

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

**CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD
BETWEEN 1 JANUARY - 31 MARCH 2019**

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF FINANCIAL POSITION AS OF 31 MARCH 2019

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

		(Unaudited) Current Period 31 March 2019 USD'000	(Unaudited) Current Period 31 March 2019 TRY'000	(Audited) Previous Period 31 December 2018 USD'000	(Audited) Previous Period 31 December 2018 TRY'000
ASSETS	Note				
Current Assets		2.074.205	11.674.464	2.007.885	10.563.284
Cash and Cash Equivalents		19.809	111.493	11.874	62.468
Trade Receivables		238.719	1.343.609	254.944	1.341.234
<i>Due From Related Parties</i>	3	132.531	745.938	119.855	630.546
<i>Other Trade Receivables</i>		106.188	597.671	135.089	710.688
Other Receivables		1.088.794	6.128.173	936.588	4.927.297
<i>Due From Related Parties</i>	3	1.088.494	6.126.482	936.279	4.925.669
<i>Other Receivables</i>		300	1.691	309	1.628
Inventories	4	709.305	3.992.250	776.888	4.087.128
Prepaid Expenses		6.645	37.396	5.141	27.048
Other Current Assets		10.933	61.543	22.450	118.109
Non Current Assets		1.996.695	11.238.192	1.980.323	10.418.280
Other Receivables		1.567	8.817	1.676	8.817
Financial Investments		27	153	27	143
Investments Accounted For Using Equity Method	5	27.369	154.042	27.616	145.284
Property, Plant and Equipment	6	1.909.771	10.748.954	1.887.876	9.931.925
Intangible Assets	6	43.937	247.296	44.245	232.767
Prepaid Expenses		14.023	78.929	18.883	99.344
<i>Due From Related Parties</i>	3	4.472	25.170	7.362	38.729
<i>Other Prepaid Expenses</i>		9.552	53.760	11.521	60.615
TOTAL ASSETS		4.070.900	22.912.656	3.988.208	20.981.564

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

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

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF FINANCIAL POSITION AS OF 31 MARCH 2019

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

	Note	(Unaudited)	(Unaudited)	(Audited)	(Audited)
		Current Period 31 March 2019 USD'000	Current Period 31 March 2019 TRY'000	Previous Period 31 December 2018 USD'000	Previous Period 31 December 2018 TRY'000
LIABILITIES					
Current Liabilities		1.197.888	6.742.198	597.047	3.141.004
Short Term Borrowings	7	217.766	1.225.674	259.065	1.362.917
Short Term Portion of Long Term Borrowings	7	25.414	143.040	21.003	110.494
Trade Payables		189.237	1.065.099	209.965	1.104.607
<i>Due to Related Parties</i>	3	<i>46.619</i>	<i>262.390</i>	<i>33.930</i>	<i>178.503</i>
<i>Other Trade Payables</i>		<i>142.618</i>	<i>802.709</i>	<i>176.035</i>	<i>926.104</i>
Other Payables	8	630.251	3.547.305	3.553	18.692
<i>Due to Related Parties</i>	3	<i>591.483</i>	<i>3.329.104</i>	-	-
<i>Other Payables</i>		<i>38.768</i>	<i>218.201</i>	<i>3.553</i>	<i>18.692</i>
Deferred Revenue		7.314	41.168	4.887	25.708
Current Tax Liabilities	12	96.514	543.219	82.254	432.731
Short Term Provisions	9	6.748	37.979	6.235	32.802
Payables for Employee Benefits	10	11.234	63.231	9.497	49.964
Other Current Liabilities		13.410	75.483	588	3.089
Non Current Liabilities		427.332	2.405.195	401.602	2.112.792
Long Term Borrowings	7	72.745	409.436	56.947	299.593
Derivative Financial Instruments		41	232	46	242
Provisions for Employee Benefits	10	49.561	278.947	51.911	273.100
Deferred Tax Liabilities	12	304.985	1.716.580	292.698	1.539.857
EQUITY		2.445.680	13.765.263	2.989.559	15.727.768
Share Capital	13	1.474.105	2.900.000	1.474.105	2.900.000
Inflation Adjustment to Capital		85	164	85	164
Other Comprehensive Income/Expense Not to be Reclassified to Profit/ (Loss)		(16.292)	8.893.633	(16.292)	7.870.167
<i>Foreign Currency Translation Reserves</i>		-	<i>8.927.882</i>	-	<i>7.904.416</i>
<i>Actuarial (Loss)/ Gain Funds</i>		<i>(16.292)</i>	<i>(34.249)</i>	<i>(16.292)</i>	<i>(34.249)</i>
Restricted Reserves Assorted from Profit		339.211	1.364.160	230.889	771.641
Retained Earnings		550.951	84.277	449.367	76.917
Net Profit for the Period		97.620	523.029	851.405	4.108.879
TOTAL LIABILITIES AND EQUITY		4.070.900	22.912.656	3.988.208	20.981.564

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

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

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF PROFIT OR LOSS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

		(Unaudited) Current Period 1 January - 31 March 2019 USD'000	(Unaudited) Current Period 1 January - 31 March 2019 TRY'000	(Unaudited) Previous Period 1 January - 31 March 2018 USD'000	(Unaudited) Previous Period 1 January - 31 March 2018 TRY'000
Revenue	14	757.769	4.059.974	781.003	2.975.935
Cost of Sales	14	(604.777)	(3.240.276)	(511.859)	(1.950.389)
GROSS PROFIT		152.992	819.698	269.144	1.025.546
Marketing, Sales and Distribution Expenses	15	(4.957)	(26.560)	(5.030)	(19.167)
General Administrative Expenses	15	(7.017)	(37.596)	(7.330)	(27.932)
Research and Development Expenses		(15)	(78)	(20)	(76)
Other Operating Income	15	3.871	20.742	6.061	23.093
Other Operating Expenses	15	(3.765)	(20.172)	(2.648)	(10.091)
OPERATING PROFIT		141.109	756.034	260.177	991.373
Income from Investing Activities		1	3	-	-
Expenses from Investing Activities		(632)	(3.387)	(74)	(282)
Share of Investments' Profit Accounted by Using The Equity Method	5	356	1.905	360	1.371
OPERATING PROFIT BEFORE FINANCE INCOME (EXPENSES)		140.834	754.555	260.463	992.462
Finance Income	16	22.427	133.176	22.497	93.815
Finance Expense	16	(5.291)	(28.350)	(3.678)	(14.016)
PROFIT BEFORE TAX		157.970	859.381	279.282	1.072.261
Tax (Expense) Income	12	(60.350)	(336.352)	(72.733)	(285.226)
Current Corporate Tax (Expense) Income		(48.063)	(270.520)	(58.373)	(230.509)
Deferred Tax (Expense) Income		(12.287)	(65.832)	(14.360)	(54.717)
NET PROFIT FOR THE PERIOD		97.620	523.029	206.549	787.035
EARNINGS PER SHARE			0,1804		0,2714

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 19)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

	(Unaudited) Current Period 1 January - 31 March 2019 USD'000	(Unaudited) Current Period 1 January - 31 March 2019 TRY'000	(Unaudited) Previous Period 1 January - 31 March 2018 USD'000	(Unaudited) Previous Period 1 January - 31 March 2018 TRY'000
PROFIT FOR THE PERIOD	97.620	523.029	206.549	787.035
OTHER COMPREHENSIVE INCOME				
Not to be reclassified subsequently to profit or loss				
Foreign Currency Translation Gain	-	1.023.466	-	518.872
OTHER COMPREHENSIVE INCOME	-	1.023.466	-	518.872
TOTAL COMPREHENSIVE INCOME	97.620	1.546.495	206.549	1.305.907

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 19)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

(Unaudited)			Other Comprehensive Income/Expense Not to be Reclassified to Profit/ (Loss)			Retained Earnings		Total Share holders' Equity
	Share Capital	Inflation Adjustment to Capital	Foreign Currency Translation Reserves	Actuarial (Loss)/ Gain Funds	Restricted Reserves Assorted from Profit	Retained Earnings	Net Profit for the Period	
1 January 2019	2.900.000	164	7.904.416	(34.249)	771.641	76.917	4.108.879	15.727.768
Net profit for the period	-	-	-	-	-	-	523.029	523.029
Other comprehensive income/(loss)	-	-	1.023.466	-	-	-	-	1.023.466
Total comprehensive income/(loss)			1.023.466				523.029	1.546.495
Dividends (*)	-	-	-	-	-	(3.509.000)	-	(3.509.000)
Transfers	-	-	-	-	592.519	3.516.360	(4.108.879)	-
31 March 2019	2.900.000	164	8.927.882	(34.249)	1.364.160	84.277	523.029	13.765.263

(Unaudited)								
1 January 2018	2.900.000	164	4.242.923	(52.860)	447.790	48.457	2.382.311	9.968.785
Net profit for the period	-	-	-	-	-	-	787.035	787.035
Other comprehensive income/(loss)	-	-	518.872	-	-	-	-	518.872
Total comprehensive income/(loss)	-	-	518.872	-	-	-	787.035	1.305.907
Dividends (*)	-	-	-	-	-	(2.030.000)	-	(2.030.000)
Transfers	-	-	-	-	323.851	2.058.460	(2.382.311)	-
31 March 2018	2.900.000	164	4.761.795	(52.860)	771.641	76.917	787.035	9.244.692

(*) At the Ordinary General Meeting held on March 21, 2019, it has been approved to distribute net profit of 2018 amounting to TRY 3.509.000 thousand (gross dividend per share: TRY 1,21 (2018: TRY 0,70)) (29 March 2018: TRY 2.030.000 thousand).

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

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

CONDENSED STATEMENT OF CASH FLOWS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

	Note	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		Current Period	Current Period	Current Period	Current Period
		1 January - 31 March 2019	1 January - 31 March 2019	1 January - 31 March 2018	1 January - 31 March 2018
		USD'000	TRY'000	USD'000	TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES		273.220	1.532.604	306.981	1.042.813
Profit (Loss) for The Period		97.620	523.029	206.549	787.035
Adjustments to Reconcile Profit (Loss)		82.486	454.956	95.109	370.464
Adjustments for Depreciation and Amortisation Expenses	6/14	28.224	151.218	26.189	99.787
Adjustments for Impairment Loss (Reversal of Impairment Loss)		1.058	5.671	1.125	4.272
Adjustments for Provision (Reversal of Provision) for Receivables		646	3.461	158	588
Adjustments for Provision (Reversal of Provision) for Inventories	4	412	2.210	967	3.684
Adjustments for Provisions		3.101	16.610	2.822	10.754
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	10	2.216	11.870	2.320	8.838
Adjustments for Provision (Reversal of Provision) for Pending Claims and/or Lawsuits	9	885	4.740	502	1.916
Adjustments for Interest (Income) and Expenses		(9.322)	(49.942)	(6.463)	(24.630)
Adjustments for Interest Income	16	(10.108)	(54.157)	(8.860)	(33.763)
Adjustments for Interest Expense	16	2.905	15.567	1.872	7.133
Unearned Financial Income from Credit Sales		(2.119)	(11.352)	525	2.000
Adjustments for Unrealised Foreign Exchange Differences		(1.200)	(6.432)	(1.011)	(3.856)
Adjustments for Undistributed Profits of Investments Accounted for Using Equity Method	5	(356)	(1.905)	(360)	(1.371)
Adjustments for Tax (Income) Expenses	12	60.350	336.352	72.733	285.226
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		631	3.384	74	282
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment		631	3.384	74	282
Changes in Working Capital		128.063	720.789	6.855	(108.849)
Adjustments for Decrease (Increase) in Trade Receivables		18.169	102.261	38.570	117.902
Decrease (Increase) in Trade Receivables from Related Parties		(12.676)	(71.346)	46.791	158.994
Decrease (Increase) in Trade Receivables from Third Parties		30.845	173.607	(8.221)	(41.092)
Adjustments for Decrease (Increase) in Other Receivables Related from Operations		417	2.348	874	(646)
Decrease (Increase) in Other Receivables from Operations from Third Parties		417	2.348	874	(646)
Adjustments for Decrease (Increase) in Inventories		66.886	376.461	(55.527)	(322.891)
Decrease (Increase) in Prepaid Expenses		(394)	(2.217)	(2.397)	(10.560)
Adjustments for Increase (Decrease) in Trade Payables		(20.728)	(116.665)	16.439	85.541
Increase (Decrease) in Trade Payable to Related Parties		12.689	71.419	4.459	19.886
Increase (Decrease) in Trade Payable to Third Parties		(33.417)	(188.084)	11.980	65.655
Adjustments for Increase (Decrease) in Other Payables Related from Operations		36.952	207.981	(705)	(20.414)
Increase (Decrease) in Other Payables to Third Parties Related from Operations		36.952	207.981	(705)	(20.414)
Increase (Decrease) in Derivative Liabilities		(5)	(28)	14	64
Adjustments for Other Increase (Decrease) in Working Capital		26.766	150.649	9.587	42.155
Decrease (Increase) in Other Assets Related from Operations		11.517	64.822	378	1.096
Increase (Decrease) in Other Payables Related from Operations		15.249	85.827	9.209	41.059
Cash Flows Provided by Operating Activities		308.169	1.698.774	308.513	1.048.650
Payments Related to Provisions for Employee Termination Benefits	10	(1.146)	(6.138)	(1.410)	(5.373)
Payments Related to Other Provisions	9	-	-	(122)	(464)
Income Taxes Refund (Paid)		(33.803)	(160.032)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES		(14.913)	(84.271)	(31.229)	(123.291)
Cash Outflows Arising From Purchase of Shares or Capital Increase of Associates and/or Joint Ventures		-	-	(22.929)	(91.224)
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		433	2.317	1	7
Cash Inflow from Sales of Property, Plant and Equipment		433	2.317	1	7
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(18.968)	(101.626)	(8.438)	(32.151)
Cash Outflow from Purchase of Property, Plant and Equipment	6	(18.907)	(101.300)	(8.431)	(32.125)
Cash Outflow from Purchase of Intangible Assets	6	(61)	(326)	(7)	(26)
Cash Advances and Debts Given		3.019	11.833	137	77
Cash Advance and Debts Given to Related Parties		2.890	13.559	-	-
Other Cash Advances and Debts Given		129	(1.726)	137	77
Dividends Received	5	603	3.205	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		(245.631)	(1.323.558)	(264.442)	(1.138.477)
Cash Inflow from Borrowings		70.870	379.614	159.793	605.362
Cash Inflow from Loans		70.870	379.614	159.793	605.362
Cash Outflow from Repayments of Borrowings		(122.203)	(544.044)	(185.622)	(644.555)
Cash Outflow from Loan Repayments		(122.203)	(544.044)	(185.622)	(644.555)
Decrease in Other Payables to Related Parties	3	(202.231)	(1.200.813)	(243.704)	(1.118.396)
Interest Paid		(2.354)	(13.430)	(3.244)	(12.651)
Interest Received		10.287	55.115	8.335	31.763
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		12.676	124.775	11.310	(218.955)
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(4.741)	(75.750)	(12.120)	216.318
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		7.935	49.025	(810)	(2.637)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		11.874	62.468	3.154	11.895
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		19.809	111.493	2.344	9.258

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

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

NOTE 1 – COMPANY’S ORGANIZATION AND NATURE OF OPERATIONS

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

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

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

Name Of Company	Country of Operation	Operation	2019 Share %	2018 Share %
Teknopark Hatay A.Ş.	Turkey	R&D Centre	5	5
İsdemir Linde Gaz Ortaklığı A.Ş.	Turkey	Energy	50	50

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

The number of the personnel employed by the Company as at 31 March 2019 are as follows:

	31 March 2019 Personnel	31 December 2018 Personnel
Paid Hourly Personnel	2.940	2.980
Paid Monthly Personnel	1.744	1.744
	<u>4.684</u>	<u>4.724</u>

NOTE 2 – BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Basis of Presentation

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

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

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

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

2.1 Basis of Presentation (cont’d)

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

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

Functional and Reporting Currency

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

Presentation currency translation

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

- a) The assets and liabilities on condensed financial position as of 31 March 2019 are translated from US Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 5,6284=US \$ 1 on the balance sheet date (31 December 2018: TRY 5,2609= US \$ 1).
- b) For the three months period ended 31 March 2019, condensed profit or loss statements are translated from the 3 months average TRY 5,3578 = US \$ 1 rates of 2019 January - March period (31 March 2018: TRY 3,8104 = US \$ 1).
- c) Exchange differences are shown in other comprehensive income as of foreign currency translation reserve.
- d) The differences between presentation of statutory and historical figures are recognised as translation differences under equity. All capital, capital measures and other measures are represented with their statutory figures, other equity accounts are represented with their historic cost figures in the accompanying financial statements.

USD amounts presented in the condensed interim financial statements

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

Going concern

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

Approval of the financial statements

The condensed interim financial statements have been approved on 26 April 2019 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

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

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

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

2.2 Comparative Information and Restatement of Financial Statements with Prior Periods

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

Reclassification of condensed profit or loss statement is as follows:

Account	(Previously Reported)	(Restated)	(Difference)
	31 March 2018	31 March 2018	31 March 2018
Revenue ⁽¹⁾	2.970.691	2.975.935	5.244
Other Operating Income ⁽¹⁾	28.337	23.093	(5.244)
Other Operating Expenses ⁽²⁾	(10.373)	(10.091)	282
Expense From Investing Activities ⁽²⁾	-	(282)	(282)
			-

(1) Interest income from sales with maturities amounting to TRY 5.244 thousand reported in “Other Operating Income” was reclassified to “Revenue” on the condensed profit or loss statement for the three months period ended 31 March 2018.

(2) Losses on sales of tangible assets amounting to TRY 282 thousand reported as “Other Operating Expenses” before, was reclassified to “Expense from Investing Activities” on the condensed profit or loss statement for the three months period ended 31 March 2018.

2.3 Adoption of New and Revised Financial Reporting Standards

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

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

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

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

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

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

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

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

IFRS 16 Leases

General impact of application of IFRS 16 Leases

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

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

Impact of the new definition of a lease

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

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

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

Impact on Lessee Accounting

Operating leases

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

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

- a) Recognised right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

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

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

IFRS 16 Leases (cont’d)

Operating leases (cont’d)

- b) Recognised depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;
- c) Separated the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

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

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

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

As at 1 January 2019, the impact of IFRS 16 on the financial statements of the Company is disclosed in Note 2.4.

Finance leases

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

Impact on Lessor Accounting

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

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

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

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

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

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

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

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

TFRS Interpretation 23 Uncertainty over Income Tax Treatments

This interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under TMS 12.

Amendments to TMS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

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

Annual Improvements to TFRS Standards 2015–2017 Cycle

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

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

2.4 Summary of Significant Accounting Policies

The condensed interim financial statements for the nine months period ended 31 March 2019 have been prepared in accordance with TAS 34. The accounting policies used in the preparation of these condensed interim financial statements for the period ended 31 March 2019 are consistent with those used in the preparation of annual financial statements for the year ended 31 December 2018. Accordingly, these condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2018.

As explained in Note 1 there has been no change in total ownership interests and effective interests of the subsidiaries, included in the scope as of 31 March 2019, from the interests reported as of 31 December 2018.

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

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

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

2.4 Summary of Significant Accounting Policies (cont’d)

Effects of Revised Accounting Policies

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

TFRS 16 Leases

The Company has started to apply TFRS 16 standard for the first time on 1 January 2019 by taking advantage of the facilitation practices in the transition to TFRS 16. The Company implemented TFRS 16 for the first time by applying practical implementations as of 1 January 2019. For the leases classified as operating leases in accordance with TAS 17, the Company has reflected in the financial statements the present value as of 1 January 2019 on an amount equal to the lease obligation of prepaid or accrued lease amount.

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

	Before change in accounting policy 1 January 2019	Effect of TFRS 16 1 January 2019	After change in accounting policy 1 January 2019
Tangibles	9.931.925	167.767	10.099.692
Borrowings	1.773.004	167.767	1.940.771

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

2.5 Restatement and errors in the accounting policies and estimates

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

2.6 Segment Reporting

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

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

NOTE 3 –RELATED PARTY TRANSACTIONS

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

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

	31 March 2019	31 December 2018
<u>Due from related parties (short term)</u>		
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	737.003	619.547
Adana Çimento Sanayi T.A.Ş. ⁽³⁾	8.265	8.525
Aslan Çimento A.Ş. ⁽³⁾	224	1.413
OYAK Beton A.Ş. ⁽³⁾	213	337
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽⁴⁾	233	724
	<u>745.938</u>	<u>630.546</u>

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

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

	31 March 2019	31 December 2018
<u>Other receivables from related parties (short term)</u>		
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	6.126.482	4.925.669
	<u>6.126.482</u>	<u>4.925.669</u>

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

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

	31 March 2019	31 December 2018
<u>Prepaid expenses (long term)</u>		
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	25.170	38.729
	<u>25.170</u>	<u>38.729</u>

Prepaid expenses to related parties are due to fixed asset advances.

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

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

NOTE 3 –RELATED PARTY TRANSACTIONS (cont’d)

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

<u>Due to related parties (short term)</u>	<u>31 March 2019</u>	<u>31 December 2018</u>
Erdemir Madencilik San. ve Tic. A.Ş. ⁽²⁾	171.602	117.789
OYAK Pazarlama Hizmet ve Turizm A.Ş. ⁽³⁾	4.204	4.268
Erdemir Asia Pacific PTE LTD ⁽²⁾	37.093	20
Omsan Lojistik A.Ş. ⁽³⁾	5.324	4.848
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	10.911	4.236
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽³⁾	5.125	4.103
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. ⁽²⁾	1.898	1.975
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. ⁽²⁾	2.323	1.462
Omsan Denizcilik A.Ş. ⁽³⁾	9.581	-
OYAK Grup Sigorta ve Reasürans Brokerliği A.Ş. ⁽³⁾	14.248	35.971
Other	81	3.831
	<u>262.390</u>	<u>178.503</u>

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

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

<u>Other payables from related parties (short term)</u>	<u>31 March 2019</u>	<u>31 December 2018</u>
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	3.329.104	-
	<u>3.329.104</u>	<u>-</u>

At the Ordinary General Assembly of the Company on 21 March 2019, cash dividend of TRY 3.509.000 thousand the amount of the main shareholder's share in the financial statements is TRY 3.329.104 thousand were recognized in other liabilities accounts.

⁽¹⁾ Immediate parent company

⁽²⁾ Subsidiaries of the immediate parent company

⁽³⁾ Subsidiaries of the ultimate company

⁽⁴⁾ Joint venture

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

NOTE 3 –RELATED PARTY DISCLOSURES (cont’d)

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

	1 January – 31 March 2019	1 January – 31 March 2018
<u>Major sales to related parties</u>		
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	2.281.656	2.074.913
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. ⁽²⁾	329	1.578
Adana Çimento Sanayi T.A.Ş. ⁽³⁾	4.321	6.715
Mardin Çimento Sanayi ve Ticaret A.Ş. ⁽³⁾	-	295
Omsan Lojistik A.Ş. ⁽³⁾	125	120
Aslan Çimento A.Ş. ⁽³⁾	225	798
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽³⁾	781	-
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	174	317
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽⁴⁾	12.215	9.949
Other	398	701
	<u>2.300.224</u>	<u>2.095.386</u>

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

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

	1 January – 31 March 2019	1 January – 31 March 2018
<u>Major purchases from related parties</u>		
Erdemir Madencilik San. ve Tic. A.Ş. ⁽²⁾	259.381	135.359
Erdemir Asia Pacific PTE LTD ⁽²⁾	87.345	33.842
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	19.956	23.807
OYAK Pazarlama Hizmet ve Turizm A.Ş. ⁽³⁾	11.689	9.200
Omsan Denizcilik A.Ş. ⁽³⁾	16.218	14.280
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	24.851	5.511
Omsan Lojistik A.Ş. ⁽³⁾	14.727	9.818
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. ⁽²⁾	2.126	2.880
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. ⁽²⁾	6.098	5.841
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽⁴⁾	20.739	14.207
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽³⁾	13.160	12.040
Other	2.408	944
	<u>478.698</u>	<u>267.729</u>

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

(1) Immediate parent company

(2) Subsidiaries of the immediate parent company

(3) Subsidiaries of the ultimate company

(4) Joint venture

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

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

NOTE 3 –RELATED PARTY DISCLOSURES (cont’d)

The Company earned TRY 64.296 thousand of revenue from related party transactions of the three- months period ended 31 March 2019, amounting to TRY 53.736 thousand of interest income and TRY 10.560 thousand of interest accrued on term. (31 March 2018: TRY 38.347 thousand)

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

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

For the three months period ended 31 March 2019, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Company is TRY 661 thousand (31 March 2018: TRY 1.345 thousand).

NOTE 4 – INVENTORIES

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

	31 March 2019	31 December 2018
Raw materials	1.100.066	1.210.583
Work in progress	952.375	878.818
Finished goods	602.422	694.917
Spare parts	434.438	400.724
Goods in transit	766.136	763.087
Other inventories	285.968	276.245
Allowance for impairment on inventories (-)	(149.155)	(137.246)
	<u>3.992.250</u>	<u>4.087.128</u>

The movement of the allowance for impairment on inventories:

	1 January - 31 March 2019	1 January - 31 March 2018
Opening balance	137.246	92.620
Provision for the period	2.210	3.684
Translation difference	9.699	4.480
Closing balance	<u>149.155</u>	<u>100.784</u>

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

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

NOTE 5 – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

	Right to vote ratio %	31 March 2019	Right to vote ratio %	31 December 2018	Business segment
<i>Joint Venture</i>					
İsdemir Linde Gaz Ortaklığı A.Ş.	50	154.042	50	145.284	Industrial Gas Production and Sale

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

	31 March 2019	31 December 2018
Total assets	375.455	380.489
Total liabilities	67.371	89.921
Net assets	308.084	290.568
Company's share on net assets	154.042	145.284

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

	1 January – 31 March 2019	1 January – 31 March 2018
Revenue	22.316	15.260
Net profit (loss) for the period	3.810	2.743
Company's share on net profit	1.905	1.371

İsdemir Linde Gaz Ortaklığı A.Ş., as a joint venture of the Company, has the right to deduct the investment incentives where profit will occur in the upcoming years pursuant to the Resolution No 2012/3305 on Government Aids in Investments and the Cabinet Decision issued in the Official gazette on 22 February 2017. Since İsdemir Linde Gaz Ortaklığı A.Ş. was established recently and it is not yet possible for İsdemir Linde Gaz Ortaklığı A.Ş. to make a reasonable forecast for full or partial recovery of the investment deduction amount for the upcoming periods under the current conditions, the deferred tax asset of TRY 67.230 thousand (its effect in the profit or loss statement of İsdemir is TRY 33.615 thousand) is not included in the financial statements prepared as of 31 March 2019.

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

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

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

NOTE 6 – TANGIBLE AND INTANGIBLE ASSETS

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

	31 March 2019	31 March 2018
<u>Opening balance as of 1 January</u>		
Cost	23.958.965	17.062.931
Accumulated depreciation	(14.027.040)	(9.637.205)
Net book value	<u>9.931.925</u>	<u>7.425.726</u>
Net book value at the beginning of the period	9.931.925	7.425.726
Opening effect of the change in accounting policy (Note 2.4)	167.767	-
Additions	101.300	32.125
Disposals (-)	(7.131)	(289)
<i>Cost of disposals</i>	(22.342)	(1.682)
<i>Accumulated depreciation of disposals</i>	15.211	1.393
Transfers to intangible assets	(1.796)	(1.003)
Currency translation difference	702.809	345.725
<i>Cost currency translation difference</i>	1.689.404	801.916
<i>Accumulated depreciation currency translation difference</i>	(986.685)	(456.191)
Current period depreciation (-)	(145.920)	(106.088)
Net book value at the end of the period	<u>10.748.954</u>	<u>7.696.196</u>
<u>Closing balance as of</u>		
Cost	25.893.388	17.894.287
Accumulated depreciation	(15.144.434)	(10.198.091)
Net book value	<u>10.748.954</u>	<u>7.696.196</u>

As of reporting period, the Company has no collaterals or pledges upon its tangible assets (31 March 2018: None).

The net book value of tangible fixed assets acquired through financial leasing is as follows:

	31 March 2019	31 December 2018
Land tenure	177.984	167.767
	<u>177.984</u>	<u>167.767</u>

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

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

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

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

	31 March 2019	31 March 2018
<u>Opening balance as of 1 January</u>		
Cost	402.552	281.361
Accumulated amortisation	(169.785)	(111.138)
Net book value	<u>232.767</u>	<u>170.223</u>
Net book value at the beginning of the period	232.767	170.223
Additions	326	26
Transfers	1.796	1.003
Currency translation difference	16.177	7.931
<i>Cost currency translation difference</i>	28.228	13.241
<i>Accumulated depreciation currency translation difference</i>	(12.051)	(5.310)
Current period amortisation (-)	(3.770)	(2.617)
Net book value at the end of the period	<u>247.296</u>	<u>176.566</u>
<u>Closing balance as of</u>		
Cost	432.902	295.631
Accumulated amortisation	(185.606)	(119.065)
Net book value	<u>247.296</u>	<u>176.566</u>

As of reporting period, the Company has no collaterals or pledges upon its intangible assets (31 March 2018: None).

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

	31 March 2019	31 March 2018
Associated with cost of production	144.397	105.096
General administrative expenses	812	631
Marketing, sales and distribution expenses	4.481	2.978
	<u>149.690</u>	<u>108.705</u>

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

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

NOTE 7 – BORROWINGS

Breakdown of borrowings is as follows:

	31 March 2019	31 December 2018
Short term financial liabilities	1.225.674	1.362.917
Current portion of long term financial liabilities	113.934	110.494
Short term lease liabilities	30.345	-
Cost of liabilities from short term lease	(1.239)	-
Total short term financial liabilities	<u>1.368.714</u>	<u>1.473.411</u>
Long term financial liabilities	264.670	299.593
Long term lease liabilities	678.703	-
Cost of liabilities from long term lease	(533.937)	-
Total long term financial liabilities	<u>409.436</u>	<u>299.593</u>
	<u>1.778.150</u>	<u>1.773.004</u>

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

Interest Type	Type of Currency	Weight Average Rate of Interest (%)	Short Term Portion	Long Term Portion	31 March 2019
No interest	TRY	-	781	-	781
Fixed	US Dollars	3,43	1.224.893	-	1.224.893
Floating	US Dollars	Libor+1,9	26.745	6.622	33.367
Floating	EURO	Euribor+2,25	87.189	258.048	345.237
			<u>1.339.608</u>	<u>264.670</u>	<u>1.604.278</u>

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

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

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NOTE 7 – BORROWINGS (cont’d)

Breakdown of loan repayment is as follows:

	31 March 2019	31 December 2018
Within 1 year	1.339.608	1.473.411
Between 1 – 2 years	92.630	94.423
Between 2 – 3 years	86.009	82.043
Between 3 – 4 years	86.031	82.043
Between 4 – 5 years	-	41.084
	<u>1.604.278</u>	<u>1.773.004</u>

NOTE 8 – OTHER PAYABLES

Company’s short term other payables as follows:

	31 March 2019	31 December 2018
<u>Short term other payables</u>		
Taxes payable	30.010	9.396
Deposits and guarantees received	5.819	6.788
Dividend payables to shareholders (*)	3.511.476	2.508
<i>Ereğli Demir ve Çelik Fabrikaları T.A.Ş.</i>	<i>3.329.104</i>	-
<i>Quoted in Stock Exchange</i>	<i>182.372</i>	<i>2.508</i>
	<u>3.547.305</u>	<u>18.692</u>

(*)The Annual General Assembly which held on 21 March 2019, it was decided by the majority of votes to distribute TRY 3.509.000 thousand dividend from 2018 profit in cash. Dividend payables to shareholders is the sum of total dividend decided to be distributed after dividends for treasury shares are netted off, dividend payables to non-controlling interests and uncollected dividend by shareholders related to previous periods.

NOTE 9 – PROVISIONS

The Company’s short term provisions are as follows:

	31 March 2019	31 December 2018
Provision for lawsuits	28.478	24.051
Penalty provision for employment shortage of disabled person	7.879	7.301
Provision for land occupation	1.622	1.450
	<u>37.979</u>	<u>32.802</u>

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

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NOTE 9 – PROVISIONS (cont’d)

The movement of the short term provisions is as follows:

	1 January 2019	Change for the period	Payments	Provision released	Translation difference	31 March 2019
Provision for lawsuits	24.051	4.415	-	(420)	432	28.478
Penalty provision for employment shortage of disabled personnel	7.301	574	-	-	4	7.879
Provision for land occupation	1.450	171	-	-	1	1.622
	<u>32.802</u>	<u>5.160</u>	<u>-</u>	<u>(420)</u>	<u>437</u>	<u>37.979</u>
	1 January 2018	Change for the period	Payments	Provision released	Translation difference	31 March 2018
Provision for lawsuits	21.441	1.579	(84)	(252)	196	22.880
Penalty provision for employment shortage of disabled personnel	5.480	436	-	-	3	5.919
Provision for land occupation	1.212	153	(380)	-	3	988
	<u>28.133</u>	<u>2.168</u>	<u>(464)</u>	<u>(252)</u>	<u>202</u>	<u>29.787</u>

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NOTE 10 – EMPLOYEE BENEFITS

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

	31 March 2019	31 December 2018
Due to personnel	39.481	38.585
Social security premiums payable	23.750	11.379
	<u>63.231</u>	<u>49.964</u>

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

	31 March 2019	31 December 2018
Provisions for employee termination benefits	227.528	220.511
Provisions for seniority incentive premium	22.662	21.228
Provision for unpaid vacations	28.757	31.361
	<u>278.947</u>	<u>273.100</u>

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

As of 31 March 2019, the employee termination benefit has been updated to a maximum of TRY 6.017,60 (31 December 2018: TRY 5.434,42).

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

The employee termination benefit has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees. TAS 19 (“Employee Benefits”) requires actuarial valuation methods to be developed to estimate the Company’s obligation under defined benefit plans. The obligation as of 31 March 2019 has been calculated by an independent actuary. The actuarial assumptions used in the calculation of the present value of the future probable obligation are as follows:

	31 March 2019	31 December 2018
Discount rate	% 16,00	% 16,00
Inflation rate	% 11,30	% 11,30
Salary increase	reel % 1,5	reel % 1,5
Maximum liability increase	% 11,30	% 11,30

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NOTE 10 – EMPLOYEE BENEFITS (cont’d)

Discount rates are determined considering the expected duration of the retirement obligations and the currency in which the obligations will be paid. In calculations as of 31 March 2019, a fixed discount rate is used. Long term inflation estimates are made using an approach consistent with discount rate estimates and long term inflation rate fixed over years is used.

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

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

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

	1 January - 31 March 2019	1 January - 31 March 2018
Opening balance	220.511	212.842
Service cost	4.358	3.809
Interest cost	8.270	5.796
Termination benefits paid	(5.716)	(4.905)
Translation difference	105	24
Closing balance	<u>227.528</u>	<u>217.566</u>

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

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

	1 January - 31 March 2019	1 January - 31 March 2018
Opening balance	21.228	16.385
Service cost	585	461
Interest cost	839	442
Translation difference	10	6
Closing balance	<u>22.662</u>	<u>17.294</u>

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

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NOTE 10 – EMPLOYEE BENEFITS (cont’d)

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

	1 January - 31 March 2019	1 January - 31 March 2018
Opening balance	31.361	25.269
Provision for the period	2.519	1.326
Vacation paid during the period (-)	(422)	(468)
Provisions released (-)	(4.701)	(2.996)
Translation difference	-	(4)
Closing balance	28.757	23.127

NOTE 11 – COMMITMENTS

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

	31 March 2019	31 December 2018
Letters of guarantees received	396.657	326.481
	396.657	326.481

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

	31 March 2019	31 December 2018
A. Total CPM given for the Company's own legal entity	33.975	34.343
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	-	-
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	-	-
D. Other CPM given	-	-
i. Total CPM given in favour of parent entity	-	-
ii. Total CPM given in favour of other Group companies out of the scope of clause B and C	-	-
iii. Total CPM given in favour of other 3rd parties out of the scope of clause C	-	-
	33.975	34.343

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

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NOTE 11 – COMMITMENTS (cont’d)

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

	31 March 2019	31 December 2018
TRY	21.337	22.287
EURO	12.638	12.056
	<u>33.975</u>	<u>34.343</u>

NOTE 12 – TAX ASSETS AND LIABILITIES

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

	31 March 2019	31 December 2018
<u>Corporate tax payable:</u>		
Corporation tax for the year of 2018	1.447.656	-
Current corporate tax provision	270.520	1.447.656
Prepaid taxes and funds (-)	(1.174.957)	(1.014.925)
	<u>543.219</u>	<u>432.731</u>
	1 January - 31 March 2019	1 January - 31 March 2018
<u>Taxation:</u>		
Current corporate tax expense	270.520	230.509
Deferred tax expense	65.832	54.717
	<u>336.352</u>	<u>285.226</u>

Corporate Tax

The Company is subject to corporation tax applicable in Turkey.

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

Pursuant to the Provisional Article 10 of the Law No. 7061 added with the Article 91 of the Law on Corporate Income Tax, published in the Official Gazette dated December 5, 2017 and numbered 30261, the corporate tax rate for corporate earnings to be obtained during the tax years 2018, 2019 and 2020 has been increased from 20% to 22%. The total amount of corporate tax payments made by the Company in 2019 three months period is TRY 160.032 thousand.

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

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

Deferred tax

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

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

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

	31 March 2019	31 December 2018
<u>Deferred tax assets:</u>		
Provisions for employee benefits	57.032	55.997
Provision for lawsuits	6.622	5.610
Adjustment of receivable rediscount	5.393	5.406
Provision for other doubtful receivables	17.316	16.531
Other	19.731	15.030
	<u>106.094</u>	<u>98.574</u>
<u>Deferred tax liabilities:</u>		
Tangible and intangible fixed assets	(1.752.202)	(1.627.016)
Amortized cost adjustment on loans	(3.063)	(3.790)
Inventories	(67.306)	(7.515)
Other	(103)	(110)
	<u>(1.822.674)</u>	<u>(1.638.431)</u>
<u>Presentation of deferred tax assets/(liabilities):</u>	<u>(1.716.580)</u>	<u>(1.539.857)</u>

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

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

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

	1 January - 31 March 2019	1 January - 31 March 2018
Opening balance	(1.539.857)	(944.081)
Deferred tax expense	(65.832)	(54.717)
Translation difference	(110.891)	(46.291)
Closing balance	<u>(1.716.580)</u>	<u>(1.045.089)</u>

Reconciliation of tax provision is as follows:

	1 January - 31 March 2019	1 January - 31 March 2018
Profit before tax	859.381	1.072.261
Statutory tax rate	22%	22%
Calculated tax acc. to effective tax rate	(189.064)	(235.897)
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	(297)	(146)
- Effect of currency translation to non taxable assets (*)	(146.991)	(41.934)
- Investment incentives	-	(7.249)
Tax expense in reported in the statement of profit or loss	<u>(336.352)</u>	<u>(285.226)</u>

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

NOTE 13 – EQUITY

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

	31 March (%)	2019	31 December (%)	2018
<u>Shareholders</u>				
Ereğli Demir ve Çelik Fabrikaları T.A.Ş.	94,87	2.751.326	94,87	2.751.326
Quoted in Stock Exchange	5,13	148.674	5,13	148.674
Historical capital		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 14 – SALES AND COST OF SALES

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

	1 January - 31 March 2019	1 January - 31 March 2018
<u>Sales Revenue</u>		
Domestic sales	2.884.683	2.443.459
Export sales	1.067.864	412.758
Other revenues (*)	96.869	115.230
Interest income from sales with maturities	11.507	5.244
Sales returns (-)	(949)	(756)
	<u>4.059.974</u>	<u>2.975.935</u>
<u>Cost of sales (-)</u>	<u>(3.240.276)</u>	<u>(1.950.389)</u>
Gross profit	<u>819.698</u>	<u>1.025.546</u>

(*)The total amount of by product exports in other revenues is TRY 58.681 thousand (31 March 2018: TRY 36.784 thousand).

The Company derives its revenue from the transfer of goods at a point in time in the following major product lines. The amount of performance obligations in the ongoing contracts of the Company will be eligible for recognition in the future is TRY 38.287 thousand. The Company planning to recognize related revenue amount as a revenue in a year.

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

	1 January - 31 March 2019	1 January - 31 March 2018
Raw material usage	(2.612.492)	(1.533.750)
Personnel costs	(135.639)	(114.935)
Energy costs	(112.002)	(53.640)
Depreciation and amortization expenses	(145.925)	(96.178)
Factory overheads	(68.806)	(32.720)
Other cost of goods sold	(103.744)	(75.862)
Non-operating costs	-	(6.467)
Freight costs for sales delivered to customers	(44.431)	(27.635)
Inventory write-downs within the period (Note 4)	(2.210)	(3.684)
Other	(15.027)	(5.518)
	<u>(3.240.276)</u>	<u>(1.950.389)</u>

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

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

	1 January - 31 March 2019	1 January - 31 March 2018
Personnel expenses (-)	(5.817)	(4.931)
Depreciation and amortization(-)	(4.481)	(2.978)
Tax, duty and charges (-)	(186)	(185)
Service expenses (-)	(16.076)	(11.073)
	<u>(26.560)</u>	<u>(19.167)</u>

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

	1 January - 31 March 2019	1 January - 31 March 2018
Personnel expenses (-)	(10.124)	(10.088)
Depreciation and amortization expenses(-)	(812)	(631)
Provision for doubtful receivables (net)	(3.461)	(588)
Tax, duty and charges (-)	(3.044)	(2.202)
Service expenses (-)	(20.155)	(14.423)
	<u>(37.596)</u>	<u>(27.932)</u>

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

	1 January - 31 March 2019	1 January - 31 March 2018
<u>Other operating income</u>		
Foreign exchange difference from trade receivables and liabilities	8.671	4.711
Discount income	62	10.568
Provisions released	420	252
Service income	1.617	1.252
Maintenance repair and rent income	3.133	3.309
Lawsuit income	36	45
Indemnity and penalty detention income	697	791
Insurance indemnity income	1.174	90
Warehouse income	765	220
Gain on sale of tangible assets	25	-
Other income and gains	4.142	1.855
	<u>20.742</u>	<u>23.093</u>

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

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

	1 January - 31 March 2019	1 January - 31 March 2018
<u>Other operating expenses (-)</u>		
Provision expenses	(4.989)	(2.015)
Donation expenses	(461)	(369)
Discount expenses	-	(2.129)
Port facility pre-licence expenses	(7.398)	(1.659)
Lawsuit compensation expenses	(801)	(472)
Penalty expenses	(78)	(154)
Stock exchange registration expenses	(1.026)	(530)
Other expenses and losses	(5.419)	(2.763)
	<u>(20.172)</u>	<u>(10.091)</u>

NOTE 16 – FINANCE INCOME AND EXPENSES

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

	1 January - 31 March 2019	1 January - 31 March 2018
<u>Financial incomes</u>		
Interest income on bank deposits	421	62
Foreign exchange gains	79.019	59.964
Interest income on related party	53.736	33.701
Other financial incomes	-	88
	<u>133.176</u>	<u>93.815</u>

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

	1 January - 31 March 2019	1 January - 31 March 2018
<u>Finance expenses (-)</u>		
Interest expenses on borrowings	(15.567)	(7.133)
Interest cost of employee benefits	(9.109)	(6.238)
Guarantee expenses	(3.674)	(645)
	<u>(28.350)</u>	<u>(14.016)</u>

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

Additional information about financial instruments

Foreign currency risk management

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

31 March 2019

	TRY (Total in currency)	TRY (Original currency)	EURO (Original currency)	Jap.Yen (Original currency)
1. Trade Receivables	407.188	12.339	62.488	-
2a. Monetary financial assets	4.567.287	397.841	659.848	22
2b. Non- monetary financial assets	-	-	-	-
3. Other	17.460	17.441	3	-
4. Current assets (1+2+3)	4.991.935	427.621	722.339	22
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	8.970	8.970	-	-
6b. Non- monetary financial assets	-	-	-	-
7. Other	43.648	4.559	6.186	-
8. Non-current assets (5+6+7)	52.618	13.529	6.186	-
9. Total assets (4+8)	5.044.553	441.150	728.525	22
10. Trade payables	382.360	358.660	3.751	-
11. Financial liabilities	117.075	29.886	13.798	-
12a. Other monetary financial liabilities	4.279.921	4.278.005	303	-
12b. Other non-monetary financial liabilities	-	-	-	-
13. Current liabilities (10+11+12)	4.779.356	4.666.551	17.852	-
14. Trade payables	-	-	-	-
15. Financial liabilities	402.815	144.767	40.838	-
16a. Other monetary financial liabilities	278.947	278.947	-	-
16b. Other non-monetary financial liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	681.762	423.714	40.838	-
18. Total liabilities (13+17)	5.461.118	5.090.265	58.690	-
19. Net asset/liability position of off-balance sheet	-	-	-	-
19a. Off-balance sheet foreign currency derivative financial assets	-	-	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	-	-	-	-
20. Net foreign currency asset/liability position (9- 18+19)	(416.565)	(4.649.115)	669.835	22
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(477.673)	(4.671.115)	663.646	22
22. Fair value of derivative financial instruments used in foreign currency hedge	-	-	-	-
23. Hedged foreign currency assets	-	-	-	-
24. Hedged foreign currency liabilities	-	-	-	-
25. Exports	1.126.545			
26. Imports	1.891.605			

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

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

Additional information about financial instruments (cont’d)

Foreign currency risk management (cont’d)

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 31 MARCH 2019

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

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

Additional information about financial instruments (cont’d)

Foreign currency risk management (cont’d)

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

As of 31 March 2019 asset and liability balances are translated by using the following exchange rates: TRY 5,6284 = US \$ 1, TRY 6,3188 = EUR 1 (31 December 2018: TRY 5,2609 = US\$ 1, TRY 6,0280 = EUR 1)

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency	Depreciation of foreign currency
31 March 2019		
1- TRY net asset/liability	(464.911)	464.911
2- Hedged portion from TRY risk (-)	-	-
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(464.911)	464.911
5- Euro net asset/liability	423.255	(423.255)
6- Hedged portion from Euro risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- Euro net effect (5+6+7)	423.255	(423.255)
9- Jap. Yen net asset/liability	-	-
10- Hedged portion from Jap. Yen risk (-)	-	-
11- Effect of capitalization (-)	-	-
12- Jap. Yen net effect (9+10+11)	-	-
TOTAL (4+8+12)	(41.656)	41.656

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 31 MARCH 2019

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

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

Additional information about financial instruments (cont’d)

Foreign currency risk management (cont’d)

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

NOTE 18 – SUBSEQUENT EVENTS

None.

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

Convenience translation to English:

As of 31 March 2019, the accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying financial statements differ from International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board with respect to the application of inflation accounting, certain reclassifications and also for certain disclosures requirement of the POA/CMB. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with IFRS.