

**(CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY
ISSUED IN TURKISH - SEE NOTE 36)**

İSKENDERUN DEMİR VE ÇELİK A.Ş.

**FINANCIAL STATEMENTS FOR THE PERIOD BETWEEN 1 JANUARY
- 31 DECEMBER 2022 AND INDEPENDENT AUDITOR'S REPORT**

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

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

A) Report on the Audit of the Financial Statements

1) Opinion

We have audited the financial statements of İskenderun Demir ve Çelik A.Ş. ("the Company"), which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with Turkish Financial Reporting Standards (TFRS).

2) Basis for Opinion

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

3) Emphasis of Matter

The explanations regarding the suspension of production activities of the Company, due to the earthquake on February 6, 2023 are disclosed in Note 35. Our audit opinion is not modified in respect of these matter.

4) Key Audit Matters

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

Key Audit Matter	How the matter was addressed in the audit
<p><i>Revenue recognition</i></p> <p>While conducting its assessments, the Company management takes into account the detailed conditions set out in TFRS 15 regarding the fulfilment of performance obligations and recognition of the transaction costs allocated to them as revenue, in particular whether the control of goods and services have passed to the customer.</p> <p>The Company recognizes export revenue by analyzing whether the significant risks and rewards are transferred to the buyer according to the delivery arrangement types of export sales.</p> <p>In this context, revenue recognition has been determined as one of the key audit matters since determining whether the revenue recognition criteria are met as well as determining whether the revenue is recorded in the financial statements in the correct period requires significant judgment of management.</p> <p>Please refer to notes 2.7.1 and 23 to the financial statements for the Company's disclosures on revenue recognition, including the related accounting policy.</p>	<p>We performed the following procedures in relation to the revenue recognition:</p> <ul style="list-style-type: none"> • The design and implementation of the controls on the revenue process have been evaluated. The Company's sales and delivery procedures have been analyzed. • Terms of trade and delivery with respect to contracts made with customers have been examined and the timing of revenue recognition in the financial statements for the different shipment arrangements has been assessed. • For substantive procedures, special emphasis is given for transactions where the goods billed but revenue has not been earned. Customers with the longest delivery period have been identified among the existing customers of the Company and a date range has been determined and sales lists have been provided from the relevant departments. The control of the completeness and accuracy of these lists have been tested. <p>In addition, we assessed the adequacy of the disclosures in Note 23 Revenue under TFRS.</p>

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

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

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

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

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

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

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

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

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

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

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

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

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

B) Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 398 of the Turkish Commercial Code No. 6102 ("TCC"), the auditor's report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Company on 3 March 2023.

In accordance with paragraph four of the Article 402 of TCC, nothing has come to our attention that may cause us to believe that the Company's set of accounts and financial statements prepared for the period 1 January-31 December 2022 does not comply with 2C and the provisions of the Company's articles of association in relation to financial reporting.

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

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

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



Koray Öztürk, SMMM
Partner

İstanbul, 3 March 2023

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(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 36)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2022

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

	Note	(Audited)	(Audited)	(Audited)	(Audited)
		Current Period 31 December 2022 USD'000	Current Period 31 December 2022 TRY'000	Previous Period 31 December 2021 USD'000	Previous Period 31 December 2021 TRY'000
ASSETS					
Current Assets		1.673.711	31.295.559	1.950.491	25.998.080
Cash and Cash Equivalents	4	347.126	6.490.670	662.058	8.824.568
Financial Investments	5	1.003	18.760	-	-
Trade Receivables		213.372	3.989.685	207.529	2.766.145
<i>Due From Related Parties</i>	32	<i>148.990</i>	<i>2.785.853</i>	<i>121.531</i>	<i>1.619.882</i>
<i>Other Trade Receivables</i>	9	<i>64.382</i>	<i>1.203.832</i>	<i>85.998</i>	<i>1.146.263</i>
Other Receivables		2.433	45.489	4.555	60.718
<i>Due From Related Parties</i>	32	<i>-</i>	<i>-</i>	<i>1.592</i>	<i>21.225</i>
<i>Other Receivables</i>	10	<i>2.433</i>	<i>45.489</i>	<i>2.963</i>	<i>39.493</i>
Financial Derivative Instruments	7	-	-	4.110	54.786
Inventories	11	1.039.582	19.438.419	1.044.265	13.919.002
Prepaid Expenses	12	8.919	166.762	20.362	271.402
Other Current Assets	20	61.276	1.145.774	7.612	101.459
Non Current Assets		2.320.728	43.393.657	2.232.514	29.757.191
Financial Investments	5	2.844	53.174	27	361
Other Receivables	10	327	6.107	443	5.900
Investments Accounted For Using Equity Method	6	32.412	606.053	27.781	370.292
Property, Plant and Equipment	13	2.176.160	40.690.492	2.053.188	27.366.949
Right of Use Assets	15	6.223	116.352	43.773	583.444
Intangible Assets	14	41.604	777.927	41.231	549.570
Prepaid Expenses		61.158	1.143.552	66.071	880.675
<i>Due From Related Parties</i>	32	<i>1.938</i>	<i>36.241</i>	<i>3.350</i>	<i>44.650</i>
<i>Other Prepaid Expenses</i>	12	<i>59.220</i>	<i>1.107.311</i>	<i>62.721</i>	<i>836.025</i>
TOTAL ASSETS		3.994.439	74.689.216	4.183.005	55.755.271

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

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

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 36)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2022

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

	Note	(Audited)	(Audited)	(Audited)	(Audited)
		Current Period 31 December 2022 USD'000	Current Period 31 December 2022 TRY'000	Previous Period 31 December 2021 USD'000	Previous Period 31 December 2021 TRY'000
LIABILITIES					
Current Liabilities		719.447	13.476.851	643.508	8.592.839
Short Term Borrowings	8	432.312	8.098.064	151.482	2.022.735
Short Term Portion of Long Term Borrowings	8	31.986	599.168	58.350	779.150
Trade Payables		209.038	3.915.903	235.240	3.141.247
<i>Due to Related Parties</i>	32	45.852	858.902	32.613	435.475
<i>Other Trade Payables</i>	9	163.186	3.057.001	202.627	2.705.772
Payables for Employee Benefits	17	16.083	301.263	7.461	99.622
Other Payables	10	3.166	59.310	5.827	77.807
Derivative Financial Instruments	7	520	9.740	232	3.093
Deferred Revenue	21	13.133	246.003	38.655	516.163
Current Tax Liabilities	30	6.351	118.959	139.903	1.868.124
Short Term Provisions	18	6.492	121.604	6.125	81.784
Other Current Liabilities	20	366	6.837	233	3.114
Non Current Liabilities		502.473	9.412.341	599.510	8.005.263
Long Term Borrowings	8	166.537	3.119.579	168.572	2.250.936
Long Term Provisions		72.456	1.357.255	48.513	647.797
<i>Long Term Provisions for Employee Benefits</i>	17	72.456	1.357.255	48.513	647.797
Deferred Tax Liabilities	30	263.480	4.935.507	382.425	5.106.530
EQUITY		2.772.519	51.800.024	2.939.987	39.157.169
Share Capital	22	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)		(53.764)	31.266.658	(29.794)	23.500.964
<i>Actuarial (Loss)/ Gain Funds</i>	22	(53.764)	(595.936)	(29.794)	(166.482)
<i>Foreign Currency Translation Reserves</i>	22	-	31.862.614	-	23.667.446
Other Comprehensive Income/Expense to be Reclassified to Profit/ (Loss)		(349)	(6.538)	809	10.809
<i>Cash Flow Hedging Gain (Loss)</i>	22	(349)	(6.538)	809	10.809
Restricted Reserves Assorted from Profit	22	482.127	3.049.060	423.834	2.193.560
Retained Earnings	22	419.842	7.864.483	305.797	4.083.318
Net Profit for the Period		450.473	6.726.197	765.151	6.468.354
TOTAL LIABILITIES AND EQUITY		3.994.439	74.689.216	4.183.005	55.755.271

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

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

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 36)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2022

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

		(Audited)	(Audited)	(Audited)	(Audited)
		Current Period	Current Period	Previous Period	Previous Period
		1 January -	1 January -	1 January -	1 January -
		31 December 2022	31 December 2022	31 December 2021	31 December 2021
	Note	USD'000	TRY'000	USD'000	TRY'000
Revenue	23	4.153.025	62.010.484	4.317.579	36.499.516
Cost of Sales	23	(3.525.377)	(52.638.815)	(2.694.766)	(22.780.744)
GROSS PROFIT		627.648	9.371.669	1.622.813	13.718.772
Marketing, Sales and Distribution Expenses	25	(19.401)	(289.691)	(18.831)	(159.188)
General Administrative Expenses	25	(31.728)	(473.749)	(25.297)	(213.856)
Research and Development Expenses		(56)	(840)	(53)	(452)
Other Operating Income	26	42.585	635.849	10.646	89.999
Other Operating Expenses	26	(9.382)	(140.069)	(50.371)	(425.813)
OPERATING PROFIT		609.666	9.103.169	1.538.907	13.009.462
Income from Investing Activities	27	153	2.289	13	108
Expenses from Investing Activities	27	(244)	(3.640)	(333)	(2.812)
Share of Investments' Profit Accounted by Using The Equity Method	6	4.631	69.151	(679)	(5.742)
OPERATING PROFIT BEFORE FINANCE INCOME / (EXPENSES)		614.206	9.170.969	1.537.908	13.001.016
Finance Income	28	43.845	654.660	102.834	869.325
Finance Expense	29	(109.102)	(1.629.041)	(439.252)	(3.713.305)
PROFIT BEFORE TAX		548.949	8.196.588	1.201.490	10.157.036
Tax (Expense)/ Income	30	(98.476)	(1.470.391)	(436.339)	(3.688.682)
Current Corporate Tax (Expense)/ Income		(211.114)	(3.152.228)	(345.648)	(2.922.007)
Deferred Tax (Expense)/ Income		112.638	1.681.837	(90.691)	(766.675)
NET PROFIT FOR THE PERIOD		450.473	6.726.197	765.151	6.468.354
EARNINGS PER SHARE			2,3194		2,2305
(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 financial statements.

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 36)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

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

	(Audited) Current Period 1 January - 31 December 2022	(Audited) Current Period 1 January - 31 December 2022	(Audited) Previous Period 1 January - 31 December 2021	(Audited) Previous Period 1 January - 31 December 2021
Note	USD'000	TRY'000	USD'000	TRY'000
PROFIT FOR THE PERIOD	450.473	6.726.197	765.151	6.468.354
OTHER COMPREHENSIVE INCOME				
Not to be reclassified subsequently to profit or loss				
Foreign Currency Translation Gain (Loss)	-	15.063.479	-	18.871.376
Actuarial Gain/(Loss) of Defined Benefit Plans	17 (29.963)	(536.843)	(12.466)	(140.234)
Tax Effect of Actuarial Gain/(Loss) of Defined Benefit Plans	30 5.993	107.369	2.493	28.047
To be reclassified subsequently to profit or loss				
Gain (Loss) in Cash Flow Hedging Reserves	(1.448)	(21.684)	1.037	13.858
Tax Effect of Gain (Loss) in Cash Flow Hedging Reserves	30 290	4.337	(228)	(3.049)
OTHER COMPREHENSIVE INCOME (EXPENSE) FOR THE PERIOD	(25.128)	14.616.658	(9.164)	18.769.998
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	425.345	21.342.855	755.987	25.238.352

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 36)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

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

(Audited)	Note	Share Capital	Inflation Adjustment to Capital	Other Comprehensive Income (Expense) Not to be Reclassified to Profit/ (Loss)		Other comprehensive income (expense) to be reclassified subsequently to profit or loss	Retained Earnings		Total Shareholders' Equity	
				Foreign Currency Translation Reserves	Actuarial (Loss)/ Gain Funds	Cash Flow Hedging Gain (Loss)	Restricted Reserves Assorted from Profit	Retained Earnings		Net Profit for the Period
1 January 2022		2.900.000	164	23.667.446	(166.482)	10.809	2.193.560	4.083.318	6.468.354	39.157.169
Net profit for the period		-	-	-	-	-	-	-	6.726.197	6.726.197
Other comprehensive income/(loss)		-	-	15.063.479	(429.474)	(17.347)	-	-	-	14.616.658
Total comprehensive income/(loss)		-	-	15.063.479	(429.474)	(17.347)	-	-	6.726.197	21.342.855
Increase (decrease) due to other changes	2.1	-	-	(6.868.311)	-	-	-	6.868.311	-	-
Dividends (*)		-	-	-	-	-	-	(8.700.000)	-	(8.700.000)
Transfers		-	-	-	-	-	855.500	5.612.854	(6.468.354)	-
31 December 2022		2.900.000	164	31.862.614	(595.956)	(6.538)	3.049.060	7.864.483	6.726.197	51.800.024
(Audited)										
1 January 2021 (Previously reported)		2.900.000	164	13.629.734	(54.295)	-	1.401.860	1.680.005	2.423.349	21.980.817
Effect of change in accounting principle	2.2	-	-	(4.555.432)	-	-	-	4.555.432	-	-
1 January 2021		2.900.000	164	9.074.302	(54.295)	-	1.401.860	6.235.437	2.423.349	21.980.817
Net profit for the period		-	-	-	-	-	-	-	6.468.354	6.468.354
Other comprehensive income/(loss)		-	-	18.871.376	(112.187)	10.809	-	-	-	18.769.998
Total comprehensive income/(loss)		-	-	18.871.376	(112.187)	10.809	-	-	6.468.354	25.238.352
Increase (decrease) due to other changes	2.1	-	-	(4.278.232)	-	-	-	4.278.232	-	-
Dividends (*)		-	-	-	-	-	-	(8.062.000)	-	(8.062.000)
Transfers		-	-	-	-	-	791.700	1.631.649	(2.423.349)	-
31 December 2021		2.900.000	164	23.667.446	(166.482)	10.809	2.193.560	4.083.318	6.468.354	39.157.169

(*) At the Ordinary General Meeting held on March 17, 2022, it has been approved unanimously to distribute net profit of 2021 and accumulated earnings amounting to TRY 8.700.000 thousand (2021 : TRY 8.062.000 thousand) (gross dividend per share:TRY 3,00 (2021: TRY 2,78)). The dividend payment has started at 22 March 2022.

Retained earnings; in the condensed financial statements, in accordance with TAS 21, the details of conversion of retained earnings to the presentation currency, Turkish Lira, in the condensed statement of financial position dated 31 December 2022 by converting to US Dollars at historical rates, are explained in Note 2.1.

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

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 36)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

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

		(Audited) 1 January - 31 December 2022 USD'000	(Audited) 1 January - 31 December 2022 TRY'000	(Audited) 1 January - 31 December 2021 USD'000	(Audited) 1 January - 31 December 2021 TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES	Note	198.298	2.306.735	490.106	1.036.663
Profit (Loss) for The Period		450.473	6.726.197	765.151	6.468.354
Adjustments to Reconcile Profit (Loss)		186.230	3.012.453	446.633	3.884.308
Adjustments for Depreciation and Amortisation Expenses	23/25/26	107.629	1.607.041	109.734	927.662
Adjustments for Impairment Loss (Reversal of Impairment Loss)		19.322	288.515	(461)	(4.094)
Adjustments for Provision (Reversal of Provision) for Receivables	9	7	106	13	(83)
Adjustments for Provision (Reversal of Provision) for Inventories	11	19.315	288.409	(474)	(4.011)
Adjustments for Provisions		19.682	293.872	16.376	138.443
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	17	17.553	262.080	15.242	128.852
Adjustments for Provision (Reversal of Provision) for Pending Claims and/or Lawsuits	18	2.129	31.792	1.134	9.591
Adjustments for Interest (Income) and Expenses		16.046	239.598	(88.109)	(744.845)
Adjustments for Interest Income	28	(37.580)	(561.113)	(97.547)	(824.635)
Adjustments for Interest Expense	29	57.441	857.675	11.295	95.487
Unearned Financial Income from Credit Sales		(3.815)	(56.964)	(1.857)	(15.697)
Adjustments for Unrealised Foreign Exchange Differences		(58.567)	(727.496)	(7.684)	(106.510)
Adjustments for Fair Value (Gains) Losses		(6.265)	(93.547)	(2.777)	(23.476)
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments	28	(6.265)	(93.547)	(2.777)	(23.476)
Adjustments for Undistributed Profits of Investments Accounted for Using Equity Method	6	(4.631)	(69.151)	679	5.742
Adjustments for Tax (Income) Expenses	30	98.476	1.470.391	436.339	3.688.682
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		217	3.230	320	2.704
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment	27	217	3.230	320	2.704
Other adjustments for Losses (Gains) Reconciliation		(5.679)	-	(17.784)	-
Changes in Working Capital		(87.206)	(1.630.601)	(463.815)	(6.182.197)
Adjustments for Decrease (Increase) in Trade Receivables		(3.962)	(74.083)	(31.947)	(425.822)
Decrease (Increase) in Trade Receivables from Related Parties		(27.459)	(513.437)	13.743	183.180
Decrease (Increase) in Trade Receivables from Third Parties		23.497	439.354	(45.690)	(609.002)
Adjustments for Decrease (Increase) in Other Receivables Related from Operations		646	12.079	2.745	36.588
Decrease (Increase) in Other Receivables from Operations from Third Parties		646	12.079	2.745	36.588
Decrease (Increase) in Derivative Financial Instruments		4.110	76.850	(4.110)	(54.786)
Adjustments for Decrease (Increase) in Inventories		(13.046)	(243.938)	(412.407)	(5.496.972)
Decrease (Increase) in Prepaid Expenses		19.235	359.664	(14.075)	(187.610)
Adjustments for Increase (Decrease) in Trade Payables		(26.202)	(489.933)	(16.962)	(226.086)
Increase (Decrease) in Trade Payable to Related Parties		13.239	247.547	(19.830)	(264.314)
Increase (Decrease) in Trade Payable to Third Parties		(39.441)	(737.480)	2.868	38.228
Adjustments for Increase (Decrease) in Other Payables Related from Operations		5.961	111.461	(615)	(8.197)
Increase (Decrease) in Other Payables to Third Parties Related from Operations		5.961	111.461	(615)	(8.197)
Increase (Decrease) in Derivative Liabilities		5.105	95.456	4.046	53.929
Adjustments for Other Increase (Decrease) in Working Capital		(79.053)	(1.478.157)	9.510	126.759
Decrease (Increase) in Other Assets Related from Operations		(53.664)	(1.003.426)	2.379	31.710
Increase (Decrease) in Other Payables Related from Operations		(25.389)	(474.731)	7.131	95.049
Cash Flows Provided by Operating Activities		549.497	8.108.049	747.969	4.170.465
Payments Related to Provisions for Employee Termination Benefits	17	(6.445)	(96.233)	(3.425)	(28.954)
Payments Related to Other Provisions	18	(88)	(1.328)	(82)	(696)
Income Taxes Refund (Paid)	30	(344.666)	(5.703.753)	(254.356)	(3.104.152)
CASH FLOWS FROM INVESTING ACTIVITIES		(239.204)	(3.597.683)	(245.738)	(2.449.549)
Cash Inflow From Sale of Shares or Capital Decrease of Associates and/or Joint Ventures		-	-	2.351	17.500
Cash Outflows for the Acquisition of Shares of Other Businesses or Funds or Debt Instruments	5	(2.817)	(52.667)	-	-
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		232	3.476	54	473
Cash Inflow from Sales of Property, Plant and Equipment	13/14/27	232	3.476	54	473
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(232.523)	(3.471.898)	(268.056)	(2.266.065)
Cash Outflow from Purchase of Property, Plant and Equipment	13	(230.558)	(3.442.565)	(267.455)	(2.260.981)
Cash Outflow from Purchase of Intangible Assets	14	(1.965)	(29.333)	(601)	(5.084)
Cash Advances and Debts Given		(3.093)	(57.834)	19.054	(207.849)
Cash Advance and Debts Given to Related Parties		1.410	26.365	(1.600)	(31.782)
Other Cash Advances and Debts Given		(4.503)	(84.199)	20.654	(176.067)
Dividends Received		-	-	859	6.392
Other Cash Inflows (Outflows)		(1.003)	(18.760)	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		(271.852)	(4.147.021)	458.419	1.498.133
Cash Inflow from Borrowings		670.133	10.006.027	326.370	2.759.036
Cash Inflow from Loans	8	670.133	10.006.027	326.370	2.759.036
Cash Outflow from Repayments of Borrowings		(369.588)	(5.665.442)	(96.764)	(776.469)
Cash Outflow from Loan Repayments	8	(369.588)	(5.665.442)	(96.764)	(776.469)
Decrease in Other Payables to Related Parties	32	1.592	21.225	935.320	6.858.694
Cash Outflow from Debt Payments for Leasing Contracts	8	(3.330)	(49.717)	(4.371)	(36.953)
Dividends Paid		(587.019)	(8.696.814)	(793.135)	(8.058.958)
Interest Paid	8	(26.229)	(391.640)	(3.993)	(33.751)
Interest Received		42.589	629.340	94.992	786.534
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		(312.758)	(5.437.969)	702.787	85.247
Effect of Exchange Rate Changes on Cash and Cash Equivalents		908	3.143.524	(49.372)	8.655.610
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(311.850)	(2.294.445)	653.415	8.740.857
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	658.674	8.779.460	5.259	38.603
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	346.824	6.485.015	658.674	8.779.460

- As of 31 December 2022, the Company's total amount of time deposit interest accrual is TRY 5.655 thousand (USD 302 thousand) (31 December 2021: TRY 45.108 thousand (USD 3.384 thousand)).
- Currency hedged bank deposits with maturities longer than 3 months, which are shown in financial investments in the statement of financial position, are reported under "Other Cash Inflows (Outflows) from Investing Activities" in the cash flow statements.
- 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 financial statements.

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

(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). İskenderun Demir ve Çelik A.Ş. (“the Company”) stocks continue to be traded on Borsa İstanbul since March 26, 2016.

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	2022 Share (%)	2021 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 of reporting period are as follows:

	31 December 2022 Personnel	31 December 2021 Personnel
Paid Hourly Personnel	3.017	3.124
Paid Monthly Personnel	1.650	1.675
	<u>4.667</u>	<u>4.799</u>

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

NOTE 2 – BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Basis of Presentation

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

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

The financial statements and disclosures have been prepared in accordance with the resolution of CMB dated 4 October 2022 about the “illustrations of financial statements and application guidance”.

The financial statements have been prepared on the historical cost basis except for certain properties and derivative financial instruments that are measured at revalued amounts or fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Functional and reporting currency

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

The 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.

Inflation accounting

The Public Oversight, Accounting and Auditing Standards Authority (“POA”) adopted TAS 29 Financial Reporting in Hyperinflationary Economies (“TAS 29”) in the 2021 financial reporting period of the companies that implemented the Turkish Financial Reporting Standards (“TFRS”) on 20 January 2022, made a statement about whether they will implement it or not. According to this statement, it is stated that companies applying TFRS do not need to make any adjustments in their financial statements for 2021 within the scope of TAS 29.

As of the reporting date, no new statement has been made by the POA regarding the scope and application of TAS 29. Since the functional currency of the Company is USD, there is no need to make any adjustments within the scope of TAS 29 in the financial statements to be prepared in accordance with TFRS.

Presentation currency translation

Company; Pursuant to the Public Oversight, Accounting and Auditing Standards Authority's "POA" announcement dated March 15, 2021, "On the Next Measurement of Foreign Currency Monetary Items According to Turkish Accounting Standards", the assets and liabilities in the summary financial statements are used by using the buying and selling rates valid as of the end of the reporting period. It has been valued and translated into the presentation currency at the same exchange rates.

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

(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)

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:

- The assets on condensed financial position as of 31 December 2022 are translated from US Dollars into TRY using the Central Bank of the Republic of Turkey's buying rate of exchange which is TRY 18,6983 =US \$ 1 and the liabilities selling rate of exchange which is TRY 18,7320 =US \$ 1 on the balance sheet date (31 December 2021 foreign exchange buying rate: 13,3290 TRY = 1 US \$, foreign exchange selling rate: 13,3530 TRY = 1 US \$).
- Profit or loss statements for the year ended 31 December 2022 due to the significant fluctuation in the exchange rate in 2022; 14,9314 TRY = US \$ 1, which is the result of the conversion of the monthly net profits calculated on a monthly basis with the average exchange rates of the relevant month announced by the Central Bank of the Republic of Turkey. (31 December 2021: TRY 8,4537 = US \$ 1).
- Retained earnings; In the financial statements, in accordance with TAS 21, they are converted to US Dollars at historical rates and followed in US Dollars. Retained earnings in the statement of financial position dated 31 December 2022 are presented by converting them into TRY using the foreign exchange selling rate effective as of 31 December 2022 announced by the Central Bank of the Republic of Turkey, TRY 18,7320 = US \$ 1 (31 December 2021: TRY 13,3530 = US \$ 1)
- Exchange differences are shown in other comprehensive income as of foreign currency translation reserve.
- Capital and other reserves are presented with their legal values in the accompanying financial statements, and other equity items are presented with their historical cost values. The translation differences between the historical values of these items translated into the presentation currency and their carrying values from legal records are accounted for as foreign currency translation differences in the other comprehensive income statement.

USD amounts presented in the financial statements

The figures in USD amounts presented in the accompanying financial statements comprising the statements of financial position as of 31 December 2022 and 31 December 2021, statement of income and other comprehensive income, and statement of cash flows for the year ended 31 December 2022 representing the financial statements within the frame of functional currency change that the Company has made, which is effective as of 1 July 2013, prepared in accordance with the TAS 21- Effects of Changes in Foreign Exchange Rates.

Shares in subsidiaries and joint ventures

Shares in Subsidiaries and Joint Ventures	Business Area	Valid Currency	Share of Capital and right to vote of Company (%)	
			31 December 2022	31 December 2021
Teknopark Hatay A.Ş.	R&D Centre	TRY	5%	5%
İsdemir Linde Gaz Ortaklığı A.Ş.	Industrial Gas Production and Sales	USD	50%	50%

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

(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)

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

The results and assets and liabilities of associates or joint ventures are incorporated in these financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with TFRS 5. Under the equity method, an investment in associate or a joint venture is initially recognized in the statement of financial position at cost and adjusted thereafter to recognize the Company’s share of the profit or loss and other comprehensive income of the associate or a joint venture.

When the Company's share of losses of an associate or a joint venture exceeds the Company's interest in that associate or a joint venture (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate or a joint venture), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate or a joint venture.

Going concern

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

Approval of the financial statements

The financial statements have been approved on 3 March 2023 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

2.2 Restatement and errors in the accounting policies and estimates

Any change in the accounting policies resulted from the first time adoption of a new standards is made either retrospectively or prospectively in accordance with the transition requirements of the standards. Changes without any transition requirement, material changes in accounting policies or material errors are corrected, retrospectively by restating the prior period 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.

“Retained Earnings’ Profit or Loss” in the statement of financial position are translated into US Dollars at historical rates and followed as US Dollars in accordance with TAS 21. For a meaningful representation of the translation of prior years’ profit followed in US Dollars into Turkish Lira, the presentation currency, the differences arising from the translation of “Prior Years’ Profit or Loss” into Turkish Lira at the closing rates announced by the Central Bank of the Republic of Turkey as of the relevant reporting period are recognized under the “Foreign Currency Translation Differences”.

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

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

The classifications made in the statement of financial position as of 1 January 2021 are as follows:

Account	(Previously Reported) 1 January 2021	(Restated) 1 January 2021	(Difference) 1 January 2021
Accumulated profit or loss	1.680.005	6.235.437	4.555.432
Foreign Currency Conversion Adjustments	13.629.734	9.074.302	<u>(4.555.432)</u>
			<u>-</u>

2.3 Comparative Information and Restatement of Financial Statements with Prior Periods

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

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

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

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

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

2.4.2 Deferred tax

The Company recognizes deferred tax on the temporary timing differences between the carrying amounts of assets and liabilities in the financial statements prepared in accordance with TFRS and statutory financial statements which is used in the computation of taxable profit. The related differences are generally due to the timing difference of the tax base of some income and expense items between financial statements prepared in accordance with statutory and TFRS. The Company has deferred tax assets resulting from tax loss carry-forwards and deductible temporary differences, which could reduce taxable income in the future periods. All or partial amounts of the realizable deferred tax assets are estimated in current circumstances. The main factors which are considered include future earnings potential; cumulative fiscal losses in recent years; history of loss carry-forwards and other tax assets expiring, the carry-forward period associated with the deferred tax assets, future reversals of existing taxable temporary differences that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset (Note 30).

2.4.3 Fair values of derivative financial instruments

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

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

2.4.4 Provision for expected loan loss

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

2.4.5 Provision for inventories

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

2.4.6 Provisions for employee benefits

Actuarial assumptions about discount rates, inflation rates, future salary increases and employee turnover rates are made to calculate the Company’s provision for employee benefits. The details related with the defined benefit plans are stated in Note 17.

2.4.7 Provision for lawsuits

Provision for lawsuits is evaluated by the Company Management based on opinions of Company’s Legal Council and legal consultants. The Company Management determines the amount of provisions based on best estimates. As of the balance sheet date, the provision for lawsuits is stated in Note 18.

2.4.8 Impairments on Assets

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

2.4.9 Impairment of Financial Assets

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

2.4.10 Loss provision calculation

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

2.4.10 Loss provision calculation (cont’d)

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

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

2.5 Offsetting

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

2.6 New and Amended Turkish Financial Reporting Standards

The accounting policies taken as basis in the preparation of the financial statements for the accounting period ending as of 31 December 2022 have been applied consistently with those used in the previous year, except for the new and amended TFRS standards and TFRS interpretations valid as of 1 January 2022, which are summarized below.

a) Amendments that are mandatorily effective from 2022

Amendments to TFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to TAS 16	<i>Property, Plant and Equipment – Proceeds before Intended Use</i>
Amendments to TAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Annual Improvements to TFRS Standards 2018-2020	<i>Amendments to TFRS 1, TFRS 9 and TAS 41</i>
Amendments to TFRS 16	<i>COVID-19 Related Rent Concessions beyond 30 June 2021</i>

The effects of these standards and comments on the financial statements and performance of the company are explained in the relevant paragraphs.

Amendments to TFRS 3 *Reference to the Conceptual Framework*

The amendments update an outdated reference to the Conceptual Framework in TFRS 3 without significantly changing the requirements in the standard.

The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated *Conceptual Framework*) at the same time or earlier.

Amendments to TAS 16 *Proceeds before Intended Use*

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted.

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

2.6 New and Amended Turkish Financial Reporting Standards (cont’d)

a) Amendments that are mandatorily effective from 2022 (cont’d)

Amendments to TAS 37 *Onerous Contracts – Cost of Fulfilling a Contract*

The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts.

The amendments published today are effective for annual periods beginning on or after 1 January 2022. Early application is permitted.

Annual Improvements to TFRS Standards 2018-2020 Cycle

Amendments to TFRS 1 *First time adoption of International Financial Reporting Standards*

The amendment permits a subsidiary that applies paragraph D16(a) of TFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent’s date of transition to TFRSs. The implementation costs of those who started to apply TFRSs for the first time have been reduced.

Amendments to TFRS 9 *Financial Instruments*

The amendment clarifies which fees an entity includes in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.

Amendments to TFRS 16 *COVID-19 Related Rent Concessions beyond 30 June 2021*

Public Oversight Accounting and Auditing Standards Authority (“POA”) has published Amendments to TFRS 16 *COVID-19 Related Rent Concessions beyond 30 June 2021* that extends, by one year, the June 2020 amendment that provides lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification.

On issuance, the practical expedient was limited to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2021. Since lessors continue to grant COVID-19 related rent concessions to lessees and since the effects of the COVID-19 pandemic are ongoing and significant, the POA decided to extend the time period over which the practical expedient is available for use.

The new amendment is effective for lessees for annual reporting periods beginning on or after 1 April 2021. Earlier application is permitted.

The Company Management has evaluated that these amendments and comments, which are effective since 2022, do not have any impact on the financial statements of the Company.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

2.6 New and Amended Turkish Financial Reporting Standards (cont’d)

b) 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	<i>Insurance Contracts</i>
Amendments to TAS 1	<i>Classification of Liabilities as Current or Non-Current</i>
Amendments to TFRS 4	<i>Extension of the Temporary Exemption from Applying TFRS 9</i>
Amendments to TAS 1	<i>Disclosure of Accounting Policies</i>
Amendments to TAS 8	<i>Definition of Accounting Estimates</i>
Amendments to TAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to TFRS 17	<i>Initial Application of TFRS 17 and TFRS 9 — Comparative Information (Amendment to TFRS 17)</i>
Amendments to TFRS 16	<i>Lease Liability in a Sale and Leaseback</i>
Amendments to TAS 1	<i>Non-current Liabilities with Covenants</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 2023.

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.

Amendments to TAS 1 are effective for annual reporting periods beginning on or after 1 January 2023 and earlier application is permitted.

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

2.6 New and Amended Turkish Financial Reporting Standards (cont’d)

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

Amendments to TFRS 4 *Extension of the Temporary Exemption from Applying TFRS 9*

The amendment changes the fixed expiry date for the temporary exemption in TFRS 4 *Insurance Contracts* from applying TFRS 9, so that entities would be required to apply TFRS 9 for annual periods beginning on or after 1 January 2023 with the deferral of the effective date of TFRS 17.

Amendments to TAS 1 *Disclosure of Accounting Policies*

The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies.

Amendments to TAS 1 are effective for annual reporting periods beginning on or after 1 January 2023 and earlier application is permitted.

Amendments to TAS 8 *Definition of Accounting Estimates*

With this amendment, the definition of “a change in accounting estimates” has been replaced with the definition of “an accounting estimate”, sample and explanatory paragraphs regarding estimates have been added, and the differences between application of an estimate prospectively and correction of errors retrospectively have been clarified.

Amendments to TAS 8 are effective for annual reporting periods beginning on or after 1 January 2023 and earlier application is permitted.

Amendments to TAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

Amendments to TAS 12 are effective for annual reporting periods beginning on or after 1 January 2023 and earlier application is permitted.

Amendments to TFRS 17 *Insurance Contracts* and *Initial Application of TFRS 17 and TFRS 9 — Comparative Information*

Amendments have been made in TFRS 17 in order to reduce the implementation costs, to explain the results and to facilitate the initial application.

The amendment permits entities that first apply TFRS 17 and TFRS 9 at the same time to present comparative information about a financial asset as if the classification and measurement requirements of TFRS 9 had been applied to that financial asset before.

Amendments are effective with the first application of TFRS 17.

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

2.6 New and Amended Turkish Financial Reporting Standards (cont’d)

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

Amendments to TFRS 16 *Lease Liability in a Sale and Leaseback*

Amendments to TFRS 16 clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in TFRS 5 to be accounted for as a sale.

Amendments are effective from annual reporting periods beginning on or after 1 January 2024

Amendments to TAS 1 *Non-current Liabilities with Covenants*

Amendments to TAS 1 clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.

The Company evaluates the effects of these standards, amendments and improvements on the financial statements.

2.7 Valuation Principles Applied / Significant Accounting Policies

Accounting policies implemented during preparation of financial statements as follows:

2.7.1 Revenue recognition

Company recognizes revenue when the goods or services is transferred to the customer and when performance obligation is fulfilled. Goods is counted to be transferred when the control belongs to the customer. The company constitutes the largest share in the revenues of coils in the flat product group and billets and wire rod in the long product group.

Company recognizes revenue based on the following main principles:

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

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

2.7.1 Revenue recognition (cont’d)

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

2.7.2 Inventories

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

2.7.3 Property, plant and equipment

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

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

2.7.3 Property, plant and equipment (cont’d)

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

	<u>Rates</u>
Buildings	2-16%
Land improvements	2-33% and units of production level
Machinery and equipment	3-50% and units of production level
Vehicles	5-25% and units of production level
Furniture and fixtures	5-33%
Exploration costs and other fixed assets with special useful lives	5-10% and units of production level
Other tangible fixed assets	5-25%

Expenses after the capitalization are added to the cost of related asset and reflected in financial statements as a separate asset if they shall mostly provide an economic benefit and their cost is measured in a trustable manner. Tangible assets are reviewed for impairment if there are conditions showing that the securities are more than amount recoverable. Assets are grouped at the lowest level which is cash-generating unit in order to determine impairment. Carrying amount of a tangible asset and recoverable value is the one which is higher than the net sales price following the deduction of commensurable value for the sale of the asset. Useful life of assets are reviewed as of date of balance sheet and adjusted, if required.

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

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

2.7.4 Intangible assets

Intangible assets purchased are recognized at acquisition cost less any amortization and impairment loss.

Intangible assets are amortized principally on a straight-line basis over their estimated useful lives and production amounts. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, and any changes in the estimate are accounted for on a prospective basis.

The amortization rates of the intangible assets are stated below:

	<u>Rates</u>
Rights	2-33%

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

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

2.7.5 Leases

The Company as lessee

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

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

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

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

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

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

The company announced the changes made during the periods presented in the financial statements with its details in Note 15.

The right of use assets include the initial measurement of the corresponding lease obligation, lease payments made before or before the lease actually starts, and other direct initial costs. These assets are subsequently measured at cost by deducting accumulated depreciation and impairment losses.

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

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

2.7.5 Leases (cont’d)

The Company as lessee (cont’d)

The Company applies TAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the ‘Property, Plant and Equipment’ policy. Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. These costs are included in the relevant use right asset, unless they are incurred for stock production.

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

The right-of-use assets are presented as a separate line in the statement of financial position. (Note 15).

The Company as lessor

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

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

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

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

2.7.6 Impairment of assets

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

2.7.7 Borrowing costs

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

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

2.7.8 Financial Instruments

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

Financial assets

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

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

Classification of financial assets

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

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

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

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

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

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

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

2.7.8 Financial Instruments (cont’d)

Financial assets (cont’d)

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

(i) Amortised cost and effective interest method

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

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

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

Interest income is recognised in profit or loss and is included in the “finance income – interest income” line item (Note 28).

(ii) Financial assets at FVTPL

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

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

Foreign exchange gains and losses

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

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

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

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

2.7.8 Financial Instruments (cont’d)

Financial assets (cont’d)

Impairment of financial assets

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

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

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

Measurement and recognition of expected credit losses

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

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

Derecognition of financial assets

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

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

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

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

2.7.8 Financial Instruments (cont’d)

Financial liabilities

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

A financial liability is subsequently classified at amortized cost except:

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

The Company does not reclassify any financial liability.

Derecognition of financial liabilities

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

Derivative financial instruments

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

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

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

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

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

2.7.8 Financial Instruments (cont’d)

Hedge accounting

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

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

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

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Company adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge).

The Company designates the full change in the fair value of a forward contract (i.e. including the forward elements) as the hedging instrument for all of its hedging relationships involving forward contracts.

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

2.7.9 The effects of foreign exchange rate changes

Foreign currency transactions are recorded at the rates of exchange prevailing on the dates of the transactions. The Company’ financial conditions and performance results stated as Turkish Lira in presentation currency in financial statements

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

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

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

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

2.7.10 Subsequent events

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

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

2.7.11 Provisions, contingent liabilities and contingent assets

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

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

2.7.12 Related parties

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

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
- (i) has control or joint control over the reporting entity;
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions applies:
- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

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

2.7.13 Taxation and deferred income taxes

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

Current tax

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

Deferred tax

Deferred tax is determined by calculating the temporary differences between the carrying amounts of assets/liabilities in the financial statements and the corresponding tax bases, used in the computation of the taxable profit, using currently enacted tax rates.

Deferred tax liabilities are generally recognized for all taxable temporary differences where deferred tax assets resulting from deductible temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized if it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

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

2.7.13 Taxation and deferred income taxes (cont’d)

Current and deferred tax for the period

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

2.7.14 Employee benefits

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

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

The Company makes certain assumptions about discount rates, inflation rates, future salary increases and employee turnover rates in calculation of provisions for employee benefits. The present value of employee benefits is calculated by an independent actuary and some changes are done in accounting assumptions used in calculations. The impact of the changes in assumptions is recognized in the statement of income. The details related with the defined benefit plans are stated in Note 17.

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

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

2.7.15 Government grants and incentives

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

2.7.16 Statement of cash flows

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

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

2.7.16 Statement of cash flows (cont’d)

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

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

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

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

2.7.17 Share capital and dividends

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

2.7.18 Earnings per share

Earnings per share, disclosed in the statement of profit or loss, are determined by dividing the net income attributable to equity holders of the parent by the weighted average number of shares outstanding during the period concerned.

In Turkey, companies can increase their share capital by distributing “bonus shares” to shareholders from retained earnings. In computing earnings per share, such “bonus share” distributions are assessed as issued shares. Accordingly, the weighted-average number of shares are computed by taking into consideration of the retrospective effects of the share distributions.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

NOTE 3 – SEGMENTAL REPORTING

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

NOTE 4 – CASH AND CASH EQUIVALENTS

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

	31 December 2022	31 December 2021
Banks – demand deposits	57.317	33.180
Banks – time deposits	6.433.353	8.791.388
	<u>6.490.670</u>	<u>8.824.568</u>
Time deposit interest accruals (-)	(5.655)	(45.108)
	<u>6.485.015</u>	<u>8.779.460</u>

The breakdown of demand deposits is presented below:

	31 December 2022	31 December 2021
US Dollars	6.944	2.982
TRY	50.138	28.391
EURO	108	1.711
GB Pound	35	28
Other	92	68
	<u>57.317</u>	<u>33.180</u>

The breakdown of time deposits is presented below:

	31 December 2022	31 December 2021
US Dollars	3.807.836	2.975.696
TRY	2.625.517	4.565.586
EURO	-	1.250.106
	<u>6.433.353</u>	<u>8.791.388</u>

Bank deposits consist of amounts with maturities ranging from 1 day to 3 months depending on the cash needs of the Company, and interest is calculated for these deposits depending on the short-term interest rates in the market.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

NOTE 5 – FINANCIAL INVESTMENTS

The details of the Company's short-term investments at fair value through profit or loss as of the reporting period are as follows:

	31 December 2022	31 December 2021
Currency hedged time deposit	18.760	-
	<u>18.760</u>	<u>-</u>

The details of the Company's long-term investments at fair value through profit or loss as of the reporting period are as follows:

	31 December 2022	31 December 2021
Fair value change reflected in profit or loss	507	361
Venture capital investment fund	52.667	-
	<u>53.174</u>	<u>361</u>

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

	Ratio %	31 December 2022	Ratio %	31 December 2021
Company	%	2022	%	2021
<i>Financial investments without an active market</i>				
Teknopark Hatay A.Ş.	5	507	5	361
		<u>507</u>		<u>361</u>

NOTE 6 – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

	Right to vote ratio %	31 December 2022	Right to vote ratio %	31 December 2021	Business segment
<i>Join Venture</i>					
İsdemir Linde Gaz Ortaklığı A.Ş.	50	606.053	50	370.292	Industrial Gas Production and Sale

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

	31 December 2022	31 December 2021
Total assets	1.299.886	778.957
Total liabilities	87.781	38.373
Net assets	<u>1.212.105</u>	<u>740.584</u>
Company's share on net assets	<u>606.053</u>	<u>370.292</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

NOTE 6 – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (cont’d)

	31 December 2022	31 December 2021
Share capital	<u>140.000</u>	<u>140.000</u>

İsdemir Linde Gaz Ortaklığı A.Ş has the right of to deduct TRY 196.398 thousand (31 December 2021: TRY 132.460 thousand) from corporate tax of 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. The deferred tax asset of TRY 63.938 thousand of additional investment deduction (its effect in the profit or loss statement of Company is TRY 31.969 thousand) is included in the financial statements prepared as of reporting date.

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

	1 January- 31 December 2022	1 January- 31 December 2021
Revenue	504.381	166.202
Operating Profit	111.064	37.665
Net profit (loss) for the period	<u>138.301</u>	<u>(11.484)</u>
Company's share on net profit	<u>69.151</u>	<u>(5.742)</u>

NOTE 7 – FINANCIAL DERIVATIVE INSTRUMENTS

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

	31 December 2022		31 December 2021	
	Asset	Liability	Asset	Liability
<i><u>Fair value hedging derivative financial assets</u></i>				
Forward contracts for fair value hedges of currency risk of sales	-	1.582	40.847	-
Forward contracts	-	-	-	3.093
	<u>-</u>	<u>1.582</u>	<u>40.847</u>	<u>3.093</u>
<i><u>Cash flow hedging derivative financial assets</u></i>				
Forward contracts for cash flow hedges of currency risk of sales	-	8.158	13.939	-
	<u>-</u>	<u>8.158</u>	<u>13.939</u>	<u>-</u>
	<u>-</u>	<u>9.740</u>	<u>54.786</u>	<u>3.093</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

NOTE 7 – FINANCIAL DERIVATIVE INSTRUMENTS (cont’d)

Derivative instruments for fair value hedge

As of 31 December 2022, the details of swap transactions for fair value hedge are as follows:

31 December 2022	Assets		Liabilities	
	Nominal value	Fair value	Nominal value	Fair value
<u>Forward contracts for sales</u>				
Buy USD/Sell EUR	Less than 3 months	-	17.666	1.582
		-	17.666	1.582

Cash flow hedging derivative financial assets

The Company's US Dollar purchase - EURO sales forward contracts, whose fair values are recognized in the other comprehensive income statement, are associated with the parity risk that will occur regarding the sales made in EURO. The sales contracts of these sales transactions have been finalized and their maturities vary between January 2023 and March 2023. Based on these transactions with a nominal value of TRY 359.780 thousand, for the purpose of hedging the cash flow risk, TRY (22.097) thousand, excluding the deferred tax effect, has been accounted for in the statement of other comprehensive income (31 December 2021: TRY 13.939 thousand).

In the current period, TRY 90.887 thousand arising from forward contracts regarding sales has been recognized in the revenue account of the profit or loss statement (31 December 2021: TRY 41.570 thousand).

NOTE 8 – BORROWINGS

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

	31 December 2022	31 December 2021
Short term bank borrowings	8.098.064	2.022.735
Short term portion of long term bank borrowings	590.387	741.499
Long term bank borrowings	3.062.306	2.016.952
Total bank borrowings	11.750.757	4.781.186
Current portion of long term lease payables	9.392	39.542
Cost of current portion of long term lease payables (-)	(611)	(1.891)
Long term lease payables	196.386	945.836
Cost of long term lease payables (-)	(139.113)	(711.852)
Total leases borrowings	66.054	271.635
Total borrowings	11.816.811	5.052.821

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

NOTE 8 – BORROWINGS (cont’d)

As of 31 December 2022, 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 2022
Fixed	US Dollars	8,48	4.061.589	-	4.061.589
Floating	US Dollars	Libor+1,94	31.014	2.161.995	2.193.009
Floating	EURO	Euribor+0,7	269.041	900.311	1.169.352
Fixed	TRY	21,53	4.326.807	-	4.326.807
			<u>8.688.451</u>	<u>3.062.306</u>	<u>11.750.757</u>

As of 31 December 2021, 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 2021
Fixed	US Dollars	1,29	2.469.539	-	2.469.539
Floating	US Dollars	Libor+2,12	3.265	1.253.168	1.256.433
No interest	TRY	-	18.615	-	18.615
Floating	EURO	Euribor+1,01	272.815	763.784	1.036.599
			<u>2.764.234</u>	<u>2.016.952</u>	<u>4.781.186</u>

The breakdown of loan repayment is as follows:

	31 December 2022			31 December 2021		
	Financial liabilities	Lease liabilities	Total liabilities	Financial liabilities	Lease liabilities	Total liabilities
Within 1 year	8.688.451	8.781	8.697.232	2.764.234	37.651	2.801.885
Between 1-2 years	1.154.909	9.314	1.164.223	191.768	34.180	225.948
Between 2-3 years	261.745	5.862	267.607	786.131	28.667	814.798
Between 3-4 years	261.603	4.371	265.974	138.300	23.211	161.511
Between 4-5 years	243.757	3.908	247.665	176.912	20.173	197.085
Five years or more	1.140.292	33.818	1.174.110	723.841	127.753	851.594
	<u>11.750.757</u>	<u>66.054</u>	<u>11.816.811</u>	<u>4.781.186</u>	<u>271.635</u>	<u>5.052.821</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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NOTE 8 – BORROWINGS (cont’d)

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

	31 December 2022	31 December 2021
Opening balance	4.781.186	964.311
Interest expenses	823.510	62.221
Interest paid	(391.640)	(33.751)
Unrealised foreign exchange differences	(727.496)	(106.510)
Cash inflow from loans	10.006.027	2.759.036
Capitalized finance expense	(24.703)	11.861
Cash outflow from loan repayment	(5.665.442)	(776.469)
Translation reserves	2.949.315	1.900.487
	<u>11.750.757</u>	<u>4.781.186</u>

Net financial debt reconciliation of debts from leasing transactions is as follows:

	1 January - 31 December 2022	1 January - 31 December 2021
Opening balance	271.635	231.369
The effect of the increase in the lease contract liability	(533.212)	41.411
Cash outflow effect	(49.717)	(36.953)
Increase in interest expenses	34.165	33.266
Exchange rate effect	343.183	2.542
Closing balance	<u>66.054</u>	<u>271.635</u>

NOTE 9 – TRADE RECEIVABLES AND PAYABLES

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

	31 December 2022	31 December 2021
<u>Short term trade receivables</u>		
Trade receivables	1.212.181	1.152.134
Due from related parties (Note 32)	2.785.853	1.619.882
Expected credit loss (-)	(8.349)	(5.871)
	<u>3.989.685</u>	<u>2.766.145</u>

The movements in the short-term expected credit loss provision are as follows:

	1 January- 31 December 2022	1 January- 31 December 2021
Opening balance	5.871	3.509
Provision for the period	305	109
Doubtful receivables collected (-)	(199)	(192)
Translation difference	2.372	2.445
Closing balance	<u>8.349</u>	<u>5.871</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

Trade receivables consist of receivables from the customer for products sold in normal work flow. The term of trade receivables is 45 to 50 days on average, and is classified as short-term trade receivables. The Company holds its trade receivables in order to collect the cash flows arising from the contract and therefore, measures the amortized cost by using the effective interest method.

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

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

The detail of overdue receivables included in trade receivables as of the reporting date is disclosed in the management of credit risk management Note 33.

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

In accordance with the “IFRS 9 Financial Instruments” standard, expected credit losses related to trade receivables were measured, but expected credit loss provisions did not have a significant impact on the financial statements.

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

	31 December 2022	31 December 2021
<u>Short term trade payables</u>		
Trade payables	3.057.001	2.705.772
Due to related parties (Note 32)	858.902	435.475
	<u>3.915.903</u>	<u>3.141.247</u>

Trade payables consist of payables to sellers for products or services purchased in the normal workflow. The average repayment period of commercial debts is approximately 35-40 days.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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NOTE 10 – OTHER RECEIVABLES AND PAYABLES

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

	31 December 2022	31 December 2021
<u>Short term other receivables</u>		
Other receivables from related parties (Note 32)	-	21.225
Receivables from water system construction	1.407	1.351
Receivables from Privatization Authority	43.637	37.795
Deposits and guarantees given	445	347
	<u>45.489</u>	<u>60.718</u>
	31 December 2022	31 December 2021
<u>Long term other receivables</u>		
Receivables from water system construction	6.107	5.900
	<u>6.107</u>	<u>5.900</u>

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

	31 December 2022	31 December 2021
<u>Short term other payables</u>		
Taxes payable	35.703	56.909
Deposits and guarantees received	13.736	13.841
Dividend payables to shareholders (*)	9.871	7.057
	<u>59.310</u>	<u>77.807</u>

(*) Dividend payable represents the uncollected balances by shareholders.

NOTE 11 – INVENTORIES

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

	31 December 2022	31 December 2021
Raw materials	7.188.423	4.564.939
Work in progress	5.151.216	3.568.046
Finished goods	2.090.850	1.527.976
Spare parts	1.992.963	1.260.562
Goods in transit	2.359.235	2.681.929
Other inventories	1.546.282	692.917
Allowance for impairment on inventories (-)	(890.550)	(377.367)
	<u>19.438.419</u>	<u>13.919.002</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

NOTE 11 – INVENTORIES (cont’d)

The movement of the allowance for impairment on inventories:

	1 January – 31 December 2022	1 January – 31 December 2021
Opening balance	377.367	211.305
Provision for the period	292.179	-
Provision released (-)	(3.770)	(4.011)
Translation difference	224.774	170.073
Closing balance	<u>890.550</u>	<u>377.367</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 23).

NOTE 12 – PREPAID EXPENSES

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

	31 December 2022	31 December 2021
Insurance expenses	122.061	236.668
Order advances given	30.846	7.066
Prepaid utility allowance to employees	8.684	4.949
Other prepaid expenses	5.171	22.719
	<u>166.762</u>	<u>271.402</u>

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

	31 December 2022	31 December 2021
Fixed asset advances given to related parties (Note 32)	36.241	44.650
Fixed asset advances given to other parties	1.107.311	729.293
Insurance expenses	-	106.732
	<u>1.143.552</u>	<u>880.675</u>

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 36)

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

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

The details of the Company's tangible assets as of the reporting period are as follows:

	Land	Land Improvements	Buildings	Machinery and equipment	Vehicles	Furniture and Fixtures	Other Property, Plant and Equipment	Construction in Progress (CIP)	Total
Cost									
Opening balance as of 1 January 2022	408.401	8.887.850	10.055.733	36.529.278	3.315.097	1.543.119	108.193	5.203.935	66.051.606
Translation difference	164.554	3.638.068	4.088.404	15.029.204	1.346.085	633.590	46.005	2.504.817	27.450.727
Additions (*)	155	2.028	277	205.569	3.672	28.532	5.129	3.172.500	3.417.862
Transfers from CIP (**)	-	227.209	149.034	1.078.359	53.629	30.265	569	(1.553.175)	(14.110)
Disposals	-	(167)	-	(38.598)	(15.008)	(11.318)	(1.543)	-	(66.634)
Closing balance as of 31 December 2022	573.110	12.754.988	14.293.448	52.803.812	4.703.475	2.224.188	158.353	9.328.077	96.839.451
Accumulated Depreciation									
Opening balance as of 1 January 2022	-	(6.952.771)	(7.177.425)	(21.536.039)	(1.924.894)	(843.582)	(98.374)	(151.572)	(38.684.657)
Translation difference	-	(2.843.372)	(2.953.154)	(8.906.075)	(803.278)	(354.683)	(41.701)	(61.057)	(15.963.320)
Charge for the period	-	(168.987)	(245.292)	(949.579)	(123.068)	(69.670)	(4.314)	-	(1.560.910)
Disposals	-	131	-	34.937	12.572	10.745	1.543	-	59.928
Closing balance as of 31 December 2022	-	(9.964.999)	(10.375.871)	(31.356.756)	(2.838.668)	(1.257.190)	(142.846)	(212.629)	(56.148.959)
Net book value as of 31 December 2021	408.401	1.935.079	2.878.308	14.993.239	1.390.203	699.537	9.819	5.052.363	27.366.949
Net book value as of 31 December 2022	573.110	2.789.989	3.917.577	21.447.056	1.864.807	966.998	15.507	9.115.448	40.690.492

(*) The amount of capitalized borrowing cost is TRY (24.703) thousand for the current period.

(**) TRY 14.110 thousand is transferred to intangible assets (Note 14).

As of 31 December 2022, the Company has no collaterals or pledges on tangible assets.

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 36)

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

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

	Land	Land Improvements	Buildings	Machinery and equipment	Vehicles	Furniture and Fixtures	Other Property, Plant and Equipment	Construction in Progress (CIP)	Total
Cost									
Opening balance as of 1 January 2021	223.448	4.831.855	5.452.063	20.035.804	1.804.949	837.672	55.324	1.288.912	34.530.027
Translation difference	183.266	3.983.635	4.504.865	16.399.648	1.486.274	691.455	49.728	2.098.890	29.397.761
Additions (*)	1.687	1.443	-	106.888	7.895	14.708	2.562	2.137.659	2.272.842
Transfers from CIP (**)	-	70.917	99.390	114.617	19.288	3.372	642	(321.526)	(13.300)
Disposals	-	-	(585)	(127.679)	(3.309)	(4.088)	(63)	-	(135.724)
Closing balance as of 31 December 2021	408.401	8.887.850	10.055.733	36.529.278	3.315.097	1.543.119	108.193	5.203.935	66.051.606
Accumulated Depreciation									
Opening balance as of 1 January 2021	-	(3.735.663)	(3.837.436)	(11.454.804)	(1.005.389)	(434.027)	(49.971)	(83.473)	(20.600.763)
Translation difference	-	(3.109.608)	(3.207.216)	(9.614.300)	(856.529)	(374.375)	(45.324)	(68.099)	(17.275.451)
Charge for the period	-	(107.500)	(133.171)	(592.298)	(66.020)	(38.862)	(3.142)	-	(940.993)
Disposals	-	-	398	125.363	3.044	3.682	63	-	132.550
Closing balance as of 31 December 2021	-	(6.952.771)	(7.177.425)	(21.536.039)	(1.924.894)	(843.582)	(98.374)	(151.572)	(38.684.657)
Net book value as of 31 December 2020	223.448	1.096.192	1.614.627	8.581.000	799.560	403.645	5.353	1.205.439	13.929.264
Net book value as of 31 December 2021	408.401	1.935.079	2.878.308	14.993.239	1.390.203	699.537	9.819	5.052.363	27.366.949

(*) The amount of capitalized borrowing cost is TRY 11.861 thousand for the current period.

(**) TRY 13.300 thousand is transferred to intangible assets (Note 14).

As of 31 December 2021, the Company has no collaterals or pledges on tangible assets.

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 36)

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

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

	31 December 2022	31 December 2021
Associated with cost of production	1.498.161	898.996
General administrative expenses	10.176	5.378
Marketing, sales and distribution expenses	52.573	36.619
	<u>1.560.910</u>	<u>940.993</u>

NOTE 14 – INTANGIBLE ASSETS

As of the balance sheet date, the details of the Company’s intangible assets are as follows:

	Rights
<u>Cost</u>	
Opening balance as of 1 January 2022	1.078.849
Translation difference	445.554
Additions	29.333
Transfers from CIP	14.110
Closing balance as of 31 December 2022	<u>1.567.846</u>
<u>Accumulated amortization</u>	
Opening balance as of 1 January 2022	(529.279)
Translation difference	(222.766)
Charge for the period	(37.874)
Closing balance as of 31 December 2022	<u>(789.919)</u>
Net book value as of 31 December 2021	<u>549.570</u>
Net book value as of 31 December 2022	<u>777.927</u>

As of 31 December 2022, the Company has no collaterals or pledges on intangible assets.

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 36)

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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NOTE 14 – INTANGIBLE ASSETS (cont’d)

	<u>Rights</u>
<u>Cost</u>	
Opening balance as of 1 January 2021	578.179
Translation difference	482.291
Additions	5.084
Transfers from CIP	13.300
Disposals	(5)
Closing balance as of 31 December 2021	<u>1.078.849</u>
<u>Accumulated amortization</u>	
Opening balance as of 1 January 2021	(274.736)
Translation difference	(235.257)
Charge for the period	(19.288)
Disposals	2
Closing balance as of 31 December 2021	<u>(529.279)</u>
Net book value as of 31 December 2020	<u>303.443</u>
Net book value as of 31 December 2021	<u>549.570</u>

As of 31 December 2021, the Company has no collaterals or pledges on intangible assets.

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

	<u>31 December 2022</u>	<u>31 December 2021</u>
Associated with cost of production	37.874	19.288
	<u>37.874</u>	<u>19.288</u>

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

NOTE 15 – RIGHT OF USE ASSETS

As of the reporting date the movement of right of use assets is as follows:

	Right to Use Land	Vehicle Leases	Total
<u>Cost</u>			
Opening balance as of 1 January 2022	628.491	19.477	647.968
Additions to assets of operating lease	86.556	4.534	91.090
Disposals (-)	-	(2.092)	(2.092)
Liability reduction effect of lease agreements	(698.458)	-	(698.458)
Translation difference	98.804	8.462	107.266
Closing balance as of 31 December 2022	115.393	30.381	145.774
<u>Accumulated Depreciation</u>			
Opening balance as of 1 January 2022	59.704	4.820	64.524
Charge for the period	23.031	7.638	30.669
Disposals (-)	-	(2.092)	(2.092)
Liability reduction effect of lease agreements	(77.363)	-	(77.363)
Translation difference	10.343	3.341	13.684
Closing balance as of 31 December 2022	15.715	13.707	29.422
Net book value as of 31 December 2022	99.678	16.674	116.352

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

	Right to Use Land	Vehicle Leases	Total
<u>Cost</u>			
Opening balance as of 1 January 2021	318.054	7.702	325.756
Additions to assets of operating lease	32.324	9.930	42.254
Disposals (-)	-	(6.447)	(6.447)
Translation difference	278.113	8.292	286.405
Closing balance as of 31 December 2021	628.491	19.477	647.968
<u>Accumulated Depreciation</u>			
Opening balance as of 1 January 2021	20.485	4.673	25.158
Charge for the period	14.275	3.377	17.652
Disposals (-)	-	(5.702)	(5.702)
Translation difference	24.944	2.472	27.416
Closing balance as of 31 December 2021	59.704	4.820	64.524
Net book value as of 31 December 2021	568.787	14.657	583.444

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

NOTE 15 – RIGHT OF USE ASSETS (cont’d)

As of the reporting date the items right of use assets recognized in profit or loss is as follows:

	31 December 2022	31 December 2021
Amortization of assets to operating lease (Note 25,26)	30.669	17.652
Interest expense from lease transactions (Note 29)	34.165	33.266

The net book value of the right-of-use assets acquired through the lease is as follows:

	31 December 2022	31 December 2021
Right to use land	99.678	568.787
Vehicle leases	16.674	14.657
	<u>116.352</u>	<u>583.444</u>

The area where the Company's campus and port facilities are located; Within the scope of Law No. 4737, İskenderun Demir ve Çelik A.Ş. Hatay Special Industrial Zone "İsdemir SIZ" has been declared.

In 2022, according to the 34th article of the Industrial Zones Regulation and the 12th article of the Regulation on the Administration of Treasury Immovables, the usage permits for ports and filling areas within the borders of İsdemir SIZ, which are under the jurisdiction and disposal of the state, have been revised in terms of duration and cost. The unit price of the usage permit contracts within the boundaries of the SIZ was calculated as 1 per thousand of the real estate market value, and the contract duration was extended until 2071, 49 years from the date of the contract revision.

In line with the explanations above; the usage permits of the Company for the port areas belonging to the General Directorate of National Estate outside the borders of İsdemir SIZ will expire in 2050 and 2071. The values of the real estates are measured at their present value by reducing the borrowing rate of 12-16% in the first calculation. The use permit agreement for the forest land belonging to the General Directorate of Forestry the forest land use permit period will expire in 2068. The value of the property is measured at its present value by reducing the borrowing rate of 12% in the first calculation. Moreover, Vehicle rental contracts with usage permits between 2022 and 2025 and measured at present value by reducing the borrowing rate of 8%-27% in the first calculation are also accounted for in line with the explanations stated. Right of use in the statement of financial position of lease agreements assets and borrowings (Note 8) are accounted for in the notes.

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

	31 December 2022	31 December 2021
General administrative expenses	7.638	3.377
Other operating expenses	23.031	14.275
	<u>30.669</u>	<u>17.652</u>

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NOTE 16 – GOVERNMENT GRANTS AND INCENTIVES

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

- Incentives under the jurisdiction of the research and development law,
- Cash incentives from Tübitak – Teydeb for cost of research and development,
- Inward processing permission certificates and Social Security Institution incentives,
- Social Security Institution incentives
- Insurance premium employer share incentive.

Research and development incentive premiums received or certain to be received amounts to TRY 4.058 thousand (31 December 2021: TRY 1.324 thousand) which are considered as a deduction subject in the calculation of corporate tax as of the reporting date.

NOTE 17 – EMPLOYEE BENEFITS

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

	31 December 2022	31 December 2021
Due to personnel	219.267	81.359
Social security premiums payable	81.996	18.263
	<u>301.263</u>	<u>99.622</u>

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

	31 December 2022	31 December 2021
Provisions for employee termination benefits	1.171.313	505.562
Provisions for seniority incentive premium	85.832	90.872
Provision for unpaid vacations	100.110	51.363
	<u>1.357.255</u>	<u>647.797</u>

According to the Turkish Labor Law, the company is obliged to pay severance pay to every employee who has completed at least one year of service and retired after 25 years of working life, who has been dismissed, called for military service or died.

As of 31 December 2022, the amount payable consists of one month’s salary limited to a maximum of TRY 15.371,40 (31 December 2021: TRY 8.284,51) As of 1 January 2023, the employee termination benefit has been updated to a maximum of TRY 19.882,83.

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

The employee termination benefit has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees. TAS 19 (“Employee Benefits”) requires actuarial valuation methods to be developed to estimate the Company’s obligation under defined benefit plans. The obligation as of 31 December 2022 has been calculated by an independent actuary and projected unit credit method is used in the calculation.

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NOTE 17 – EMPLOYEE BENEFITS (cont’d)

The actuarial assumptions used in the calculation of the present value of the future probable obligation are as follows:

	31 December 2022	31 December 2021
Discount rate	%16,19	%19,00
Inflation rate	%14,23	%15,00

Discount rates are determined considering the expected duration of the retirement obligations and the currency in which the obligations will be paid. In calculations as of 31 December 2022, a fixed discount rate is used. Long term inflation estimates are made using an approach consistent with discount rate estimates and long term inflation rate fixed over years is used.

The anticipated rate of resignation which do not result in the payment of employee benefits is also considered in the calculation. The anticipated rate of resignation is assumed to be related with the past experience, therefore past experiences of employees are analyzed and considered in the calculation. In the actuarial calculation as of 31 December 2022, the anticipated rate of resignation is considered to be inversely proportional to the past experience. The anticipated rate of resignation is between 2%-0% for the employees with past experience between 0-15 years or over.

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

	1 January – 31 December 2022	1 January – 31 December 2021
Opening balance	505.562	313.567
Service cost	38.552	23.023
Interest cost	106.327	48.104
Actuarial loss / gain	536.843	140.234
Termination benefits paid	(30.977)	(24.105)
Translation difference	15.006	4.739
Closing balance	1.171.313	505.562

The principal assumptions used in the calculation of retirement pay liability are discount rate and anticipated turnover rate. All other variables were held constant, the sensitivity analysis of the assumptions which was used for the calculation of provision for employment termination benefits as of 31 December 2022 as follows:

	Interest rate	
Change in Rate	1% increase	1% decrease
Change in employee benefits liability	(94.553)	108.735
	Inflation rate	
Change in Rate	1% increase	1% decrease
Change in employee benefits liability	109.708	(96.856)

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

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NOTE 17 – EMPLOYEE BENEFITS (cont’d)

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

	1 January – 31 December 2022	1 January – 31 December 2021
Opening balance	90.872	50.568
Service cost	8.359	5.931
Interest cost	13.895	7.983
Actuarial loss/(gain)	45.124	28.361
Termination benefits paid	(60.299)	(2.059)
Translation difference	(12.119)	88
Closing balance	<u>85.832</u>	<u>90.872</u>

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

	1 January – 31 December 2022	1 January – 31 December 2021
Opening balance	51.363	39.021
Provision for the period	91.468	51.955
Vacation paid during the period (-)	(4.957)	(2.790)
Provisions released (-)	(41.645)	(36.505)
Translation difference	3.881	(318)
Closing balance	<u>100.110</u>	<u>51.363</u>

NOTE 18– PROVISIONS

The Company’s short term provisions are as follows:

	31 December 2022	31 December 2021
Provision for lawsuits	111.276	68.859
Penalty provision for employment shortage of disabled person	8.443	9.932
Provision for land occupation	1.885	2.993
	<u>121.604</u>	<u>81.784</u>

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NOTE 18 – PROVISIONS (cont’d)

The movement of the short term provisions is as follows:

	1 January 2022	Change for the period	Payments	Provision released	Translation Difference	31 December 2022
Provision for lawsuits	68.859	34.595	(694)	(1.136)	9.652	111.276
Penalty provision for employment shortage of disabled personnel	9.932	-	-	(1.348)	(141)	8.443
Provision for land occupation	2.993	1.126	(634)	(1.445)	(155)	1.885
	<u>81.784</u>	<u>35.721</u>	<u>(1.328)</u>	<u>(3.929)</u>	<u>9.356</u>	<u>121.604</u>

	1 January 2021	Change for the period	Payments	Provision released	Çevrim farkı	31 December 2021
Provision for lawsuits	49.763	26.748	(696)	(17.650)	10.694	68.859
Penalty provision for employment shortage of disabled personnel	9.938	376	-	(270)	(112)	9.932
Provision for land occupation	2.542	657	-	(270)	64	2.993
	<u>62.243</u>	<u>27.781</u>	<u>(696)</u>	<u>(18.190)</u>	<u>10.646</u>	<u>81.784</u>

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NOTE 18 – PROVISIONS (cont’d)

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

	31 December 2022	31 December 2021
Lawsuits filed by the Company	166.282	165.908
Lawsuits filed against the Company	7.187	5.171

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

	31 December 2022	31 December 2021
Lawsuits filed against the Company	75.531	49.756
Provision for lawsuits filed by the Company	111.276	68.859

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

The claims filed every month since May 2012 for refunding of taxes paid and deduction thereof from Electric and Coal Gas Tax collected by the Municipality on the Electric and Coal Gas consumption quantity produced by the Company in the facilities and used for industrial production of the Company were concluded in the court of first instance and the Council of State against the company. Thereafter, the Company used its right on 15 January 2015 to apply the Constitutional Court individually. As a result of the General Assembly Resolution of the Supreme Court the Company, which was issued on 25 October 2018 and published in the Official Gazette on 25 December 2018, was notified and stated that the property rights of the Company were violated, and retrial was decided 22 trials for the applicable claims to eliminate the consequences of the violation of the property rights.

Similarly, it was decided by the Supreme Court that it was combined within the scope of our individual application and that the Company's right to property was violated in 34 cases that were concluded, and that the trials in the relevant lawsuits were taken to eliminate the consequences of the violation of the right to property.

56 lawsuits, which were decided to be retrial by the Constitutional Court, were heard again at the Hatay Tax Court, and the Local Court decided to accept the cases in favor of the Company. In addition, in 9 cases, based on the decision of the Constitutional Court, in favor of the Hatay 1st Tax Court, and in favor of the Adana Regional Court of Justice after the Council of State reversed 12 cases, the cases were decided to be accepted in a total of 68 cases. 58 of these 68 files have been finalized in favor of the Company. The total number of lawsuits filed by the company in this regard is 80, and the Constitutional Court's review for 3 files is still ongoing.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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NOTE 19 – COMMITMENTS

The guarantees received by the Company are as follows:

	31 December 2022	31 December 2021
Letters of guarantees received	3.694.662	2.503.967
	<u>3.694.662</u>	<u>2.503.967</u>

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

	31 December 2022	31 December 2021
A. Total CPM given for the Company's own legal entity	78.776	64.495
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>78.776</u>	<u>64.495</u>

As of reporting period, the ratio of the other CPM given by the Company consist of letters of guarantee to shareholders equity is 0% (31 December 2021: 0%).

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

	31 December 2022	31 December 2021
TRY	38.906	34.321
EURO	39.870	30.174
	<u>78.776</u>	<u>64.495</u>

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NOTE 20 – OTHER ASSETS AND LIABILITIES

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

Other current assets

	31 December 2022	31 December 2021
Other VAT receivable	221.819	81.634
Deferred VAT	904.017	13.943
Prepaid taxes and funds	8.377	5.841
Other current assets	11.561	41
	<u>1.145.774</u>	<u>101.459</u>

Other current liabilities

	31 December 2022	31 December 2021
Other current liabilities	6.837	3.114
	<u>6.837</u>	<u>3.114</u>

NOTE 21 – DEFERRED REVENUE

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

	31 December 2022	31 December 2021
Advances received	237.036	501.777
Deferred income	8.967	14.386
	<u>246.003</u>	<u>516.163</u>

NOTE 22 – EQUITY

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

	(%)	31 December 2022	(%)	31 December 2021
<u>Shareholders</u>				
Ereğli Demir ve Çelik Fabrikaları T.A.Ş.	94,87	2.751.326	94,87	2.751.326
Quoted in Stock Exchange	5,13	148.674	5,13	148.674
Historical capital		2.900.000		2.900.000
Effect of inflation		164		164
Restated capital		<u>2.900.164</u>		<u>2.900.164</u>

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NOTE 22 – EQUITY (cont’d)

As of the balance sheet date, the other equity items are as follows:

<u>Other equity items</u>	31 December 2022	31 December 2021
Cash Flow Hedging Reserves (Loss)/ Gain	(6.538)	10.809
Foreign Currency Translation Reserves	31.862.614	23.667.446
Actuarial (Loss)/ Gain Fund	(595.956)	(166.482)
Restricted Reserves Assorted from Profit	3.049.060	2.193.560
<i>-Legal Reserves</i>	<i>3.049.060</i>	<i>2.193.560</i>
Retained Earnings	7.864.483	4.083.318
	<u>42.173.663</u>	<u>29.788.651</u>

According to the Turkish Commercial Code (“TCC”), legal reserves split up as the first legal reserves and the second legal reserves. According to the Turkish Commercial Code 5% of the profit shall be allocated as the first legal reserves, up to 20% of the paid/ issued capital. After deducting dividends .135 amounting to 5% of the paid/issued capital from the part decided to be allocated; 10% percent of the remaining balance shall be appropriated to second legal reserves. According to the “TCC”, as long as the legal reserves do not exceed 50% of the paid-in capital, they can only be used to offset losses and cannot be used in any other way.

The sources which might be used in dividend distribution, including to accumulated profits to TRY 3.596.834 thousand and the net profit for the period to TRY 13.445.462 thousand, in statutory books of the Company are equal to TRY 17.042.296 thousand as of reporting date.

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

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

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NOTE 23 – SALES AND COST OF SALES

The Company derives its revenue from the transfer of goods at a point in time in the following major product lines. The amount of performance obligations in the ongoing contracts of the Company will be eligible for recognition in the future is TRY 237.036 thousand. (Note 21) The Company planning to recognize related revenue amount as a revenue in a year.

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

	1 January - 31 December 2022	1 January - 31 December 2021
<u>Sales Revenue</u>		
Domestic sales	51.335.016	28.782.739
Export sales	8.361.057	6.944.398
Other revenues (*)	2.131.940	730.301
Interest income from sales with maturities	192.078	46.781
Sales returns (-)	(9.607)	(4.703)
	<u>62.010.484</u>	<u>36.499.516</u>
<u>Cost of sales (-)</u>	<u>(52.638.815)</u>	<u>(22.780.744)</u>
Gross profit	<u>9.371.669</u>	<u>13.718.772</u>

(*)The total amount of by product exports in other revenues is TRY 764.126 thousand (31 December 2021: TRY 393.723 thousand).

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

	1 January - 31 December 2022	1 January - 31 December 2021
Raw material usage	(41.966.603)	(19.178.174)
Personnel costs	(1.378.704)	(789.907)
Energy costs	(3.232.284)	(739.283)
Depreciation and amortization expenses	(1.513.623)	(868.013)
Factory overheads	(369.885)	(318.301)
Other cost of goods sold	(2.809.431)	(405.421)
Non-operating costs (*)	(150.886)	(40.259)
Freight costs for sales delivered to customers	(511.484)	(346.604)
Allowance for impairment on inventories for the period (Note 11)	(292.179)	-
Reversal of inventory write-downs (Note 11)	3.770	4.011
Other	(417.506)	(98.793)
	<u>(52.638.815)</u>	<u>(22.780.744)</u>

(*) TRY (150.886 thousand) of unallocated expenses due to the planned/ unplanned halt in the production plant of the Company, has been accounted directly under cost of goods sold (31 December 2021: TRY (40.259) thousand).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

NOTE 24 – RESEARCH AND DEVELOPMENT EXPENSES, MARKETING EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

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

	1 January - 31 December 2022	1 January - 31 December 2021
Marketing, sales and distribution expenses (-)	(289.691)	(159.188)
General administrative expenses (-)	(473.749)	(213.856)
Research and development expenses (-)	(840)	(452)
	<u>(764.280)</u>	<u>(373.496)</u>

NOTE 25 – OPERATING EXPENSES ACCORDING TO THEIR NATURE

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

	1 January - 31 December 2022	1 January - 31 December 2021
Personnel expenses (-)	(56.951)	(33.789)
Depreciation and amortization(-)	(52.573)	(36.619)
Tax, duty and charges (-)	(325)	(963)
Service expenses (-)	(179.842)	(87.817)
	<u>(289.691)</u>	<u>(159.188)</u>

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

	1 January - 31 December 2022	1 January - 31 December 2021
Personnel expenses (-)	(147.516)	(67.831)
Depreciation and amortization expenses (-)	(10.176)	(5.378)
Amortization expense of right of use (-)	(7.638)	(3.377)
Provision for doubtful receivables (-) net	(106)	83
Tax, duty and charges (-)	(5.713)	(11.619)
Service expenses (-)	(302.600)	(125.734)
	<u>(473.749)</u>	<u>(213.856)</u>

Fees for services received from an independent audit firm

Based on the Board Decision of the Public Oversight, Accounting and Auditing Standards Authority published in the "POA" Official Gazette, the fees related to the services received from the independent auditor/independent audit firm as of the reporting period are as follows:

	1 January - 31 December 2022	1 January - 31 December 2021
Auditing fee for the reporting period	(845)	(359)
	<u>(845)</u>	<u>(359)</u>

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NOTE 26 – OTHER OPERATING INCOME/EXPENSES

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

<u>Other operating income</u>	<u>1 January- 31 December 2022</u>	<u>1 January- 31 December 2021</u>
Foreign exchange gains from trade receivables and payables	21.167	-
Discount income	2.061	-
Provisions released	2.484	17.920
Service income	17.850	9.308
Maintenance repair and rent income	17.125	14.586
Lawsuit income	498	497
Indemnity and penalty detention income	13.732	8.101
Insurance indemnity income	483.217	9.881
Warehouse income	19.612	1.568
Customers delay interest income	3.175	263
Other income and gains	54.928	27.875
	<u>635.849</u>	<u>89.999</u>

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

<u>Other operating expenses (-)</u>	<u>1 January - 31 December 2022</u>	<u>1 January - 31 December 2021</u>
Provision expenses	(34.595)	(27.124)
Donation expenses	(38.107)	(4.431)
Discount expenses	-	(1.643)
Amortization expenses of right of use	(23.031)	(14.275)
Foreign exchange expenses from trade receivables and payables	-	(340.123)
Penalty expenses	(669)	(5.719)
Service expenses	(9.829)	(2.568)
Lawsuit compensation expenses	(2.782)	(4.777)
Other expenses and losses	(31.056)	(25.153)
	<u>(140.069)</u>	<u>(425.813)</u>

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NOTE 27 – INVESTING ACTIVITIES INCOME/EXPENSES

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

	1 January - 31 December 2022	1 January - 31 December 2021
<u>Income from Investing Activities</u>		
Gain on sales of tangible assets	410	108
Net gain/(loss) on financial assets at fair value profit / (loss)	1.879	-
	<u>2.289</u>	<u>108</u>

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

	1 January- 31 December 2022	1 January- 31 December 2021
<u>Expenses from Investing Activities</u>		
Loss on sales of tangible assets	(56)	(38)
Loss on disposal of tangible assets	(3.584)	(2.774)
	<u>(3.640)</u>	<u>(2.812)</u>

NOTE 28 – FINANCE INCOME

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

	1 January - 31 December 2022	1 January - 31 December 2021
<u>Finance income</u>		
Interest income on bank deposits	561.045	143.103
Interest income on related party	68	681.532
Fair value differences of derivative financial instruments (net)	93.547	23.476
Other financial income	-	21.214
	<u>654.660</u>	<u>869.325</u>

NOTE 29 – FINANCE EXPENSES

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

	1 January- 31 December 2022	1 January- 31 December 2021
<u>Finance expenses (-)</u>		
Interest expenses on borrowings	(823.510)	(62.221)
Foreign exchange loss (net)	(637.133)	(3.558.495)
Interest cost of employee benefits	(120.222)	(56.087)
Interest expenses on leases	(34.165)	(33.266)
Other financial expenses	(14.011)	(3.236)
	<u>(1.629.041)</u>	<u>(3.713.305)</u>

During the period, the interest expenses of TRY (24.703) thousand have been capitalized as part of the Company’s property, plant and equipment (31 December 2021: TRY 11.861 thousand).

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NOTE 30 – TAX ASSETS AND LIABILITIES

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

	31 December 2022	31 December 2021
<u>Corporate tax payable:</u>		
Current corporate tax expense	3.954.588	4.615.442
Prepaid taxes and funds (-)	(3.835.629)	(2.747.318)
	<u>118.959</u>	<u>1.868.124</u>
	1 January - 31 December 2022	1 January - 31 December 2021
<u>Taxation:</u>		
Current corporate tax expense	3.152.228	2.922.007
Deferred tax expense/(income)	(1.681.837)	766.675
	<u>1.470.391</u>	<u>3.688.682</u>

Corporate tax

The Company is subject to corporation tax applicable in Turkey. The necessary provisions are allocated in the financial statements for the estimated liabilities based on the Company’s results for the year.

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 other deductions (retained losses if any, used investment allowance if required).

The effective corporate tax rate is 22% as of reporting date (2021: 25%).

The total amount of the corporate tax paid by the Company in 2022 is TRY 5.703.753 thousand (31 December 2021: TRY 3.104.152 thousand).

In Turkey, advance tax returns are filed on a quarterly basis. The temporary tax of 2022 has been calculated over the corporate earnings using the rate 22%, during the temporary taxation period. (31 December 2021: 25%).

Pursuant to the Provisional Article of the Law on Corporate Income Tax added with the Article 11 of the Law No. 7316, published in the Official Gazette dated April 22, 2021 and numbered 31462, corporate tax rate for the corporate earnings for the 2022 taxation period has been determined as 23% With the amendment added to Article 32 of the Corporate Income Tax Law, these rates will be applied with a discount of 1 point to the earnings from production activities and exports.

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NOTE 30 – TAX ASSETS AND LIABILITIES (cont’d)

Corporate tax (cont’d)

Except for the change in the corporate tax rate, the exemption rate applied to the gains arising from the sale of immovables is 50%, and the tax rate to be applied to the deferred tax to be calculated over the temporary differences that arise in case of revaluation of the relevant assets should be considered as 10% in case the book value of the relevant immovable is recovered through sales.

Losses can be carried forward to offset the future taxable income for up to maximum 5 years. However, losses cannot be carried back to offset the profits of the previous periods, retrospectively.

In Turkey, a definite and distinct reconciliation procedure for tax assessment does not exist. Companies file their tax returns between 1 April - 25 April following the closing period of the related year’s accounts. Tax returns and related accounting records may be examined and revised by tax authority within five years.

In accordance with the Tax Procedure Law No. 7352 and the Law on the Amendment of the Corporate Tax Law published in the Official Gazette dated 29 January 2022 and numbered 31734, the application of inflation adjustment in the financial statements prepared according to the tax procedure law was postponed to 31 December 2023.

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes on dividends distributed, except for the dividends distributed to fully fledged taxpayer companies receiving and declaring these dividends and to Turkish branches of foreign companies. The rate of %10 income withholding tax is applied since 22 December 2021 by the decision of the Presidential Decree, No 4936. Undistributed dividends incorporated in share capital are not subject to the income withholding taxes.

Deferred tax

The Company recognizes deferred tax assets and liabilities based upon the temporary differences arising between its statutory financial statements and its financial statements prepared in accordance with the TFRS. These differences usually result in the recognition of some income and expenses statutory in different reporting periods in the financial statements prepared according to TFRS.

The tax rate used in the calculation of deferred tax assets and liabilities (excluding land and land) is based on 20%. Deferred tax on temporary timing differences arising from land and land is calculated with 10% (31 December 2021: 10%).

Provisional Article 32 of the Tax Procedure Law and repeated Article 298-Ç; Taxpayers are allowed to revalue their depreciable economic assets and immovables with tax as of 31 December 2021 and tax-free in the following period, respectively. Within this framework, a revaluation has been made in the legal financial statements, and as a result of the revaluation, a deferred tax asset of TRY 1.618.383 thousand has been recorded in the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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NOTE 30 – TAX ASSETS AND LIABILITIES (cont’d)

Deferred tax (cont’d)

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

	31 December 2022	31 December 2021
<u>Deferred tax assets:</u>		
Tangible and intangible assets revaluation adjustment	1.618.383	-
Provisions for employee benefits	271.451	130.994
Leasing payables	13.211	54.327
Provision for lawsuits	22.021	15.198
Adjustment of receivable rediscount	3.990	4.949
Fair values of the derivative financial instruments	1.948	-
Other	57.057	33.044
	<u>1.988.061</u>	<u>238.512</u>
<u>Deferred tax liabilities:</u>		
Tangible and intangible fixed assets	(6.690.657)	(4.504.212)
Right of use assets	(23.312)	(117.305)
Amortized cost adjustment on loans	(21.501)	(12.328)
Fair values of the derivative financial instruments	-	(11.394)
Inventories	(188.098)	(699.803)
	<u>(6.923.568)</u>	<u>(5.345.042)</u>
<u>Deferred tax assets/(liabilities) net:</u>	<u>(4.935.507)</u>	<u>(5.106.530)</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.

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

	1 January - 31 December 2022	1 January - 31 December 2021
Opening balance	(5.106.530)	(2.158.103)
Deferred tax (expense)/income	1.681.837	(766.675)
The amount in comprehensive income/(expense)	111.706	24.998
Translation difference	(1.622.520)	(2.206.750)
Closing balance	<u>(4.935.507)</u>	<u>(5.106.530)</u>

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NOTE 30 – TAX ASSETS AND LIABILITIES (cont’d)

Deferred tax (cont’d)

Reconciliation of tax provision is as follows:

<u>Reconciliation of tax provision</u>	<u>1 January- 31 December 2022</u>	<u>1 January- 31 December 2021</u>
Profit before tax	8.196.588	10.157.036
Statutory tax rate	22%	25%
Calculated tax acc. to effective tax rate	(1.803.249)	(2.539.259)
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	(10.697)	(2.455)
- Tangible and intangible assets revaluation tax effect	1.618.383	-
- Non-taxable income	119	3.082
- Effect of currency translation (*)	(1.274.947)	(1.150.050)
Tax expense in reported in the statement of income	<u>(1.470.391)</u>	<u>(3.688.682)</u>

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

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

<u>Other comprehensive income/(loss)</u>	<u>1 January -31 December 2022</u>		
	<u>Amount before tax</u>	<u>Tax income/ (expense)</u>	<u>Amount after tax</u>
Change in actuarial (loss)/gain	(536.843)	107.369	(429.474)
Change in cash flow hedging reserves	(21.684)	4.337	(17.347)
Change in foreign currency translation reserves	15.063.479	-	15.063.479
	<u>14.504.952</u>	<u>111.706</u>	<u>14.616.658</u>

<u>Other comprehensive income/(loss)</u>	<u>1 January -31 December 2021</u>		
	<u>Amount before tax</u>	<u>Tax income/ (expense)</u>	<u>Amount after tax</u>
Change in actuarial (loss)/gain	(140.234)	28.047	(112.187)
Change in cash flow hedging reserves	13.858	(3.049)	10.809
Change in foreign currency translation reserves	18.871.376	-	18.871.376
	<u>18.745.000</u>	<u>24.998</u>	<u>18.769.998</u>

NOTE 31 – EARNINGS PER SHARE

	<u>1 January - 31 December 2022</u>	<u>1 January - 31 December 2021</u>
<u>Number of shares outstanding</u>	290.000.000.000	290.000.000.000
Net profit attributable to equity holders - TRY thousand	6.726.197	6.468.354
Profit per share with 1 TRY nominal value TRY %	2,3194 / %231,94	2,2305 / %223,05

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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NOTE 32 – RELATED PARTY DISCLOSURES

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

Trade receivables and payables from related parties operated as current account. Debt collection and debt payment days are between 0 and 30.

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

	31 December 2022	31 December 2021
<u>Due from related parties (short term)</u>		
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	2.585.187	1.573.663
OYAK Çimento Fabrikaları A.Ş. ⁽³⁾	45.535	33.642
OYAK İnşaat A.Ş. ⁽³⁾	-	5
OYAK Sentetik Karbon Ürünleri San. Ve Tic. A.Ş. ⁽³⁾	36	3
Erdemir Asia Pacific PTE LTD ⁽²⁾	57	-
Erdemir Romania SRL ⁽²⁾	128.448	-
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽⁴⁾	26.590	12.569
	<u>2.785.853</u>	<u>1.619.882</u>

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

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

	31 December 2022	31 December 2021
<u>Other receivables from related parties (short term)</u>		
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	-	21.225
	<u>-</u>	<u>21.225</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:

	31 December 2022	31 December 2021
<u>Prepaid expenses (long term)</u>		
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	36.241	44.650
	<u>36.241</u>	<u>44.650</u>

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

(1) Immediate parent company

(2) Subsidiaries of the immediate parent company

(3) Subsidiaries of the ultimate company

(4) Joint Managing Company

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NOTE 32 – RELATED PARTY DISCLOSURES (cont’d)

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

<u>Due to related parties (short term)</u>	<u>31 December 2022</u>	<u>31 December 2021</u>
Erdemir Madencilik San. ve Tic. A.Ş. ⁽²⁾	612.241	241.994
OYAK Pazarlama Hizmet ve Turizm A.Ş. ⁽³⁾	25.945	10.036
Erdemir Asia Pacific PTE LTD ⁽²⁾	-	96.114
Omsan Lojistik A.Ş. ⁽³⁾	36.552	11.401
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	10.947	5.260
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽³⁾	14.959	14.505
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. ⁽²⁾	4.047	1.777
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. ⁽²⁾	16.478	5.341
Kümaş Manyezit Sanayi A.Ş. ⁽²⁾	55.810	25.619
Other	81.923	23.428
	<u>858.902</u>	<u>435.475</u>

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

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

<u>Major sales to related parties</u>	<u>1 January – 31 December 2022</u>	<u>1 January – 31 December 2021</u>
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	43.217.066	24.089.683
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. ⁽²⁾	6.173	2.734
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽⁴⁾	302.100	86.320
Erdemir Romania SRL ⁽²⁾	310.894	-
Omsan Lojistik A.Ş. ⁽³⁾	1.513	234
OYAK Çimento Fabrikaları A.Ş. ⁽³⁾	76.503	45.648
OYAK Elektrik Enerjisi Toptan Satış A.Ş. ⁽³⁾	32.828	25.834
OYAK Pazarlama Hizmet ve Turizm A.Ş. ⁽³⁾	1.791	1.881
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽³⁾	24.961	786
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	1.186	1.231
Other	2.099	354
	<u>43.977.114</u>	<u>24.254.705</u>

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

⁽¹⁾ Immediate parent company

⁽²⁾ Subsidiaries of the immediate parent company

⁽³⁾ Subsidiaries of the ultimate company

⁽⁴⁾ Joint Managing Company

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

NOTE 32 – RELATED PARTY DISCLOSURES (cont’d)

<u>Major purchases from related parties</u>	<u>1 January – 31 December 2022</u>	<u>1 January – 31 December 2021</u>
Doco Petrol ve Danışmanlık A.Ş. ⁽³⁾	46.347	14.029
OYAK Elektrik Enerjisi Toptan Satış A.Ş. ⁽³⁾	2.819	29.022
Erdemir Madencilik San. ve Tic. A.Ş. ⁽²⁾	5.333.922	2.961.659
Erdemir Asia Pacific PTE LTD ⁽²⁾	3.430.706	2.909.429
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	912.808	198.113
OYAK Pazarlama Hizmet ve Turizm A.Ş. ⁽³⁾	164.013	84.854
Omsan Denizcilik A.Ş. ⁽³⁾	24.623	36.045
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	225.634	65.814
Omsan Lojistik A.Ş. ⁽³⁾	239.874	77.440
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. ⁽²⁾	37.399	13.510
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. ⁽²⁾	117.708	49.161
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽⁴⁾	423.430	146.224
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽³⁾	187.798	102.093
Kümaş Manyezit Sanayi A.Ş. ⁽²⁾	351.222	47.154
Other	61.096	10.362
	<u>11.559.399</u>	<u>6.744.909</u>

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

The Company earned TRY 162.014 thousand (31 December 2021: TRY 718.025 thousand) of revenue from related party transactions of the twelve- month period of 2022, amounting to TRY 68 thousand of interest income and TRY 161.946 thousand of interest accrued on term.

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

The period end balances are secured and their collections will be done in cash. Other receivables from related parties balances are non-secured, interest-bearing and their collections will be done in cash. As of 31 December 2022, the Company provides no provision for the doubtful receivables from related parties (31 December 2021: None).

Salary, premium and similar benefits provided to executive managers:

The company's key management team consists of the Board of Directors, General Manager and Assistant General Managers.

For the year ended 31 December 2022, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Company is TRY 16.926 thousand (31 December 2021: TRY 7.261 thousand).

(1) Immediate parent company

(2) Subsidiaries of the immediate parent company

(3) Subsidiaries of the ultimate company

(4) Joint Managing Company

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NOTE 33 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

Additional information about financial instruments

(a) Capital risk management

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

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

The capital structure of the Company consists of debt which includes the financial liabilities disclosed in Note 8, cash and cash equivalents and equity attributable to equity holders of the parent company, comprising issued capital, reserves and retained earnings as disclosed in Note 22.

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

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

	Note	31 December 2022	31 December 2021
Total financial liabilities	8	11.816.811	5.052.821
Less: Other receivables from related parties	32	-	21.225
Less: Cash and cash equivalents	4	6.490.670	8.824.568
Net debt		5.326.141	(3.792.972)
Total adjusted equity (*)		52.402.518	39.312.842
Total resources		57.728.659	35.519.870
Net debt / Total adjusted equity ratio		10%	-10%
Distribution net debt / Total adjusted equity		9/91	-11/111

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

(b) Significant accounting policies

The Company’s accounting policies related to the financial instruments are disclosed in Note 2 “Summary of Significant Accounting Policies, 2.7.8 Financial Instruments”.

(c) Market risk

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

The Company prefers floating interest rates for long term borrowings. To hedge against the interest risk the Company uses interest swap agreements for some of its borrowings.

In the current period, there is no significant change in the Company’s exposure to the market risks or the manner which it manages and measures risk when compared to the previous year.

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 36)

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NOTE 33 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

(d) Credit risk management

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

Credit risk of financial instruments	Receivables				Bank Deposits	Derivative financial instruments
	Trade Receivables		Other Receivables			
	Related Party	Other Party	Related Party	Other Party		
31 December 2022						
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	2.785.853	1.203.832	-	51.596	6.490.670	18.760
-Secured part of the maximum credit risk exposure via collateral etc.	2.585.187	1.088.202	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	2.785.853	1.203.832	-	51.596	6.490.670	18.760
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	-	-	-	-	-
-secured part via collateral etc.	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
-Overdue (gross carrying amount)	-	8.349	-	-	-	-
-Impairment (-)	-	(8.349)	-	-	-	-
-Secured part via collateral etc.	-	-	-	-	-	-
-Not overdue (gross carrying amount)	-	-	-	-	-	-
-Impairment (-)	-	-	-	-	-	-
-Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-

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

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NOTE 33 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

(d) Credit risk management (cont’d)

Credit risk of financial instruments	Receivables				Bank Deposits	Derivative financial instruments
	Trade Receivables		Other Receivables			
	Related Party	Other Party	Related Party	Other Party		
31 December 2021						
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	1.619.882	1.146.263	21.225	45.393	8.824.568	54.786
-Secured part of the maximum credit risk exposure via collateral etc.	1.573.663	1.004.593	21.225	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	1.619.882	1.146.263	21.225	45.393	8.824.568	54.786
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	-	-	-	-	-
-secured part via collateral etc.	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
-Overdue (gross carrying amount)	-	5.871	-	-	-	-
-Impairment (-)	-	(5.871)	-	-	-	-
-Secured part via collateral etc.	-	-	-	-	-	-
-Not overdue (gross carrying amount)	-	-	-	-	-	-
-Impairment (-)	-	-	-	-	-	-
-Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-

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

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NOTE 33 –NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

(d) Credit risk management (cont’d)

Explanation on the credit risk the company is exposed to:

In order to minimize credit risk, the Company has adopted the policy of obtaining collateral when it deems necessary to work with high-credibility parties and to reduce the risk of financial losses in default. The company monitors the credibility of the parties to which it is traded and takes into account the credit rating of the relevant instruments in its financial investments while making the investment choice. Credit ratings are obtained from independent rating agencies, if available. In case the credit ratings are not available or not, the Company makes its own evaluations about the credibility of its important customers by using the information obtained from the market and commercial records. The company updates these evaluations regularly and manages the credit risk by also considering the total transaction costs with the related parties. When accepting a new customer, the credibility of the customer is evaluated by the relevant departments and appropriate credit limits are defined by taking guarantee when necessary.

Credit risk is the Company's risk of financial loss as a result of the other party's failure to fulfill its contractual obligations. In order to minimize credit risk, the Company has made credit ratings considering the default risks of counterparties and categorized the relevant parties.

The current credit risk rating methodology of the Company includes the following categories:

Category	Explanation	Expected credit loss calculation method
Secured receivables	It consists of collateral-related receivables.	Expected credit loss is not created.
Collectable and overdue receivables	The default risk of the other party is low and it is covered.	Expected credit loss is not created.
Doubtful and overdue receivables	There is evidence to show that the related asset has been impaired by credit.	100% provision is reserved over the unsecured part of the receivable.
Deleted from records	There is evidence that the borrower is in serious financial trouble and the Company does not have an expectation to collect the relevant amounts.	It is completely removed from the records.

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

NOTE 33 –NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**Additional information about financial instruments (cont’d)****(e) Foreign currency risk management**

As of 31 December 2022, stated in Note 2.7.8 the foreign currency position of the Company in terms of original currency is calculated as it as follows:

	31 December 2022			
	TRY (Total in currency)	TRY (Original currency)	EURO (Original currency)	Jap.Yen (Original currency)
1. Trade Receivables	870.165	338.548	29.307	-
2a. Monetary financial assets	3.885.733	3.885.622	6	23
2b. Non- monetary financial assets	-	-	-	-
3. Other	36.390	30.709	313	-
4. Current assets (1+2+3)	4.792.288	4.254.879	29.626	23
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	59.281	59.281	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	809.776	525.015	15.698	-
8. Non-current assets (5+6+7)	869.057	584.296	15.698	-
9. Total assets (4+8)	5.661.345	4.839.175	45.324	23
10. Trade payables	1.787.734	1.594.595	10.572	7.954
11. Financial liabilities	4.604.629	4.335.588	14.805	-
12a. Other monetary financial liabilities	686.902	660.766	1.438	-
12b. Other non-monetary financial liabilities	-	-	-	-
13. Current liabilities (10+11+12)	7.079.265	6.590.949	26.815	7.954
14. Trade payables	-	-	-	-
15. Financial liabilities	957.584	57.273	49.543	-
16a. Other monetary financial liabilities	1.357.255	1.357.255	-	-
16b. Other non-monetary financial liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	2.314.839	1.414.528	49.543	-
18. Total liabilities (13+17)	9.394.104	8.005.477	76.358	7.954
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	(16.954)	-	(933)	-
19a. Off-balance sheet foreign currency derivative financial assets	-	-	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	16.954	-	933	-
20. Net foreign currency asset/liability position (9-18+19)	(3.749.713)	(3.166.302)	(31.967)	(7.931)
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(4.578.925)	(3.722.026)	(47.045)	(7.931)
22. Fair value of derivative financial instruments used in foreign currency hedge	(870)	-	(48)	-
23. Hedged foreign currency assets	16.954	-	933	-
24. Hedged foreign currency liabilities	-	-	-	-
25. Exports	9.125.183	-	-	-
26. Imports	34.884.202	-	-	-

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NOTE 33 –NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**Additional information about financial instruments (cont’d)**

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

As of 31 December 2021, the foreign currency position of the Company in terms of original currency is as follows:

	31 December 2021			
	TRY (Total in currency)	TRY (Original currency)	EURO (Original currency)	Jap.Yen (Original currency)
1. Trade Receivables	371.766	36.314	22.235	-
2a. Monetary financial assets	6.007.940	4.756.126	82.975	21
2b. Non- monetary financial assets	-	-	-	-
3. Other	53.405	39.875	897	-
4. Current assets (1+2+3)	6.433.111	4.832.315	106.107	21
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	6.262	6.262	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	573.035	501.880	4.716	-
8. Non-current assets (5+6+7)	579.297	508.142	4.716	-
9. Total assets (4+8)	7.012.408	5.340.457	110.823	21
10. Trade payables	1.046.855	822.708	14.650	23.514
11. Financial liabilities	329.081	56.267	18.051	-
12a. Other monetary financial liabilities	2.392.331	2.386.297	399	-
12b. Other non-monetary financial liabilities	-	-	-	-
13. Current liabilities (10+11+12)	3.768.267	3.265.272	33.100	23.514
14. Trade payables	-	-	-	-
15. Financial liabilities	997.768	233.984	50.535	-
16a. Other monetary financial liabilities	647.797	647.797	-	-
16b. Other non-monetary financial liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	1.645.565	881.781	50.535	-
18. Total liabilities (13+17)	5.413.832	4.147.053	83.635	23.514
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	(739.780)	-	(48.947)	-
19a. Off-balance sheet foreign currency derivative financial assets	-	-	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	739.780	-	48.947	-
20. Net foreign currency asset/liability position (9-18+19)	858.796	1.193.404	(21.759)	(23.493)
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	972.136	651.649	21.575	(23.493)
22. Fair value of derivative financial instruments used in foreign currency hedge	36.897	-	2.441	-
23. Hedged foreign currency assets	739.780	-	48.947	-
24. Hedged foreign currency liabilities	-	-	-	-
25. Exports	7.338.121	-	-	-
26. Imports	18.852.985	-	-	-

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NOTE 33 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

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

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

As of 31 December 2022 asset balances are translated by using the following exchange rates: TRY 18,6983 = US \$ 1, TRY 19,9349 = EUR 1, TRY 0,1413 = JPY 1, for liabilities balances are translated by using the following exchange rates: TRY 18,7320 = US \$ 1, TRY 19,9708 = EUR 1, TRY 0,1422 = JPY 1 (For assets 31 December 2021: TRY 13,3290 = US\$ 1, TRY 15,0867 = EUR 1, TRY 0,1155 = JPY 1, For liabilities; TRY 13,3530 = US\$ 1, TRY 15,1139 = EUR 1, TRY 0,1163 = JPY 1).

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency	Depreciation of foreign currency
31 December 2022		
1- TRY net asset/liability	(316.630)	316.630
2- Hedged portion from TRY risk (-)	-	-
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(316.630)	316.630
5- Euro net asset/liability	(56.544)	56.544
6- Hedged portion from Euro risk (-)	(1.695)	1.695
7- Effect of capitalization (-)	-	-
8- Euro net effect (5+6+7)	(58.239)	58.239
9- Jap. Yen net asset/liability	(102)	102
10- Hedged portion from Jap. Yen risk (-)	-	-
11- Effect of capitalization (-)	-	-
12- Jap. Yen net effect (9+10+11)	(102)	102
TOTAL (4+8+12)	(374.971)	374.971

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NOTE 33 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

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

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency	Depreciation of foreign currency
31 December 2021		
1- TRY net asset/liability	119.340	(119.340)
2- Hedged portion from TRY risk (-)	-	-
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	119.340	(119.340)
5- Euro net asset/liability	40.790	(40.790)
6- Hedged portion from Euro risk (-)	(73.978)	73.978
7- Effect of capitalization (-)	-	-
8- Euro net effect (5+6+7)	(33.188)	33.188
9- Jap. Yen net asset/liability	(272)	272
10- Hedged portion from Jap. Yen risk (-)	-	-
11- Effect of capitalization (-)	-	-
12- Jap. Yen net effect (9+10+11)	(272)	272
TOTAL (4+8+12)	85.880	(85.880)

(f) Liquidity risk management

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

Liquidity risk tables

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

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

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

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NOTE 33 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

(f) Liquidity risk management (cont’d)

Liquidity risk tables (cont’d)

31 December 2022

Contractual maturity analysis	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than five years (IV)
Non derivative financial liabilities						
Borrowings from banks	11.750.757	12.650.549	3.616.861	5.445.615	2.275.090	1.312.983
Lease borrowings	66.054	205.778	2.348	7.044	34.611	161.775
Trade payables	3.915.903	3.915.903	3.915.903	-	-	-
Other financial liabilities (*)	479.910	479.910	479.910	-	-	-
Total liabilities	16.212.624	17.252.140	8.015.022	5.452.659	2.309.701	1.474.758
Derivative financial liabilities						
Derivative cash inflows	-	407.456	407.456	-	-	-
Derivative cash outflows	(9.740)	(407.456)	(407.456)	-	-	-
	(9.740)	-	-	-	-	-

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

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NOTE 33 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

(f) Liquidity risk management (cont’d)

Liquidity risk tables (cont’d)

31 December 2021

<u>Contractual maturity analysis</u>	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than five years (IV)
Non derivative financial liabilities						
Borrowings from banks	4.781.186	4.983.112	660.742	2.142.445	1.355.979	823.946
Lease borrowings	271.635	985.378	9.886	29.656	154.691	791.145
Trade payables	3.141.247	3.141.247	3.141.247	-	-	-
Other financial liabilities (*)	604.034	604.034	604.034	-	-	-
Total liabilities	8.798.102	9.713.771	4.415.909	2.172.101	1.510.670	1.615.091
Derivative financial liabilities						
Derivative cash inflows	54.786	1.287.988	1.287.988	-	-	-
Derivative cash outflows	(3.093)	(1.287.988)	(1.287.988)	-	-	-
	51.693	-	-	-	-	-

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

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NOTE 33 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

(g) Interest rate risk management

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

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

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

Interest rate sensitivity

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

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

	31 December 2022	31 December 2021
Floating Interest Rate Financial Instruments		
Financial liabilities	3.362.361	2.293.032

For the year round, if the US Dollars and EURO denominated interest rates increase/decrease by 100 base points in TRY, 50 base points in US Dollars and EURO points in respectively ceteris paribus, the profit before taxation and non-controlling interest after considering the effect of capitalization and hedging would be lower/higher TRY 15.729 thousand (31 December 2021: TRY 11.672 thousand).

(Convenience Translation into English of Financial Statements Originally Issued in Turkish – See Note 36)

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

NOTE 34 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES)

Additional information about financial instruments

Categories of the financial instruments and their fair values

	Financial assets/ liabilities at amortized cost	Derivative financial instruments through other comprehensive income	Derivative financial instruments through profit/loss	Carrying value	Note
31 December 2022					
Financial Assets					
Cash and cash equivalents	6.490.670	-	-	6.490.670	4
Trade receivables	3.989.685	-	-	3.989.685	9
Financial investments	-	-	71.934	71.934	5
Other financial assets	51.596	-	-	51.596	10
Financial Liabilities					
Financial liabilities	11.816.811	-	-	11.816.811	8
Trade payables	3.915.903	-	-	3.915.903	9
Other liabilities	479.910	-	-	479.910	10/17/21
Derivative financial instruments	-	8.158	1.582	9.740	7
31 December 2021					
Financial Assets					
Cash and cash equivalents	8.824.568	-	-	8.824.568	4
Trade receivables	2.766.145	-	-	2.766.145	9
Financial investments	-	-	361	361	5
Other financial assets	66.618	-	-	66.618	10
Derivative financial instruments	-	13.939	40.847	54.786	7
Financial Liabilities					
Financial liabilities	5.052.821	-	-	5.052.821	8
Trade payables	3.141.247	-	-	3.141.247	9
Other liabilities	604.034	-	-	604.034	10/17/21
Derivative financial instruments	-	-	3.093	3.093	7

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Estimated fair values of financial instruments have been determined by the Company by using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data. Accordingly, estimates presented herein are not necessarily indicative of the amounts the Company could realise in a current market exchange.

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NOTE 34 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (cont’d)

Additional information about financial instruments (cont’d)

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

31 December 2022

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				
Venture capital investment fund	52.667	-	52.667	-
Currency hedged time deposit	18.760	-	18.760	-
Derivative financial liabilities	(1.582)	-	(1.582)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial liabilities	(8.158)	-	(8.158)	-
Total	61.687	-	61.687	-

31 December 2021

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	40.847	-	40.847	-
Derivative financial liabilities	(3.093)	-	(3.093)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	13.939	-	13.939	-
Total	51.693	-	51.693	-

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 36)

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

NOTE 35 – SUBSEQUENT EVENTS

Due to the earthquake disaster in our country on February 6, 2023, the Company's production activities were suspended until the due diligence studies were completed. Damage caused by earthquakes are within the scope of insurance coverage, and it is considered that such damages are not at a level that will significantly affect the Company's financial statements. It is planned to restart production in a gradual and controlled manner after the completion of process-based works at İsdemir facilities.

NOTE 36 – OTHER ISSUES AFFECTING THE FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION

Convenience translation to English:

As at 31 December 2022, 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.