

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

**CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD
1 JANUARY - 30 SEPTEMBER 2019**

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF FINANCIAL POSITION AS OF 30 SEPTEMBER 2019

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

	Note	(Unaudited)	(Unaudited)	(Audited)	(Audited)
		Current Period 30 September 2019 USD'000	Current Period 30 September 2019 TRY'000	Previous Period 31 December 2018 USD'000	Previous Period 31 December 2018 TRY'000
ASSETS					
CURRENT ASSETS		1.564.142	8.851.640	2.007.885	10.563.284
Cash and Cash Equivalents		7.054	39.919	11.874	62.468
Trade Receivables		187.759	1.062.547	254.944	1.341.234
<i>Due From Related Parties</i>	3	150.915	854.041	119.855	630.546
<i>Other Trade Receivables</i>		36.844	208.506	135.089	710.688
Other Receivables		630.979	3.570.774	936.588	4.927.297
<i>Due From Related Parties</i>	3	630.660	3.568.968	936.279	4.925.669
<i>Other Receivables</i>		319	1.806	309	1.628
Inventories	4	716.109	4.052.535	776.888	4.087.128
Prepaid Expenses		8.923	50.496	5.141	27.048
Other Current Assets		13.318	75.369	22.450	118.109
NON CURRENT ASSETS		1.980.564	11.208.206	1.980.323	10.418.280
Financial Investments		27	153	27	143
Other Receivables		1.558	8.817	1.676	8.817
Investments Accounted For Using Equity Method	5	28.007	158.496	27.616	145.284
Property, Plant and Equipment	6	1.848.324	10.459.853	1.887.876	9.931.925
Right of Use Assets	7	38.867	219.953	-	-
Intangible Assets	6	42.846	242.467	44.245	232.767
Prepaid Expenses		20.935	118.467	18.883	99.344
<i>Due From Related Parties</i>	3	1.753	9.920	7.362	38.729
<i>Other Prepaid Expenses</i>		19.182	108.547	11.521	60.615
TOTAL ASSETS		3.544.706	20.059.846	3.988.208	20.981.564

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

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

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF FINANCIAL POSITION AS OF 30 SEPTEMBER 2019

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

LIABILITIES	Note	(Unaudited)	(Unaudited)	(Audited)	(Audited)
		Current Period 30 September 2019 USD'000	Current Period 30 September 2019 TRY'000	Previous Period 31 December 2018 USD'000	Previous Period 31 December 2018 TRY'000
CURRENT LIABILITIES		450.608	2.550.034	597.047	3.141.004
Short Term Borrowings	8	182.231	1.031.261	259.065	1.362.917
Short Term Portion of Long Term Borrowings	8	34.003	192.424	21.003	110.494
Trade Payables		176.998	1.001.651	209.965	1.104.607
<i>Due to Related Parties</i>	3	<i>38.141</i>	<i>215.844</i>	<i>33.930</i>	<i>178.503</i>
<i>Other Trade Payables</i>		<i>138.857</i>	<i>785.807</i>	<i>176.035</i>	<i>926.104</i>
Payables for Employee Benefits	10	9.499	53.755	9.497	49.964
Other Payables		5.515	31.210	3.553	18.692
Derivative Financial Instruments		25	139	-	-
Deferred Income		9.634	54.521	4.887	25.708
Current Tax Liabilities	12	21.378	120.981	82.254	432.731
Short Term Provisions	9	7.937	44.917	6.235	32.802
Other Current Liabilities		3.388	19.175	588	3.089
NON CURRENT LIABILITIES		410.125	2.320.943	401.602	2.112.792
Long Term Borrowings	8	66.481	376.224	56.947	299.593
Derivative Financial Instruments		-	-	46	242
Long Term Provisions	10	54.568	308.808	51.911	273.100
<i>Long Term Provisions for Employee Benefits</i>		<i>54.568</i>	<i>308.808</i>	<i>51.911</i>	<i>273.100</i>
Deferred Tax Liabilities	12	289.076	1.635.911	292.698	1.539.857
EQUITY		2.683.973	15.188.869	2.989.559	15.727.768
Share Capital	13	1.474.105	2.900.000	1.474.105	2.900.000
Inflation Adjustment to Capital		85	164	85	164
Other Comprehensive Income/(Expense) That will not to be Reclassified to Profit or (Loss)		(17.057)	8.944.402	(16.292)	7.870.167
<i>Gain/(Loss) on Remeasurement of Defined Benefit Plans</i>		<i>(17.057)</i>	<i>(38.649)</i>	<i>(16.292)</i>	<i>(34.249)</i>
<i>Foreign Currency Translation Reserves</i>		<i>-</i>	<i>8.983.051</i>	<i>-</i>	<i>7.904.416</i>
Restricted Reserves Assorted from Profit		339.211	1.364.160	230.889	771.641
Retained Earnings		550.951	84.277	449.367	76.917
Net Profit for the Period		336.678	1.895.866	851.405	4.108.879
TOTAL LIABILITIES AND EQUITY		3.544.706	20.059.846	3.988.208	20.981.564

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

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

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF PROFIT OR LOSS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019

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

		(Unaudited) Current Period 1 January- 30 September 2019	(Unaudited) Current Period 1 January- 30 September 2019	(Unaudited) Current Period 1 July- 30 September 2019	(Unaudited) Previous Period 1 January- 30 September 2018	(Unaudited) Previous Period 1 January- 30 September 2018	(Unaudited) Previous Period 1 July- 30 September 2018
	Note	USD'000	TRY'000	TRY'000	USD'000	TRY'000	TRY'000
Revenue	14	2.235.952	12.590.867	4.032.641	2.502.453	11.503.776	4.741.146
Cost of Sales	14	(1.796.653)	(10.117.131)	(3.324.066)	(1.669.790)	(7.676.024)	(3.257.328)
GROSS PROFIT		439.299	2.473.736	708.575	832.663	3.827.752	1.483.818
Marketing Expenses	15	(14.457)	(81.411)	(26.437)	(14.784)	(67.960)	(27.046)
General Administrative Expenses	15	(20.511)	(115.502)	(38.300)	(20.871)	(95.945)	(35.165)
Research and Development Expenses		(31)	(177)	(93)	(31)	(141)	(42)
Other Operating Income	15	7.283	41.011	(3.372)	35.010	160.939	107.546
Other Operating Expenses	15	(6.854)	(38.596)	(15.715)	(7.262)	(33.384)	(13.734)
OPERATING PROFIT		404.729	2.279.061	624.658	824.725	3.791.261	1.515.377
Income from Investing Activities		2	14	1	5	25	3
Expenses from Investing Activities		(642)	(3.615)	(49)	(1.310)	(6.021)	(885)
Share of Investments' Profit Accounted by Using The Equity Method	5	994	5.598	2.112	818	3.759	1.437
OPERATING PROFIT BEFORE FINANCE INCOME (EXPENSES)		405.083	2.281.058	626.722	824.238	3.789.024	1.515.932
Finance Income	16	75.658	429.687	(95.411)	123.004	859.968	356.629
Finance Expense	16	(17.389)	(97.922)	(32.436)	(11.767)	(54.091)	(24.030)
PROFIT BEFORE TAX		463.352	2.612.823	498.875	935.475	4.594.901	1.848.531
Tax (Expense) Income	12	(126.674)	(716.957)	(73.830)	(291.199)	(1.633.165)	(807.775)
Current Tax (Expense) Income		(130.081)	(736.140)	(121.155)	(211.397)	(1.266.313)	(641.081)
Deferred Tax (Expense) Income		3.407	19.183	47.325	(79.802)	(366.852)	(166.694)
NET PROFIT FOR THE PERIOD		336.678	1.895.866	425.045	644.276	2.961.736	1.040.756
EARNINGS PER SHARE			0,6537	0,1466		1,0213	0,3589
(TRY 1 Nominal value per share)							

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

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

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019

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

	(Unaudited) Current Period 1 January- 30 September 2019 Note	(Unaudited) Current Period 1 January- 30 September 2019 TRY'000	(Unaudited) Current Period 1 July- 30 September 2019 TRY'000	(Unaudited) Previous Period 1 January- 30 September 2018 USD'000	(Unaudited) Previous Period 1 January- 30 September 2018 TRY'000	(Unaudited) Previous Period 1 July- 30 September 2018 TRY'000
PROFIT FOR THE PERIOD		336.678	1.895.866	644.276	2.961.736	1.040.756
OTHER COMPREHENSIVE INCOME						
Not to Be Reclassified Subsequently to Profit or Loss						
Foreign Currency Translation Gain		-	1.078.635	-	5.746.000	3.727.650
Gain/(Loss) on Remeasurement of Defined Benefit Plans	10	(981)	(5.641)	817	3.726	-
Tax Effect of Remeasurement of Defined Benefit Plans	12	216	1.241	(180)	(820)	-
OTHER COMPREHENSIVE INCOME		(765)	1.074.235	637	5.748.906	3.727.650
TOTAL COMPREHENSIVE INCOME		335.913	2.970.101	644.913	8.710.642	4.768.406

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019

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

	Other Comprehensive Income/(Expense) That will not to be Reclassified to Profit or (Loss)				Retained Earnings			Total Shareholders' Equity
	Share Capital	Inflation Adjustment to Capital	Foreign Currency Translation Reserves	Gain/(Loss) on Remeasurement of Defined Benefit Plans	Restricted Reserves Assorted from Profit	Retained Earnings	Net Profit for the Period	
(Unaudited)								
1 January 2019	2.900.000	164	7.904.416	(34.249)	771.641	76.917	4.108.879	15.727.768
Net profit for the period	-	-	-	-	-	-	1.895.866	1.895.866
Other comprehensive income/(loss)	-	-	1.078.635	(4.400)	-	-	-	1.074.235
Total comprehensive income/(loss)	-	-	1.078.635	(4.400)	-	-	1.895.866	2.970.101
Dividends (*)	-	-	-	-	-	(3.509.000)	-	(3.509.000)
Transfers	-	-	-	-	592.519	3.516.360	(4.108.879)	-
30 September 2019	2.900.000	164	8.983.051	(38.649)	1.364.160	84.277	1.895.866	15.188.869
(Unaudited)								
1 January 2018	2.900.000	164	4.242.923	(52.860)	447.790	48.457	2.382.311	9.968.785
Net profit for the period	-	-	-	-	-	-	2.961.736	2.961.736
Other comprehensive income/(loss)	-	-	5.746.000	2.906	-	-	-	5.748.906
Total comprehensive income/(loss)	-	-	5.746.000	2.906	-	-	2.961.736	8.710.642
Dividends (*)	-	-	-	-	-	(2.030.000)	-	(2.030.000)
Transfers	-	-	-	-	323.851	2.058.460	(2.382.311)	-
30 September 2018	2.900.000	164	9.988.923	(49.954)	771.641	76.917	2.961.736	16.649.427

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

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

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF CASH FLOW FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019

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

		(Unaudited) 1 January- 30 September 2019 USD'000	(Unaudited) 1 January- 30 September 2019 TRY'000	(Unaudited) 1 January- 30 September 2018 USD'000	(Unaudited) 1 January- 30 September 2018 TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES	Not	395.454	2.659.344	563.242	3.064.661
Profit (Loss) for The Period		336.678	1.895.866	644.276	2.961.736
Adjustments to Reconcile Profit (Loss)		138.590	1.182.301	291.864	1.940.835
Adjustments for Depreciation and Amortisation Expenses	6,7,14,15	85.254	480.078	80.206	368.709
Adjustments for Impairment Loss (Reversal of Impairment Loss)		1.892	10.661	2.862	13.548
Adjustments for Provision (Reversal of Provision) for Receivables	15	1.007	6.069	355	2.025
Adjustments for Provision (Reversal of Provision) for Inventories	4	815	4.592	1.350	6.206
Adjustments for Provision (Reversal of Provision) for Property, Plant and Equipment	6	-	-	1.157	5.317
Adjustments for Provisions		11.093	62.469	11.850	54.474
Adjustments for Provision (Reversal of Provision) for Employee Termination	10	8.894	50.083	10.919	50.194
Adjustments for Provision (Reversal of Provision) for Pending Claims and/or	9	2.199	12.386	931	4.280
Adjustments for Interest (Income) and Expenses		(12.315)	(69.344)	(27.556)	(126.673)
Adjustments for Tax (Income) Expenses	16	(20.354)	(114.614)	(31.427)	(144.467)
Adjustments for Interest Expense	16	10.725	60.393	6.579	30.243
Unearned Financial Income from Credit Sales		(2.686)	(15.123)	(2.708)	(12.449)
Adjustments for Unrealised Foreign Exchange Differences		(2.934)	(16.523)	153	697
Adjustments for Undistributed Profits of Investments Accounted for Using Equity Method	5	(994)	(5.598)	(818)	(3.759)
Adjustments for Tax (Income) Expenses	12	126.674	716.957	291.199	1.633.165
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		640	3.601	147	674
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment		640	3.601	147	674
Other Adjustments to Reconcile Profit (Loss)		(70.720)	-	(66.179)	-
Changes in Working Capital		114.854	649.963	(128.723)	(771.199)
Adjustments for Decrease (Increase) in Trade Receivables		69.329	392.339	(69.573)	(416.754)
Decrease (Increase) in Trade Receivables from Related Parties		(31.060)	(175.772)	(6.428)	(38.505)
Decrease (Increase) in Trade Receivables from Third Parties		100.389	568.111	(63.145)	(378.249)
Adjustments for Decrease (Increase) in Other Receivables from Operations		46	258	8.311	49.784
Decrease (Increase) in Other Receivables from Operations from Third Parties		46	258	8.311	49.784
Adjustments for Decrease (Increase) in Inventories		60.802	344.085	(75.261)	(450.828)
Decrease (Increase) in Prepaid Expenses		(753)	(4.263)	(4.645)	(27.823)
Adjustments for Increase (Decrease) in Trade Payables		(32.967)	(186.564)	41.665	249.582
Increase (Decrease) in Trade Payable to Related Parties		4.211	23.830	20.657	123.740
Increase (Decrease) in Trade Payable to Third Parties		(37.178)	(210.394)	21.008	125.842
Adjustments for Increase (Decrease) in Other Payables Related from Operations		1.739	9.841	(14.309)	(85.840)
Increase (Decrease) in Other Payables to Third Parties Related from Operations		1.739	9.841	(14.309)	(85.840)
Increase (Decrease) in Derivative Liabilities		(21)	(121)	8	48
Adjustments for Other Increase (Decrease) in Working Capital		16.679	94.388	(14.919)	(89.368)
Decrease (Increase) in Other Assets Related from Operations		9.132	51.679	425	2.546
Increase (Decrease) in Other Payables Related from Operations		7.547	42.709	(15.344)	(91.914)
Cash Flows Provided by Operating Activities		590.122	3.728.130	807.417	4.131.372
Payments Related to Provisions for Employee Termination Benefits	10	(3.620)	(20.381)	(3.264)	(15.005)
Payments Related to Other Provisions	9	(91)	(515)	(270)	(1.239)
Income Taxes Refund (Paid)	12	(190.957)	(1.047.890)	(240.641)	(1.050.467)
CASH FLOWS FROM INVESTING ACTIVITIES		(50.965)	(292.957)	(49.430)	(255.181)
Cash Outflows Arising From Purchase of Shares or Capital Increase of Associates and/or		-	-	(22.929)	(126.034)
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		467	2.632	7	37
Cash Inflow from Sales of Property, Plant and Equipment		467	2.632	7	37
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(45.133)	(254.148)	(25.398)	(116.749)
Cash Outflow from Purchase of Property, Plant and Equipment	6	(44.936)	(253.037)	(25.013)	(114.983)
Cash Outflow from Purchase of Intangible Assets	6	(197)	(1.111)	(385)	(1.766)
Cash Advances and Debts Given		(6.902)	(44.646)	(1.110)	(12.435)
Cash Advance and Debts Given to Related Parties		5.609	28.809	(2.628)	(15.744)
Other Cash Advances and Debts Given		(12.511)	(73.455)	1.518	3.309
Dividends Received	5	603	3.205	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		(344.054)	(2.466.040)	(460.523)	(3.343.720)
Cash Inflow from Borrowings		271.033	1.526.415	352.058	1.522.752
Cash Inflow from Loans		271.033	1.526.415	352.058	1.522.752
Cash Outflow from Repayments of Borrowings		(359.978)	(1.894.545)	(353.453)	(742.022)
Cash Outflow from Loan Repayments		(359.978)	(1.894.545)	(353.453)	(742.022)
Decrease in Other Payables to Related Parties	3	305.619	1.356.701	(41.749)	(2.205.627)
Cash Outflow on Debt Payments from Financial Leasing Agreements		(5.055)	(28.465)	-	-
Dividends Paid		(570.316)	(3.507.577)	(441.929)	(2.028.773)
Interest Paid		(6.251)	(36.222)	(7.765)	(38.599)
Interest Received		20.894	117.653	32.315	148.549
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		435	(99.653)	53.289	(534.240)
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(5.255)	77.104	(37.087)	638.291
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(4.820)	(22.549)	16.202	104.051
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		11.874	62.468	3.154	11.895
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		7.054	39.919	19.356	115.946

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

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019

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

NOTE 1 – COMPANY’S ORGANIZATION AND NATURE OF OPERATIONS

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

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

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

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

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

The number of the personnel employed by the Company as of reporting date:

	30 September 2019 Personnel	31 December 2018 Personnel
Paid Hourly Personnel	2.873	2.980
Paid Monthly Personnel	1.720	1.744
	4.593	4.724

NOTE 2 – BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Basis of Presentation

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

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019

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

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

2.1 Basis of Presentation (cont’d)

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

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

Functional and Reporting Currency

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

Functional Currency of Joint Venture

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

Presentation currency translation

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

- a) The assets and liabilities on condensed financial position as of 30 September 2019 are translated from US Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 5,6591=US \$ 1 on the balance sheet date (31 December 2018: TRY 5,2609= US \$ 1).
- b) For the nine months period ended 30 September 2019, condensed profit or loss statements are translated from the 9 months average TRY 5,6311 = US \$ 1 rates of 2019 January - September period (30 September 2018: TRY 4,5970 = US \$ 1).
- c) Exchange differences are shown in other comprehensive income as of foreign currency translation reserve.
- d) The differences between presentation of statutory and historical figures are recognised as translation differences under equity. All capital, capital measures and other measures are represented with their statutory figures, other equity accounts are represented with their historic cost figures in the accompanying condensed financial statements.

USD amounts presented in the condensed interim financial statements

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

Going concern

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

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019

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

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

2.1 Basis of Presentation (cont’d)

Approval of the financial statements

The condensed interim financial statements have been approved on 24 October 2019 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

2.2 Comparative Information and Restatement of Financial Statements with Prior Periods

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

2.3 Adoption of New and Revised Financial Reporting Standards

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

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

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

TFRS 16 Leases

General impact of application of TFRS 16 Leases

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

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

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

Impact of the new definition of a lease

The Company has not reassessed contracts in scope of TFRS 16 that were signed before 1 January 2019 and which are considered as lease agreements in accordance with TAS 17 and TFRS Comment 4, taking advantage of the facilitation practices in transition to TFRS 16.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019

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

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

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

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

IFRS 16 Leases (cont’d)

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

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

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

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

Impact on Lessee Accounting

Operating leases

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

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

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

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

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

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

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

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019

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

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

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

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

TFRS 16 Leases (cont’d)

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 Company recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by TAS 17.

Impact on Lessor Accounting

Under 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.

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 Employee Benefits Plan Amendment, Curtailment or Settlement

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

Annual Improvements to 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 financial position and performance of the Company.

New and revised TFRSs in issue but not yet effective

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

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019

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

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

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

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

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

TFRS 17 Insurance Contracts

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

Amendments to TFRS 3 Business Combinations

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

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

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

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

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

2.4 Summary of Significant Accounting Policies

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

There has been no change in total ownership interests and effective interests, included in the scope as of 30 September 2019, from the interests reported as of 31 December 2018.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019

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

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

2.4 Summary of Significant Accounting Policies (cont’d)

Effects of Revised Accounting Policies

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

TFRS 16 Leases

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

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

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

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

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

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

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

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

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019

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

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

2.4 Summary of Significant Accounting Policies (cont’d)

Effects of Revised Accounting Policies (cont’d)

TFRS 16 Leases (cont’d)

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

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

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

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

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

2.5 Restatement and errors in the accounting policies and estimates

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

Within the scope of the amendments to IFRS 16 “Leases” which are effective from 1 January 2019, the effects of adjustments in the interim condensed financial statements of the Company summarized in the table below:

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

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019

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

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

2.6 Segment Reporting

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

NOTE 3 –RELATED PARTY TRANSACTIONS

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

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

<u>Due from related parties (short term)</u>	<u>30 September 2019</u>	<u>31 December 2018</u>
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	841.110	619.547
Adana Çimento Sanayi T.A.Ş. ⁽³⁾	8.607	8.525
Aslan Çimento A.Ş. ⁽³⁾	-	1.413
OYAK Beton A.Ş. ⁽³⁾	146	337
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽⁴⁾	4.178	724
	<u>854.041</u>	<u>630.546</u>

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

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

<u>Other receivables from related parties (short term)</u>	<u>30 September 2019</u>	<u>31 December 2018</u>
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	3.568.968	4.925.669
	<u>3.568.968</u>	<u>4.925.669</u>

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

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

<u>Prepaid expenses (long term)</u>	<u>30 September 2019</u>	<u>31 December 2018</u>
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	9.920	38.729
	<u>9.920</u>	<u>38.729</u>

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

⁽¹⁾ Immediate parent company

⁽²⁾ Subsidiaries of the immediate parent company

⁽³⁾ Subsidiaries of the ultimate company

⁽⁴⁾ Joint venture

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019

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

NOTE 3 –RELATED PARTY TRANSACTIONS (cont’d)

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

	30 September 2019	31 December 2018
<u>Due to related parties (short term)</u>		
Erdemir Madencilik San. ve Tic. A.Ş. ⁽²⁾	148.547	117.789
OYAK Pazarlama Hizmet ve Turizm A.Ş. ⁽³⁾	5.836	4.268
Erdemir Asia Pacific PTE LTD ⁽²⁾	45.810	20
Omsan Lojistik A.Ş. ⁽³⁾	5.570	4.848
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	2.435	4.236
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽³⁾	3.490	4.103
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. ⁽²⁾	1.042	1.975
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. ⁽²⁾	2.312	1.462
OYAK Grup Sigorta ve Reasürans Brokerliği A.Ş. ⁽³⁾	111	35.971
Other	691	3.831
	<u>215.844</u>	<u>178.503</u>

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

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

	1 January – 30 September 2019	1 January – 30 September 2018
<u>Major sales to related parties</u>		
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	7.932.288	7.666.623
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. ⁽²⁾	1.342	5.348
Adana Çimento Sanayi T.A.Ş. ⁽³⁾	14.863	21.083
Mardin Çimento Sanayi ve Ticaret A.Ş. ⁽³⁾	-	997
Omsan Lojistik A.Ş. ⁽³⁾	176	388
Aslan Çimento A.Ş. ⁽³⁾	236	2.450
OYAK Elektrik Enerjisi Toptan Satış A.Ş. ⁽³⁾	2.228	-
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽³⁾	1.331	3.862
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	597	508
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽⁴⁾	37.431	33.485
Other	1.740	915
	<u>7.992.232</u>	<u>7.735.659</u>

⁽¹⁾ Immediate parent company

⁽²⁾ Subsidiaries of the immediate parent company

⁽³⁾ Subsidiaries of the ultimate company

⁽⁴⁾ Joint venture

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019

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

NOTE 3 –RELATED PARTY TRANSACTIONS (cont’d)

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

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

	1 January – 30 September 2019	1 January – 30 September 2018
<u>Major purchases from related parties</u>		
Erdemir Madencilik San. ve Tic. A.Ş. ⁽²⁾	934.226	551.002
Erdemir Asia Pacific PTE LTD ⁽²⁾	772.258	207.465
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	74.830	84.433
OYAK Pazarlama Hizmet ve Turizm A.Ş. ⁽³⁾	38.895	31.112
Omsan Denizcilik A.Ş. ⁽³⁾	52.830	47.522
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	64.819	16.544
Omsan Lojistik A.Ş. ⁽³⁾	44.956	29.861
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. ⁽²⁾	7.934	10.108
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. ⁽²⁾	21.725	15.832
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽⁴⁾	64.325	52.386
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽³⁾	42.887	44.701
Other	10.540	16.354
	<u>2.130.225</u>	<u>1.107.320</u>

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

The Company earned TRY 112.479 thousand of interest income from related party transactions of the nine-months period ended 30 September 2019, amounting to TRY 35.188 thousand of interest income from credit sales and TRY 147.667 thousand of interest accrued on term. (30 September 2018: TRY 166.170 thousand)

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

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

The benefits of the key management:

For the nine months period ended 30 September 2019, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Company is TRY 3.381 thousand (30 September 2018: TRY 2.190 thousand).

- (1) Immediate parent company
- (2) Subsidiaries of the immediate parent company
- (3) Subsidiaries of the ultimate company
- (4) Joint venture

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019

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

NOTE 4 – INVENTORIES

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

	30 September 2019	31 December 2018
Raw materials	1.161.124	1.210.583
Work in progress	935.114	878.818
Finished goods	712.033	694.917
Spare parts	448.568	400.724
Goods in transit	662.806	763.087
Other inventories	285.139	276.245
Allowance for impairment on inventories (-)	(152.249)	(137.246)
	<u>4.052.535</u>	<u>4.087.128</u>

The movement of the allowance for impairment on inventories:

	1 January - 30 September 2019	1 January - 30 September 2018
Opening balance	137.246	92.620
Provision for the period	7.743	6.907
Provision released (-)	(3.151)	(701)
Translation difference	10.411	56.352
Closing balance	<u>152.249</u>	<u>155.178</u>

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

NOTE 5 – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

	Right to vote ratio (%)	30 September 2019	Right to vote ratio (%)	31 December 2018	Business segment
<u>Joint venture</u>					Industrial Gas Production and Sale
İsdemir Linde Gaz Ortaklığı A.Ş.	50	158.496	50	145.284	

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

	30 September 2019	31 December 2018
Total assets	384.007	380.489
Total liabilities	67.015	89.921
Net assets	<u>316.992</u>	<u>290.568</u>
Company's share on net assets	<u>158.496</u>	<u>145.284</u>

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

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

	1 January – 30 September 2019	1 January – 30 September 2018
Revenue	73.504	57.025
Net profit (loss) for the period	11.196	7.518
Company's share on net profit	5.598	3.759

İsdemir Linde Gaz Ortaklığı A.Ş., as an affiliate of the Group under joint management, has the right of to deduct the investment deduction where profit will occur in the upcoming years pursuant to the Resolution No 2012/3305 on Government Aids in Investments and the Cabinet Decision issued in the Official gazette on 22 February 2017. Since İsdemir Linde Gaz Ortaklığı A.Ş. is started its operations recently and management of İsdemir Linde Gaz Ortaklığı A.Ş.’s forecast are not assessed as fair for full or partial recovery of the investment deduction amount for the upcoming periods under the current conditions, the deferred tax asset of TRY 73.173 thousand (its effect in the profit or loss statement of İsdemir is TRY 36.586 thousand) is not included in the financial statements prepared as of 30 September 2019.

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

NOTE 6 – TANGIBLE AND INTANGIBLE ASSETS

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

	30 September 2019	30 September 2018
<u>Opening balance as of 1 January</u>		
Cost	23.958.965	17.062.931
Accumulated depreciation	(14.027.040)	(9.637.205)
Net book value	9.931.925	7.425.726
Net book value at the beginning of the period	9.931.925	7.425.726
Additions	253.037	114.983
Disposals (-)	(6.233)	(711)
<i>Cost of disposals</i>	(24.577)	(5.729)
<i>Accumulated depreciation</i>	18.344	5.018
Transfers to intangible assets	(2.676)	(1.211)
Currency translation difference	750.645	4.283.725
<i>Cost currency translation difference</i>	1.814.831	10.069.539
<i>Accumulated depreciation currency translation difference</i>	(1.064.186)	(5.785.814)
Current period depreciation (-)	(466.845)	(383.046)
Impairment (-)	-	(5.317)
Net book value at the end of the period	10.459.853	11.434.149
<u>Closing balance as of</u>		
Cost	25.999.580	27.240.513
Accumulated depreciation	(15.539.727)	(15.806.364)
Net book value	10.459.853	11.434.149

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

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

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

	30 September 2019	30 September 2018
<u>Opening balance as of 1 January</u>		
Cost	402.552	281.361
Accumulated depreciation	<u>(169.785)</u>	<u>(111.138)</u>
Net book value	<u>232.767</u>	<u>170.223</u>
Net book value at the beginning of the period	232.767	170.223
Additions	1.111	1.766
Transfers	2.676	1.211
Currency translation difference	17.578	98.086
<i>Cost currency translation difference</i>	30.487	166.374
<i>Accumulated depreciation currency translation difference</i>	(12.909)	(68.288)
Current period depreciation (-)	<u>(11.665)</u>	<u>(9.653)</u>
Net book value at the end of the period	<u>242.467</u>	<u>261.633</u>
<u>Closing balance as of</u>		
Cost	436.826	450.712
Accumulated depreciation	<u>(194.359)</u>	<u>(189.079)</u>
Net book value	<u>242.467</u>	<u>261.633</u>

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

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

	30 September 2019	30 September 2018
Associated with cost of production	461.828	379.523
General administrative expenses	2.632	2.233
Marketing expenses	14.050	10.943
	<u>478.510</u>	<u>392.699</u>

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

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NOTE 7 – RIGHT OF USE ASSETS

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

	30 September 2019
Net book value at the beginning of the period	-
Opening effect of the change in accounting policy (Note 2.4)	180.372
The effect of rent increases	32.077
Currency translation difference	13.781
<i>Cost currency translation difference</i>	13.812
<i>Accumulated amortization currency translation difference</i>	(31)
Amortization for the period (-)	(6.277)
Net book value at the end of the period	219.953

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

	30 September 2019	1 January 2019
Land usage permit	216.941	177.106
Motor Vehicles	3.012	3.266
	219.953	180.372

The Company has usage permit agreements regarding the port areas of the General Directorate of National Real Estate. Usage permit periods of the tangibles that will expire in 2048 are measured at their present value by reducing the borrowing rate by 16% and are accounted for in the condensed statement of financial position as of 1 January 2019 in the notes to use rights and borrowings (Note 8).

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

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

	30 September 2019
General administrative expenses	1.122
Other operating expenses	5.155
	6.277

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NOTE 8 - BORROWINGS

Breakdown of borrowings for the reporting period are as follows:

	30 September 2019	31 December 2018
Short term bank borrowings	1.031.261	1.362.917
Short term portion of long term bank borrowings	162.915	110.494
Long term bank borrowings	210.435	299.593
Total bank borrowings	1.404.611	1.773.004
Current portion of long term lease payables	32.181	-
Cost of current portion of long term lease payables (-)	(2.672)	-
Long term lease payables	780.431	-
Cost of long term lease payables (-)	(614.642)	-
Total leases borrowings	195.298	-
Total borrowings	1.599.909	1.773.004

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

Interest Type	Type of Currency	Weight Aearage Rate of Interest (%)	Short Term Portion	Long Term Portion	30 September 2019
No interest	TRY	-	53.101	-	53.101
Fixed	US Dollars	3,08	1.035.749	-	1.035.749
Floating	US Dollars	Libor+1,9	20.114	-	20.114
Floating	EURO	Euribor+2,25	85.212	210.435	295.647
			1.194.176	210.435	1.404.611

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

Interest Type	Type of Currency	Weight Aearage Rate of Interest (%)	Short Term Portion	Long Term Portion	30 December 2018
No interest	TRY	-	11.688	-	11.688
Fixed	US Dollars	3,31	1.351.228	-	1.351.228
Floating	US Dollars	Libor+1,9	25.034	12.379	37.413
Floating	EURO	Euribor+2,25	85.461	287.214	372.675
			1.473.411	299.593	1.773.004

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

NOTE 8 – BORROWINGS (cont’d)

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

	Financial liabilities	Lease liabilities	30 September 2019
Within 1 year	1.194.176	29.509	1.223.685
Between 1 – 2 years	84.165	24.050	108.215
Between 2 – 3 years	84.165	19.821	103.986
Between 3 – 4 years	42.105	17.100	59.205
Between 4 – 5 years	-	14.787	14.787
Five years or more	-	90.031	90.031
	<u>1.404.611</u>	<u>195.298</u>	<u>1.599.909</u>

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

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

NOTE 9 – PROVISIONS

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

	30 September 2019	31 December 2018
Provision for lawsuits	33.769	24.051
Penalty provision for employment shortage of disabled person	9.182	7.301
Provision for land occupation	1.966	1.450
	<u>44.917</u>	<u>32.802</u>

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NOTE 9 – PROVISIONS (cont’d)

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

	1 January 2019	Change for the period	Payments	Provision released	Translation difference	30 September 2019
Provision for lawsuits	24.051	11.025	(515)	(1.030)	238	33.769
Penalty provision for employment shortage of disabled person	7.301	1.876	-	-	5	9.182
Provision for land occupation	1.450	515	-	-	1	1.966
	<u>32.802</u>	<u>13.416</u>	<u>(515)</u>	<u>(1.030)</u>	<u>244</u>	<u>44.917</u>

	1 January 2018	Change for the period	Payments	Provision released	Translation difference	30 September 2018
Provision for lawsuits	21.441	5.254	(781)	(2.842)	2.263	25.335
Penalty provision for employment shortage of disabled person	5.480	1.397	-	-	(26)	6.851
Provision for land occupation	1.212	471	(458)	-	71	1.296
	<u>28.133</u>	<u>7.122</u>	<u>(1.239)</u>	<u>(2.842)</u>	<u>2.308</u>	<u>33.482</u>

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019

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

NOTE 10 – EMPLOYEE BENEFITS

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

	30 September 2019	31 December 2018
Due to personnel	40.860	38.585
Social security premiums payable	12.895	11.379
	<u>53.755</u>	<u>49.964</u>

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

	30 September 2019	31 December 2018
Provisions for employee termination benefits	247.657	220.511
Provisions for seniority incentive premium	27.280	21.228
Provision for unpaid vacations	33.871	31.361
	<u>308.808</u>	<u>273.100</u>

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

As of 30 September 2019, the employee termination benefit has been updated to a maximum of TRY 6.379,86 (31 December 2018: TRY 5.434,42).

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

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

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

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NOTE 10 – EMPLOYEE BENEFITS (cont’d)

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

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

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

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

	1 January - 30 September 2019	1 January - 30 September 2018
Opening balance	220.511	212.842
Service cost	13.596	13.063
Interest cost	26.709	19.895
Actuarial loss/(gain)	5.641	(3.726)
Termination benefits paid	(18.790)	(13.563)
Translation difference	(10)	689
Closing balance	<u>247.657</u>	<u>229.200</u>

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

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

	1 January - 30 September 2019	1 January - 30 September 2018
Opening balance	21.228	16.385
Service cost	1.869	1.480
Interest cost	2.817	1.601
Actuarial loss/(gain)	1.355	1.395
Translation difference	11	12
Closing balance	<u>27.280</u>	<u>20.873</u>

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NOTE 10 – EMPLOYEE BENEFITS (cont’d)

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

	1 January - 30 September 2019	1 January - 30 September 2018
Opening balance	31.361	25.269
Provision for the period	32.412	28.950
Vacation paid during the period (-)	(1.591)	(1.442)
Provisions released (-)	(28.675)	(16.190)
Translation difference	364	(4.877)
Closing balance	33.871	31.710

NOTE 11 – COMMITMENTS

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

	30 September 2019	31 December 2018
Letters of guarantees received	432.968	326.481
	432.968	326.481

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

	30 September 2019	31 December 2018
A. Total CPM given for the Company's own legal entity	33.436	34.343
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	-	-
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	-	-
D. Other CPM given	-	-
i. Total CPM given in favour of parent entity	-	-
ii. Total CPM given in favour of other Group companies out of the scope of clause B and C	-	-
iii. Total CPM given in favour of other 3rd parties out of the scope of clause C	-	-
	33.436	34.343

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

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NOTE 11 – COMMITMENTS (cont’d)

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

	30 September 2019	31 December 2018
TRY	21.069	22.287
EURO	12.367	12.056
	<u>33.436</u>	<u>34.343</u>

NOTE 12 – TAX ASSETS AND LIABILITIES

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

	30 September 2019	31 December 2018
<u>Corporate tax payable:</u>		
Current corporate tax provision	736.140	1.447.656
Prepaid taxes and funds (-)	(615.159)	(1.014.925)
	<u>120.981</u>	<u>432.731</u>
	1 January - 30 September 2019	1 January - 30 September 2018
<u>Taxation:</u>		
Current corporate tax expense (income)	736.140	1.266.313
Deferred tax expense	(19.183)	366.852
	<u>716.957</u>	<u>1.633.165</u>

Corporate Tax

The Company is subject to corporation tax applicable in Turkey.

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

Pursuant to the Provisional Article 10 of the Law No. 7061 added with the Article 91 of the Law on Corporate Income Tax, published in the Official Gazette dated December 5, 2017 and numbered 30261, the corporate tax rate for corporate earnings to be obtained during the tax years 2018, 2019 and 2020 has been increased from 20% to 22%. The total amount of corporate tax payments made by the Company in 2019 nine months period is TRY 1.047.890 thousand. (30 September 2018: TRY 1.050.467 thousand)

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

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PERIOD ENDED 30 SEPTEMBER 2019**

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

Deferred tax

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

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

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

	30 September 2019	31 December 2018
<u>Deferred tax assets:</u>		
Provisions for employee benefits	63.207	55.997
Leases borrowings	39.060	-
Provision for lawsuits	7.862	5.610
Adjustment of receivable discount	5.366	5.406
Provision for other doubtful receivables	17.860	16.531
Other	25.284	15.030
	<u>158.639</u>	<u>98.574</u>
<u>Deferred tax liabilities:</u>		
Tangible and intangible fixed assets	(1.720.877)	(1.627.016)
Right of use assets	(44.227)	-
Amortized cost adjustment on loans	(2.796)	(3.790)
Inventories	(26.650)	(7.515)
Other	-	(110)
	<u>(1.794.550)</u>	<u>(1.638.431)</u>
<u>Deferred tax assets/(liabilities) net:</u>	<u>(1.635.911)</u>	<u>(1.539.857)</u>

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

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

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

	1 January - 30 September 2019	1 January - 30 September 2018
Opening balance	(1.539.857)	(944.081)
Deferred tax (expense)/income	19.183	(366.852)
The amount in comprehensive income/(expense)	1.241	(820)
Translation difference	(116.478)	(666.663)
Closing balance	<u>(1.635.911)</u>	<u>(1.978.416)</u>

Reconciliation of tax provision is as follows:

	1 January- 30 September 2019	1 January- 30 September 2018
<u>Reconciliation of tax provision</u>		
Profit before tax	2.612.823	4.594.901
Statutory tax rate	22%	22%
Calculated tax acc. to effective tax rate	(574.821)	(1.010.878)
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	(406)	(94)
- Non-taxable income	705	-
- Effect of currency translation to non taxable assets (*)	(142.435)	(622.193)
Tax expense in reported in the statement of profit or loss	<u>(716.957)</u>	<u>(1.633.165)</u>

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

NOTE 13 – EQUITY

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

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

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

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NOTE 14 – SALES AND COST OF SALES

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

	1 January- 30 September 2019	1 July- 30 September 2019	1 January- 30 September 2018	1 July- 30 September 2018
<u>Sales Revenue</u>				
Domestic sales	9.576.844	3.263.307	9.050.443	3.559.205
Export sales	2.660.739	667.047	2.090.258	1.062.260
Other revenues (*)	324.275	90.648	340.642	108.487
Interest income from sales with maturities	38.385	14.244	24.020	11.801
Sales returns (-)	(9.376)	(2.605)	(1.587)	(607)
	<u>12.590.867</u>	<u>4.032.641</u>	<u>11.503.776</u>	<u>4.741.146</u>
<u>Cost of sales (-)</u>	<u>(10.117.131)</u>	<u>(3.324.066)</u>	<u>(7.676.024)</u>	<u>(3.257.328)</u>
Gross profit	<u>2.473.736</u>	<u>708.575</u>	<u>3.827.752</u>	<u>1.483.818</u>

(*)The total amount of by product exports in other revenues is TRY 176.268 thousand (30 September 2018: TRY 132.894 thousand).

The Company derives its revenue from the transfer of goods at a point in time in the following major product lines. The amount of performance obligations in the ongoing contracts of the Company will be eligible for recognition in the future is TRY 52.264 thousand. The Company planning to recognize related revenue amount as a revenue in a year.

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

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019

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

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

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

	1 January- 30 September 2019	1 July- 30 September 2019	1 January- 30 September 2018	1 July- 30 September 2018
Raw material usage	(8.199.663)	(2.710.352)	(6.225.392)	(2.673.991)
Personnel costs	(443.713)	(156.317)	(408.906)	(160.075)
Energy costs	(360.693)	(129.912)	(195.831)	(83.418)
Depreciation and amortization expenses	(457.119)	(150.708)	(355.533)	(146.884)
Factory overheads	(231.352)	(68.284)	(146.754)	(67.373)
Other cost of goods sold	(273.336)	(75.373)	(205.378)	(63.952)
Non-operating costs (*)	(9.346)	(32)	(7.801)	(863)
Freight costs for sales delivered to customers	(90.483)	(17.184)	(97.427)	(46.233)
Inventory write-downs within the period (Note 4)	(7.743)	(2.221)	(6.907)	(2.706)
Reversal of inventory write-downs (Note 4)	3.151	1.983	701	78
Other	(46.834)	(15.666)	(26.796)	(11.911)
	<u>(10.117.131)</u>	<u>(3.324.066)</u>	<u>(7.676.024)</u>	<u>(3.257.328)</u>

(*) Due to the planned/unplanned halt production of plant of the Company’s, operations were suspended temporarily in the current period. As a result of this, unallocated overheads, TRY (9.346) thousand, has been accounted directly under cost of goods sold. (30 September 2018 : TRY (7.801) thousand)

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

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

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

	1 January- 30 September 2019	1 July- 30 September 2019	1 January- 30 September 2018	1 July- 30 September 2018
Personnel expenses (-)	(19.182)	(6.637)	(17.258)	(6.639)
Depreciation and amortization(-)	(14.050)	(4.694)	(10.943)	(4.540)
Tax, duty and charges (-)	(586)	(197)	(636)	(259)
Service expenses (-)	(47.593)	(14.909)	(39.123)	(15.608)
	<u>(81.411)</u>	<u>(26.437)</u>	<u>(67.960)</u>	<u>(27.046)</u>

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

	1 January- 30 September 2019	1 July- 30 September 2019	1 January- 30 September 2018	1 July- 30 September 2018
Personnel expenses (-)	(34.965)	(11.318)	(32.912)	(11.546)
Depreciation and amortization(-)	(2.632)	(904)	(2.233)	(898)
Right of use amortization expenses (-)	(1.122)	(404)	-	-
Provision for doubtful receivables (-)	(6.069)	(1.026)	(2.025)	(843)
Tax, duty and charges (-)	(7.651)	(2.243)	(7.777)	(2.967)
Service expenses (-)	(63.063)	(22.405)	(50.998)	(18.911)
	<u>(115.502)</u>	<u>(38.300)</u>	<u>(95.945)</u>	<u>(35.165)</u>

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

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

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

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

	1 January- 30 September 2019	1 July- 30 September 2019	1 January- 30 September 2018	1 July- 30 September 2018
<u>Other operating income</u>				
Foreign exchange difference from trade receivables and liabilities	-	(14.712)	107.613	88.947
Discount income	183	59	12.750	1.412
Provisions released	1.030	149	2.842	1.275
Service income	5.333	1.804	4.099	1.383
Maintenance repair and rent income	9.395	3.211	9.760	3.032
Lawsuit income	72	12	156	68
Indemnity and penalty detention income	3.714	889	9.166	7.341
Insurance indemnity income	3.869	2.250	3.027	335
Warehouse income	2.113	868	1.509	772
Customer default interest income	178	82	56	8
Other income and gains	15.124	2.016	9.961	2.973
	<u>41.011</u>	<u>(3.372)</u>	<u>160.939</u>	<u>107.546</u>

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

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

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

	1 January- 30 September 2019	1 July- 30 September 2019	1 January- 30 September 2018	1 July- 30 September 2018
<u>Other operating expenses (-)</u>				
Provision expenses	(12.901)	(5.805)	(6.651)	(2.346)
Donation expenses	(1.398)	(318)	(1.541)	(445)
Discount expenses	-	-	(2.476)	(239)
Amortisation expenses of right of use	(5.155)	(1.881)	(13.249)	(7.112)
Foreign exchange difference from trade receivables and liabilities	(4.387)	(4.387)	-	-
Penalty expenses	(285)	(28)	(311)	(111)
Service expenses	(1.573)	(511)	(1.405)	(448)
Lawsuit compensation expenses	(1.303)	(99)	(2.348)	(1.023)
Stock exchange registration expenses	(1.079)	(4)	(651)	(72)
Other expenses and losses	(10.515)	(2.682)	(4.752)	(1.938)
	<u>(38.596)</u>	<u>(15.715)</u>	<u>(33.384)</u>	<u>(13.734)</u>

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

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019

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

NOTE 16 – FINANCE INCOME AND EXPENSES

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

	1 January- 30 September 2019	1 July- 30 September 2019	1 January- 30 September 2018	1 July- 30 September 2018
<u>Financial incomes</u>				
Interest income on bank deposits	2.135	917	321	183
Foreign exchange gains	315.073	(117.193)	715.395	294.070
Interest income from related party	112.479	20.865	144.146	62.364
Other financial incomes	-	-	106	12
	<u>429.687</u>	<u>(95.411)</u>	<u>859.968</u>	<u>356.629</u>

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

	1 January- 30 September 2019	1 July- 30 September 2019	1 January- 30 September 2018	1 July- 30 September 2018
<u>Finance expenses (-)</u>				
Interest expenses on borrowings	(40.460)	(11.406)	(30.243)	(13.751)
Interest cost of employee benefits	(29.526)	(11.214)	(21.496)	(8.908)
Interest expenses from lease	(19.933)	(7.253)	-	-
Guarantee expenses	(8.003)	(2.563)	(2.352)	(1.371)
	<u>(97.922)</u>	<u>(32.436)</u>	<u>(54.091)</u>	<u>(24.030)</u>

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019

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

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

Additional information about financial instruments

Foreign currency risk management

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

	30 September 2019			
	TRY (Total in currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)
1. Trade Receivables	143.489	17.155	20.431	-
2a. Monetary financial assets	3.392.039	389.665	485.538	21
2b. Non- monetary financial assets	-	-	-	-
3. Other	11.788	11.586	33	-
4. Current assets (1+2+3)	3.547.316	418.406	506.002	21
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	228.924	228.924	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	86.750	1.592	13.772	-
8. Non-current assets (5+6+7)	315.674	230.516	13.772	-
9. Total assets (4+8)	3.862.990	648.922	519.774	21
10. Trade payables	422.861	411.769	1.787	800
11. Financial liabilities	167.822	82.610	13.780	-
12a. Other monetary financial liabilities	294.018	287.548	1.046	-
12b. Other non-monetary financial liabilities	-	-	-	-
13. Current liabilities (10+11+12)	884.701	781.927	16.613	800
14. Trade payables	-	-	-	-
15. Financial liabilities	376.224	165.789	34.031	-
16a. Other monetary financial liabilities	308.808	308.808	-	-
16b. Other non-monetary financial liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	685.032	474.597	34.031	-
18. Total liabilities (13+17)	1.569.733	1.256.524	50.644	800
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	-	-	-	-
19a. Off-balance sheet foreign currency derivative financial assets	-	-	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	-	-	-	-
20. Net foreign currency asset/liability position (9-18+19)	2.293.257	(607.602)	469.130	(779)
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	2.194.719	(620.780)	455.325	(779)
22. Fair value of derivative financial instruments used in foreign currency hedge	-	-	-	-
23. Hedged foreign currency assets	-	-	-	-
24. Hedged foreign currency liabilities	-	-	-	-
25. Exports	2.837.007			
26. Imports	6.459.164			

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

Additional information about financial instruments (cont’d)

Foreign currency risk management (cont’d)

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

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

Additional information about financial instruments (cont’d)

Foreign currency risk management (cont’d)

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

As of 30 September 2019 asset and liability balances are translated by using the following exchange rates: TRY 5,6591 = US \$ 1, TRY 6,1836 = EUR 1, TRY 0,0523 = JPY 1 (31 December 2018: TRY 5,2609 = US\$ 1, TRY 6,0280 = EUR 1, TRY 0,0475 = JPY 1)

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency	Depreciation of foreign currency
30 September 2019		
1- TRY net asset/liability	(60.760)	60.760
2- Hedged portion from TRY risk (-)	-	-
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(60.760)	60.7600
5- Euro net asset/liability	290.091	(290.091)
6- Hedged portion from Euro risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- Euro net effect (5+6+7)	290.091	(290.091)
9- Jap. Yen net asset/liability	(5)	5
10- Hedged portion from Jap. Yen risk (-)	-	-
11- Effect of capitalization (-)	-	-
12- Jap. Yen net effect (9+10+11)	(5)	5
TOTAL (4+8+12)	229.326	(229.326)

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

Additional information about financial instruments (cont’d)

Foreign currency risk management (cont’d)

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

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

Additional information about financial instruments (cont’d)

Categories of the financial instruments and their fair values

	Financial assets/liabilities at amortized cost	Derivative financial instruments through profit/loss	Carrying value
30 September 2019			
Financial Assets			
Cash and cash equivalents	39.919	-	39.919
Trade receivables	1.062.547	-	1.062.547
Financial investments	-	153	153
Other financial assets	3.579.591	-	3.579.591
Finansal yükümlülükler			
Financial liabilities	1.599.909	-	1.599.909
Trade payables	1.001.651	-	1.001.651
Other liabilities	102.355	-	102.355
Derivative financial instruments	-	139	139
31 December 2018			
Financial Assets			
Cash and cash equivalents	62.468	-	62.468
Trade receivables	1.341.234	-	1.341.234
Financial investments	-	143	143
Other financial assets	4.936.114	-	4.936.114
Finansal yükümlülükler			
Financial liabilities	1.773.004	-	1.773.004
Trade payables	1.104.607	-	1.104.607
Other liabilities	72.490	-	72.490
Derivative financial instruments	-	242	242

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

Additional information about financial instruments (cont’d)

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

Financial asset and liabilities at fair value	30 September 2019	Fair value level as of reporting date		
		Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	(139)	-	(139)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	-	-	-	-
Total	(139)	-	(139)	-

Financial asset and liabilities at fair value	31 December 2018	Fair value level as of reporting date		
		Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	(242)	-	(242)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	-	-	-	-
Total	(242)	-	(242)	-

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

Additional information about financial instruments (cont’d)

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

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

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

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

NOTE 18 – SUBSEQUENT EVENTS

None.

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

Convenience translation to English:

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