**
TOTAL COMPREHENSIVE INCOME		**596.603**	**6.883.153**	**1.203.221**	**12.979.063**
Distribution of Total Comprehensive Income					
Non-controlling Interests		30.230	269.431	53.499	457.866
Equity Holders of the Parent		566.373	6.613.722	1.149.722	12.521.197

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts are expressed as Turkish Lira ("TRY Thousand") unless otherwise indicated.)
(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 37)

						Other comprehensive income (expense) not to be reclassified subsequently to profit or loss		
(Audited)	**Note**	**Share Capital**	**Inflation Adjustment to Capital**	**Treasury Shares (-)**	**Share Issue Premium (Discounts)**	**Revaluation Reserve of Tangible Assets**	**Foreign Currency Translation Reserves**	**Actuarial Gain (Loss) Funds**
1 January 2019		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**51.239**	**10.153.725**	**(72.105)**
Net profit for the period		-	-	-	-	-	-	-
Other comprehensive income (loss)		-	-	-	-	7.713	2.211.371	(29.903)
Total comprehensive income (loss)		-	-	-	-	7.713	2.211.371	(29.903)
Dividends (*)		-	-	-	-	-	-	-
Transfers	23	-	-	-	-	-	-	-
31 December 2019		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**58.952**	**12.365.096**	**(102.008)**
(Audited)								
1 January 2018 (Previously reported)		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**33.917**	**5.587.482**	**(111.247)**
Effect of compulsory change in accounting principle		**-**	**-**	**-**	**-**	**-**	**-**	**-**
1 January 2018 (Restated)		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**33.917**	**5.587.482**	**(111.247)**
Net profit for the period		-	-	-	-	-	-	-
Other comprehensive income (loss)		-	-	-	-	17.322	4.566.243	39.142
Total comprehensive income (loss)		-	-	-	-	17.322	4.566.243	39.142
Dividends (*)		-	-	-	-	-	-	-
Transfers	23	-	-	-	-	-	-	-
Decrease/increase in subsidiaries due to changes in share rates not end up with lose control		-	-	-	-	-	-	-
31 December 2018		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**51.239**	**10.153.725**	**(72.105)**

(*) In annual General Assembly dated 21 March 2019, dividend distribution (gross dividend per share: TRY 1,38 (2018: TRY 0,84) amounting to TRY 4.830.000 thousand (30 March 2018: TRY 2.940.000 thousand) from 2018 net profit was approved. As the Company holds 3,08% of its shares with a nominal value of TRY 1 as of 21 March 2019, dividends for treasury shares are netted off under dividends paid. The dividend payment was realized at 8-10 May 2019. The Group paid TRY 209.118 thousand dividend to non-controlling interests on İsdemir and Ermaden apart from the Equity holders of the Parent in current year (2018: TRY 134.157 thousand).

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

Other comprehensive income (expense) to be reclassified subsequently to profit or loss			Retained Earnings				
Cash Flow Hedging Gain (Loss)	Foreign Currency Translation Reserves	Restricted Reserves Assorted from Profit	Retained Earnings	Net Profit For The Period	Equity Attributable to the Parent	Non-controlling Interests	Total Shareholders' Equity
13.103	**4.349.119**	**2.287.528**	**2.339.334**	**5.597.990**	**28.366.761**	**887.864**	**29.254.625**
-	-	-	-	3.316.527	**3.316.527**	177.680	**3.494.207**
(6.629)	1.114.643	-	-	-	**3.297.195**	91.751	**3.388.946**
(6.629)	1.114.643	-	-	3.316.527	**6.613.722**	269.431	**6.883.153**
-	-	-	(4.681.185)	-	**(4.681.185)**	(209.118)	**(4.890.303)**
-	-	1.198.233	4.399.757	(5.597.990)	**-**	-	**-**
6.474	**5.463.762**	**3.485.761**	**2.057.906**	**3.316.527**	**30.299.298**	**948.177**	**31.247.475**
(16.272)	**2.077.994**	**1.567.280**	**2.144.646**	**3.753.755**	**18.684.383**	**543.774**	**19.228.157**
-	**-**	**-**	(11.412)	**-**	**(11.412)**	**-**	**(11.412)**
(16.272)	**2.077.994**	**1.567.280**	**2.133.234**	**3.753.755**	**18.672.971**	**543.774**	**19.216.745**
-	-	-	-	5.597.990	**5.597.990**	246.731	**5.844.721**
29.375	2.271.125	-	-	-	**6.923.207**	211.135	**7.134.342**
29.375	2.271.125	-	-	5.597.990	**12.521.197**	457.866	**12.979.063**
-	-	-	(2.849.417)	-	**(2.849.417)**	(134.157)	**(2.983.574)**
-	-	720.248	3.033.507	(3.753.755)	**-**	-	-
-	-	-	22.010	-	**22.010**	20.381	**42.391**
13.103	**4.349.119**	**2.287.528**	**2.339.334**	**5.597.990**	**28.366.761**	**887.864**	**29.254.625**

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

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

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 37)

	Note	(Audited) Current Period 1 January - 31 December 2019 USD'000	(Audited) Current Period 1 January - 31 December 2019 TRY'000	(Audited) Previous Period 1 January - 31 December 2018 USD'000	(Audited) Previous Period 1 January - 31 December 2018 TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES		**1.146.929**	**7.243.107**	**772.078**	**4.218.719**
Profit (Loss) for The Period		**616.317**	**3.494.207**	**1.211.090**	**5.844.721**
Adjustments to Reconcile Profit (Loss)		**374.537**	**2.750.735**	**644.570**	**3.750.073**
Adjustments for Depreciation and Amortisation Expenses	24/26/27	202.753	1.149.507	188.219	908.345
Adjustments for Impairment Loss (Reversal of Impairment Loss)		(3.162)	(17.919)	28.974	139.825
Adjustments for Provision (Reversal of Provision) for Receivables	*8/9*	*495*	*2.811*	*3.102*	*14.967*
Adjustments for Provision (Reversal of Provision) for Inventories	*10*	*3.984*	*22.588*	*5.605*	*27.048*
Adjustments for Provision (Reversal of Provision) for Property, Plant and Equipment	*14*	*(7.641)*	*(43.318)*	*20.267*	*97.810*
Adjustments for Provisions		35.289	201.538	51.218	249.234
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	*18*	*29.548*	*167.527*	*30.586*	*147.605*
Adjustments for Provision (Reversal of Provision) for Pending Claims and/or Lawsuits	*19*	*15.227*	*87.794*	*15.024*	*74.566*
Adjustments for Other Provisions (Reversals)	*30*	*(9.486)*	*(53.783)*	*5.608*	*27.063*
Adjustments for Interest (Income) and Expenses		(12.155)	(68.913)	(69.344)	(334.651)
Adjustments for Interest Income	*29*	*(78.986)*	*(447.813)*	*(97.535)*	*(470.705)*
Adjustments for Interest Expense	*30*	*66.291*	*375.838*	*36.718*	*177.203*
Deffered Financial Expense from Credit Purchases	*27*	*3.231*	*18.318*	*76*	*367*
Unearned Financial Income from Credit Sales		*(2.691)*	*(15.256)*	*(8.603)*	*(41.516)*
Adjustments for Unrealised Foreign Exchange Differences		(7.537)	(45.394)	(820)	(3.959)
Adjustments for Fair Value (Gains) Losses		(2.638)	(14.957)	(5.339)	(27.834)
Adjustments for Fair Value (Gains) Losses on Financial Assets		*-*	*-*	*(61)*	*(2.364)*
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments	*29*	*(2.638)*	*(14.957)*	*(5.278)*	*(25.470)*
Adjustments for Undistributed Profits of Investments Accounted for Using Equity Method	12	(6.794)	(38.517)	(1.152)	(5.558)
Adjustments for Tax (Income) Expenses	31	265.496	1.573.177	533.992	2.785.956
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		2.155	12.213	8.022	38.715
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment	*28*	*2.155*	*12.213*	*8.022*	*38.715*
Adjustments for Reconciliation of Profit (Loss)		(98.870)	-	(89.200)	-
Changes in Working Capital		**490.151**	**2.911.593**	**(465.735)**	**(2.450.155)**
Adjustments for Decrease (Increase) in Trade Receivables		288.085	1.711.282	(142.081)	(747.474)
Decrease (Increase) in Trade Receivables from Related Parties		*(16.136)*	*(95.851)*	*8.951*	*47.090*
Decrease (Increase) in Trade Receivables from Third Parties		*304.221*	*1.807.133*	*(151.032)*	*(794.564)*
Adjustments for Decrease (Increase) in Other Receivables Related from Operations		420	2.495	7.055	37.116
Decrease (Increase) in Other Receivables from Operations from Third Parties		*420*	*2.495*	*7.055*	*37.116*
Decrease (Increase) in Derivative Financial Instruments		2.859	16.984	(9.077)	(47.753)
Adjustments for Decrease (Increase) in Inventories		118.949	706.581	(349.142)	(1.836.801)
Decrease (Increase) in Prepaid Expenses		5.010	29.761	(8.924)	(46.947)
Adjustments for Increase (Decrease) in Trade Payables		126.381	750.727	117.956	620.587
Increase (Decrease) in Trade Payable to Related Parties		*(13.657)*	*(81.126)*	*13.800*	*72.600*
Increase (Decrease) in Trade Payable to Third Parties		*140.038*	*831.853*	*104.156*	*547.987*
Adjustments for Increase (Decrease) in Other Payables Related from Operations		(6.659)	(39.556)	(14.802)	(77.872)
Increase (Decrease) in Other Payables to Third Parties Related from Operations		*(6.659)*	*(39.556)*	*(14.802)*	*(77.872)*
Increase (Decrease) in Derivative Liabilities		17.273	102.604	3.346	17.603
Adjustments for Other Increase (Decrease) in Working Capital		(62.167)	(369.285)	(70.066)	(368.614)
Decrease (Increase) in Other Assets Related from Operations		*(50.798)*	*(301.751)*	*(56.186)*	*(295.592)*
Increase (Decrease) in Other Payables Related from Operations		*(11.369)*	*(67.534)*	*(13.880)*	*(73.022)*
Cash Flows Provided by Operating Activities		**1.481.005**	**9.156.535**	**1.389.925**	**7.144.639**
Payments Related to Provisions for Employee Termination Benefits	18	(12.155)	(68.916)	(13.218)	(63.790)
Payments Related to Other Provisions	19	(9.564)	(54.223)	(8.642)	(41.703)
Income Taxes Refund (Paid)	31	(312.357)	(1.790.289)	(595.987)	(2.820.427)
CASH FLOWS FROM INVESTING ACTIVITIES		**(277.981)**	**(1.622.352)**	**(281.674)**	**(1.454.010)**
Cash Inflow Due to Share Sales of Subsidiaries' not End Up with Losing Control		-	-	9.692	42.391
Cash Ouflow Due to Share Purchases of Subsidiaries' not End Up with Losing Control		-	-	(1.512)	(8.000)
Cash Outflows Arising From Purchase of Shares or Capital Increase of Associates and/or Joint Ventures		-	-	(22.929)	(87.334)
Cash Outflows Arising From Purchase of Third Parties' Debt Instruments or Funds		(1.533)	(8.691)	(11.629)	(61.181)
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		4.256	24.134	1.951	9.413
Cash Inflow from Sales of Property, Plant and Equipment	14/15/28	*4.256*	*24.134*	*1.951*	*9.413*
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(250.962)	(1.422.829)	(196.703)	(949.288)
Cash Outflow from Purchase of Property, Plant and Equipment	*14*	*(248.376)*	*(1.408.170)*	*(194.113)*	*(936.790)*
Cash Outflow from Purchase of Intangible Assets	*15*	*(2.586)*	*(14.659)*	*(2.590)*	*(12.498)*
Cash Outflow from Purchase of Investment Property	*13*	-	-	(19.225)	(92.779)
Cash Advances and Debts Given		(30.345)	(218.171)	(41.319)	(307.232)
Other Cash Advances and Debts Given to Related Parties		*(8.663)*	*(42.646)*	*(12.976)*	*(68.266)*
Other Cash Advances and Debts Given		*(21.682)*	*(175.525)*	*(28.343)*	*(238.966)*
Dividends Received	*12*	603	3.205	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		**(704.296)**	**(3.568.048)**	**(621.488)**	**(1.029.091)**
Cash Inflow from Borrowings		1.260.449	7.219.324	1.207.169	5.838.030
Cash Inflow from Loans	*7*	*1.167.598*	*6.669.324*	*1.207.169*	*5.838.030*
Cash Inflow from Issued Debt Instruments	*7*	*92.851*	*550.000*	*-*	*-*
Cash Outflow from Repayments of Borrowings		(1.172.737)	(5.908.300)	(1.234.176)	(4.207.464)
Cash Outflow from Loan Repayments	*7*	*(1.172.737)*	*(5.908.300)*	*(1.234.176)*	*(4.207.464)*
Cash Outflow from Debt Payments for Leasing Contracts		(7.055)	(40.069)	-	-
Dividends Paid		(793.679)	(4.888.779)	(660.958)	(2.977.190)
Interest Paid	7	(55.333)	(313.709)	(39.320)	(189.758)
Interest Received		67.626	384.679	105.797	507.291
Other Cash Inflow (Ouflow)	5	(3.567)	(21.194)	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		**164.652**	**2.052.707**	**(131.084)**	**1.735.618**
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(34.370)	(157.657)	(78.718)	(69.440)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**130.282**	**1.895.050**	**(209.802)**	**1.666.178**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	1.650.455	8.682.881	1.860.257	7.016.703
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	**1.780.737**	**10.577.931**	**1.650.455**	**8.682.881**

- As of 31 December 2019, the Group's total amount of time deposit interest accrual is TRY 12.093 thousand (USD 2.035 thousand) (31 December 2018: TRY 25.860 thousand (USD 4.916 thousand)).
- Bank deposits with maturities of more than 3 months in financial investments amounting to TRY 21.194 thousand (USD 3.567 thousand) are reported in consolidated statement of cash flow under "Other Cash Inflow (Outflows)".
- Exchange differences arising between the accrual and settlement dates of dividend payables to shareholders in Turkish Lira in the financial statements are reported under the "Adjustments for Reconciliation of Profit (Loss)" since the functional currency is USD.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts are expressed as Turkish Lira ("TRY Thousand") unless otherwise indicated.)
(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 37)

NOTE 1 - GROUP'S ORGANIZATION AND NATURE OF OPERATIONS

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

The main parent and ultimate controlling party of the Group are ATAER Holding A.Ş. and Ordu Yardımlaşma Kurumu, respectively.

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

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

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

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

Name of the Company	Country of Operation	Operation	2019 Share (%)	2018 Share (%)
İskenderun Demir ve Çelik A.Ş.	Turkey	Integrated Steel Production	94,87	94,87
Erdemir Madencilik San. ve Tic. A.Ş.	Turkey	Iron Ore and Pellet	90	90
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Turkey	Steel Service Center	100	100
Erdemir Mühendilik Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100	100
Erdemir Romania S.R.L.	Romania	Silicon Steel Production	100	100
Erdemir Asia Pacific Private Limited	Singapore	Trading	100	100
Erdemir Enerji Üretim A.Ş.	Turkey	Renewable Energy Production	100	100
İsdemir Linde Gaz Ortaklığı A.Ş.	Turkey	Industrial Gas Production and Sales	47	47

A new Company called "Erdemir Enerji Üretim A.Ş." for energy production with the 100% capital of the Company. The Company isn't included the consolidation due to not started it's operations in 2018.

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

NOTE 1 - GROUP'S ORGANIZATION AND NATURE OF OPERATIONS (cont'd)

The number of the personnel employed by the Group as at reporting date are as follows:

	Paid Hourly Personnel	Paid Monthly Personnel	31 December 2019 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.055	1.699	5.754
İskenderun Demir ve Çelik A.Ş.	2.886	1.725	4.611
Erdemir Madencilik San. ve Tic. A.Ş.	158	138	296
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	217	77	294
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	228	228
Erdemir Romania S.R.L.	205	39	244
Erdemir Asia Pacific Private Limited	-	1	1
	7.521	3.907	11.428

	Paid Hourly Personnel	Paid Monthly Personnel	31 December 2018 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.161	1.683	5.844
İskenderun Demir ve Çelik A.Ş.	2.980	1.744	4.724
Erdemir Madencilik San. ve Tic. A.Ş.	143	129	272
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	221	74	295
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	211	211
Erdemir Romania S.R.L.	220	40	260
Erdemir Asia Pacific Private Limited	-	1	1
	7.725	3.882	11.607

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

The Group's subsidiaries incorporated in Turkey maintain their legal books of account and prepare their 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 Financial Reporting Standards and interpretations ("TFRS") that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority ("POA") under Article 5 of the Communiqué.

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

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

2.1 Basis of Presentation (cont'd)

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and derivative financial instruments that are measured at revalued amounts or fair values. (Derivative financial instruments and iron ore and silicon steel used in the production of fixed assets). Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Functional and reporting presentation currency

Although the currency of the country in which is the Company is domiciled is Turkish Lira (TRY), the Company's functional currency is determined as US Dollar. US Dollar is used to a significant extent in, and has a significant impact on the operations of the Company and reflects the economic substance of the underlying events and circumstances relevant to the Company. Therefore, the Company uses the US Dollar in measuring items in its financial statements and as the functional currency.

The financial statements of each entity of the Group are presented in the currency (functional currency) valid in the basic economic environment in which they operate. The functional currency of the Company and its subsidiaries' İskenderun Demir ve Çelik A.Ş. "İsdemir" and Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş "Ersem" are US Dollars while the functional currency of Erdemir Madencilik San. ve Tic. A.Ş. "Ermaden" and Erdemir Mühendislik Yönetim ve Danışmanlık Himetleri A.Ş. are Turkish Lira.

The accompanying financial statements are prepared in Turkish Lira (TRY) 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.

Functional currency for the foreign subsidiaries

The functional currency of the foreign subsidiaries Erdemir Asia Pacific Private Limited "EAPPL" is US Dollars; Erdemir Romania S.R.L is EURO.

Functional currency of the joint venture

The functional currency of the Group's joint venture İsdemir Linde Gaz Ortaklığı A.Ş. is US Dollars.

Translation to presentation currency

Presentation currency of the consolidated financial statements is Turkish Lira. According to TMS 21 ("The Effects of Changes in Foreign Exchange Rates") financial statements, that are prepared in USD Dollars for the Company, İsdemir, Ersem and EAPPL; in EURO for Erdemir Romania, have been translated in Turkish Lira as the following method:

a) The assets and liabilities on financial position as of 31 December 2019 are translated from USD Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 5,9402=US $ 1 and TRY 6,6506=EUR 1 on the balance sheet date (31 December 2018: TRY 5,2609= US $ 1, TRY 6,0280=EUR 1).

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

2.1 Basis of Presentation (cont'd)

Presentation currency translation (cont'd)

b) For the year ended 31 December 2019, statements of profit or loss are translated from the 12 months average TRY 5,6695 = US $ 1 and TRY 6,3469=EUR 1 rates of 2019 January - December period (31 December 2018: TRY 4,8260 = US $ 1 TRY 5,6772 = 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.

USD amounts presented in the financial statements

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

Going concern

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

Approval of the consolidated financial statements

The consolidated financial statements have been approved and authorized to be published on 11 February 2020 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

2.2 Restatement and errors in the accounting policies and estimates

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

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

2.2 Restatement and errors in the accounting policies and estimates (cont'd)

Based on the changes in TFRS 16 "Leases" and accounting principle change effective from 1 January 2019, effects of the adjustments in the consolidated financial statements of the Group summarized below:

	Before change in accounting policy 1 January 2019	Effect of TFRS 16 1 January 2019	After change in accounting policy 1 January 2019
Right of Use Assets	-	209.572	209.572
Prepaid Expenses	90.005	(10.778)	79.227
Deferred Tax Assets	67.552	40.353	107.905
Short Term Portion of Long Term Borrowings	1.066.402	29.728	1.096.130
Long Term Borrowings	1.400.475	169.066	1.569.541
Deferred Tax Liabilities	2.566.196	40.353	2.606.549

2.3 Consolidation Principles

The consolidated financial statements include the accounts of the parent company, Ereğli Demir ve Çelik Fabrikaları T.A.Ş., and its subsidiaries on the basis set out in sections below. The financial statements of the companies included in the consolidation have been prepared as of the date of the consolidated financial statements and are based on the statutory records with adjustments and reclassifications for the purpose of presentation in conformity TAS/TFRS promulgated by the POA as set out in the communiqué numbered II-14.1, and Group accounting and disclosure policies.

Subsidiaries are the Companies controlled by Erdemir when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Subsidiaries are included in the scope of consolidation from the date on which control over their activities is transferred to the Group, and are excluded from the scope of consolidation on the date when control disappears.

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company;

(i) has power over the investee, (ii) is exposed, or has rights, to variable returns from its involvement with the investee; (iii) has the ability to use its power to affect its returns.

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

2.3 Consolidation Principles (cont'd)

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The statement of financial position and statements profit or loss of the Subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by Erdemir and its Subsidiaries is eliminated against the related shareholders' equity. Intercompany transactions and balances between Erdemir and its Subsidiaries are eliminated on consolidation. The cost of, and the dividends arising from, shares held by Erdemir in its Subsidiaries are eliminated from shareholders' equity and income for the year, respectively. The table below sets out all Subsidiaries included in the scope of consolidation and discloses their direct and indirect ownership, which are identical to their economic interests, (%) and their functional currencies as of reporting date.

	31 December 2019			31 December 2018		
	Functional Currency	Ownership Interest	Effective Shareholding	Functional Currency	Ownership Interest	Effective Shareholding
İsdemir	US Dollars	94,87	94,87	US Dollars	94,87	94,87
Ersem	US Dollars	100	100	US Dollars	100	100
Ermaden	Turkish Lira	90	90	Turkish Lira	90	90
Erdemir Mühendislik	Turkish Lira	100	100	Turkish Lira	100	100
Erdemir Romania S.R.L.	Euro	100	100	Euro	100	100
Erdemir Asia Pasific	US Dollars	100	100	US Dollars	100	100
Erdemir Enerji Üretim	Turkish Lira	100	100	Turkish Lira	100	100
İsdemir Linde Gaz	US Dollars	50	47	US Dollars	50	47

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

The Group's consolidated financial statements are prepared in comparison with the previous period in order to allow for the determination of the financial position and performance trends in accordance with a new illustrative financial statements. Comparative information is reclassified when necessary and important differences are explained in order to ensure compliance with the presentation of the current period consolidated financial statements.

2.5 Significant Judgments and Estimates of the Group on Application of Accounting Policies

The Group, according to TFRS makes estimates and assumptions prospectively while preparing its consolidated 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.

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

2.5 Significant Judgments and Estimates of the Group on Application of Accounting Policies (cont'd)

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

The Group calculates depreciation for the property, plant and equipment by taking into account their production amounts on the basis of cash flow unit set by independent valuation firm and useful lives that are stated in Note 2.8.3 and 2.8.4 (Note 14, Note 15).

2.5.2 Deferred tax

The Group 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 statutory and TFRS financial statements. The Group has deferred tax assets resulting from tax loss carry-forwards and deductible temporary differences, which could reduce taxable income in the future periods. All or partial amounts of the realizable deferred tax assets are estimated in current circumstances. The main factors which are considered include future earnings potential; cumulative fiscal losses in recent years; history of loss carry-forwards and other tax assets expiring, the carry-forward period associated with the deferred tax assets, future reversals of existing taxable temporary differences that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset (Note 31).

2.5.3 Fair values of derivative financial instruments

The Group 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 reporting date (Note 6).

2.5.4 Provision for doubtful receivables

Allowance for doubtful receivables reflect the future loss that the Group 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 reporting date up to the issuing date of the financial statements; and also the renegotiation conditions with these debtors are considered. As of reporting date the provision for doubtful receivables is presented in Note 8 and Note 9.

2.5.5 Provision for impairment of inventories

During the assessment of the provision for impairment of inventories the following are considered; analyzing the inventories physically and historically, considering the employment and usefulness of the inventories respecting to provision for inventories accounting policy of the Company. Sales prices listed and related data by sales prices of realized sales after reporting date, average discount rates given for sale and expected cost incurred to sell are used to determine the net realizable value of the inventories. As a result of this, the provision for inventories with the net realizable values below the costs and the slow moving inventories are presented in Note 10.

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

2.5 Significant Judgments and Estimates of the Group on Application of Accounting Policies (cont'd)

2.5.6 Provisions for employee benefits

Actuarial assumptions about discount rates, inflation rates, real salary increases rate and employee turnover rates are made to calculate Group's provision for employee benefits. The details related to employee benefits plans are stated in Note 18.

2.5.7 Provision for lawsuits

Provision for lawsuits is evaluated by the Group based on opinions of Group Legal Counsel and legal consultants. The Group determines the liabilities reliably through the possible cash outflow depending on management's best estimates. As of Reporting date, provision for lawsuits is stated in Note 19.

2.5.8 Impairments on assets

The Group, 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 grouped at the lowest levels which there are separately identifiable cash flows for evaluation of impairment (cash generating units). As a result of the impairment tests performed by the Group, additional impairment is estimated in the accompanying financial statements for the non-financial assets recognized in expenses from investment activities. The Group recognized the amount of provisions released in income from investment activities (Note 28).

2.5.9 Impairment on financial assets

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

2.5.10 Calculation of loss allowance

When measuring ECL the Group 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.

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

2.6 Offsetting

Financial assets and liabilities are offset and the net amounts are reported with their net values in the financial position statement 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.

2.7 Adoption of New and Revised Financial Reporting Standards

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2019 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of 1 January 2019 summarized below.

Efffects of these standarts and interpretations on Group's financial position and performance summarized following paragraphs.

New and Amended Turkish Financial Reporting Standards

a) Amendments that are mandatorily effective from 2019 year

TFRS 16	*Leases*
TFRS Interpretation 23	*Uncertainty over Income Tax Treatments*
Amendments to TAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to TAS 19	*Plan Amendment, Curtailment or Settlement Emp. Benefit*
Annual Improvements to TFRS	*Amendments to TFRS 3 Business Combinations,*
Standards 2015-2017 Cycle	*TFRS 11 Joint Arrangements*, *TAS 12 Income Taxes and TAS 23 Borrowing Costs*

TFRS 16 Leases

General impact of application of TFRS 16 Leases

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

Within the scope of the simplified transition application of the mentioned method defined in the relevant standard, it is not necessary to restate the comparative information of the consolidated financial statements and previous years' profits.

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

Impact of the new definition of a lease

The Group made 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 TAS 17 and TFRS Interpretation 4 continue to apply to those leases entered or modified before 1 January 2019.

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

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

New and Amended Turkish Financial Reporting Standards (cont'd)

TFRS 16 Leases (cont'd)

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

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

The Group applied 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).

Impact on Lessee Accounting

Operating leases

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

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

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

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

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

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

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

New and Amended Turkish Financial Reporting Standards (cont'd)

TFRS 16 Leases (cont'd)

Impact on Lessee Accounting (cont'd)

Operating leases (cont'd)

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

Finance leases

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

Impact on Lessor Accounting

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

Because of this change, the Group has reclassified certain of its operating sublease agreements as finance leases and accounted for them as new finance leases entered into at the date of initial application. As required by IFRS 9, an allowance for expected credit losses has been recognized on the finance lease receivables.

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

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

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 TAS 12.

Amendments to TAS 19 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 CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

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

New and Amended Turkish Financial Reporting Standards (cont'd)

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, TAS 12 Income Taxes; income tax consequences of dividends in profit or loss, and TAS 23 Borrowing Costs in capitalized borrowing costs.

Other than TFRS 16, these standards, amendments and improvements have no impact on the consolidated financial position and performance of the Group.

b) New and revised TFRSs in issue but not yet effective

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

TFRS 17	Insurance Contracts
Amendments to TFRS 3	Definition of a Business
Amendments to TAS 1 and TAS 8	Definition of Material
Amendments to TFRS 9, TAS 39 and TFRS 7	Interest Rate Benchmark Reform

TFRS 17 Insurance Contracts

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

Amendments to TFRS 3 Definition of a Business

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

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

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

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

New and Amended Turkish Financial Reporting Standards (cont'd)

Amendments to TAS 1 and TAS 8 Definition of Material

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

Amendments to TFRS 9, TAS 39 and TFRS 7 Interest Rate Benchmark Reform

The amendments clarify that entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.

Effects of TFRS 16 on the Group's financial statements

The Group started to apply TFRS 16 standard for the first time on January 1, 2019 by making use of the facilitating practices in transition to TFRS 16. For leases previously classified as operating leases pursuant to TAS 17, the Group has reflected a pre-payment to the consolidated financial statements as of January 1, 2019, or a right of use at an amount equal to the lease liability, which is adjusted for the amount of all lease payments accrued.

In this context, the application of TFRS 16 Leases standard does not have an impact on the previous years profits of the Group dated 1 January 2019, due to the preferred facilitated transition method.

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

As of January 1, 2019, the details of the lease liabilities recognized in the consolidated financial statements under TFRS 16 are as follows:

	Effect of TFRS 16 1 January 2019
Total lease liabilities within scope of TFRS 16 (not discounted)	816.425
Total lease liabilities within scope of TFRS 16 discounted)	198.794
- Short term lease liabilities	29.728
- Long term lease liabilities	169.066

Prior to the first application date of TFRS 16 "Leases", commitments regarding operating lease pursuant to TAS 17 have no significant impact on the financial results or financial position of the Group. Payments related to leasing low-value assets are accounted for as a straight-line expense reflected in profit or loss.

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

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

Effects of TFRS 16 on the Group's financial statements (cont'd)

As of January 1, 2019, the details of the right of use assets in the financial statements within the scope of TFRS 16 are as follows:

	Effect of TFRS 16 1 January 2019
Right of use land	201.550
Car leases	8.022
	209.572

2.8 Valuation Principles Applied/Significant Accounting Policies

Accounting policies implemented during preparation of financial statemens as follows:

2.8.1 Revenue recognition

Group recognizes revenue when the goods or services are transferred to the customer and when performance obligation is fulfilled. Goods are counted to be transferred when the control belongs to the customer. The principal activities of the Company are production of iron and steel rolled products, alloyed and non-alloyed iron, steel and pig iron castings, cast and pressed products, coke and their by-products.

Group recognizes revenue based on the following main principles:

a) Identification of customer contracts
b) Identification of performance obligations
c) Determination of transaction price in the contract
d) Allocation of price to performance obligations
e) Recognition of revenue when the performance obligations are fulfilled

Group recognized revenue from its customers only when all of the following criteria are met:

a) The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations,
b) Group can identify each party's rights regarding the goods or services to be transferred,
c) Group can identify the payment terms for the goods or services to be transferred;
d) The contract has commercial substance,
e) It is probable that Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due.

Interest income is accrued in the relevant period in proportion to the remaining principal balance and the effective interest rate that reduces the estimated cash inflows to be obtained from the relevant financial asset to the book value of the asset. Interest income from the Group's time deposit investments are recognized under finance income, maturities sales interest income from trade receivables are recognized in revenue.

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

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

2.8.2 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.

2.8.3 Property, plant and equipment

Property, plant and equipment stated through the value of determined by using the historical cost approach that reflects the cost of the assets in purchase date adjusted for impairment and accumulated depreciation.

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 consolidated statement of profit or loss.

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 or production amount, 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 property, plant and equipment 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%
Exploration costs and other fixed assets with speacial useful lifes	5-10% and units of production level
Other tangible fixed assets	5-25%

Expenses after the capitalization are added to the cost of related asset and reflected in financial statements as a separate asset if they shall mostly provide an economic benefit and their cost is measured in a trustable manner. Property, plant and equipment are reviewed for impairment if there are conditions showing that the securities are more than amount recoverable. Assets are grouped at the lowest level which is cash-generating unit in order to determine impairment (cash-generating unit).

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

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

2.8.3 Property, plant and equipment (cont'd)

Carrying amount of a tangible asset and recoverable value is the one which is higher than the net sales price following the deduction of commensurable value for the sale of the asset. Useful life of assets are reviewed as of date of balance sheet and adjusted, if required.

Maintenance and repair expenses are recorded as expense to the consolidated statement of profit or loss of the related period. The Group omits the carrying values of the changed pieces occurred with respect to renovations from the balance sheet without considering whether they are subject to depreciation in an independent manner from other sections. Main renovations are subject to deprecation based on the shortest of residual life of the related tangible asset or useful life of the renovation itself.

Advances paid related to purchasing of tangible assets are monitored in prepaid expenses under fixed assets until the related asset is capitalized or recognized under on-going investments.

2.8.4 Intangible assets

Intangible assets purchased 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%
Other intangible fixed assets	20-33%

2.8.5 Investment properties

Investment properties, which are held to earn rental income and/or for capital appreciation are measured initially at cost any accumulated impairment losses.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of profit or loss under income (expense) from investment activities.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

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

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

2.8.6 Leases

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

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

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

2.8.6 Leases (cont'd)

The Group as lessee (cont'd)

The Group did not make any such adjustments during the periods presented.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For a contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy. Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in 'Other expenses' in profit or loss.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position. (Note 16).

The Group as lessor

The Group enters into lease agreements as a lessor with respect to some of its investment properties.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

If the Group is in the position of sub-lease, the main lease and sub-lease are recognized as two separate contracts. Sub-lease is classified as financial lease or operating lease regarding the right to use arising from the main lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases.

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

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

2.8.6 Leases (cont'd)

Accounting Policy Applied for Leases Until 31 December 2018

Financial Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor and lessee

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

2.8.7 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.

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

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

2.8.8 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 consolidated statement of profit or loss of the period in which they are incurred.

2.8.9 Financial Instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group 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 Group 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.

<u>Classification of financial assets</u>

Financial assets 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.

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

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

2.8.9 Financial Instruments (cont'd)

Financial assets (cont'd)

Classification of financial assets (cont'd)

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 Group may make the following irrevocable election/designation at initial recognition of a financial asset; the Group 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 using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI.

Interest income is recognised in profit or loss and is included in the "finance income - interest income" line item (Note 29).

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL.

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

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

2.8.9 Financial instruments (cont'd)

Financial assets (cont'd)

Classification of financial assets (cont'd)

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

Foreign exchange gains and losses

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

Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as financial guarantee contracts. 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 Group 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 Group recognizes 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 Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

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.

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

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

Financial assets (cont'd)

2.8.9 Financial instruments (cont'd)

Measurement and recognition of expected credit losses (cont'd)

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

Derecognition of financial assets

The Group 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 Group 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 Group 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.

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

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

2.8.9 Financial instruments (cont'd)

Financial liabilities (cont'd)

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 Entity does not reclassify any financial liability.

Derecognition of financial liabilities

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

Derivative financial instruments

The Group 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 6.

Derivatives are recognized 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 recognized 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 recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. Derivatives are not offset in the financial statements unless the Group has both legal right and intention to offset. 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 realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge accounting

The Group 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.

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

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

2.8.9 Financial instruments (cont'd)

Hedge accounting (cont'd)

At the inception of the hedge relationship, the Group 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 Group 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 Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

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 Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge).

The Group 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 6 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 6.

2.8.10 The effects of foreign exchange rate changes

Foreign currency transactions are recorded at the rates of exchange prevailing on the dates of the transactions. Each subsidiaries' financial conditions and performance results stated as Turkish Lira in presentation currency in consolidated financial statements.

The Group 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 consolidated statement of profit or loss. All monetary assets and liabilities are evaluated with exchange rates of the reporting date and related foreign currency translation differences are transferred to consolidated statement of profit or loss.

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

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

2.8.10 The effects of foreign exchange rate changes (cont'd)

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.

2.8.11 Earnings per share

Earnings/Loss per share, disclosed in the consolidated statement of profit or loss, are determined by dividing the net income attributable to equity holders of the parent by the weighted average number of shares outstanding during the period concerned.

In Turkey, companies can increase their share capital by distributing "bonus shares" to shareholders from retained earnings. In computing earnings per share, such "bonus share" distributions are assessed as issued shares.

2.8.12 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 Group 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.

2.8.13 Provisions, contingent liabilities and contingent assets

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

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

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

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

2.8.14 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.

2.8.15 Taxation and deferred income taxes

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the consolidated financial statements, have been calculated on a separate-entity basis.

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

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

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

2.8.15 Taxation and deferred income taxes (cont'd)

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss 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 Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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 Group 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 reporting 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 Group 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 Group intends to settle its current tax assets and liabilities on a net basis.

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

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

2.8.15 Taxation and deferred income taxes (cont'd)

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in the consolidated statement of profit or loss, 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.

2.8.16 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 TAS 19 (revised) *Employee Benefits* ("TAS 19").

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

The Group 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 profit or loss. The details related with the defined benefit plans are stated in Note 18.

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

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

2.8.17 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 Group 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.

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

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

2.8.18 Statement of cash flows

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

Cash flows arising from operating activities represent the cash flows that are used in or provided by the Group'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 Group.

Cash flows arising from financing activities represent the cash proceeds from the financing activities of the Group 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.

2.8.19 Share capital and dividends

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

2.8.20 Repurchased shares (Erdemir shares)

When share capital recognized as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, is net of any tax effects, and is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings or accumulated losses.

NOTE 3 - SEGMENTAL REPORTING

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

NOTE 4 - CASH AND CASH EQUIVALENTS

As of reporting date the detail of cash and cash equivalents as follows:

	31 December 2019	31 December 2018
Cash	21	37
Banks - demand deposits	246.738	256.671
Banks - time deposits	10.343.265	8.402.628
	10.590.024	8.659.336
TFRS 9 effect	-	49.405
Time deposit interest accruals (-)	(12.093)	(25.860)
Cash and cash equivalents excluding interest accruals	10.577.931	8.633.476

The details of demand deposits are presented below:

	31 December 2019	31 December 2018
US Dollars	116.886	172.772
Turkish Lira	48.845	58.492
EURO	56.402	12.895
Romanian Lei	24.410	12.286
Other	195	226
	246.738	256.671

The details of time deposits in banks as follows:

	31 December 2019	31 December 2018
US Dollars	8.914.765	8.303.821
Turkish Lira	659.338	38.671
EURO	768.868	59.870
Romanian Lei	294	266
	10.343.265	8.402.628

Group's bank deposits consist of deposits with maturity from 1 day to 3 months depending on immediate cash needs. Interest is received based on current short-term rates on the market.

NOTE 5 - FINANCIAL INVESTMENTS

As of reporting date the detail of financial investments as follows:

Financial assets shown at amortized value:

	31 December 2019	31 December 2018
Tresuary bonds	80.110	61.502
Bank deposits	21.194	-
TFRS 9 effect	-	(502)
	101.304	61.000

The Group invested in USD and TRY denominated fixed income securities which terms will be expired in 2020 issued by banks or private sector in Turkey to make profit. These fixed income securities held for collection of contractual cash flows that includes principal and interest payments related with principal amount. In addition,

Group classified a deposit of 21.194 thousand TRY (EUR 3.180 thousand) with a maturity of 21 September 2020 to financial investments.

As of reporting period long term financial investments as follows:

	31 December 2019	31 December 2018
Fair value differences reflected in income statement	161	143
Investments in subsidiaries	-	7.952
	161	8.095

As of reporting date, ratios, shares of subsidiaries and amounts and subsidiaries recognized as financial investments as follows:

Company	**Ratio %**	**31 December 2019**	**Ratio %**	**31 December 2018**
Financial investments without an active market				
Teknopark Hatay A.Ş.	5	161	5	143
Consolidated subsidiary				
Erdemir Enerji Üretim A.Ş. (*)	100	-	100	7.952
		161		8.095

(*) As of 31 December 2018, non-operating joint venture Erdemir Enerji Üretim A.Ş. recognized with cost value on financial investments on financial statements since the effect on financials are not material.

NOTE 6 - DERIVATIVE FINANCIAL INSTRUMENTS

As of reporting date the detail of financial derivative instruments as follows:

	31 December 2019		31 December 2018	
	Asset	**Liability**	**Asset**	**Liability**
Fair value hedging derivative financial assets				
Forward contracts for fair value hedges of currency risk of sales	2.996	3.668	34.117	226
Forward contracts	490	5.276	85	78
Cross currency swap contracts	30.945	7.374	-	-
Interest rate swap contracts	1.069	79.352	5.397	2.379
	35.500	95.670	39.599	2.683
Cash flow hedging derivative financial assets				
Forward contracts for cash flow hedges of currency risk of sales	2.297	4.632	17.250	1.843
Interest rate swap contracts for cash flow hedges of interest rate risk of borrowings	60	-	714	-
Commodity swap contracts for cash flow hedges of price fluctuations of raw material purchases	12.227	2.421	1.830	-
	14.584	7.053	19.794	1.843
	50.084	102.723	59.393	4.526

NOTE 6 - DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Derivative instruments for fair value hedge

As of reporting date, the details of forward, swap and cross currency swap transactions for fair value hedge are as follows:

		Assets		Liabilities	
31 December 2019		**Nominal value**	**Fair Value**	**Nominal value**	**Fair Value**
Forward contracts for fair value hedges of currency risk of sales					
Buy USD/Sell EUR	Less than 3 months	202.744	2.978	57.301	3.668
Buy USD/Sell EUR	Between 3 - 6 months	420	18	-	-
		203.164	2.996	57.301	3.668
Forward contracts					
Buy USD/Sell EUR	Less than 3 months	-	-	304.603	1.726
Buy TRY/Sell EUR	Less than 3 months	-	-	82.101	3.410
Buy TRY/Sell USD	Less than 3 months	25.831	490	-	-
Buy USD/Sell EUR	Between 6 - 12 months	-	-	21.546	140
		25.831	490	408.250	5.276
Interest rate swap contracts					
USD floating interest collection/Fixed interest payment	Between 1 - 5 years	163.356	1.069	-	-
TRY floating interest collection/Fixed interest payment	Between 1 - 5 years	-	-	550.000	78.186
USD basis floating interest collection/ Basis floating interest payment	Between 3 - 6 months	-	-	80.367	500
USD basis floating interest collection/ Basis floating interest payment	Between 1 - 5 years	-	-	163.356	666
		163.356	1.069	793.723	79.352
Cross rate					
TRY Collection/EUR Payment	Less than 3 months	-	-	175.000	7.374
TRY Collection/USD Payment	Less than 3 months	300.000	7.143	-	-
TRY Collection/USD Payment	Between 3 - 6 months	137.500	23.666	-	-
TRY Collection/USD Payment	Between 6 - 12 months	20.000	136	-	-
		457.500	30.945	175.000	7.374
		849.851	35.500	1.434.274	95.670

NOTE 6 - DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Derivative instruments for fair value hedge (cont'd)

		Assets		Liabilities	
31 December 2018		**Nominal value**	**Fair Value**	**Nominal value**	**Fair Value**
Forward contracts for fair value hedges of currency risk of sales					
Buy USD/Sell EUR	Less than 3 months	664.473	34.107	75.031	226
Buy USD/Sell EUR	Between 3 - 6 months	1.827	10	-	-
		666.300	34.117	75.031	226
Forward contracts					
Buy USD/Sell EUR	Less than 3 months	-	-	2.766	25
Buy USD/Sell EUR	Between 3 - 6 months	-	-	5.304	53
Buy EUR/Sell USD	Less than 3 months	2.773	31	-	-
Buy EUR/Sell USD	Between 3 - 6 months	5.317	54	-	-
		8.090	85	8.070	78
Interest rate swap contracts					
USD floating interest collection/Fixed interest payment	Between 1 - 5 years	241.125	5.397	-	-
		241.125	5.397	-	-
Basis interest swap contracts					
USD basis floating interest collection/ Basis floating interest payment	Between 1 - 5 years	-	-	454.655	2.379
		-	-	454.655	2.379
		915.515	39.599	537.756	2.683

Derivative instruments for cash flow hedge

Forward contracts for cash flow hedges of currency risk of sales:

Buy USD - Sell EUR forward contracts measured at fair value through other comprehensive income are designated as hedging instruments in cash flow hedges of forecast sales in EUR. These forecast transactions are highly probable and their maturities vary between January 2020 and April 2021.

The terms and conditions of the forward contracts match the terms and conditions of the expected highly probable forecast sales in EUR. As a result, no hedge ineffectiveness arises requiring recognition and is tracked under other comprehensive income accounts since the aforementioned derivative transaction is a cash flow hedge derivative transaction until the sales is realized in accordance with hedge accounting. After the revenue is recognized, those derivative transactions are recognised in the profit or loss table as fair value hedges until the receivable amounts are collected.

In respect of these contracts which has a nominal value of TRY 1.151.302 thousand for the purpose of hedging cash flow risk, with related deferred tax effect TRY (15.821) thousand was included in other comprehensive income (31 December 2018: TRY 15.407 thousand).

In the current period, TRY 62.563 thousand resulting from the sales related forward contracts was accounted under the revenue account of the profit or loss table (31 December 2018: TRY (115.593) thousand).

NOTE 6 - DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Derivative instruments for cash flow hedge (cont'd)

Cross currency and interest rate swap contracts for cash flow hedges of interest rate and currency risk of borrowings:

Group has fixing contracts for future interest and principle payments of floating interest rate borrowings. The fair values of these contracts match the floating rate borrowings and was included in other comprehensive income/expense. The maturities of these transactions will be completed in April 2020.

The terms and conditions of those contracts match the terms and conditions of the floating rate borrowings. Therefore, it is considered that hedging is fully effective and in accordance with hedge accounting, it is reflected in other comprehensive income/expense accounts.

In respect of these contracts which has a nominal value of TRY 22.847 thousand, for the purpose of hedging cash flow risk, with related deferred tax effect TRY (654) thousand was included in other comprehensive income (31 December 2018: TRY 714 thousand).

Commodity swap contracts for hedges of price risk of raw material purchases:

The Group purchases iron ore on an ongoing basis as its operating activities. The Group has concluded iron ore swap contracts in order to be protected from price risk of iron ore which shall be supplied in future and shall be used in the production of related sales in line with its contracted sales. Group's iron ore forward contracts measured at fair value through other comprehensive income/expense match iron ore price risk associated with future long term sales contracts. The terms and conditions of the iron ore swap contracts made for these sales transactions match the terms and conditions of the sales transactions. Therefore, it is not possible to record any income or expense arising from the ineffectiveness of the protection process.

The maturities' varies until January 2021 contracts of 191 thousands tons of iron ore has a nominal value of TRY 87.369 thousand and fair value of TRY 11.208 thousand except from deffered tax effect recognized on other comprehensive income (31 December 2018: TRY 1.019 thousand).

The maturities' varies until September 2020 contracts of 43 thousands tons of coal, has a nominal value of TRY 40.196 thousand and fair value of TRY (3.232) thousand except from deffered tax effect recognized in other comprehensive income (31 December 2018: TRY 811 thousand).

As of 31 December 2019, not reflected from other comprehensive income to inventory cost thousand (31 December 2018: TRY (3.293) thousand).

NOTE 7 - BORROWINGS

As of reporting date details of borrowings disclosed at amortized are as follows:

	31 December 2019	31 December 2018
Short term bank borrowings	4.179.522	3.654.083
Current portion of long term bank borrowings	1.332.364	1.066.402
Long term bank borrowings	1.380.494	1.400.475
Total bank borrowings	6.892.380	6.120.960
Current portion of long term corporate bonds issued	11.947	-
Long term corporate bonds issued	550.000	-
Total corporate bonds issued	561.947	-
Current portion of long term lease payables	42.656	-
Cost of current portion of long term lease payables (-)	(7.145)	-
Long term lease payables	909.906	-
Cost of long term lease payables (-)	(698.767)	-
Total lease payables	246.650	-
Total borrowings	7.700.977	6.120.960

As of 31 May 2019; bond issue with maturity 28 May 2021 term, quarterly TRLibor + 0,50 spread coupon interest, principal and coupon interest payment at the end of maturity TRY 550.000 thousand was performed.

As of 31 December 2019, the breakdown of the Group's loans with their original currency and their weighted average interest rates is presented as follows:

Interest Type	Type of Currency	Weighted Average Rate of Effective Interest (%)	Short Term Portion	Long Term Portion	31 December 2019
No interest	TRY	-	39.103	-	39.103
Fixed	TRY	13,85	867.556	-	867.556
Fixed	US Dollars	3,02	2.582.283	49.075	2.631.358
Fixed	EURO	2,70	11.145	25.346	36.491
Floating	TRY	TRLibor+0,5	11.947	550.000	561.947
Floating	US Dollars	Libor+1,87	1.904.563	922.264	2.826.827
Floating	EURO	Euribor+1,62	107.236	383.809	491.045
			5.523.833	1.930.494	7.454.327

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(Amounts are expressed as Turkish Lira ("TRY Thousand") unless otherwise indicated.)
(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 37)

NOTE 7 - BORROWINGS (cont'd)

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

Interest Type	Type of Currency	Weighted Average Rate of Interest (%)	Short Term Portion	Long Term Portion	31 December 2018
No interest	TRY	-	32.284	-	32.284
Fixed	US Dollars	3,31	2.835.450	72.873	2.908.323
Fixed	EURO	2,80	12.035	32.145	44.180
Floating	US Dollars	Libor+1,64	1.743.193	1.008.245	2.751.438
Floating	EURO	Euribor+2,23	97.523	287.212	384.735
			4.720.485	1.400.475	6.120.960

Maturity distribution of financial borrowings as follows:

	31 December 2019				31 December 2018	
	Bank Borrowings	Corporate Bonds Issued	Lease Payables	Total Borrowings	Bank Borrowings	Total Borrowings
Within 1 year	5.511.886	11.947	35.511	5.559.344	4.720.485	4.720.485
Between 1-2 years	295.397	550.000	29.986	875.383	740.278	740.278
Between 2-3 years	710.738	-	22.349	733.087	242.089	242.089
Between 3-4 years	143.974	-	18.724	162.698	189.274	189.274
Between 4-5 years	53.637	-	15.575	69.212	107.370	107.370
5 years or more	176.748	-	124.505	301.253	121.464	121.464
	6.892.380	561.947	246.650	7.700.977	6.120.960	6.120.960

Movement of net financial borrowings of bank loans and issued bonds as follows:

	31 December 2019	31 December 2018
Opening balance	6.120.960	4.490.428
Interest expenses	342.029	177.203
Interest paid	(313.709)	(189.758)
Unrealised foreign exchange differences	(22.666)	(3.959)
Capitalized	16.689	16.480
Cash inflow from loans	6.669.324	5.838.030
Bonds issued	550.000	-
Cash outflow from loan repayments	(5.908.300)	(4.207.464)
Closing balance	7.454.327	6.120.960

NOTE 7 - BORROWINGS (cont’d)

Reconciliation of net financial borrowings of financial leases as follows:

	31 December 2019
Opening balance	-
Opening effect of change in accounting principle	198.794
The effect of the increase in the lease contract liability	53.490
Cash outflow effect	(40.069)
Increase in interest expenses	33.809
Foreign exchange effect	626
Closing balance	246.650

NOTE 8 - TRADE RECEIVABLES AND PAYABLES

As of the reporting date, the details of the Group’s trade receivables are as follows:

	31 December 2019	31 December 2018
Short term trade receivables		
Trade receivables	3.316.241	4.469.265
Due from related parties (Note 33)	173.296	68.586
Provision for doubtful trade receivables (-)	(145.360)	(136.377)
	3.344.177	4.401.474

As of the reporting date, the details of the Group’s trade receivables are as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Opening balance	136.377	98.576
Provision for the period	4.769	39.863
Doubtful receivables collected (-)	(1.540)	-
Provision released (-)	(6.536)	(26.970)
Translation difference	12.290	24.908
Closing balance	145.360	136.377

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 90 days and therefore are all classified as current. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method.

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

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 Group 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 Group does not provide for any further provision beyond the doubtful receivables provisions that the Group has already provided for in the consolidated financial statements. The detail of overdue receivables included in trade receivables as of the reporting date is disclosed in the management of credit risk management. Other disclosures as to the Group's credit risk are given in note 34. The Group provides provision according to the balances of all unsecured receivables under legal follow up.

Group's past due but not impaired receivable amount is TRY 9.761 thousand and the maturities' of them between 0 and 60 days (Note 34).

In accordance with TFRS 9 "Financial Instruments" standart, expected credit loss measured regarding trade receivables and no significant effect ascertained on financial statements.

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

Short term trade payables	**31 December 2019**	**31 December 2018**
Trade payables	2.849.408	1.786.442
Due to related parties (Note 33)	85.731	147.772
Expense accruals	1.483	1.708
	2.936.622	1.935.922

Trade payables consist of payables to sellers for products or services purchased in the ordinary course of business. The average credit period on purchases of certain goods is 35 days.

NOTE 9 - OTHER RECEIVABLES AND PAYABLES

As of the reporting date, the details of the Group's other receivables are as follows:

Short term other receivables	31 December 2019	31 December 2018
Due to related parties (Note 33)	3.817	-
Receivables from water system construction	1.560	1.504
Deposits and guarantees given	504	296
	5.881	1.800

Long term other receivables	31 December 2019	31 December 2018
Due From Related Parties (Note 33)	25.136	-
Receivables from Privatization Authority	81.221	75.142
Receivables from water system construction	11.306	8.817
Deposits and guarantees given	645	580
Provision for receivables from Privatization Authority (-)	(81.221)	(75.142)
	37.087	9.397

Privatization Administration Litigation

In the litigation filed by the Company for indemnification of the payments made to 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 collect the amount of TRY 52.857 thousandwith 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 number 2016/14048 E.2018/6111 K. of the 19th Commercial Court of First Instance in Ankara, and such approval decision was notified to our Company. As the adjustment process against the approval decision was not eliminated, our company has continued to carry the provisions for the receivables in the financial statements in the reporting period related to this subject.

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

	1 January - 31 December 2019	1 January - 31 December 2018
Opening balance	75.142	73.193
Provision for the period	6.118	2.457
Provision released (-)	-	(383)
Other doubtful receivables collected (-)	-	(414)
Translation difference	(39)	289
Closing balance	81.221	75.142

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

As of the reporting date, the details of the Group's short term other payables are as follows:

Short term other payables	**31 December 2019**	**31 December 2018**
Taxes payable	35.805	30.014
Deposits and guarantees received	29.570	8.897
Dividend payables to shareholders (*)	3.966	3.875
	69.341	42.786

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

NOTE 10 - INVENTORIES

As of the reporting date, the details of the Group's inventories are as follows:

	31 December 2019	**31 December 2018**
Raw materials	2.287.962	2.133.042
Work in progress	1.877.323	1.712.760
Finished goods	2.635.693	2.322.664
Spare parts	1.281.245	1.115.108
Goods in transit	1.106.346	1.405.980
Other inventories	556.855	548.341
Allowance for impairment on inventories (-)	(416.261)	(347.745)
	9.329.163	8.890.150

The movement of the allowance for impairment on inventories:

	1 January - 31 December 2019	**1 January - 31 December 2018**
Opening balance	347.745	228.247
Provision for the period	33.314	30.450
Provision released (-)	(10.726)	(3.402)
Translation difference	45.928	92.450
Closing balance	416.261	347.745

The Group has provided an allowance for the impairment on the inventories 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 24).

NOTE 11 - PREPAID EXPENSES

As of the reporting date, the details of the Group's short term prepaid expenses are as follows:

	31 December 2019	31 December 2018
Insurance expenses	56.976	56.359
Order advances given	21.390	17.197
Due to related parties (Note 33)	6.308	-
Prepaid utility allowance to employees	11.624	9.718
Other prepaid expenses	3.935	6.731
	100.233	90.005

As of the reporting date, the details of the Group's long term prepaid expenses are as follows:

	31 December 2019	31 December 2018
Order advances given	486.201	225.384
Due to related parties (Note 33)	25.620	68.266
Insurance expenses	-	25.409
Other prepaid expenses	1.999	12.216
	513.820	331.275

NOTE 12 - INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

The details of the Group's financial investments accounted for using equity method as follows:

	Right to vote ratio %	**31 December 2019**	**Right to vote ratio %**	**31 December 2018**	**Business segment**
Joint Venture					
İsdemir Linde Gaz Ortaklığı A.Ş.	50	200.820	50	145.284	Industrial Gas Production and Sale

The Group's shares on assets of investments accounted for using equity method as follows:

	31 December 2019	**31 December 2018**
Total assets	408.249	380.489
Total liabilities	6.609	89.921
Net assets	401.640	290.568
Group's share on net assets	200.820	145.284

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

	1 January - 31 December 2019	**1 January - 31 December 2018**
Revenue	98.345	82.922
Operating profit	14.335	11.767
Net profit (loss) for the period	77.033	11.117
Group's share on net profit	38.517	5.558

İsdemir Linde Gaz Ortaklığı A.Ş, as an affiliate of the Group under joint management, has the right of to deduct the investment deduction where profit will occur in the upcoming years pursuant to the Resolution No 2012/3305 on Government Aids in Investments and the Cabinet Decision issued in the Official gazette on 22 February 2017. As a result of the forecasts made by the Company's management, as it becomes available, the deferred tax asset of TRY 82.411 thousand (its effect in the profit or loss statement of Company is TRY 41.206 thousand) is included in the financial statements prepared as of 31 December 2019.

In the Annual General Assembly dated 1 March 2019, it has been approved to distribute cash dividend from net profit of 2018 amounting to TRY 6.409 thousand. As of 29 March 2019 dividend payment has completed.

NOTE 13 - INVESTMENT PROPERTIES

	Land	Buildings	Total
Cost			
Opening balance as of 1 January	144.196	98.784	242.980
Translation difference	19.090	13.994	33.084
Transfers (*)	9.868	25.954	35.822
Closing balance as of 31 December 2019	173.154	138.732	311.886
Accumulated Depreciation			
Opening balance as of 1 January	-	(1.018)	(1.018)
Translation difference	-	(474)	(474)
Charge for the period	-	(4.390)	(4.390)
Transfers (*)	-	(2.790)	(2.790)
Closing balance as of 31 December 2019	-	(8.672)	(8.672)
Net book value as of 31 December 2018	144.196	97.766	241.962
Net book value as of 31 December 2019	173.154	130.060	303.214

(*) After a part of Erdemir Çelik Servis Merkezi A.Ş.'s land and buildings in Manisa were rented, they were classified to investment properties (Note 14).

NOTE 13 - INVESTMENT PROPERTIES (cont'd)

	Land	Buildings	Total
Cost			
Opening balance as of 1 January	101.695	-	101.695
Translation difference	40.340	8.166	48.506
Addition	2.161	90.618	92.779
Closing balance as of 31 December 2018	144.196	98.784	242.980
Accumulated Depreciation			
Opening balance as of 1 January	-	-	-
Translation difference	-	(84)	(84)
Charge for the period	-	(934)	(934)
Closing balance as of 31 December 2018	-	(1.018)	(1.018)
Net book value as of 31 December 2017	101.695	-	101.695
Net book value as of 31 December 2018	144.196	97.766	241.962

The fair value of the Group's investment properties is TRY 933.303 thousand (31 December 2018: TRY 901.487 thousand) according to the most recent valuation reports. The fair values of the investment properties have been determined in reference to the valuations of independent valuation firms authorized by the CMB of Turkey. The valuations are undertaken predominantly by using the precedent values of similar properties as references under market approach.

All investment properties of the Group consist of land and buildings.

The Group does not have contractual obligations regarding the purchase, construction or development of investment properties or maintenance, repair or improvement.

For the year ended 31 December 2019, the Group generated rent income amounting to TRY 11.411 thousand (31 December 2018: TRY 1.257 thousand) from rented investment properties under operating leases (Note 28). The Group also has investment properties that do not generate rental income.

The Group has recognized (2.327) thousand TL (31 December 2018: (2.227) thousand TL) of estate tax expenses related to investment properties for the year ended 31 December 2019 under investment expenses (Note 28).

Amortization distribution of investment properties is as follows:

	31 December 2019	31 December 2018
General administrative expenses	4.390	934
	4.390	934

NOTE 14 - PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improve-ments	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	298.834	4.538.894	7.256.025	30.709.607	1.703.606	836.663	265.350	1.194.114	46.803.093
Translation difference	38.342	580.649	937.145	3.966.685	202.534	96.730	19.222	147.953	5.989.260
Additions (*)	-	1.678	9.217	140.837	44.869	16.088	19.479	1.192.691	1.424.859
Transfers from CIP (**)	48.821	116.070	136.063	762.334	8.232	6.138	1.889	(1.093.233)	(13.686)
Transfers to investment properties (***)	(9.868)	-	(25.954)	-	-	-	-	-	(35.822)
Disposals	-	(24.292)	(14.647)	(479.894)	(20.277)	(5.769)	(2.673)	-	(547.552)
Closing balance as of 31 December 2019	376.129	5.212.999	8.297.849	35.099.569	1.938.964	949.850	303.267	1.441.525	53.620.152
Accumulated Depreciation									
Opening balance as of 1 January	-	(3.364.344)	(5.202.609)	(18.431.953)	(1.029.278)	(443.025)	(188.521)	(83.152)	(28.742.882)
Transfers to investment properties (***)	-	-	2.790	-	-	-	-	-	2.790
Translation difference	-	(432.631)	(675.428)	(2.368.613)	(115.630)	(47.252)	(14.054)	(11.041)	(3.664.649)
Charge for the period	-	(98.220)	(152.509)	(742.508)	(53.463)	(40.850)	(28.403)	-	(1.115.953)
Impairment (****)	-	949	5.813	29.059	4.145	-	3.352	-	43.318
Disposals	-	24.027	14.647	451.261	15.185	5.355	730	-	511.205
Closing balance as of 31 December 2019	-	(3.870.219)	(6.007.296)	(21.062.754)	(1.179.041)	(525.772)	(226.896)	(94.193)	(32.966.171)
Net book value as of 31 December 2018	298.834	1.174.550	2.053.416	12.277.654	674.328	393.638	76.829	1.110.962	18.060.211
Net book value as of 31 December 2019	376.129	1.342.780	2.290.553	14.036.815	759.923	424.078	76.371	1.347.332	20.653.981

(*) The amount of capitalized borrowing cost is TRY 16.689 thousand for the current period (31 December 2018: TRY 16.480 thousand).

(**) TRY 13.686 thousand is transferred to intangible assets (Note 15).

(***) After a part of Erdemir Çelik Servis Merkezi A.Ş.'s land and buildings in Manisa were rented, it was classified to investment properties (Note 13).

(****) The Group recorded the impairment provisions in the financial statements of Erdemir Romania S.R.L for the property, plant and equipment that will be out of use and will not generate independent cash flow. The recoverable amounts of property, plant and equipment are reviewed in line with the increase in Erdemir Romania S.R.L's net profitability and Management's forecasts in the following periods. As a result of the review. For non used assets, an impairment loss of TRY 43.318 thousand is recognised that on statement of profit or loss under expenses from investment activities (Note 28).

As of 31 December 2019, the Group has no collaterals or pledges upon its property, plant and equipment.

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(Amounts are expressed as Turkish Lira ("TRY Thousand") unless otherwise indicated.)
(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 37)

NOTE 14 - PROPERTY, PLANT AND EQUIPMENT (cont'd)

Cost	Land	Land Improvements	Buildings	Machinery and equipment	Vehicles	Furniture and Fixtures	Other Property, Plant and Equipment	Construction in Progress (CIP)	Total
Opening balance as of 1 January	218.337	3.237.524	5.025.209	21.731.205	1.233.293	614.226	219.698	811.304	33.090.796
Translation difference	80.471	1.257.353	1.996.460	8.576.399	432.678	207.447	40.590	332.714	12.924.112
Additions (*)	210	9.284	137.576	171.831	30.843	26.216	11.663	565.647	953.270
Transfers from CIP (**)	63	34.883	96.803	333.223	8.724	6.299	1.152	(491.990)	(10.843)
Disposals	(247)	(150)	(23)	(103.051)	(1.932)	(17.525)	(7.753)	(23.561)	(154.242)
Closing balance as of 31 December 2018	298.834	4.538.894	7.256.025	30.709.607	1.703.606	836.663	265.350	1.194.114	46.803.093
Accumulated Depreciation									
Opening balance as of 1 January	-	(2.356.873)	(3.636.434)	(12.753.336)	(745.586)	(325.575)	(142.179)	(58.951)	(20.018.934)
Translation difference	-	(923.000)	(1.441.366)	(5.058.592)	(240.770)	(95.196)	(25.276)	(24.201)	(7.808.401)
Charge for the period	-	(82.841)	(119.801)	(616.945)	(44.760)	(34.108)	(25.396)	-	(923.851)
Impairment (****)	-	(1.720)	(5.031)	(91.005)	-	(39)	(15)	-	(97.810)
Disposals	-	90	23	87.925	1.838	11.893	4.345	-	106.114
Closing balance as of 31 December 2018	-	(3.364.344)	(5.202.609)	(18.431.953)	(1.029.278)	(443.025)	(188.521)	(83.152)	(28.742.882)
Net book value as of 31 December 2017	218.337	880.651	1.388.775	8.977.869	487.707	288.651	77.519	752.353	13.071.862
Net book value as of 31 December 2018	298.834	1.174.550	2.053.416	12.277.654	674.328	393.638	76.829	1.110.962	18.060.211

(*) The amount of capitalized borrowing cost is TRY 16.480 thousand for the current period (31 December 2017: TRY 4.176 thousand).

(**) TRY 10.843 thousand is transferred to intangible assets (Note 15).

(***) The Group has reviewed the recoverable amounts of property, plant and equipment, which will be out of use and will not generate independent cash flow from the blast furnaces that Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and İskenderun Demir ve Çelik A.Ş. decided to rebuild in its production facilities during the period. As a result of the review. For non used assets, an impairment loss of TRY 97.180 thousand is recognised that on statement of profit or loss under expenses from investment activities (Note 28).

As of 31 December 2018, the Group has no collaterals or pledges upon its intangible assets.

NOTE 14 - PROPERTY, PLANT AND EQUIPMENT (cont'd)

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

	31 December 2019	31 December 2018
Associated with cost of production	1.039.350	865.368
General administrative expenses	28.069	19.129
Marketing, sales and distribution expenses	41.340	36.021
Research and development expenses	7.194	3.333
	1.115.953	923.851

NOTE 15 - INTANGIBLE ASSETS

	Rights	Other Intangible Assets	Total
Cost			
Opening balance as of 1 January	668.304	34.375	702.679
Translation difference	85.716	5.127	90.843
Additions	13.897	762	14.659
Transfers from CIP	13.686	-	13.686
Closing balance as of 31 December 2019	781.603	40.264	821.867
Accumulated amortization			
Opening balance as of 1 January	(387.566)	(31.597)	(419.163)
Translation difference	(49.911)	(4.998)	(54.909)
Charge for the period	(34.513)	(748)	(35.261)
Closing balance as of 31 December 2019	(471.990)	(37.343)	(509.333)
Net book value as of 31 December 2018	280.738	2.778	283.516
Net book value as of 31 December 2019	309.613	2.921	312.534

As of 31 December 2019, the Group has no collaterals or pledges upon its intangible assets (31 December 2018: None).

NOTE 15 - INTANGIBLE ASSETS (cont'd)

	Rights	Other Intangible Assets	Total
Cost			
Opening balance as of 1 January	465.590	22.162	487.752
Translation difference	180.358	11.228	191.586
Additions	12.061	437	12.498
Transfers from CIP	10.295	548	10.843
Closing balance as of 31 December 2018	668.304	34.375	702.679
Accumulated amortization			
Opening balance as of 1 January	(256.399)	(20.042)	(276.441)
Translation difference	(98.929)	(10.852)	(109.781)
Charge for the period	(32.238)	(703)	(32.941)
Closing balance as of 31 December 2018	(387.566)	(31.597)	(419.163)
Net book value as of 31 December 2017	209.191	2.120	211.311
Net book value as of 31 December 2018	280.738	2.778	283.516

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

	31 December 2019	31 December 2018
Associated with cost of production	24.348	21.716
General administrative expenses	10.770	11.053
Marketing, sales and distribution expenses	-	4
Research and development expenses	143	168
	35.261	32.941

NOTE 16 - RIGHT OF USE ASSETS

As of the reporting date the movement of right of use assets is as follows:

	Right to Use Land	Car Leases	Total
Cost			
Opening balance as of 1 January	-	-	-
Effect of change in accounting principle	201.550	8.022	209.572
Additions to assets of operating lease	39.528	12.549	52.077
Transfers of sub-lease agreements to receivables	(30.373)	-	(30.373)
Translation difference	26.245	1.635	27.880
Closing balance as of 31 December 2019	236.950	22.206	259.156
Accumulated Depreciation			
Opening balance as of 1 January	-	-	-
Charge for the period	7.999	6.233	14.232
Transfers of sub-lease agreements to receivables	(669)	-	(669)
Translation difference	345	298	643
Closing balance as of 31 December 2019	7.675	6.531	14.206
Net book value as of 31 December 2019	229.275	15.675	244.950

The items right of use assets recognized in profit or loss is as follows:

	31 December 2019
Amortization of assets to operating lease (Note 16)	(14.232)
Interest expense from lease transactions (Note 30)	(33.809)
Income from sub-lease of the right of use assets	4.581

The net book value of the right-of-use assets acquired through the lease is as follows:

	31 December 2019	31 December 2018
Right to use land	229.275	201.550
Car leases	15.675	8.022
	244.950	209.572

The Group has usage permit agreements regarding the port areas of the General Directorate of National Real Estate. The values of tangibles with usage permit periods expiring in 2048 and 2049 are measured at their present value by reducing the borrowing rate by 16% at the initial calculation and are accounted for in the consolidated statement of financial position as of 1 January 2019 in the notes of right of use assets and borrowing (Note 7).

NOTE 16 - RIGHT OF USE ASSETS (cont'd)

The Group has a usage permit agreement of regarding the forest land and energy transmission line of the General Directorate of Forestry. Forest land use permit will expire in 2039, and the energy transmission line use permit will expire in 2064. The values of the immovable assets were measured at present value by reducing the borrowing rate in the first calculation with 15% and accounted in the right of use assets and borrowings notes in the consolidated statement of financial position.

In addition, car lease contracts with useful lives between 2020-2022 and with borrowing rate reduced by 25% are measured at their present value and accounted in the condensed consolidated statement of financial position in accordance with the above explanations.

As of 1 June 2019, in accordance with the current contract conditions with the General Directorate of National Real Estate the use permit agreement, which will expire in 2049 for the Group's port sites in Yarımca, is rented out to OYAK NYK RO-RO Liman İşletmeleri A.Ş. In accordance with the TFRS 16, use permit agreement; has been recognized in Other Receivables from Related Parties "(Note 33) by being written off from the "Right of Use Assets" since the effective date of the sub-lease agreement.

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

	31 December 2019
General administration expenses	6.233
Other operating expenses	7.999
	14.232

NOTE 17 - 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.)
- Support in cash from Tubitak - Teydeb, in return for research and devolopment expenditures,
- Inward processing permission certificates,
- Social Security Institution incentives
- Insurance premium employer share incentive.

Research and development incentive premiums received or certain to be received amounts to TRY 2.181 thousand (31 December 2018: TRY 1.266 thousand) which are accounted under statement of profit or loss for the year ended 31 December 2019.

NOTE 18 - EMPLOYEE BENEFITS

The Group’s short term payables for employee benefits are as follows:

	31 December 2019	31 December 2018
Due to personnel	109.689	153.178
Social security premiums payable	43.669	36.298
	153.358	189.476

As of the reporting date long term provisions of the employee benefits of the Group are as follows:

	31 December 2019	31 December 2018
Provisions for employee termination benefits	651.998	527.970
Provisions for seniority incentive premium	71.234	55.351
Provision for unpaid vacations	84.092	86.070
	807.324	669.391

According to the articles of Turkish Labor Law in force, the Group have obligation to pay the legal employee termination benefits to each employee whose are 25 years of working life by completing at least one year of service, leaving for military services and deceased.

As of 31 December 2019, the amount payable consists of one month’s salary limited to a maximum of TRY 6.379,86 (31 December 2018: TRY 5.434,42) for each year of service. As of 1 January 2020, the employment termination benefit has been updated to a maximum of TRY 6.730,15.

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

The employment termination benefit has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. TAS 19 (“Employee Benefits”) requires actuarial valuation methods to be developed to estimate the Group’s obligation under defined benefit plans. The obligation as of 31 December 2019 has been calculated by an independent actuary and projected unit credit method is used in the calculation. The actuarial assumptions used in the calculation of the present value of the future probable obligation are as follows:

	31 December 2019	31 December 2018
Discount rate	12,50%	16,00%
Inflation rate	8,20%	11,30%
Salary increase	real 1,5%	real 1,5%
Maximum liability increase	8,20%	11,30%

NOTE 18 - EMPLOYEE BENEFITS (cont'd)

Discount rates are determined considering the expected duration of the retirement obligations and the currency in which the obligations will be paid. In calculations as of 31 December 2019, a fixed discount rate is used. Long term inflation estimates are made using an approach consistent with discount rate estimates and long term inflation rate fixed over years is used.

The anticipated rate of resignation which do not result in the payment of employee benefits is also considered in the calculation. The anticipated rate of resignation is assumed to be related with the past experience, therefore past experiences of employees are analyzed and considered in the calculation. In the actuarial calculation as of 31 December 2019, the anticipated rate of resignation is considered to be inversely proportional to the past experience. The anticipated rate of resignation is between 2%-0% for the employees with past experience between 0-15 years or over.

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

	1 January - 31 December 2019	**1 January - 31 December 2018**
Opening balance	527.970	511.971
Service cost	52.214	47.858
Interest cost	86.906	67.345
Actuarial loss/(gain)	39.363	(51.444)
Termination benefits paid	(55.011)	(49.700)
Translation difference	556	1.940
Closing balance	651.998	527.970

The principal assumptions used in the calculation of retirement pay liability are discount rate and anticipated turnover rate. All other variables were held constant, the sensitivity analysis of the assumptions which was used for the calculation of provision for employment termination benefits as of 31 December 2019 as follows:

	Interest rate	
Change in rate	**1% increase**	**1% decrease**
Change in employee benefits liability	(49.935)	57.240

	Inflation rate	
Change in rate	**1% increase**	**1% decrease**
Change in employee benefits liability	59.090	(52.231)

NOTE 18 - EMPLOYEE BENEFITS (cont'd)

According to the current collective labor agreement, employees completing their 5^{th}, 10^{th}, 15^{th} and 20^{th} service years receive seniority incentive premium payments.

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

	1 January - 31 December 2019	1 January - 31 December 2018
Opening balance	55.351	43.468
Service cost	5.988	4.954
Interest cost	9.085	5.859
Actuarial loss/(gain)	9.378	8.423
Termination benefits paid	(8.506)	(7.276)
Translation difference	(62)	(77)
Closing balance	71.234	55.351

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

	1 January - 31 December 2019	1 January - 31 December 2018
Opening balance	86.070	81.374
Provision for the period	98.374	81.331
Vacation paid during the period (-)	(5.399)	(6.814)
Provisions released (-)	(94.418)	(68.165)
Translation difference	(535)	(1.656)
Closing balance	84.092	86.070

NOTE 19 - PROVISIONS

The Group's short term provisions are as follows:

	31 December 2019	31 December 2018
Provision for lawsuits	196.700	165.568
Penalty provision for employment shortage of disabled personnel	12.836	10.421
Provision for state right on mining activities	19.158	7.650
Provision for land occupation	13.215	7.013
Provision for the potential tax penalty	-	10.125
	241.909	200.777

NOTE 19 - PROVISIONS (cont'd)

The movement of the short term provisions is as follows:

	1 January 2019	Change for the period	Payments	Provision released	Translation difference	31 December 2019
Provision for lawsuits	165.568	57.019	(20.051)	(12.854)	7.018	196.700
Penalty provision for employment shortage of disabled personnel	10.421	5.802	(2.902)	(518)	33	12.836
Provision for state right on mining activities	7.650	21.749	(10.241)	-	-	19.158
Provision for land occupation	7.013	27.257	(21.029)	-	(26)	13.215
Provision for the tax penalty	10.125	-	-	(10.661)	536	-
	200.777	111.827	(54.223)	(24.033)	7.561	241.909

	1 January 2018	Change for the period	Payments	Provision released	Translation difference	31 December 2018
Provision for lawsuits	103.689	80.437	(14.307)	(38.454)	34.203	165.568
Penalty provision for employment shortage of disabled personnel	6.374	4.075	-	-	(28)	10.421
Provision for state right on mining activities	5.102	8.043	(5.495)	-	-	7.650
Provision for land occupation	11.665	20.465	(21.901)	-	(3.216)	7.013
Provision for the tax penalty	7.584	-	-	-	2.541	10.125
	134.414	113.020	(41.703)	(38.454)	33.500	200.777

Provision for lawsuits

As of 31 December 2019 and 31 December 2018, lawsuits filed by and against the Group are as follows:

	31 December 2019	31 December 2018
Lawsuits filed by the Group	880.306	763.070
Provision for lawsuits filed by the Group	218.121	200.393

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

	31 December 2019	31 December 2018
Lawsuits filed against the Group	153.052	498.341
Provision for lawsuits filed against the Group	196.700	165.568

NOTE 19 - PROVISIONS (cont'd)

Provision for lawsuits (cont'd)

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

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

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

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

Had the Company started to prepare its consolidated financial statements in accordance with TFRS after December 31, 2005, it would also have to present the comparative consolidated financial statements in accordance with TFRS based on "TFRS 1: First-time adoption of International Financial Reporting Standards" and the previously recognized negative goodwill would be transferred directly to retained earnings on 1 January 2005 instead of recognizing in the consolidated statement of profit or loss in accordance with "TFRS 3: Business Combinations". Therefore, the net profit for the periods ended December 31, 2019 and December 31, 2018 will not be affected from the above mentioned disputes.

NOTE 19 - PROVISIONS (cont'd)

Provision for lawsuits (cont'd)

Company's Shareholders' General Assembly, which was held at 30 March 2006, decided dividend distribution according to the consolidated financial statements as of 31 December 2005, which was prepared according to TFRS. Privatization Administration, who has a usufruct right over 1 (one) equity share among the Company shares it transferred to Ataer Holding A.Ş., filed a lawsuit at 1 May 2006 the 3rd Commercial Court of Ankara against the aforementioned General Assembly decision, and claimed that, dividend distribution decision must be abolished and TRY 35.673 thousand allegedly unpaid dividend must be paid to itself (E. 2006/218). The Court rejected the case on 23 October 2008; Privatization Administration appealed this rejection on 7 January 2009. Court of Appeals' 11th Chamber reversed this rejection judgement on 30 November 2010; this time the Company appealed the Chamber's decision on 18 February 2011. However, the Chamber rejected the Company's appeal on 14 July 2011. The case file, sent back to 3rd Commercial Court of Ankara once again. The case was dismissed at the hearing held on 26 June 2015. Decision of the local court has been reversed by the Supreme Court 11th Civil Chamber with the decision dated 24 May 2017 and 2015/15771 Docket; 2017/3040 Decision number. The decision of reversal has been notified to the Company on 2 August 2017. Erdemir has applied for revision of the decision against the Supreme Court 11th Civil Chamber's decision dated 24 May 2017 and 2015/15771 Docket; 2017/3040 Decision number. By the decision of the Supreme Court 11th Civil Chamber dated 27.06.2019 and 2017/4580 Docket; 2019/4955 Decision number which was served to our Company on 28.08.2019, it was notified that our Company's request for revision of the decision has been rejected. The case is still pending in the file No. 2019/418 E. of the 3rd Commercial Court of First Instance of Ankara. Next hearing will be held on 02.04.2020.

The Company, based on the above mentioned reasons, does not expect for the possible effects of changes in the net profit for the year ended 31 December 2005 due to the lawsuits mentioned above to have any impact in the accompanying consolidated financial statements as of 31 December 2019 and 31 December 2018.

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

It is learnt through a notification made to the Company on 31 October 2012 that Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.) filed an action for compensation at amount of USD 4.800 thousand together with accessory against the Company before Ankara 14. Commercial Court of First Instance. As a result of adjudication made; the court adjudged to dismiss the case on procedural grounds because of non-competence and to send the file to commissioned and competent Karadeniz Ereğli Commercial Court of First Instance in Duty when the judgement becomes definite and in case of request. The case continued on file no. 2013/63 in Karadeniz Ereğli 2nd Civil Court of First Instance. At the hearing of the ongoing case dated 28 November 2017, Kdz. Ereğli 2. Civil Court of First Instance has decided to partially accept the case against our Company. Our company has applied for the appeal against the decision. A provision amounting to TRY 52.083 thousand recognised on financial statements for the related lawsuit.

Lawsuit against Tax Penalty Notifications of The Municipality of Kdz. Ereğli's

A real estate tax review was carried out by the Municipality of Kdz Ereğli under the name of "Real Estate Tax Determination Field Study" at Company's Ereğli facilities in August 2019. As a result of this tax inspection, 1924 tax penalty notifications were notified to our company on 23 December 2019. With the 1924 tax penalty notices, the building tax and related cultural assets contribution share has been levied for 2014 to 2019, as well as the tax loss penalty for the same periods. The amount of tax and related cultural assets contribution assessment is 25.586 thousand TRY and 23.888 thousand TRY tax loss penalty has been imposed.

NOTE 19 - PROVISIONS (cont'd)

Lawsuit against Tax Penalty Notifications of The Municipality of Kdz. Ereğli's (cont'd)

6 lawsuits have been filed at the Zonguldak Tax Court on 20 January 2020 against penalty notifications and the lawsuits are still pending.

No provision has been set aside in our accounting records for the tax levied, cultural assets contribution share and tax penalty imposed since there is no cash out flow highly likely to occur according to the Group Management's assessments.

Resolution of Constitutional Court on Electric and Coal 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, on 16 March 2015, the Company used its right to apply the Constitutional Court individually. In the General Assembly Resolution adopted by the Constitutional Court notified to the Company on 27 December 2018, it is 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 regarding to consolidated 15 cases.

Similarly, in the consolidated 4 cases subject to Company's individual application, the Constitutional Court has decided for retrial of the cases, on the grounds that the property rights of the Company were violated, and the consequences of the violation of the property rights should be eliminated.

The aforementioned 19 cases which the Constitutional Court has sent to Zonguldak Tax Court to be retrialed, have been retrialed by Zonguldak Tax Court and the Court has resolved in favor of the Company. Those 19 resolutions which were appealed against by the Municipality of Kdz. Ereğli have not been finalized yet.

Regarding to ongoing cases, resolutions are made in favor of the Company.

Provision for state right on mining activities

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

Land occupation

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

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

Tax penalty provision

As a result of the comprehensive corporate tax audit of Erdemir Romania SRL, one of the subsidiaries of the Group, in 2009-2014 by the local tax authority in Romania, tax payments and penalties are issued for the years 2009, 2013 and 2014. The lawsuit filed against the tax authority has been resulted in favor of the Company. In line with the evaluations of the Group Management and the usual practices of public lawsuits, the provision in the financial statements was reversed due to the fact that there will be no cash outflow regarding the lawsuit. The defendant tax office has the right to appeal.

NOTE 20 - COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	31 December 2019	31 December 2018
Letters of guarantees received	2.853.670	3.378.056
	2.853.670	3.378.056

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

	31 December 2019	31 December 2018
A. Total CPM given for the Company's own legal entity	77.498	103.870
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	182.133	221.267
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	-	-
	259.631	325.137

TRY 182.133 thousand of total CPM given in favor of subsidiaries is related with financial borrowings stated in Note 7. As of 31 December 2019, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2018: 0%).

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

	31 December 2019	31 December 2018
US Dollars	167.519	221.267
TRY	64.844	79.155
EURO	27.268	24.715
	259.631	325.137

NOTE 21 - OTHER ASSETS AND LIABILITIES

As of the reporting date, the details of the Group's other assets and liabilities are as follows:

Other current assets

	31 December 2019	31 December 2018
Other VAT receivable	456.381	172.096
Deferred VAT	143.042	160.040
Prepaid taxes and funds	2.886	2.345
Other current assets	15.573	20.958
	617.882	355.439

Other non-current assets

	31 December 2019	31 December 2018
Other VAT receivable	225.399	116.221
	225.399	116.221

Other current liabilities

	31 December 2019	31 December 2018
VAT payable	3.509	10.552
Other current liabilities	6.770	3.788
	10.279	14.340

Other non-current liabilities

	31 December 2019	31 December 2018
Other non-current liabilities	1.878	1.554
	1.878	1.554

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts are expressed as Turkish Lira ("TRY Thousand") unless otherwise indicated.)
(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish - See Note 37)

NOTE 22 - DEFERRED INCOME

As of the reporting date, the details of the Group's short term deferred income are as follows:

	31 December 2019	31 December 2018
Advances received	230.930	266.047
Deferred income	19.903	10.794
	250.833	276.841

NOTE 23 - EQUITY

As of the Group's reporting date the capital structure is as follows:

Shareholders	(%)	31 December 2019	(%)	31 December 2018
Ataer Holding A.Ş.	49,29	1.724.982	49,29	1.724.982
Quoted in Stock Exchange	47,63	1.667.181	47,63	1.667.181
Erdemir's own shares	3,08	107.837	3,08	107.837
Historical capital	100,00	3.500.000	100,00	3.500.000
Effect of inflation		156.613		156.613
Restated capital		3.656.613		3.656.613
Treasury shares		(116.232)		(116.232)
		3.540.381		3.540.381

The Company is subject to registered capital limit. The board of directors may, at any time it may think necessary, increase the capital by means of issuing bearer shares each with a nominal value of 1 Kr (one Kurus) up to the amount of the registered capital, which is TRY 7.000.000.000 in accordance with the requirements as set forth herein.

The issued capital of the Company consists of 350.000.000.000 lots of shares (31 December 2018: 350.000.000.000 lots). The nominal value of each share is 1 Kr (Turkish cent) (31 December 2018: 1 Kr). This capital is split between A and B group shares. Group A shares consist of 1 share with a share value of 1 Kr and Group B shares consist of 3.499.999.999,99 shares representing TRY 349.999.999.999 of the issued capital.

The Board of Directors consists of 9 members 3 of which are independent. The number and qualifications of independent members are ascertained in compliance with the CMB's Communique numbered II-17,1 on Corporate Governance Principles.

The General Assembly has to choose one member to the Board of Directors from the nominees of the Privatization Administration as the beneficiary owner representing A Group shares. In case, the Board member representing the A Group shares leaves the board within the chosen period, a new board member is obliged to be chosen from the nominees of the Privatization Administration as the beneficiary owner. For decisions to be taken about the rights assigned to A Group shares, the board member representing A Group shares is also obliged to use an affirmative vote.

NOTE 23 - EQUITY (cont'd)

The decisions to change the Articles of Association of the Company that will have an effect on the board of directors' meeting and decision quorum, rights assigned to A Group shares, rights assigned to A Group shares in relation to investments and employment decisions and any other changes in the Articles of Association of the Company which will directly or indirectly affect the rights of A Group shares, have to receive an affirmative vote of the beneficiary owner representing the A Group shares. Otherwise, the decisions are accepted as invalid.

Article IV-K of Articles of Association "According to Turkish Commercial Code Article 329, transactions of an entity's own shares" Erdemir, as of 31 December 2019, holds its own shares with a nominal value of TRY 107.837 thousand (31 December 2018: TRY 107.837 thousand). Erdemir's own shares have been reclassified with its inflation adjusted value in the consolidated balance sheet as a deduction under equity.

Other Equity Items	**31 December 2019**	**31 December 2018**
Share Premium	106.447	106.447
Revaluation Reserves of Tangible Assets	58.952	51.239
- Revaluation Reserves of Tangible Assets	*58.952*	*51.239*
Cash Flow Hedging Reserves	6.474	13.103
Actuarial (Loss)/Gain Fund	(102.008)	(72.105)
Restricted Reserves Assorted from Profit	3.485.761	2.287.528
- Legal Reserves	*3.485.761*	*2.287.528*
Retained Earnings	2.057.906	2.339.334
- Extraordinary reserves	*629.988*	*567.311*
- Accumulated profit	*974.979*	*1.319.085*
- Statutory reserves	*452.939*	*452.939*
	23.442.390	19.228.390

However, in accordance with the communiqué numbered II-14,1 "Communiqué on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") on 13 June 2013 which is published on Official Gazette numbered 28676, "Paid-in capital", "Restricted profit reserves" and "Share premium" should be presented by using their registered amounts in the statutory records. The restatement differences (e.g. inflation restatement differences) arising from the application of this Communiqué should be associated with the:

- "Capital restatement differences" item following the "paid-in capital" line item in the financial statements, if the differences are caused by "paid-in capital" and have not been added to capital yet;
- "Retained earnings", if the differences are arising from "restricted profit reserves" and "share premium" and have not been associated with either profit distribution or capital increase yet.

Other equity items are carried at the amounts that are valued based on the TFRS.

Capital restatement differences may only be considered as part of the paid-up capital.

Listed companies distribute dividend in accordance with the Communiqué No. II-19.1 issued by the CMB which is effective from 1 February 2014.

NOTE 23 - EQUITY (cont'd)

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate for the publicly-held subsidiaries. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of incorporation. In addition, dividend can be distributed by fixed or variable installments and advance dividend can be paid in accordance with profit on interim financial statements of the Company.

In accordance with the Turkish Commercial Code (TCC), unless the required reserves and the dividend for shareholders as determined in the article of association or in the dividend distribution policy of the company are set aside, no decision may be made to set aside other reserves, to transfer profits to the subsequent year or to distribute dividends to the holders of usufruct right certificates, to the members of the board of directors or to the employees; and no dividend can be distributed to these persons unless the determined dividend for shareholders is paid in cash.

Inflation adjustments to issued capital and historical amount of extraordinary reserves can be used as an internal source of capital increase, dividend distribution in cash or the net off from prior period losses. In case of usage of the inflation adjustment differences in dividend distribution in cash, it is subject to corporate tax.

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 5.476.744 thousand as of 31 December 2019.

The legal reserves and the share premium, which is regarded as legal reserve in accordance with TCC Article 466, are presented using their amounts in statutory records. In this context, the difference of inflation restatements in accordance with TFRS framework, that are not subject to profit distribution or capital increase as of the date of financial statements, is associated with the prior periods' profit or loss.

According to the first paragraph of Article 519 numbered 6102 of the Turkish Commercial Code ("TCC"), 5% of the profit shall be allocated as the first legal reserves, up to 20% of the paid/issued capital. First dividend is appropriated for shareholders after deducting from the profit. Following the deduction of the amounts from the "profit", General Assembly of Shareholders is authorized to decide whether shall be the remaining balance shall be fully or totally placed in extraordinary legal reserves or whether it is distributed, also taking into consideration the Company's profit distribution policy. According to the sub-clause 3 of the clause 2 of Article 519 of the Turkish Commercial Code, 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. If it is decided to distribute the profit as bonus share, through the method of adding the profit to the capital, second legal reserves is not appropriated.

According to the CMB Communiqué, until the Company's Article of Association was revised on 31 March 2008, an amount equal to the first dividend distributed to shareholders is allocated as status reserves in order to be used in the plant expansion. Also according to the 13th Article of Association before the revision on 31 March 2008, 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. The reserve amount that exceeds the 20% of the legal reserves, defined by the Article 519 of TCC, is recorded as status reserve.

The Company's Shareholders' General Assembly, which was held at 30 March 2012, decided status reserves can be used as an internal source of capital increase and profit sharing.

NOTE 23 - EQUITY (cont'd)

Cash flow hedging reserve arises from the recognition of the changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows directly in equity. The amounts deferred in equity are recognized in the consolidated statement of profit or loss in the same period, if the hedged item affects profit or loss.

Since the fair values of the assets could not be reasonably determined during the transfer of the subsidiaries to the Group, the assets of each of the Company were revalued during the initial acquisition and the difference between the cost value of the Company's revaluated fair value and the cost value of initial recognition is recorded in the tangible asset revaluation increases (decreases) fund.

The amendment in TMS-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 profit or loss. 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 Group'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 24 - SALES AND COST OF SALES

The Group 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 Group will be eligible for recognition in the future is TRY 230.930 thousand (Note 22). The Company plans to recognize related revenue amount as a revenue in a year.

	1 January - 31 December 2019	1 January - 31 December 2018
Sales Revenue		
Domestic sales	21.115.987	20.998.266
Export sales	5.552.947	5.355.325
Other revenues (*)	698.400	687.965
Interest income from sales with maturities	185.981	151.322
Sales returns (-)	(42.992)	(23.075)
Sales discounts (-)	(45.138)	(154.549)
	27.465.185	27.015.254
	-	-
Cost of sales (-)	(22.454.025)	(18.631.954)
	-	-
Gross profit	5.011.160	8.383.300

(*) The total amount of product exports in other revenues is TRY 285.507 thousand (31 December 2018: TRY 257.751 thousand). Total interest income from export sales with maturities is TRY 4.022 thousand.

NOTE 24 - SALES AND COST OF SALES (cont'd)

As of Group's reporting date, the detail of cost of sales is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Raw material usage	(16.792.357)	(14.069.003)
Personnel costs	(1.665.469)	(1.590.098)
Energy costs	(1.322.528)	(872.028)
Depreciation and amortization expenses	(1.043.369)	(837.703)
Manufacturing overheads	(636.082)	(464.170)
Other cost of goods sold	(382.191)	(284.382)
Non-operating costs (*)	(148.019)	(77.096)
Freight costs for sales delivered to customers	(301.394)	(329.314)
Allowance expenses for impairment on inventories (Note 10)	(33.314)	(30.450)
Inventory provision released (Note 10)	10.726	3.402
Other	(140.028)	(81.112)
	(22.454.025)	(18.631.954)

(*) Due to the planned/unplanned halt production of plant of the Group's, operations were suspended temporarily in the current period. As a result of this, unallocated overheads, TRY (148.019) thousand, has been accounted directly under cost of sales (31 December 2018: TRY (77.096) thousand).

NOTE 25 - RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

As of Group's reporting date, the detail of marketing, sales and distribution expenses according to their nature is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Marketing expenses (-)	(232.394)	(208.281)
General administrative expenses (-)	(444.799)	(436.088)
Research and development expenses (-)	(24.999)	(17.546)
	(702.192)	(661.915)

NOTE 26 - OPERATING EXPENSES ACCORDING TO THEIR NATURE

As of Group's reporting date, the detail of marketing, sales and distribution expenses according to their nature is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Personnel expenses (-)	(99.323)	(88.530)
Depreciation and amortization (-)	(41.340)	(36.025)
Service expenses (-)	(91.731)	(83.726)
	(232.394)	(208.281)

As of Group's reporting date, the detail of general administrative expenses is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Personnel expenses (-)	(193.873)	(183.535)
Depreciation and amortization (-)	(43.229)	(31.116)
Benefits and services from third parties (-)	(185.850)	(162.976)
Tax, duty and charges (-)	(12.803)	(17.899)
Provision/Provision released for doubtful receivables (net)	(2.811)	(40.562)
Amortization of right of use assets (-)	(6.233)	-
	(444.799)	(436.088)

As of Group's reporting date, the detail of research and development expenses is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Personnel expenses (-)	(12.827)	(10.502)
Depreciation and amortization (-)	(7.337)	(3.501)
Other (-)	(4.835)	(3.543)
	(24.999)	(17.546)

NOTE 27 - OTHER INCOME/(EXPENSES) FROM OPERATING ACTIVITIES

As of Group's reporting date, the detail of other operating income is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Other operating income		
Foreign exchange gain from trade receivables and payables (net)	6.101	129.773
Forfeit advances from customers	8.624	664
Discount income	4.050	2.896
Provisions released	24.033	38.454
Service income	19.680	19.597
Maintenance repair and rent income	16.567	14.989
Warehouse income	9.466	7.252
Indemnity and penalty detention income	9.759	14.476
Insurance indemnity income	90.352	11.130
Lawsuit income	367	326
Overdue interest income	6.832	7.802
Other income and gains	38.118	17.554
	233.949	264.913

As of Group's reporting date, the detail of other operating expenses is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Other operating expenses (-)		
Provision expenses	(62.821)	(84.512)
Interest expenses from purchases with maturities	(18.318)	(367)
Lawsuit compensation expenses	(6.842)	(7.894)
Right of use assets amortization	(7.999)	(20.572)
Donation expenses	(4.761)	(3.913)
Service expenses	(18.788)	(8.991)
Previous period corporate tax adjustments	(14.569)	-
Stock exchange registration expenses	(3.262)	(2.265)
Penalty expenses	(757)	(12.794)
Discount expenses	-	(8.368)
Other expenses and losses	(26.510)	(22.311)
	(164.627)	(171.987)

NOTE 28 - INCOME/(EXPENSES) FROM INVESMENT ACTIVITIES

As of Group's reporting date, the detail of income from investment activities is as follows:

Income From Investment Activities	**1 January - 31 December 2019**	**1 January - 31 December 2018**
Income from sales on tangible assets	16.416	9.277
Rent income from investment properties	11.411	1.257
Property, plant and equipment provisions released (Note 14)	43.318	-
	71.145	10.534

As of Group's reporting date, the detail of expenses from investment activities is as follows:

Expenses From Investment Activities (-)	**1 January - 31 December 2019**	**1 January - 31 December 2018**
Loss on sales of tangible assets	(175)	(27.486)
Loss on disposal of tangible assets	(28.454)	(20.506)
Impairment of property, plant and equipment (Note 14)	-	(97.810)
Expenses from investment properties (-)	(2.327)	(2.227)
	(30.956)	(148.029)

NOTE 29 - FINANCE INCOME

As of Group's reporting date, the breakdown of finance income is as follows:

Finance income	**1 January - 31 December 2019**	**1 January - 31 December 2018**
Interest income on bank deposits	418.745	470.705
Foreign exchange gains (net)	604.993	735.209
Interest income from financial investments	29.068	2.568
Fair value differences of derivative financial instruments (net)	14.957	25.470
Financial assets provision released	53.783	-
Other financial income	2.551	821
	1.124.097	1.234.773

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NOTE 30 - FINANCE EXPENSES

As of Group's reporting date, the breakdown of finance expenses is as follows:

Finance expenses (-)	1 January - 31 December 2019	1 January - 31 December 2018
Interest expenses on borrowings	(342.029)	(177.203)
Interest cost of employee benefits	(95.991)	(73.204)
Interest expenses on leasings	(33.809)	-
Allowance for impairment on financial assets	-	(27.063)
Other financial expenses	(41.880)	(9.000)
	(513.709)	(286.470)

During the period, the interest expenses of TRY 16.689 thousand have been capitalized as part of the Group's property, plant and equipment (31 December 2018: TRY 16.480 thousand).

NOTE 31 - TAX ASSETS AND LIABILITIES

	31 December 2019	31 December 2018
Corporate tax payable:		
Current corporate tax provision	1.491.142	2.527.182
Prepaid taxes and funds (-)	(1.285.573)	(2.022.466)
	205.569	504.716

	1 January - 31 December 2019	1 January - 31 December 2018
Taxation:		
Current corporate tax expense	1.491.142	2.527.182
Deferred tax (income)/expense	82.035	258.774
	1.573.177	2.785.956

Corporate tax

The Group, except its subsidiaries in Romania and Singapore, is subject to Turkish corporate taxes in force. The necessary provisions are allocated in the consolidated financial statements for the estimated liabilities based on the Group's results for the year. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the consolidated financial statements, have been calculated on a separate-entity basis.

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

The effective corporate tax rate in Turkey is 22%, 16% in Romania and 17% in Singapore as of 31 December 2019 (31 December 2018: in Turkey 22%, in Romania 16%, in Singapore 17%).

NOTE 31 - TAX ASSETS AND LIABILITIES (cont'd)

Corporate tax (cont'd)

The total amount of the corporate tax paid by the Group in 2019 is TRY 1.790.289 thousand (31 December 2018: TRY 2.820.427 thousand).

In Turkey, advance tax returns are filed on a quarterly basis. The temporary tax of 2019 has been calculated over the corporate earnings using the rate 22%, during the temporary taxation period. (31 December 2018: 22%).

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

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

Losses can be carried forward to offset the future taxable income for up to maximum 5 years (Romania: 7 years). However, losses cannot be carried back to offset the profits of the previous periods, retrospectively.

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

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes on dividends distributed, except for the dividends distributed to fully fledged taxpayer companies receiving and declaring these dividends and to Turkish branches of foreign companies. The rate of 15% income withholding tax is applied to all companies in the since 22 July 2006 by the decision of the Council of Ministers, numbered 2006/10731. Undistributed dividends incorporated in share capital are not subject to the income withholding taxes.

19,8% withholding tax must be applied to the investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Investment disbursements without any investment incentive certificate after this date which are directly related to production facilities of the company can be deducted by 40% from the taxable income. The investments without investment incentive certificates do not qualify for tax allowance.

Deferred tax

The Group 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 TFRS. These differences usually result in the recognition of income and expenses tax bases in different reporting periods in the financial statements prepared according to TFRS.

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

NOTE 31 - TAX ASSETS AND LIABILITIES (cont'd)

Deferred tax (cont'd)

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

	31 December 2019	31 December 2018
Deferred tax assets:		
Provisions for employee benefits	164.160	137.095
Provision for lawsuits	36.056	29.747
Fair values of the derivative financial instruments	11.581	-
Inventories	21.881	88.971
Provision for other doubtful receivables	17.869	16.531
Tangible and intangible assets	19.782	17.416
Financial lease payables	42.409	-
Other	65.063	69.407
	378.801	359.167
Deferred tax liabilities:		
Tangible and intangible assets	(3.059.711)	(2.729.613)
Fair values of the derivative financial instruments	-	(11.721)
Amortized cost adjustment on loans	(19.085)	(11.075)
Right of Use Assets	(48.433)	-
Inventories	(132.676)	(96.070)
Other	(21.322)	(9.332)
	(3.281.227)	(2.857.811)
	(2.902.426)	(2.498.644)

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

Presentation of deferred tax assets/(liabilities):

	31 December 2019	31 December 2018
Deferred tax assets	41.911	67.552
Deferred tax (liabilities)	(2.944.337)	(2.566.196)
	(2.902.426)	(2.498.644)

NOTE 31 - TAX ASSETS AND LIABILITIES (cont'd)

Deferred tax (cont'd)

Movements of deferred tax asset/(liability)

	1 January - 31 December 2019	1 January - 31 December 2018
Opening balance	(2.498.644)	(1.561.975)
Effects of change in accounting policy (TFRS 9)	-	3.218
Deferred tax (expense)/income	(82.035)	(258.774)
The amount in comprehensive income	10.530	(19.603)
Translation difference	(332.277)	(661.510)
Closing balance	(2.902.426)	(2.498.644)

Reconciliation of tax provision is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Profit before tax	5.067.384	8.630.677
Statutory tax rate	22%	22%
Calculated tax expense acc. to effective tax rate	(1.114.824)	(1.898.749)
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	(8.188)	(11.196)
- Adjustment effect of rates subjected to corporate tax and deffered tax	(259.117)	(111.100)
- Effect of currency translation to non taxable assets	(191.692)	(763.368)
- Investment incentive	(632)	-
- Effect of the different tax rates due to foreign subsidiaries	1.276	(1.543)
Total tax exp. in reported in the stat. of income	(1.573.177)	(2.785.956)

NOTE 31 - TAX ASSETS AND LIABILITIES (cont'd)

As of Group's reporting date, the details of the tax gains/(losses) of the other comprehensive income are as follows:

	1 January -31 December 2019		
Other comprehensive income/(loss)	Amount before tax	Tax income/ (expense)	Amount after tax
Change in revaluation reserves of fixed assets	7.713	-	7.713
Change in actuarial (loss)/gain	(39.363)	8.660	(30.703)
Change in cash flow hedging reserves	(8.499)	1.870	(6.629)
Change in foreign currency translation reserves	3.418.565	-	3.418.565
	3.378.416	10.530	3.388.946

	1 January -31 December 2018		
Other comprehensive income/(loss)	Amount before tax	Tax income/ (expense)	Amount after tax
Change in revaluation reserves of fixed assets	17.322	-	17.322
Change in actuarial (loss)/gain	51.444	(11.318)	40.126
Change in cash flow hedging reserves	37.660	(8.285)	29.375
Change in foreign currency translation reserves	7.047.519	-	7.047.519
	7.153.945	(19.603)	7.134.342

NOTE 32 - EARNINGS PER SHARE

	1 January - 31 December 2019	1 January- 31 December 2018
Number of shares outstanding	350.000.000.000	350.000.000.000
Net profit attributable to equity holders - TRY thousand	3.316.527	5.597.990
Profit per share with 1 TRY nominal value TRY %	0,9476/94,76%	1,5994/159,94%

NOTE 33 - RELATED PARTY DISCLOSURES

The immediate parent and ultimate controlling parent of the Group are Ataer Holding A.Ş. and Ordu Yardımlaşma Kurumu respectively (Note 1).

The transactions between the Group and its subsidiaries, which are related parties of the Group, have been eliminated in the consolidation and therefore are not disclosed in this note.

Trade receivables and payables from related parties operated as current account. Debt collection and debt payment days are between 0 and 30.

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NOTE 33 - RELATED PARTY DISCLOSURES (cont'd)

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

Due from related parties (short term)	31 December 2019	31 December 2018
OYAK Renault Otomobil Fab. A.Ş.[2]	69.773	53.806
Bolu Çimento Sanayi A.Ş.[1]	4.756	3.776
Adana Çimento Sanayi T.A.Ş. [1]	6.034	8.525
İsdemir Linde Gaz Ortaklığı A.Ş.[3]	-	724
Miilux Yüksek Mukavemetli Çelik Üretim A.Ş. [1]	92.064	-
Other	669	1.755
	173.296	68.586

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

Other receivables from related parties (short term)	31 December 2019	31 December 2018
OYAK NYK RO-RO Liman İşletmeleri A.Ş. [1]	3.817	-
	3.817	-

Other receivables from related parties (long term)	31 December 2019	31 December 2018
OYAK NYK RO-RO Liman İşletmeleri A.Ş. [1]	25.136	-
	25.136	-

According to TFRS 16 provision, other short term and long term receivables from related parties arise from monetary receivables under the sub-lease transactions.

Prepaid expenses to related parties (short term)	31 December 2019	31 December 2018
OYAK Denizcilik ve Liman İşletmeleri A.Ş.[1]	6.264	-
Omsan Lojistik A.Ş.[1]	44	-
	6.308	-

[1] Subsidiaries of the parent company
[2] Joint venture of the parent company
[3] Joint venture of subsidiary

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NOTE 33 - RELATED PARTY DISCLOSURES (cont'd)

Prepaid expenses to related parties (long term)	31 December 2019	31 December 2018
OYAK Pazarlama Hizmet ve Turizm A.Ş.[1]	8	-
OYAK Konut İnşaat A.Ş.[1]	-	509
OYAK Savunma ve Güvenlik Sistemleri A.Ş.[1]	25.612	67.757
	25.620	68.266

Prepaid expenses generally related with port services and advance transactions of tangible assets.

Due to related parties (short term)	31 December 2019	31 December 2018
Omsan Lojistik A.Ş.[1]	29.535	24.447
Omsan Denizcilik A.Ş.[1]	3.141	2.863
OYAK Pazarlama Hizmet ve Turizm A.Ş.[1]	16.891	12.053
OYAK Savunma ve Güvenlik Sistemleri A.Ş.[1]	10.849	15.484
OYAK Denizcilik ve Liman İşletmeleri A.Ş.[1]	11.404	7.067
OYAK Grup Sigorta ve Reasürans Brokerliği A.Ş.[1]	-	74.262
Other	13.911	11.596
	85.731	147.772

Trade payables to related parties mainly arise from purchase of services, tangible assets and energy.

Major sales to related parties	1 January - 31 December 2019	1 January - 31 December 2018
OYAK Renault Otomobil Fab. A.Ş.[2]	271.773	305.221
OYAK NYK RO-RO Liman İşletmeleri A.Ş. [1]	13.714	-
Adana Çimento Sanayi T.A.Ş.[1]	21.904	27.521
Miilux OY [2]	10.917	-
OYAK Elektrik Enerjisi Toptan Satış A.Ş.[1]	13.363	-
Bolu Çimento Sanayi A.Ş.[1]	8.521	10.531
Aslan Çimento A.Ş.[1]	-	2.572
OYAK Denizcilik ve Liman İşletmeleri A.Ş.[1]	11.621	15.882
İskenderun Enerji Üretim ve Ticaret A.Ş. [1]	51.953	-
Miilux Yüksek Mukavemetli Çelik Üretim A.Ş. [1]	73.531	-
İsdemir Linde Gaz Ortaklığı A.Ş.[3]	56.963	49.642
Other	4.803	4.734
	539.063	416.103

[1] Subsidiaries of the parent company
[2] Joint venture of the parent company
[3] Joint venture of subsidiary

NOTE 33 - RELATED PARTY DISCLOSURES (cont'd)

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

Major purchases from related parties	1 January - 31 December 2019	1 January - 31 December 2018
Miilux OY [(2)]	36.257	-
Omsan Denizcilik A.Ş.[(1)]	175.185	171.129
OYAK Pazarlama Hizmet ve Turizm A.Ş.[(1)]	130.675	104.398
Omsan Lojistik A.Ş.[(1)]	271.747	203.566
OYAK Savunma ve Güvenlik Sistemleri A.Ş.[(1)]	158.378	58.278
Omsan Logistica SRL[(1)]	14.399	16.342
OYAK Denizcilik ve Liman İşletmeleri A.Ş.[(1)]	121.928	121.671
OYAK Grup Sigorta ve Reasürans Brokerliği A.Ş. [(1)]	-	97.830
İsdemir Linde Gaz Ortaklığı A.Ş.[(3)]	91.838	77.229
Ordu Yardımlaşma Kurumu	10.998	9.268
Omsan Havacılık A.Ş.[(1)]	-	14.422
OYAK Elektrik Enerjisi Toptan Satış A.Ş.[(1)]	61.949	29.004
Other	15.347	13.397
	1.088.701	916.534

The major purchases from related parties are generally due to the purchase of services, tangible assets and energy.

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

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

The period end balances are un-secured and their collections will be done in cash. As of 31 December 2019, the Group provides no provision for the receivables from related parties (31 December 2018: None).

Salaries, bonuses and other benefits of the key management:

The key management of the Group consists of the Board of Directors, the Group President and Vice Presidents the General Manager and Assistant General Managers. For the year ended 31 December 2019, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 22.396 thousand (31 December 2018: TRY 21.509 thousand).

NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

(a) Capital risk management

The Group 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 Group, 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 Group consists of debt which includes the financial liabilities disclosed in Note 7, cash and cash equivalents and equity attributable to equity holders of the parent company, comprising issued capital, reserves and retained earnings as disclosed in Note 23.

The Group's Board of Directors analyze 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 Group, by considering the decisions of the Board of Directors, aims to balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the redemption of existing debt.

As of reporting date the net (credit) debt/equity ratio is as follows:

	Note	31 December 2019	31 December 2018
Total financial liabilities	7	7.700.977	6.120.960
Less: Cash and cash equivalents	4	10.590.024	8.659.336
Net (credit) debt		(2.889.047)	(2.538.376)
Total adjusted equity (*)		31.343.009	29.313.627
Total resources		28.453.962	26.775.251
Net (credit) debt/Total adjusted equity ratio		-9%	-9%
Distribution of net (credit) debt/total adjusted equity		-10/110	-9/109

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

NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Significant accounting policies

The Group's accounting policies related to the financial instruments are disclosed in Note 2 "Summary of Significant Accounting Policies, 2.8.8 Financial Instruments".

(c) Financial risk management objectives

The Group manages its financial instruments through a separate treasury function which was established for that purpose. The developments are followed on a real time basis. The Group's corporate treasury function manages the financial instruments through daily regular meetings by evaluating the domestic and international markets and by considering the daily cash inflows and outflows in accordance with the policies and regulations issued by the Group Risk Management Unit. At the end of each day, each Group company prepares a "daily cash report" and Group Risk Management Unit calculates daily for cash and cash equivalents. The information included therein is consolidated by the treasury function and used to determine the cash management strategies. Additionally, the Group's annual payment schedules are followed through the weekly reports and annual cash management is followed by the monthly reports.

The Group utilizes derivative financial instruments as required and within the terms and conditions determined by the Group Risk Management Unit. Instruments that are highly liquid and securing a high-level yield are preferred when determining the financial instruments. In that respect, the Group has a right to claim the accrued interest on time deposits when withdraw before the predetermined maturity.

(d) Market risk

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

The Group prefers floating interest rates for long term borrowings. To hedge against the interest risk the Group uses interest swap contracts for some of its borrowings.

In the current period, there is no significant change in the Group's exposure to the market risks or the manner which it manages and measures risk when compared to the previous year.

NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(e) Credit risk management

Trade receivables include a large number of customers scattered in various sectors and regions. There is no risk concentration on a specific customer or a group 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 Group does not have a significant credit risk arising from any customer.

Credit risk of financial instruments	Receivables				Bank Deposits	Derivative financial instruments
	Trade Receivables		Other Receivables			
31 December 2019	Related Party	Other Party	Related Party	Other Party		
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	173.296	3.170.881	28.953	14.015	10.590.003	50.084
- Secured part of the maximum credit risk exposure via collateral etc.	-	2.736.481	-	-	-	-
	-	-	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	173.296	3.161.120	28.953	14.015	10.590.003	50.084
	-	-	-	-	-	-
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	-	9.761	-	-	-	-
- secured part via collateral etc.	-	4.265	-	-	-	-
	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	145.360	-	81.221	-	-
- Impairment (-)	-	(145.360)	-	(81.221)	-	-
- 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 financial assets of 9,761 thousand TL which is overdue but not impaired is in the between of 0-3 months.

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

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

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NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(e) Credit risk management (cont'd)

Credit risk of financial instruments	Receivables					
	Trade Receivables		Other Receivables		Bank Deposits	Derivative financial instruments
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)	68.586	4.332.888	-	11.197	8.659.299	59.393
- Secured part of the maximum credit risk exposure via collateral etc.	-	3.971.736	-	-	-	-
	-	-	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	68.586	4.330.238	-	11.197	8.659.299	59.393
	-	-	-	-	-	-
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	-	2.650	-	-	-	-
- secured part via collateral etc.	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	136.377	-	75.142	-	-
- Impairment (-)	-	(136.377)	-	(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 the amount.

NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(e) Credit risk management (cont'd)

Explanation on the credit risk which the Group is exposed:

In order to minimize credit risk, the Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group monitors the credibility of the parties with whom they perform transactions and also takes into account the credit rating of the related instruments when making the investment preference. The credit rating information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Before accepting any new customer, credit limits by customer are determined and defined after the assessment of the potential customer's credit quality.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. In order to minimize the credit risk, the Group has performed credit ratings considering the default risks of the counterparties and categorized the related parties.

The Group's current credit risk rating methodology includes the following categories:

Category	Description	Basis for recognizing expected credit losses
Secured receivables	Consist of secured receivables	Not generating credit loss
Recoverable receivables	The counterparty has a low risk of default and secured	Not generating credit loss
Doubtful or past due receivables	Amount is past due or there has been a significant	100% allowance for unsecured receivables
Write-off	There is evidence indicating the asset is credit-impaired	Amount is written-off

NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(f) Foreign currency risk management

As of reporting period, stated in Note 2.8.9 the foreign currency position of the Group in terms of original currency is calculated as follows

		31 December 2019				
		TRY (Total in reporting currency)	**TRY (Original currency)**	**EURO (Original currency)**	**Jap. Yen (Original currency)**	**RON (Original currency)**
1.	Trade Receivables	512.431	78.967	61.779	-	16.335
2a.	Monetary financial assets	2.193.591	1.323.384	127.107	156	17.971
2b.	Non- monetary financial assets	-	-	-	-	-
3.	Other	41.233	30.488	1.600	-	76
4.	**CURRENT ASSETS (1+2+3)**	**2.747.255**	**1.432.839**	**190.486**	**156**	**34.382**
5.	Trade receivables	-	-	-	-	-
6a.	Monetary financial assets	262.197	262.197	-	-	-
6b.	Non- monetary financial assets	-	-	-	-	-
7.	Other	336.825	16.430	39.212	1.094.943	121
8.	**NON-CURRENT ASSETS (5+6+7)**	**599.022**	**278.627**	**39.212**	**1.094.943**	**121**
9.	**TOTAL ASSETS (4+8)**	**3.346.277**	**1.711.466**	**229.698**	**1.095.099**	**34.503**
10.	Trade payables	1.240.228	882.693	37.845	1.915.314	1.346
11.	Financial liabilities	1.072.497	954.116	17.800	-	-
12a.	Other monetary financial liabilities	703.990	698.992	314	-	2.103
12b.	Other non-monetary financial liabilities	-	-	-	-	-
13.	**CURRENT LIABILITIES (10+11+12)**	**3.016.715**	**2.535.801**	**55.959**	**1.915.314**	**3.449**
14.	Trade payables	-	-	-	-	-
15.	Financial liabilities	1.170.295	761.140	61.522	-	-
16a.	Other monetary financial liabilities	788.877	787.967	-	-	658
16b.	Other non-monetary financial liabilities	-	-	-	-	-
17.	**NON-CURRENT LIABILITIES (14+15+16)**	**1.959.172**	**1.549.107**	**61.522**	**-**	**658**
18.	**TOTAL LIABILITIES (13+17)**	**4.975.887**	**4.084.908**	**117.481**	**1.915.314**	**4.107**
19.	**Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)**	**(603.780)**	**82.101**	**(103.131)**	**-**	**-**
19a.	Off-balance sheet foreign currency derivative financial assets	257.101	82.101	26.313	-	-
19b.	Off-balance sheet foreign currency derivative financial liabilities	860.881	-	129.444	-	-
20.	**Net foreign currency asset/liability position (9-18+19)**	**(2.233.390)**	**(2.291.341)**	**9.086**	**(820.215)**	**30.396**
21.	**Net foreign currency asset/liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)**	**(2.007.668)**	**(2.420.360)**	**71.405**	**(1.915.158)**	**30.199**
22.	Fair value of derivative financial instruments used in foreign currency hedge	21.078	23.572	(375)	-	-
23.	Hedged foreign currency assets	860.881	-	129.444	-	-
24.	Hedged foreign currency liabilities	257.101	82.101	26.313	-	-
25.	Exports	5.842.476				
26.	Imports	15.103.243				

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NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

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

		31 December 2018				
		TRY (Total in reporting currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	RON (Original currency)
1.	Trade Receivables	963.794	71.325	142.855	-	24.355
2a.	Monetary financial assets	216.789	130.934	12.133	171	9.766
2b.	Non- monetary financial assets	-	-	-	-	-
3.	Other	390.865	389.161	12	27.534	252
4.	**CURRENT ASSETS (1+2+3)**	**1.571.448**	**591.420**	**155.000**	**27.705**	**34.373**
5.	Trade receivables	-	-	-	-	-
6a.	Monetary financial assets	8.095	8.095	-	-	-
6b.	Non- monetary financial assets	-	-	-	-	-
7.	Other	321.954	164.785	22.223	487.162	35
8.	**NON-CURRENT ASSETS (5+6+7)**	**330.049**	**172.880**	**22.223**	**487.162**	**35**
9.	**TOTAL ASSETS (4+8)**	**1.901.497**	**764.300**	**177.223**	**514.867**	**34.408**
10.	Trade payables	583.245	457.703	20.063	3.597	3.323
11.	Financial liabilities	141.843	32.284	18.175	-	-
12a.	Other monetary financial liabilities	1.082.601	1.064.602	667	-	10.864
12b.	Other non-monetary financial liabilities	-	-	-	-	-
13.	**CURRENT LIABILITIES (10+11+12)**	**1.807.689**	**1.554.589**	**38.905**	**3.597**	**14.187**
14.	Trade payables	-	-	-	-	-
15.	Financial liabilities	319.358	-	52.979	-	-
16a.	Other monetary financial liabilities	653.342	650.794	-	-	1.980
16b.	Other non-monetary financial liabilities	-	-	-	-	-
17.	**Non-current liabilities (14+15+16)**	**972.700**	**650.794**	**52.979**	**-**	**1.980**
18.	**TOTAL LIABILITIES (13+17)**	**2.780.389**	**2.205.383**	**91.884**	**3.597**	**16.167**
19.	**Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)**	**(714.873)**	**-**	**(118.592)**	**-**	**-**
19a.	Off-balance sheet foreign currency derivative financial assets	-	-	-	-	-
19b.	Off-balance sheet foreign currency derivative financial liabilities	714.873	-	118.592	-	-
20.	**Net foreign currency asset/liability position (9-18+19)**	**(1.593.765)**	**(1.441.083)**	**(33.253)**	**511.270**	**18.241**
21.	**Net foreign currency asset/liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)**	**(1.591.711)**	**(1.995.029)**	**63.104**	**(3.426)**	**17.954**
22.	Fair value of derivative financial instruments used in foreign currency hedge	49.219	-	8.165	-	-
23.	Hedged foreign currency assets	714.873	-	118.592	-	-
24.	Hedged foreign currency liabilities	-	-	-	-	-
25.	Exports	5.613.076				
26.	Imports	13.809.566				

NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

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

The following table shows the Group'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 2019 asset and liability balances are translated by using the following exchange rates: TRY 5,9402 = US $ 1, TRY 6,6506 = EUR 1 and TRY 0,0543= JPY 1 (31 December 2018: TRY 5,2609 = US $ 1, TRY 6,0280 = EUR 1 and TRY 0,0475= JPY 1).

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2019	**Appreciation of foreign currency**	**Depreciation of foreign currency**
1- TRY net asset/liability	(237.344)	237.344
2- Hedged portion from TRY risk (-)	8.210	(8.210)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(229.134)	229.134
5- RON net asset/liability	4.204	(4.204)
6- Hedged portion from RON risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- RON net effect (5+6+7)	4.204	(4.204)
9- Euro net asset/liability	74.631	(74.631)
10- Hedged portion from Euro risk (-)	(68.588)	68.588
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	6.043	(6.043)
13- Jap. Yen net asset/liability	(4.453)	4.453
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(4.453)	4.453
TOTAL (4+8+12+16)	**(223.340)**	**223.340**

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NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

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

	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	(144.108)	144.108
2- Hedged portion from TRY risk (-)	-	-
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(144.108)	144.108
5- RON net asset/liability	2.347	(2.347)
6- Hedged portion from RON risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- RON Dollars net effect (5+6+7)	2.347	(2.347)
9- Euro net asset/liability	51.442	(51.442)
10- Hedged portion from Euro risk (-)	(71.487)	71.487
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	(20.045)	20.045
13- Jap. Yen net asset/liability	2.431	(2.431)
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	2.431	(2.431)
TOTAL (4+8+12+16)	**(159.375)**	**159.375**

(g) Interest rate risk management

The majority of the Group'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 Group uses interest rate swaps and changes floating rates to fixed rates.

In addition, through the use of deposits in which the Group has a right to claim the accrued interest when withdrawn before the predetermined maturity, the Group minimizes the interest rate risk by increasing the share of floating rate denominated assets in its consolidated the balance sheet. Furthermore, for borrowings denominated in foreign currencies, except for US Dollars, the Group 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.

NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(g) Interest rate risk management (cont'd)

Interest rate sensivity

The following sensitivity analysis is based on forecasted interest rate changes for the liabilities denominated in variable interest rates. The information details the Group's sensitivity to an increase/decrease of 0,50% for US Dollars and EURO, 0,25% for Jap.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 Group loans is measured using a sensitivity analysis instead of a Value at Risk calculation.

Interest position table

	31 December 2019	31 December 2018
Floating interest rate financial instruments		
Financial liabilities	3.879.819	3.136.173

For the year round, if the US Dollars, EURO and Jap. 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 Jap.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 13.486 thousand.

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and loating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

As the critical terms of the interest rate swap contracts and their corresponding hedged items are the same, the Group performs a qualitative assessment of effectiveness and it is expected that the value of the interest rate swap contracts and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying interest rates. The main source of hedge ineffectiveness in these hedge relationships is the effect of the counterparty and the Group's own credit risk on the fair value of the interest rate swap contracts, which is not reflected in the fair value of the hedged item attributable to the change in interest rates. No other sources of ineffectiveness emerged from these hedging relationships.

Interest rate swap contract assets and liabilities are included in Note 6.

NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(h) 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 Group's short, medium and long-term funding and liquidity management requirements. The Group 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 Group 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 Group's expected maturity for its derivative and non derivative financial liabilities. Interests which will be paid on borrowings in the future are included in the relevant columns in the following table.

31 December 2019

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 5 years (IV)
Non derivative financial liabilities						
Borrowings from banks	7.454.327	7.873.139	2.271.570	3.442.751	1.959.355	199.463
Financial lease payables	246.650	952.562	10.664	31.992	141.900	768.006
Trade payables	2.936.622	2.936.622	2.936.622	-	-	-
Other financial liabilities (*)	374.155	374.155	374.155	-	-	-
Total liabilities	**11.011.754**	**12.136.478**	**5.593.011**	**3.474.743**	**2.101.255**	**967.469**
Derivative financial liabilities						
Derivative cash inflows	50.084	2.751.920	1.503.065	974.373	274.482	-
Derivative cash outflows	(102.723)	(2.894.582)	(1.117.886)	(959.252)	(817.444)	-
	(52.639)	**(142.662)**	**385.179**	**15.121**	**(542.962)**	**-**

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

NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(h) Liquidity 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 5 years (IV)
Non derivative financial liabilities						
Borrowings from banks	6.120.960	6.374.418	1.665.280	3.196.581	1.371.859	140.698
Trade payables	1.935.922	1.935.922	1.935.922	-	-	-
Other financial liabilities (*)	431.997	431.997	431.997	-	-	-
Total liabilities	**8.488.879**	**8.742.337**	**4.033.199**	**3.196.581**	**1.371.859**	**140.698**
Derivative financial liabilities						
Derivative cash inflows	59.393	2.578.421	1.169.126	1.092.584	316.711	-
Derivative cash outflows	(4.526)	(2.646.058)	(1.107.857)	(1.069.485)	(468.716)	-
	54.867	**(67.637)**	**61.269**	**23.099**	**(152.005)**	**-**

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

NOTE 35 - FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES)

Categories of the financial instruments and their fair values

31 December 2019	**Financial assets/ liabilities at amortized cost**	**Derivative financial instruments through other comprehensive income**	**Derivative financial instruments through profit/ loss**	**Carrying value**	**Note**
Financial Assets					
Cash and cash equivalents	10.590.024	-	-	10.590.024	4
Trade receivables	3.344.177	-	-	3.344.177	8
Financial investments	101.304	-	161	101.465	5
Other financial assets	42.968	-	-	42.968	9
Derivative financial instruments	-	14.584	35.500	50.084	6
	-	-	-	-	
Financial Liabilities					
Financial liabilities	7.700.977	-	-	7.700.977	7
Trade payables	2.936.622	-	-	2.936.622	8
Other liabilities	374.155	-	-	374.155	9/18/22
Derivative financial instruments	-	7.053	95.670	102.723	6
31 December 2018					
Financial Assets					
Cash and cash equivalents	8.659.336	-	-	8.659.336	4
Trade receivables	4.401.474	-	-	4.401.474	8
Financial investments	61.000	-	8.095	69.095	5
Other financial assets	11.197	-	-	11.197	9
Derivative financial instruments	-	19.794	39.599	59.393	6
Financial Liabilities					
Financial liabilities	6.120.960	-	-	6.120.960	7
Trade payables	1.935.922	-	-	1.935.922	8
Other liabilities	431.997	-	-	431.997	9/18/22
Derivative financial instruments	-	1.843	2.683	4.526	6

NOTE 35 - FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (cont'd)

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Estimated fair values of financial instruments have been determined by the Group by using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data. Accordingly, estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange.

The following methods and assumptions are used to estimate the fair values of financial instruments:

Financial assets

Financial assets that are carried at cost value including cash and cash equivalents are assumed to reflect their fair values due to their short term nature.

The carrying value of receivables, with related impairments are assumed to reflect their fair values.

Financial liabilities

Fair values of short term borrowings and trade payables are assumed to approximate their carrying values due to their short term nature.

Fair values of long term financial liabilities are assumed to approximate their carrying values due to mostly they have floating interest rates and repricing at short term.

Financial asset and liabilities at fair value		**Fair value level as of reporting date**		
	31 December 2019	**Level 1**	**Level 2**	**Level 3**
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	35.500	-	35.500	-
Derivative financial liabilities	(95.670)	-	(95.670)	-
			-	
Financial assets and liabilities at fair value through other comprehensive income/expense				
			-	
Derivative financial assets	14.584	-	14.584	-
Derivative financial liabilities	(7.053)	-	(7.053)	-
Total	(52.639)	-	(52.639)	-

NOTE 35 - FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (cont'd)

Financial asset and liabilities at fair value		**Fair value level as of reporting date**		
	31 December 2018	**Level 1**	**Level 2**	**Level 3**
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	39.599	-	39.599	-
Derivative financial liabilities	(2.683)	-	(2.683)	-
			-	
Financial assets and liabilities at fair value through other comprehensive income/expense				
			-	
Derivative financial assets	19.794	-	19.794	-
Derivative financial liabilities	(1.843)	-	(1.843)	-
Total	54.867	-	54.867	-

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 36 - SUBSEQUENT EVENTS

None.

NOTE 37 - OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION

Convenience translation to English:

As at December 31, 2019, the accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying financial statements differ from International Financial Reporting Standards ("TFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting, certain reclassifications and also for certain disclosures requirement of the POA/CMB. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with TFRS.

GRI CONTENT INDEX

“For the Materiality Disclosures Service, GRI Services reviewed that the GRI content index is clearly presented and the references for Disclosures 102-40 to 102-49 align with appropriate sections in the body of the report.”		
GRI Standards	**Disclosure**	**References**
GRI 101: Foundation 2016		
GRI 102: General Disclosures		
	Organizational Profile	
GRI 102: General Disclosures 2016	102-1	14
	102-2	12-17
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	102-10	There is no change.
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	Reporting Practices	
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	102-47	27
	102-48	There is no change.
	102-49	27
	102-50	1
	102-51	1
	102-52	1
	102-53	1
	102-54	1
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GRI CONTENT INDEX

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GRI 103: Management Approach 2016	103-1	66-67
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GRI 301: Materials 2016	301-2	67
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	103-2	64
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GRI 302: Energy 2016	302-4	64
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	103-2	66
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GRI 303: Water 2016	303-1	66
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GRI 103: Management Approach 2016	103-1	64-65
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GRI 103: Management Approach 2016	103-1	66-67
	103-2	66-67
	103-3	66-67
GRI 306: Effluents and Waste 2016	306-2	81

GRI 400: Social Standard Series		
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GRI 103: Management Approach 2016	103-1	74-79
	103-2	74-79
	103-3	74-79, 80, 81
GRI 401: Employment 2016	401-1	81
	401-2	75
	401-3	81
Labor/Management Relations		
GRI 103: Management Approach 2016	103-1	74-79
	103-2	74-79
	103-3	74-79
GRI 402: Labor/ Management Relations 2016	402-1	In case of significant operational changes, legal reporting periods are followed.
Occupational Health and Safety		
GRI 103: Management Approach 2016	103-1	58-62
	103-2	58-62
	103-3	58-62
GRI 403: Occupational Health and Safety 2018	403-1	58-62
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GRI 405: Diversity and Equal Opportunity 2016	405-1	74
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Produced by Tayburn
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Advisor for report content: S360
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