

**(CONVENIENCE TRANSLATION OF CONDENSED INTERIM FINANCIAL
STATEMENTS ORIGINALLY ISSUED IN TURKISH - SEE NOTE 18)**

İSKENDERUN DEMİR VE ÇELİK A.Ş.

**CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD
BETWEEN 1 JANUARY - 31 MARCH 2020**

TABLE OF CONTENTS	PAGE
CONDENSED STATEMENT OF FINANCIAL POSITION	1-2
CONDENSED STATEMENT OF PROFIT OR LOSS	3
CONDENSED STATEMENT OF OTHER COMPREHENSIVE INCOME	4
CONDENSED STATEMENT OF CHANGES IN EQUITY	5
CONDENSED STATEMENT OF CASH FLOWS	6
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS	7-37
NOTE 1 COMPANY'S ORGANIZATION AND NATURE OF OPERATIONS	7
NOTE 2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS	7-11
NOTE 3 RELATED PARTY TRANSACTIONS	12-15
NOTE 4 INVENTORIES	15
NOTE 5 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD	16
NOTE 6 TANGIBLE AND INTANGIBLE ASSETS	17-18
NOTE 7 BORROWINGS	19-20
NOTE 8 PROVISIONS	20-21
NOTE 9 EMPLOYEE BENEFITS	22-24
NOTE 10 COMMITMENTS	24-25
NOTE 11 TAX ASSETS AND LIABILITIES	25-27
NOTE 12 EQUITY	27
NOTE 13 SALES AND COST OF SALES	28
NOTE 14 OPERATING EXPENSES ACCORDING TO THEIR NATURE AND OTHER OPERATING INCOME/ (EXPENSES)	29-30
NOTE 15 FINANCE INCOME / EXPENSES	30
NOTE 16 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS	31-36
NOTE 17 SUBSEQUENT EVENTS	37
NOTE 18 OTHER ISSUES AFFECTING THE CONDENSED INTERIM FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION	37

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF FINANCIAL POSITION AS OF 31 MARCH 2020

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

		(Unaudited) Current Period 31 March 2020 USD'000	(Unaudited) Current Period 31 March 2020 TRY'000	(Audited) Previous Period 31 December 2019 USD'000	(Audited) Previous Period 31 December 2019 TRY'000
ASSETS	Note				
Current Assets		1.696.964	11.057.413	1.646.222	9.778.890
Cash and Cash Equivalents		5.009	32.637	9.797	58.197
Trade Receivables		182.377	1.188.364	178.925	1.062.852
<i>Due From Related Parties</i>	3	152.540	993.948	133.954	795.715
<i>Other Trade Receivables</i>		29.837	194.416	44.971	267.137
Other Receivables		912.247	5.944.201	761.354	4.522.594
<i>Due From Related Parties</i>	3	911.974	5.942.420	761.071	4.520.915
<i>Other Receivables</i>		273	1.781	283	1.679
Inventories	4	574.550	3.743.770	677.282	4.023.192
Prepaid Expenses		8.022	52.273	4.556	27.065
<i>Due From Related Parties</i>	3	1.062	6.919	1.062	6.308
<i>Other Prepaid Expenses</i>		6.960	45.354	3.494	20.757
Other Current Assets		14.759	96.168	14.308	84.990
Non Current Assets		1.988.627	12.957.898	1.993.756	11.843.311
Financial Investments		27	177	27	161
Other Receivables		1.735	11.306	1.903	11.306
Investments Accounted For Using Equity Method	5	29.566	192.654	33.807	200.820
Property, Plant and Equipment	6	1.844.769	12.020.516	1.851.998	11.001.236
Right of Use Assets		38.930	253.669	38.681	229.773
Intangible Assets	6	41.811	272.441	42.330	251.448
Prepaid Expenses		31.789	207.135	25.010	148.567
<i>Due From Related Parties</i>	3	1.753	11.423	1.754	10.421
<i>Other Prepaid Expenses</i>		30.036	195.712	23.256	138.146
TOTAL ASSETS		3.685.591	24.015.311	3.639.978	21.622.201

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 Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF FINANCIAL POSITION AS OF 31 MARCH 2020

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

	Note	(Unaudited)	(Unaudited)	(Audited)	(Audited)
		Current Period 31 March 2020 USD'000	Current Period 31 March 2020 TRY'000	Previous Period 31 December 2019 USD'000	Previous Period 31 December 2019 TRY'000
LIABILITIES					
Current Liabilities		505.829	3.295.990	495.453	2.943.097
Short Term Borrowings	7	224.022	1.459.729	205.588	1.221.234
Short Term Portion of Long Term Borrowings	7	30.437	198.330	32.693	194.205
Trade Payables		157.687	1.027.490	201.201	1.195.179
<i>Due to Related Parties</i>	3	<i>31.178</i>	<i>203.156</i>	<i>36.277</i>	<i>215.495</i>
<i>Other Trade Payables</i>		<i>126.509</i>	<i>824.334</i>	<i>164.924</i>	<i>979.684</i>
Payables for Employee Benefits	9	10.996	71.650	10.218	60.695
Other Payables		6.551	42.685	3.515	20.882
Derivative Financial Instruments		8	51	15	87
Deferred Revenue		10.963	71.432	7.888	46.858
Current Tax Liabilities	11	35.947	234.231	25.375	150.732
Short Term Provisions	8	7.601	49.531	7.968	47.331
Other Current Liabilities		21.617	140.861	992	5.894
Non Current Liabilities		419.359	2.732.540	418.736	2.487.377
Long Term Borrowings	7	62.301	405.956	68.044	404.197
Long Term Provisions	9	51.661	336.620	56.354	334.757
<i>Long Term Provisions for Employee Benefits</i>		<i>51.661</i>	<i>336.620</i>	<i>56.354</i>	<i>334.757</i>
Deferred Tax Liabilities	11	305.397	1.989.964	294.338	1.748.423
EQUITY		2.760.403	17.986.781	2.725.789	16.191.727
Ödenmiş Sermaye	12	1.474.105	2.900.000	1.474.105	2.900.000
Inflation Adjustment to Capital		85	164	85	164
Other Comprehensive Income/Expense Not to be Reclassified to Profit/ Loss)		(18.743)	11.271.870	(18.743)	9.687.698
<i>Actuarial (Loss) / Gain Funds</i>		<i>(18.743)</i>	<i>(48.664)</i>	<i>(18.743)</i>	<i>(48.664)</i>
<i>Foreign Currency Translation Reserves</i>		<i>-</i>	<i>11.320.534</i>	<i>-</i>	<i>9.736.362</i>
Restricted Reserves Assorted from Profit		339.211	1.364.160	339.211	1.364.160
Accumulated Profit or Loss		931.131	2.239.705	550.951	84.277
Period Net Income/ Loss		34.614	210.882	380.180	2.155.428
TOTAL LIABILITIES AND EQUITY		3.685.591	24.015.311	3.639.978	21.622.201

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 Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF PROFIT OR LOSS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

		(Unaudited) Current Period 1 January - 31 March 2020 USD'000	(Unaudited) Current Period 1 January - 31 March 2020 TRY'000	(Unaudited) Previous Period 1 January - 31 March 2019 USD'000	(Unaudited) Previous Period 1 January - 31 March 2019 TRY'000
Revenue	13	606.859	3.697.229	757.769	4.059.974
Cost of Sales	13	(506.619)	(3.086.527)	(604.777)	(3.240.276)
GROSS PROFIT		100.240	610.702	152.992	819.698
Marketing, Sales and Distribution Expenses	14	(4.098)	(24.969)	(4.957)	(26.560)
General Administrative Expenses	14	(7.376)	(44.938)	(7.017)	(37.596)
Research and Development Expenses		(9)	(52)	(15)	(78)
Other Operating Income	14	2.045	12.459	3.871	20.742
Other Operating Expenses	14	(1.264)	(7.699)	(3.765)	(20.172)
OPERATING PROFIT		89.538	545.503	141.109	756.034
Income from Investing Activities		-	-	1	3
Expenses from Investing Activities		(278)	(1.695)	(632)	(3.387)
Share of Investments' Profit Accounted by Using The Equity Method	5	(664)	(4.044)	356	1.905
OPERATING PROFIT BEFORE FINANCE INCOME (EXPENSES)		88.596	539.764	140.834	754.555
Finance Income	15	3.387	35.889	22.427	133.176
Finance Expense	15	(10.305)	(62.782)	(5.291)	(28.350)
PROFIT BEFORE TAX		81.678	512.871	157.970	859.381
Tax (Expense) Income	11	(47.064)	(301.989)	(60.350)	(336.352)
Current Corporate Tax (Expense) Income		(36.005)	(234.611)	(48.063)	(270.520)
Deferred Tax (Expense) Income		(11.059)	(67.378)	(12.287)	(65.832)
NET PROFIT FOR THE PERIOD		34.614	210.882	97.620	523.029
EARNINGS PER SHARE			0,0727		0,1804
(TRY 1 Nominal value per share)					

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

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(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

	(Unaudited) Current Period 1 January - 31 March 2020 USD'000	(Unaudited) Current Period 1 January - 31 March 2020 TRY'000	(Unaudited) Previous Period 1 January - 31 March 2019 USD'000	(Unaudited) Previous Period 1 January - 31 March 2019 TRY'000
PROFIT FOR THE PERIOD	34.614	210.882	97.620	523.029
OTHER COMPREHENSIVE INCOME				
Not to be reclassified subsequently to profit or loss				
Foreign Currency Translation Gain	-	1.584.172	-	1.023.466
OTHER COMPREHENSIVE INCOME	-	1.584.172	-	1.023.466
TOTAL COMPREHENSIVE INCOME	34.614	1.795.054	97.620	1.546.495

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(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

	Share Capital	Inflation Adjustment to Capital	Other Comprehensive Income/Expense Not to be Reclassified to Profit/ Loss)		Restricted Reserves Assorted from Profit	Retained Earnings		Total Shareholders' Equity
			Foreign Currency Translation Reserves	Actuarial (Loss)/ Gain Funds		Accumulated Profit or Loss	Period Net Income/ Loss	
(Unaudited)								
1 January 2020	2.900.000	164	9.736.362	(48.664)	1.364.160	84.277	2.155.428	16.191.727
Net profit for the period	-	-	-	-	-	-	210.882	210.882
Other comprehensive income/(loss)	-	-	1.584.172	-	-	-	-	1.584.172
Total comprehensive income/(loss)	-	-	1.584.172	-	-	-	210.882	1.795.054
Transfers	-	-	-	-	-	2.155.428	(2.155.428)	-
31 March 2020	2.900.000	164	11.320.534	(48.664)	1.364.160	2.239.705	210.882	17.986.781
(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	-	-	-	-	-	-	523.029	523.029
Other comprehensive income/(loss)	-	-	1.023.466	-	-	-	-	1.023.466
Total comprehensive income/(loss)	-	-	1.023.466	-	-	-	523.029	1.546.495
Dividends	-	-	-	-	-	(3.509.000)	-	(3.509.000)
Transfers	-	-	-	-	592.519	3.516.360	(4.108.879)	-
31 March 2019	2.900.000	164	8.927.882	(34.249)	1.364.160	84.277	523.029	13.765.263

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(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF CASH FLOWS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

		(Unaudited) Current Period 1 January - 31 March 2020 USD'000	(Unaudited) Current Period 1 January - 31 March 2020 TRY'000	(Unaudited) Current Period 1 January - 31 March 2019 USD'000	(Unaudited) Current Period 1 January - 31 March 2019 TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES	Note	162.722	1.045.061	273.220	1.532.604
Profit (Loss) for The Period		34.614	210.882	97.620	523.029
Adjustments to Reconcile Profit (Loss)		73.337	462.071	83.867	462.354
Adjustments for Depreciation and Amortisation Expenses	13/14	26.995	164.461	29.605	158.616
Adjustments for Impairment Loss (Reversal of Impairment Loss)		697	4.258	1.058	5.671
Adjustments for Provision (Reversal of Provision) for Receivables		294	1.793	646	3.461
Adjustments for Provision (Reversal of Provision) for Inventories	4	403	2.465	412	2.210
Adjustments for Provisions		2.009	12.244	3.101	16.610
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	9	1.729	10.532	2.216	11.870
Adjustments for Provision (Reversal of Provision) for Pending Claims and/or Lawsuits	8	280	1.712	885	4.740
Adjustments for Interest (Income) and Expenses		(1.363)	(8.309)	(9.322)	(49.942)
Adjustments for Interest Income	15	(3.387)	(20.637)	(10.108)	(54.157)
Adjustments for Interest Expense	15	3.376	20.567	2.905	15.567
Unearned Financial Income from Credit Sales		(1.352)	(8.239)	(2.119)	(11.352)
Adjustments for Unrealised Foreign Exchange Differences		(3.007)	(18.311)	(1.200)	(6.432)
Adjustments for Undistributed Profits of Investments Accounted for Using Equity Method	5	664	4.044	(356)	(1.905)
Adjustments for Tax (Income) Expenses	11	47.064	301.989	60.350	336.352
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		278	1.695	631	3.384
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment		278	1.695	631	3.384
Changes in Working Capital		81.631	531.906	126.682	713.391
Adjustments for Decrease (Increase) in Trade Receivables		(2.111)	(13.755)	18.169	102.261
Decrease (Increase) in Trade Receivables from Related Parties		(18.586)	(121.106)	(12.676)	(71.346)
Decrease (Increase) in Trade Receivables from Third Parties		16.475	107.351	30.845	173.607
Adjustments for Decrease (Increase) in Other Receivables Related from Operations		1.114	7.260	417	2.348
Decrease (Increase) in Other Receivables from Operations from Third Parties		1.114	7.260	417	2.348
Adjustments for Decrease (Increase) in Inventories		103.490	674.338	66.886	376.461
Decrease (Increase) in Prepaid Expenses		(4.404)	(28.696)	(1.775)	(9.616)
Adjustments for Increase (Decrease) in Trade Payables		(43.514)	(283.537)	(20.728)	(116.665)
Increase (Decrease) in Trade Payable to Related Parties		(5.099)	(33.225)	12.689	71.419
Increase (Decrease) in Trade Payable to Third Parties		(38.415)	(250.312)	(33.417)	(188.084)
Adjustments for Increase (Decrease) in Other Payables Related from Operations		3.814	24.852	36.952	207.981
Increase (Decrease) in Other Payables to Third Parties Related from Operations		3.814	24.852	36.952	207.981
Increase (Decrease) in Derivative Liabilities		(7)	(46)	(5)	(28)
Adjustments for Other Increase (Decrease) in Working Capital		23.249	151.490	26.766	150.649
Decrease (Increase) in Other Assets Related from Operations		(451)	(2.939)	11.517	64.822
Increase (Decrease) in Other Payables Related from Operations		23.700	154.429	15.249	85.827
Cash Flows Provided by Operating Activities		189.582	1.204.859	308.169	1.698.774
Payments Related to Provisions for Employee Termination Benefits	9	(1.399)	(8.520)	(1.146)	(6.138)
Payments Related to Other Provisions	8	(27)	(166)	-	-
Income Taxes Refund (Paid)	11	(25.434)	(151.112)	(33.803)	(160.032)
CASH FLOWS FROM INVESTING ACTIVITIES		(26.115)	(175.975)	(14.913)	(84.271)
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		5	32	433	2.317
Cash Inflow from Sales of Property, Plant and Equipment		5	32	433	2.317
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(20.279)	(123.550)	(18.968)	(101.626)
Cash Outflow from Purchase of Property, Plant and Equipment	6	(20.182)	(122.956)	(18.907)	(101.300)
Cash Outflow from Purchase of Intangible Assets	6	(97)	(594)	(61)	(326)
Cash Advances and Debts Given		(5.841)	(52.457)	3.019	11.833
Cash Advance and Debts Given to Related Parties		-	-	2.890	13.559
Other Cash Advances and Debts Given		(5.841)	(52.457)	129	(1.726)
Dividends Received		-	-	603	3.205
CASH FLOWS FROM FINANCING ACTIVITIES		(134.534)	(1.159.911)	(245.631)	(1.323.558)
Cash Inflow from Borrowings		110.561	691.759	70.870	379.614
Cash Inflow from Loans		110.561	691.759	70.870	379.614
Cash Outflow from Repayments of Borrowings		(98.807)	(457.901)	(122.203)	(544.044)
Cash Outflow from Loan Repayments		(98.807)	(457.901)	(122.203)	(544.044)
Decrease in Other Payables to Related Parties		(147.325)	(1.399.520)	(202.231)	(1.200.813)
Finansal Kiralama Sözleşmelerinden Kaynaklanan Borç Ödemelerine İlişkin Nakit Çıktıları		(169)	(1.033)	-	-
Interest Paid		(2.182)	(13.861)	(2.354)	(13.430)
Interest Received		3.388	20.645	10.287	55.115
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		2.073	(290.825)	12.676	124.775
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(6.861)	265.265	(4.741)	(75.750)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(4.788)	(25.560)	7.935	49.025
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		9.797	58.197	11.874	62.468
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		5.009	32.637	19.809	111.493

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

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 1 – COMPANY’S ORGANIZATION AND NATURE OF OPERATIONS

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

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

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

Name Of Company	Country of Operation	Operation	2020 Share%	2019 Share %
Teknopark Hatay A.Ş.	Turkey	R&D Centre	5	5
İsdemir Linde Gaz Ortaklığı A.Ş.	Turkey	Industrial Gas Production and Sale	50	50

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

The number of the personnel employed by the Company as at 31 March 2020 are as follows:

	31 March 2020 Personnel	31 December 2019 Personnel
Paid Hourly Personnel	2.854	2.886
Paid Monthly Personnel	1.726	1.725
	<u>4.580</u>	<u>4.611</u>

NOTE 2 – BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Basis of Presentation

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

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

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

(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 2019.

The financial statements and disclosures have been prepared in accordance with the resolution of CMB dated 15 April 2019 about the “illustrations of financial statements and application guidance”.

Functional and Reporting Currency

Although the currency of the country in which is the Company is domiciled is Turkish Lira (TRY), the Company 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 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 of the joint venture

The functional currency of the Company’s joint venture İsdemir Linde Gaz Ortaklığı A.Ş. 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 31 March 2020 are translated from US Dollars into TRY using the Central Bank of Turkey’s exchange rate which is TRY 6,5160=US \$ 1 on the balance sheet date (31 December 2019: TRY 5,9402= US \$ 1).
- b) For the three months period ended 31 March 2020, condensed profit or loss statements are translated from the 3 months average TRY 6,0924 = US \$ 1 rates of 2019 January - March period (31 March 2019: TRY 5,3578 = 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 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 31 March 2020 and 31 December 2019, condensed statement of income and other comprehensive income and statement of cash flows for the interim period ended 31 March 2020 and 31 December 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.

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

(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)

Going concern

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

Approval of the financial statements

The condensed interim financial statements have been approved on 29 April 2020 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.

Reclassification of condensed statement of financial position is as follows:

	(Previously Reported)	(Restated)	(Difference)
	31 March 2019	31 March 2019	31 March 2019
Right of Use Assets	-	177.984	177.984
Property, Plant and Equipment	10.748.954	10.570.970	(177.984)

(1) Interest income from sales with maturities amounting to TRY 177.984 thousand reported in “Property, Plant and Equipment” was reclassified to “Right of Use Assets” on the statement of financial position for 31 March 2019.

2.3 Adoption of New and Revised Financial Reporting Standards

The accounting policies adopted in preparation of the interim condensed financial statements as at 31 March 2020 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 2020 summarized below

The new standards, amendments and interpretations which are effective from 2020 are as follows

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

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

(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 2020 are as follows (cont’d)

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.

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.

These standards, amendments and improvements are evaluated on the condensed 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:

TFRS 17	Insurance Contracts
Amendments to TAS 1	Classification of Liabilities as Current or Non-Current

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 will supersede TFRS 4 Insurance Contracts as of 1 January 2023.

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

(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)

Amendments to TAS 1 *Classification of Liabilities as Current or Non-Current*

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

2.4 Summary of Significant Accounting Policies

The condensed interim financial statements for the three months period ended 31 March 2020 have been prepared in accordance with TAS 34. The accounting policies used in the preparation of these condensed interim financial statements for the period ended 31 March 2020 are consistent with those used in the preparation of annual financial statements for the year ended 31 December 2019. Accordingly, these condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2019.

There has been no change in total ownership interests and effective interests of the subsidiaries, included in the scope as of 31 March 2020, from the interests reported as of 31 December 2019.

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.

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.

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

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:

	31 March 2020	31 December 2019
<u>Due from related parties (short term)</u>		
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	980.583	789.183
Adana Çimento Sanayi T.A.Ş. ⁽³⁾	9.141	5.865
OYAK Beton A.Ş. ⁽³⁾	206	289
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽⁴⁾	4.018	378
	<u>993.948</u>	<u>795.715</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:

	31 March 2020	31 December 2019
<u>Other receivables from related parties (short term)</u>		
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	5.919.114	4.520.915
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽⁴⁾	23.306	-
	<u>5.942.420</u>	<u>4.520.915</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.

Ordinary General Assembly of İsdemir Linde Gaz Ortaklığı A.Ş. held on February 27, 2020 depending on the decisions taken regarding capital reduction and cash dividend distribution (Note 5) monetary receivables are recorded.

- (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 THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 3 –RELATED PARTY TRANSACTIONS (cont’d)

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

	31 March 2020	31 December 2019
<u>Prepaid expenses (short term)</u>		
Omsan Lojistik A.Ş. ⁽³⁾	48	44
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽³⁾	6.871	6.264
	<u>6.919</u>	<u>6.308</u>
	31 March 2020	31 December 2019
<u>Prepaid expenses (long term)</u>		
OYAK Pazarlama Hizmet ve Turizm A.Ş. ⁽³⁾	-	8
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	11.423	10.413
	<u>11.423</u>	<u>10.421</u>

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

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

	31 March 2020	31 December 2019
<u>Due to related parties (short term)</u>		
Erdemir Madencilik San. ve Tic. A.Ş. ⁽²⁾	92.990	79.240
OYAK Pazarlama Hizmet ve Turizm A.Ş. ⁽³⁾	8.710	7.008
Erdemir Asia Pacific PTE LTD ⁽²⁾	72.633	105.623
Omsan Lojistik A.Ş. ⁽³⁾	6.103	6.497
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	2.914	2.841
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽³⁾	5.709	5.797
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. ⁽²⁾	3.132	756
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. ⁽²⁾	2.581	2.954
Other	8.384	4.779
	<u>203.156</u>	<u>215.495</u>

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

⁽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 THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 3 –RELATED PARTY DISCLOSURES (cont’d)

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

	1 January – 31 March 2020	1 January – 31 March 2019
<u>Major sales to related parties</u>		
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	2.550.681	2.281.656
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. ⁽²⁾	478	329
Adana Çimento Sanayi T.A.Ş. ⁽³⁾	6.587	4.321
Omsan Lojistik A.Ş. ⁽³⁾	8	125
Aslan Çimento A.Ş. ⁽³⁾	-	225
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽³⁾	253	781
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	207	174
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽⁴⁾	10.623	12.215
Other	588	398
	<u>2.569.425</u>	<u>2.300.224</u>

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

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

	1 January – 31 March 2020	1 January – 31 March 2019
<u>Major purchases from related parties</u>		
Erdemir Madencilik San. ve Tic. A.Ş. ⁽²⁾	234.341	259.381
Erdemir Asia Pacific PTE LTD ⁽²⁾	7.643	87.345
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	24.943	19.956
OYAK Pazarlama Hizmet ve Turizm A.Ş. ⁽³⁾	19.089	11.689
Omsan Denizcilik A.Ş. ⁽³⁾	11.351	16.218
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	9.599	24.851
Omsan Lojistik A.Ş. ⁽³⁾	14.641	14.727
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. ⁽²⁾	3.047	2.126
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. ⁽²⁾	7.079	6.098
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽⁴⁾	20.863	20.739
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽³⁾	15.601	13.160
Diğer	58	2.408
	<u>368.255</u>	<u>478.698</u>

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

⁽¹⁾ Immediate parent company

⁽²⁾ Subsidiaries of the immediate parent company

⁽³⁾ Subsidiaries of the ultimate company

⁽⁴⁾ Joint venture

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 3 –RELATED PARTY DISCLOSURES (cont’d)

The Company earned TRY 27.604 thousand of revenue from related party transactions of the three- months period ended 31 March 2020, amounting to TRY 20.154 thousand of interest income and TRY 7.450 thousand of interest accrued on term. (31 March 2019: TRY 64.296 thousand)

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

For the three 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 31 March 2020, the Company provides no provision for the receivables from related parties (31 December 2019: None).

Benefits provided to executive managers:

For the three months period ended 31 March 2020, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Company is TRY 669 thousand (31 March 2019: TRY 661 thousand).

NOTE 4 – INVENTORIES

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

	31 March 2020	31 December 2019
Raw materials	1.137.925	1.368.156
Work in progress	810.980	799.362
Finished goods	657.996	591.802
Spare parts	528.706	472.016
Goods in transit	481.644	667.288
Other inventories	305.572	285.396
Allowance for impairment on inventories (-)	(179.053)	(160.828)
	<u>3.743.770</u>	<u>4.023.192</u>

The movement of the allowance for impairment on inventories:

	1 January – 31 March 2020	1 January – 31 March 2019
Opening balance	160.828	137.246
Provision for the period	2.465	2.210
Translation difference	15.760	9.699
Closing balance	<u>179.053</u>	<u>149.155</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 13).

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 5 – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

<i>Joint Venture</i>	Right to vote ratio %	31 March 2020	Right to vote ratio %	31 December 2019	Business segment
İsdemir Linde Gaz Ortaklığı A.Ş.	50	192.654	50	200.820	Industrial Gas Production and Sale

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

	31 March 2020	31 December 2019
Total assets	444.797	408.249
Total liabilities	59.489	6.609
Net assets	385.308	401.640
Company's share on net assets	192.654	200.820

	31 March 2020	31 December 2019
Share capital	175.000	201.667

At the Ordinary General Assembly Meeting of İsdemir Linde Gaz Ortaklığı A.Ş., dated 27 February 2020, more cash than needed and payment of this cash to partners through capital reduction with the aim of reducing capital by 26.667 thousand TRY and decisions regarding the distribution of cash dividend of TRY 17.302 thousand from the net profit of 2019 have been unanimously approved. As of the reporting date, General Meeting registration procedures are ongoing and payment to the partners was not realized.

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

	1 January – 31 March 2020	1 January – 31 March 2019
Revenue	26.280	22.316
Operating income	4.743	3.671
Net profit (loss) for the period	(8.088)	3.810
Company's share on net profit (loss)	(4.044)	1.905

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 6 – TANGIBLE AND INTANGIBLE ASSETS

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

	31 March 2020	31 March 2019
<u>Opening balance as of 1 January</u>		
Cost	27.088.610	23.958.965
Accumulated depreciation	(16.087.374)	(14.027.040)
Net book value	11.001.236	9.931.925
Net book value at the beginning of the period	11.001.236	9.931.925
Additions	122.956	101.300
Disposals (-)	(1.727)	(5.701)
<i>Cost of disposals</i>	(3.704)	(20.912)
<i>Accumulated depreciation of disposals</i>	1.977	15.211
Transfers to intangible assets	-	(1.796)
Currency translation difference	1.063.318	691.162
<i>Maliyet değeri çevrim farkları</i>	2.634.398	1.677.847
<i>Accumulated depreciation currency translation difference</i>	(1.571.080)	(986.685)
Current period depreciation (-)	(165.267)	(145.920)
Net book value at the end of the period	12.020.516	10.570.970
<u>Closing balance as of</u>		
Cost	29.842.260	25.715.404
Accumulated depreciation	(17.821.744)	(15.144.434)
Net book value	12.020.516	10.570.970

As of reporting period, the Company has no collaterals or pledges upon its tangible assets (31 March 2019: None).

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

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

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

	31 March 2020	31 March 2019
<u>Opening balance as of 1 January</u>		
Cost	459.313	402.552
Accumulated depreciation	(207.865)	(169.785)
Net book value	<u>251.448</u>	<u>232.767</u>
Net book value at the beginning of the period	251.448	232.767
Additions	594	326
Transfers to intangible assets	-	1.796
Currency translation difference	24.154	16.177
<i>Cost currency translation difference</i>	44.564	28.228
<i>Accumulated depreciation currency translation difference</i>	(20.410)	(12.051)
Current period depreciation (-)	(3.755)	(3.770)
Net book value at the end of the period	<u>272.441</u>	<u>247.296</u>
<u>Closing balance as of</u>		
Cost	504.471	432.902
Accumulated depreciation	(232.030)	(185.606)
Net book value	<u>272.441</u>	<u>247.296</u>

As of reporting period, the Company has no collaterals or pledges upon its intangible assets (31 March 2019: None).

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

	1 January- 31 March 2020	1 January- 31 March 2019
Associated with cost of production	163.472	144.397
General administrative expenses	1.435	812
Marketing, sales and distribution expenses	4.584	4.481
Other Operating Expenses	2.051	7.398
	<u>171.542</u>	<u>157.088</u>

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 7 – BORROWINGS

Breakdown of borrowings is as follows:

	31 March 2020	31 December 2019
Short term bank borrowings	1.459.729	1.221.234
Short term portion of long term bank borrowings	174.715	168.689
Long term bank borrowings	215.597	226.396
Total bank borrowings	1.850.041	1.616.319
Current portion of long term lease payables	31.865	30.897
Cost of current portion of long term lease payables (-)	(8.250)	(5.381)
Long term lease payables	792.227	781.231
Cost of long term lease payables (-)	(601.868)	(603.430)
Total leases borrowings	213.974	203.317
Total borrowings	2.064.015	1.819.636

As of 31 March 2020, the breakdown of the Company’s loans with their original currency and their weighted average interest rates is presented as follows:

Interest Type	Type of Currency	Weight Average Rate of Interest (%)	Short Term Portion	Long Term Portion	31 March 2020
No interest	TRY	-	3.322	-	3.322
Fixed	US Dollars	2,46	1.524.216	-	1.524.216
Floating	US Dollars	Libor+1,9	7.713	-	7.713
Floating	EURO	Euribor+2,14	99.193	215.597	314.790
			1.634.444	215.597	1.850.041

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 7 – BORROWINGS (cont’d)

As of 31 December 2019, the breakdown of the Company’s loans with their original currency and their weighted average interest rates is presented as follows:

Interest Type	Type of Currency	Weight Average Rate of Interest (%)	Short Term Portion	Long Term Portion	31 December 2019
No interest	TRY	-	13.437	-	13.437
Fixed	US Dollars	2,94	1.268.930	-	1.268.930
Floating	US Dollars	Libor+1,9	14.070	-	14.070
Floating	Avro	Euribor+2,25	93.486	226.396	319.882
			<u>1.389.923</u>	<u>226.396</u>	<u>1.616.319</u>

The breakdown of loan repayment is as follows:

	31 March 2020			31 December 2019		
	Financial liabilities	Lease liabilities	Total liabilities	Financial liabilities	Lease liabilities	Total liabilities
Within 1 year	1.634.444	23.615	1.658.059	1.389.923	25.516	1.415.439
Between 1 – 2 years	99.557	22.020	121.577	90.534	21.603	112.137
Between 2 – 3 years	100.985	18.617	119.602	90.533	17.704	108.237
Between 3 – 4 years	2.733	15.678	18.411	45.329	15.315	60.644
Between 4 – 5 years	2.733	13.566	16.299	-	13.248	13.248
Five years or more	9.589	120.478	130.067	-	109.931	109.931
	<u>1.850.041</u>	<u>213.974</u>	<u>2.064.015</u>	<u>1.616.319</u>	<u>203.317</u>	<u>1.819.636</u>

NOTE 8 – PROVISIONS

The Company’s short term provisions are as follows:

	31 March 2020	31 December 2019
Provision for lawsuits	37.541	35.558
Penalty provision for employment shortage of disabled person	9.696	9.635
Provision for land occupation	2.294	2.138
	<u>49.531</u>	<u>47.331</u>

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 8 – PROVISIONS (cont’d)

The movement of the short term provisions is as follows:

	1 January 2020	Change for the period	Payments	Provision released	Translation difference	31 March 2020
Provision for lawsuits	35.558	2.140	(166)	(643)	652	37.541
Penalty provision for employment shortage of disabled personnel	9.635	60	-	-	1	9.696
Provision for land occupation	2.138	155	-	-	1	2.294
	<u>47.331</u>	<u>2.355</u>	<u>(166)</u>	<u>(643)</u>	<u>654</u>	<u>49.531</u>
	1 January 2019	Change for the period	Payments	Provision released	Translation difference	31 March 2019
Provision for lawsuits	24.051	4.415	-	(420)	432	28.478
Penalty provision for employment shortage of disabled personnel	7.301	574	-	-	4	7.879
Provision for land occupation	1.450	171	-	-	1	1.622
	<u>32.802</u>	<u>5.160</u>	<u>-</u>	<u>(420)</u>	<u>437</u>	<u>37.979</u>

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 9 – EMPLOYEE BENEFITS

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

	31 March 2020	31 December 2019
Due to personnel	58.265	47.362
Social security premiums payable	13.385	13.333
	<u>71.650</u>	<u>60.695</u>

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

	31 March 2020	31 December 2019
Provisions for employee termination benefits	277.376	273.104
Provisions for seniority incentive premium	32.626	30.904
Provision for unpaid vacations	26.618	30.749
	<u>336.620</u>	<u>334.757</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 31 March 2020, the employee termination benefit has been updated to a maximum of TRY 6.730,15 (31 December 2019: TRY 6.379,86).

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

The employee termination benefit has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees. TAS 19 (“Employee Benefits”) requires actuarial valuation methods to be developed to estimate the Company’s obligation under defined benefit plans. The obligation as of 31 March 2020 has been calculated by an independent actuary. The actuarial assumptions used in the calculation of the present value of the future probable obligation are as follows:

	31 March 2020	31 December 2019
Discount rate	% 12,50	% 12,50
Inflation rate	% 8,20	% 8,20
Salary increase	reel % 1,5	reel % 1,5
Maximum liability increase	% 8,20	% 8,20

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 9 – 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 March 2020, 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 - 31 March 2020	1 January - 31 March 2019
Opening balance	273.104	220.511
Service cost	4.417	4.358
Interest cost	7.954	8.270
Termination benefits paid	(8.041)	(5.716)
Translation difference	(58)	105
Closing balance	<u>277.376</u>	<u>227.528</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 - 31 March 2020	1 January - 31 March 2019
Opening balance	30.904	21.228
Service cost	756	585
Interest cost	928	839
Translation difference	38	10
Closing balance	<u>32.626</u>	<u>22.662</u>

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 9 – EMPLOYEE BENEFITS (cont’d)

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

	1 January - 31 March 2020	1 January - 31 March 2019
Opening balance	30.749	31.361
Provision for the period	3.035	2.519
Vacation paid during the period (-)	(479)	(422)
Provisions released (-)	(6.558)	(4.701)
Translation difference	(129)	-
Closing balance	<u>26.618</u>	<u>28.757</u>

NOTE 10 – COMMITMENTS

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

	31 March 2020	31 December 2019
Letters of guarantees received	<u>586.437</u>	<u>522.628</u>
	<u>586.437</u>	<u>522.628</u>

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

	31 March 2020	31 December 2019
A. Total CPM given for the Company's own legal entity	35.780	34.354
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	-	-
	<u>35.780</u>	<u>34.354</u>

As of reporting period, the ratio of the other CPM given by the Company to shareholders equity is 0% (31 December 2019: 0%).

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 10 – COMMITMENTS (cont’d)

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

	31 March 2020	31 December 2019
TRY	21.350	21.053
EURO	14.430	13.301
	<u>35.780</u>	<u>34.354</u>

NOTE 11 – TAX ASSETS AND LIABILITIES

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

	31 March 2020	31 December 2019
<u>Corporate tax payable:</u>		
Corporation tax for the year of 2019	887.181	-
Current corporate tax provision	234.611	887.181
Prepaid taxes and funds (-)	(887.561)	(736.449)
	<u>234.231</u>	<u>150.732</u>
	1 January - 31 March 2020	1 Ocak - 31 March 2019
<u>Taxation:</u>		
Current corporate tax expense	234.611	270.520
Deferred tax expense	67.378	65.832
	<u>301.989</u>	<u>336.352</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 2020 three months period is TRY 151.112 thousand. (31 March 2019 : TRY 160.032 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, is required to be taken into consideration as 10% instead of 5%.

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 11 – 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 the CMB’s Communiqué on Accounting Standards. These differences usually result in the recognition of revenue and expenses in different reporting periods for the CMB regulations and tax purposes and are explained below.

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

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

	31 March 2020	31 December 2019
<u>Deferred tax assets:</u>		
Provisions for employee benefits	68.210	67.962
Lease payables	42.795	40.664
Provision for lawsuits	8.764	8.293
Adjustment of receivable rediscount	4.465	4.476
Provision for other doubtful receivables	18.258	17.869
Other	25.257	25.080
	<u>167.749</u>	<u>164.344</u>
<u>Deferred tax liabilities:</u>		
Tangible and intangible fixed assets	(2.004.006)	(1.809.864)
Right Use of Assets	(50.899)	(46.156)
Amortized cost adjustment on loans	(2.366)	(2.294)
Inventories	(100.442)	(54.453)
	<u>(2.157.713)</u>	<u>(1.912.767)</u>
Presentation of deferred tax assets/(liabilities):	<u>(1.989.964)</u>	<u>(1.748.423)</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.

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 11 – TAX ASSETS AND LIABILITIES (cont’d)

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

	1 January - 31 March 2020	1 January - 31 March 2019
Opening balance	(1.748.423)	(1.539.857)
Deferred tax expense	(67.378)	(65.832)
Translation difference	(174.163)	(110.891)
Closing balance	<u>(1.989.964)</u>	<u>(1.716.580)</u>

Reconciliation of tax provision is as follows:

	1 January - 31 March 2020	1 January - 31 March 2019
Profit before tax	512.871	859.381
Statutory tax rate	22%	22%
Calculated tax acc. to effective tax rate	(112.832)	(189.064)
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	(52)	(297)
- Correction effect of corporate tax rate and deferred tax rates	1.700	12.963
- Effect of currency translation (*)	(190.805)	(159.954)
Tax expense in reported in the statement of income	<u>(301.989)</u>	<u>(336.352)</u>

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

NOTE 12 – EQUITY

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

	31 March 2020	31 December 2019
	(%)	(%)
<u>Shareholders</u>		
Ereğli Demir ve Çelik Fabrikaları T.A.Ş.	94,87	94,87
Quoted in Stock Exchange	5,13	5,13
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 Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 13 – SALES AND COST OF SALES

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

	1 January - 31 March 2020	1 January - 31 March 2019
<u>Sales Revenue</u>		
Domestic sales	3.219.763	2.884.683
Export sales	321.571	1.067.864
Other revenues (*)	147.424	96.869
Interest income from sales with maturities	8.471	11.507
Sales returns (-)	-	(949)
	<u>3.697.229</u>	<u>4.059.974</u>
<u>Cost of sales (-)</u>	<u>(3.086.527)</u>	<u>(3.240.276)</u>
Gross profit	<u>610.702</u>	<u>819.698</u>

(*)The total amount of by product exports in other revenues is TRY 86.311 thousand (31 March 2019: TRY 58.681 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 68.333 thousand. The Company planning to recognize related revenue amount as a revenue in a year.

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

	1 January - 31 March 2020	1 January - 31 March 2019
Raw material usage	(2.416.546)	(2.612.492)
Personnel costs	(143.864)	(135.639)
Energy costs	(130.997)	(112.002)
Depreciation and amortization expenses	(156.391)	(145.925)
Factory overheads	(91.794)	(68.806)
Other cost of goods sold	(105.473)	(103.744)
Freight costs for sales delivered to customers	(23.204)	(44.431)
Inventory write-downs within the period (Note 4)	(2.465)	(2.210)
Other	(15.793)	(15.027)
	<u>(3.086.527)</u>	<u>(3.240.276)</u>

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 14 – 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 - 31 March 2020	1 January - 31 March 2019
Personnel expenses (-)	(6.072)	(5.817)
Depreciation and amortization(-)	(4.584)	(4.481)
Tax, duty and charges (-)	(206)	(186)
Service expenses (-)	(14.107)	(16.076)
	<u>(24.969)</u>	<u>(26.560)</u>

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

	1 January - 31 March 2020	1 January - 31 March 2019
Personnel expenses (-)	(11.482)	(10.124)
Depreciation and amortization expenses(-)	(966)	(812)
Right of use expenses (-)	(469)	-
Provision for doubtful receivables (-) (net)	(1.793)	(3.461)
Tax, duty and charges (-)	(4.675)	(3.044)
Service expenses (-)	(25.553)	(20.155)
	<u>(44.938)</u>	<u>(37.596)</u>

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

	1 January - 31 March 2020	1 January - 31 March 2019
<u>Other operating income</u>		
Foreign exchange gain from trade receivables and payables	2.707	8.671
Discount income	48	62
Provisions released	643	420
Service income	1.948	1.617
Maintenance repair and rent income	3.360	3.133
Lawsuit income	29	36
Indemnity and penalty detention income	754	697
Insurance indemnity income	66	1.174
Warehouse income	355	765
Overdue interest income	250	25
Other income and gains	2.299	4.142
	<u>12.459</u>	<u>20.742</u>

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 14 – 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 - 31 March 2020	1 January - 31 March 2019
<u>Other operating expenses (-)</u>		
Provision expenses	(2.200)	(4.989)
Donation expenses	(570)	(461)
Right of use assets amortization	(2.051)	(7.398)
Penalty expenses	(178)	(78)
Service expenses	(656)	(577)
Lawsuit compensation expenses	(499)	(801)
Stock exchange registration expenses	(38)	(1.026)
Other expenses and losses	(1.507)	(4.842)
	<u>(7.699)</u>	<u>(20.172)</u>

NOTE 15 – FINANCE INCOME AND EXPENSES

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

	1 January - 31 March 2020	1 January - 31 March 2019
<u>Financial incomes</u>		
Interest income on bank deposits	483	421
Foreign exchange gains	15.252	79.019
Interest income on related party	20.154	53.736
	<u>35.889</u>	<u>133.176</u>

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

	1 January - 31 March 2020	1 January - 31 March 2019
<u>Finance expenses (-)</u>		
Interest expenses on borrowings	(13.164)	(15.567)
Foreign exchange expenses (net)	(32.696)	-
Interest cost of employee benefits	(8.882)	(9.109)
Interest expenses on leasings	(7.403)	-
Guarantee expenses	(637)	(3.674)
	<u>(62.782)</u>	<u>(28.350)</u>

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 16 – 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:

	31 March 2020			
	TRY (Total in currency)	TRY (Original currency)	EURO (Original currency)	Jap.Yen (Original currency)
1. Trade Receivables	235.653	215.201	2.835	-
2a. Monetary financial assets	5.444.137	1.399.689	560.561	21
2b. Non- monetary financial assets	-	-	-	-
3. Other	31.294	30.091	167	-
4. Current assets (1+2+3)	5.711.084	1.644.981	563.563	21
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	11.483	11.483	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	106.575	12.309	13.065	-
8. Non-current assets (5+6+7)	118.058	23.792	13.065	-
9. Total assets (4+8)	5.829.142	1.668.773	576.628	21
10. Trade payables	331.892	309.302	3.131	-
11. Financial liabilities	126.176	26.983	13.748	-
12a. Other monetary financial liabilities	557.841	551.222	917	-
12b. Other non-monetary financial liabilities	-	-	-	-
13. Current liabilities (10+11+12)	1.015.909	887.507	17.796	-
14. Trade payables	-	-	-	-
15. Financial liabilities	405.956	190.358	29.882	-
16a. Other monetary financial liabilities	336.620	336.620	-	-
16b. Other non-monetary financial liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	742.576	526.978	29.882	-
18. Total liabilities (13+17)	1.758.485	1.414.485	47.678	-
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 asse/liability position (9-18+19)	4.070.657	254.288	528.950	21
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	3.932.788	211.888	515.718	21
22. Fair value of derivative financial instruments used in foreign currency hedge	-	-	-	-
23. Hedged foreign currency assets	-	-	-	-
24. Hedged foreign currency liabilities	-	-	-	-
25. Exports	407.882	-	-	-
26. Imports	1.642.668	-	-	-

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 16 – 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 2019			
	TRY (Total in currency)	TRY (Original currency)	EURO (Original currency)	Jap.Yen (Original currency)
1. Trade Receivables	313.188	214.529	14.834	-
2a. Monetary financial assets	3.738.569	138.067	541.380	21
2b. Non- monetary financial assets	-	-	-	-
3. Other	9.278	9.235	6	-
4. Current assets (1+2+3)	4.061.035	361.831	556.220	21
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	11.467	11.467	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	83.365	4.311	11.887	-
8. Non-current assets (5+6+7)	94.832	15.778	11.887	-
9. Total assets (4+8)	4.155.867	377.609	568.107	21
10. Trade payables	349.492	329.483	3.009	-
11. Financial liabilities	132.440	38.954	14.057	-
12a. Other monetary financial liabilities	306.492	304.459	306	-
12b. Other non-monetary financial liabilities	-	-	-	-
13. Current liabilities (10+11+12)	788.424	672.896	17.372	-
14. Trade payables	-	-	-	-
15. Financial liabilities	404.197	177.802	34.041	-
16a. Other monetary financial liabilities	334.757	334.757	-	-
16b. Other non-monetary financial liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	738.954	512.559	34.041	-
18. Total liabilities (13+17)	1.527.378	1.185.455	51.413	-
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)	2.628.489	(807.846)	516.694	21
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	2.535.846	(821.392)	504.801	21
22. Fair value of derivative financial instruments used in foreign currency hedge	-	-	-	-
23. Hedged foreign currency assets	-	-	-	-
24. Hedged foreign currency liabilities	-	-	-	-
25. Exports	3.651.238	-	-	-
26. Imports	8.549.528	-	-	-

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 16 – 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 31 March 2020 asset and liability balances are translated by using the following exchange rates: TRY 6,5160 = US \$ 1, TRY 7,2150 = EUR 1 (31 December 2019: TRY 5,9402 = US\$ 1, TRY 6,6506 = EUR 1)

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency	Depreciation of foreign currency
31 March 2020		
1- TRY net asset/liability	25.429	(25.429)
2- Hedged portion from TRY risk (-)	-	-
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	25.429	(25.429)
5- Euro net asset/liability	381.637	(381.637)
6- Hedged portion from Euro risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- Euro net effect (5+6+7)	381.637	(381.637)
9- Jap. Yen net asset/liability	-	-
10- Hedged portion from Jap. Yen risk (-)	-	-
11- Effect of capitalization (-)	-	-
12- Jap. Yen net effect (9+10+11)	-	-
TOTAL (4+8+12)	407.066	(407.066)

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 16 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

Foreign currency risk management (cont’d)

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency	Depreciation of foreign currency
31 December 2019		
1- TRY net asset/liability	(80.785)	80.785
2- Hedged portion from TRY risk (-)	-	-
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(80.785)	80.785
5- Euro net asset/liability	343.633	(343.633)
6- Hedged portion from Euro risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- Euro net effect (5+6+7)	343.633	(343.633)
9- Jap. Yen net asset/liability	-	-
10- Hedged portion from Jap. Yen risk (-)	-	-
11- Effect of capitalization (-)	-	-
12- Jap. Yen net effect (9+10+11)	-	-
TOTAL (4+8+12)	262.848	(262.848)

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 16 – 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
31 March 2020			
Financial Assets			
Cash and cash equivalents	32.637	-	32.637
Trade receivables	1.188.364	-	1.188.364
Financial investments	-	177	177
Derivative financial instruments	5.955.507	-	5.955.507
Financial Liabilities			
Financial liabilities	2.064.015	-	2.064.015
Trade payables	1.027.490	-	1.027.490
Other liabilities	136.228	-	136.228
Derivative financial instruments	-	51	51
31 December 2019			
Financial Assets			
Cash and cash equivalents	58.197	-	58.197
Trade receivables	1.062.852	-	1.062.852
Financial investments	-	161	161
Other financial assets	4.533.900	-	4.533.900
Financial Liabilities			
Financial liabilities	1.819.636	-	1.819.636
Trade payables	1.195.179	-	1.195.179
Other liabilities	101.021	-	101.021
Derivative financial instruments	-	87	87

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 16 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

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

31 March 2020

Financial asset and liabilities at fair value	Book Value	Fair value level as of reporting date		
		Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	(51)	-	(51)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	-	-	-	-
Total	(51)	-	(51)	-

31 December 2019

Financial asset and liabilities at fair value	Book Value	Fair value level as of reporting date		
		Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	(87)	-	(87)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	-	-	-	-
Total	(87)	-	(87)	-

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.

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 18)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 17 – SUBSEQUENT EVENTS

As of December 2019, Corona virus ("Covid-19") which is described as the pandemic by the World Health Organization ("WHO") has been detected in Wuhan, city of China. Starting from March 2020, various cases regarding the epidemic has been detected also in Turkey. In order to prevent the Covid-19 outbreak and the spread of the epidemic, the government has started to take various measures related to social and economic life. The potential effects of these measures and possible future decisions on the Group's activities remain uncertain as of the reporting date.

NOTE 18 – 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 31 March 2020, 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.