

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

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

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

TABLE OF CONTENTS		PAGE
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....		1-2
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS		3
CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME.....		4
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY		5
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS		6
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS.....		7-50
NOTE 1	GROUP'S ORGANIZATION AND NATURE OF OPERATIONS	7-8
NOTE 2	BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS	8-17
NOTE 3	RELATED PARTY TRANSACTIONS	17-20
NOTE 4	INVENTORIES	20
NOTE 5	INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD	21
NOTE 6	TANGIBLE AND INTANGIBLE ASSETS	22-23
NOTE 7	RIGHT OF USE ASSETS	24
NOTE 8	BORROWINGS	25-26
NOTE 9	PROVISIONS.....	26-32
NOTE 10	EMPLOYEE BENEFITS.....	32-34
NOTE 11	COMMITMENTS AND CONTINGENCIES	34-35
NOTE 12	TAX ASSETS AND LIABILITIES.....	35-38
NOTE 13	EQUITY	38
NOTE 14	SALES AND COST OF SALES	39-40
NOTE 15	EXPENSES ACCORDING TO THEIR NATURE AND OTHER OPERATING INCOME/EXPENSES.....	41-43
NOTE 16	FINANCE INCOME AND EXPENSES	44
NOTE 17	NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS	45-50
NOTE 18	SUBSEQUENT EVENTS	50
NOTE 19	OTHER ISSUES AFFECTING THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR UNDERSTANDABLE AND INTERPRETABLE PRESENTATION.....	50

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

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 30 SEPTEMBER 2019

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

	Note	(Unaudited)	(Unaudited)	(Audited)	(Audited)
		Current Period 30 September 2019 USD'000	Current Period 30 September 2019 TRY'000	Previous Period 31 December 2018 USD'000	Previous Period 31 December 2018 TRY'000
ASSETS					
CURRENT ASSETS		3.981.635	22.532.475	4.279.144	22.512.149
Cash and Cash Equivalents		1.458.855	8.255.807	1.645.980	8.659.336
Financial Investments		150.054	849.172	11.595	61.000
Trade Receivables		586.834	3.320.951	836.639	4.401.474
<i>Due From Related Parties</i>	3	16.581	93.832	13.037	68.586
<i>Other Trade Receivables from Third Parties</i>		570.253	3.227.119	823.602	4.332.888
Other Receivables		1.584	8.965	342	1.800
<i>Due From Related Parties</i>	3	1.232	6.973	-	-
<i>Other Receivables from Third Parties</i>		352	1.992	342	1.800
Financial Derivative Instruments		25.033	141.662	10.064	52.945
Inventories	4	1.636.587	9.261.608	1.689.853	8.890.150
Prepaid Expenses		21.482	121.569	17.108	90.005
Other Current Assets		101.206	572.741	67.563	355.439
NON CURRENT ASSETS		3.742.573	21.179.593	3.662.864	19.269.961
Financial Investments		27	153	1.539	8.095
Other Receivables		5.957	33.710	1.786	9.397
<i>Due From Related Parties</i>	3	4.289	24.273	-	-
<i>Other Receivables from Third Parties</i>		1.668	9.437	1.786	9.397
Financial Derivative Instruments		517	2.927	1.226	6.448
Investments Accounted for Using Equity Method	5	28.007	158.496	27.616	145.284
Investment Properties		45.412	256.990	45.993	241.962
Property, Plant and Equipment	6	3.404.267	19.265.088	3.432.913	18.060.211
Right of Use Assets	7	40.581	229.650	-	-
Intangible Assets	6	53.102	300.510	53.891	283.516
Prepaid Expenses		122.928	695.661	62.969	331.275
<i>Prepaid Expenses to Related Parties</i>	3	4.312	24.400	12.976	68.266
<i>Other Prepaid Expenses to Third Parties</i>		118.616	671.261	49.993	263.009
Deferred Tax Assets	12	8.687	49.159	12.840	67.552
Other Non Current Assets		33.088	187.249	22.091	116.221
TOTAL ASSETS		7.724.208	43.712.068	7.942.008	41.782.110

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

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

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

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 30 SEPTEMBER 2019

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

	Note	(Unaudited)	(Unaudited)	(Audited)	(Audited)
		Current Period 30 September 2019 USD'000	Current Period 30 September 2019 TRY'000	Previous Period 31 December 2018 USD'000	Previous Period 31 December 2018 TRY'000
LIABILITIES					
CURRENT LIABILITIES		1.485.131	8.404.505	1.499.266	7.887.487
Short Term Borrowings	8	722.320	4.087.681	694.574	3.654.083
Short Term Portion of Long Term Borrowings	8	200.287	1.133.446	202.703	1.066.402
Trade Payables		397.666	2.250.437	367.983	1.935.922
<i>Due to Related Parties</i>	3	10.973	62.100	28.089	147.772
<i>Other Trade Payables to Third Parties</i>		386.693	2.188.337	339.894	1.788.150
Payables for Employee Benefits	10	27.869	157.712	36.016	189.476
Other Payables		13.691	77.477	8.133	42.786
Financial Derivative Instruments		235	1.330	408	2.144
Deferred Revenue		39.179	221.714	52.622	276.841
Current Tax Liabilities	12	33.571	189.980	95.937	504.716
Short Term Provisions	9	41.500	234.852	38.164	200.777
Non Current Liabilities		8.813	49.876	2.726	14.340
NON CURRENT LIABILITIES		1.005.692	5.691.312	881.978	4.639.998
Long Term Borrowings	8	376.740	2.132.011	266.204	1.400.475
Financial Derivative Instruments		14.464	81.854	453	2.382
Long Term Provisions		130.265	737.185	127.239	669.391
<i>Long term provisions for employee benefits</i>	10	130.265	737.185	127.239	669.391
Deferred Tax Liabilities	12	483.916	2.738.527	487.787	2.566.196
Other Non Current Liabilities		307	1.735	295	1.554
EQUITY		5.233.385	29.616.251	5.560.764	29.254.625
Equity Attributable to Equity Holders of the Parent		5.076.235	28.734.057	5.391.722	28.366.761
Share Capital	13	1.818.371	3.500.000	1.818.371	3.500.000
Inflation Adjustment to Capital		81.366	156.613	81.366	156.613
Treasury Shares (-)		(60.387)	(116.232)	(60.387)	(116.232)
Share Issue Premium (Discounts)		55.303	106.447	55.303	106.447
Other Comprehensive Income (Expenses) Not to be Reclassified to Profit (Loss)		(49.709)	11.396.121	(47.992)	10.132.859
<i>Revaluation Reserve of Tangible Assets</i>		10.575	55.172	10.760	51.239
<i>Actuarial (Loss) Gain funds</i>		(44.599)	(80.920)	(43.067)	(72.105)
<i>Foreign Currency Translation Reserves</i>		(15.685)	11.421.869	(15.685)	10.153.725
Other Comprehensive Income (Expense) to be Reclassified to Profit (Loss)		(59.881)	5.058.420	(56.338)	4.362.222
<i>Foreign Currency Translation Reserves</i>		(63.891)	5.035.726	(58.829)	4.349.119
<i>Cash Flow Hedging Gain (Loss)</i>		4.010	22.694	2.491	13.103
Restricted Reserves Assorted from Profit		1.024.835	3.485.761	805.774	2.287.528
Retained Earnings		1.717.773	2.057.906	1.635.660	2.339.334
Net Profit for the Period		548.564	3.089.021	1.159.965	5.597.990
Non-Controlling Interests		157.150	882.194	169.042	887.864
TOTAL LIABILITIES AND EQUITY		7.724.208	43.712.068	7.942.008	41.782.110

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

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

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

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

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

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

		(Unaudited) Current Period 1 January - 30 September 2019	(Unaudited) Current Period 1 January - 30 September 2019	(Unaudited) Current Period 1 July - 30 September 2019	(Unaudited) Previous Period 1 January - 30 September 2018	(Unaudited) Previous Period 1 January - 30 September 2018	(Unaudited) Previous Period 1 July - 30 September 2018
	Note	USD'000	TRY'000	TRY'000	USD'000	TRY'000	TRY'000
Revenue	14	3.731.289	21.011.261	6.416.445	4.224.853	19.421.650	7.792.289
Cost of Sales	14	(2.945.591)	(16.586.915)	(5.240.079)	(2.867.585)	(13.182.288)	(5.324.844)
GROSS PROFIT		785.698	4.424.346	1.176.366	1.357.268	6.239.362	2.467.445
Marketing Expenses	15	(31.235)	(175.885)	(56.391)	(32.176)	(147.914)	(56.022)
General Administrative Expenses	15	(57.179)	(321.980)	(111.684)	(67.137)	(308.628)	(101.359)
Research and Development Expenses		(3.114)	(17.536)	(5.652)	(2.672)	(12.284)	(4.385)
Other Operating Income	15	27.107	152.645	58.642	56.791	261.067	171.272
Other Operating Expenses	15	(27.176)	(153.037)	(66.248)	(25.992)	(119.485)	(50.974)
OPERATING PROFIT		694.101	3.908.553	995.033	1.286.082	5.912.118	2.425.977
Income from Investing Activities		3.188	17.954	4.809	189	870	466
Expenses from Investing Activities		(2.026)	(11.411)	(299)	(6.184)	(28.426)	(4.842)
Share of Investments' Profit Accounted by Using The Equity Method	5	994	5.598	2.112	818	3.759	1.437
OPERATING PROFIT BEFORE FINANCE INCOME (EXPENSES)		696.257	3.920.694	1.001.655	1.280.905	5.888.321	2.423.038
Finance Income	16	175.823	996.399	142.515	162.537	1.269.383	549.960
Finance Expense	16	(71.643)	(403.431)	(177.143)	(43.363)	(199.342)	(98.224)
PROFIT BEFORE TAX		800.437	4.513.662	967.027	1.400.079	6.958.362	2.874.774
Tax (Expense) Income	12	(225.273)	(1.274.854)	(141.329)	(510.168)	(2.867.438)	(1.471.712)
Current Corporate Tax (Expense) Income		(225.657)	(1.277.018)	(208.868)	(374.815)	(2.245.218)	(1.156.904)
Deferred Tax (Expense) Income		384	2.164	67.539	(135.353)	(622.220)	(314.808)
NET PROFIT FOR THE PERIOD		575.164	3.238.808	825.698	889.911	4.090.924	1.403.062
Non-Controlling Interests		26.600	149.787	41.299	38.402	176.536	65.177
Equity Holders of the Parent		548.564	3.089.021	784.399	851.509	3.914.388	1.337.885
EARNINGS PER SHARE			0,8826	0,2241		1,1184	0,3823
(TRY 1 Nominal value per share)							

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

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

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

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

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

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

	(Unaudited) Current Period 1 January - 30 September 2019	(Unaudited) Current Period 1 January - 30 September 2019	(Unaudited) Current Period 1 July- 30 September 2019	(Unaudited) Previous Period 1 January - 30 September 2018	(Unaudited) Previous Period 1 January - 30 September 2018	(Unaudited) Previous Period 1 July- 30 September 2018
Note	USD'000	TRY'000	TRY'000	USD'000	TRY'000	TRY'000
PROFIT FOR THE PERIOD	575.164	3.238.808	825.698	889.911	4.090.924	1.403.062
OTHER COMPREHENSIVE INCOME						
Not to be reclassified subsequently to profit or loss						
Increase (Decrease) in Revaluation Reserve of Tangible Assets	(185)	3.933	(1.874)	(397)	26.316	17.161
Actuarial Gain (Loss) of Defined Benefit Plans	10 (2.018)	(11.617)	-	2.082	9.493	-
Tax Effect of Actuarial Gain (Loss) of Defined Benefit Plans	12 444	2.556	-	(458)	(2.089)	-
Foreign Currency Translation Gain (Loss)	-	1.268.144	(347.069)	-	7.258.404	4.621.153
To be reclassified subsequently to profit or loss						
Gain (Loss) in Cash Flow Hedging Reserves	1.948	12.296	16.959	2.729	4.078	(67.684)
Tax Effect of Gain (Loss) in Cash Flow Hedging Reserves	12 (429)	(2.705)	(3.731)	(600)	(897)	14.888
Foreign Currency Translation Gain (Loss)	(5.277)	740.514	(128.926)	(34.352)	3.580.920	2.374.622
OTHER COMPREHENSIVE INCOME (LOSS)	(5.517)	2.013.121	(464.641)	(30.996)	10.876.225	6.960.140
TOTAL COMPREHENSIVE INCOME	569.647	5.251.929	361.057	858.915	14.967.149	8.363.202
Distribution of Total Comprehensive Income						
Non-controlling Interests	26.343	203.448	28.296	40.228	493.677	256.615
Equity Holders of the Parent	543.304	5.048.481	332.761	818.687	14.473.472	8.106.587

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

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

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

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

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

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

(Unaudited)	Other comprehensive income (expense) not to be reclassified subsequently to profit or loss							Other comprehensive income (expense) to be reclassified subsequently to profit or loss		Retained Earnings			Equity Attributable to the Parent	Non-controlling Interests	Total Shareholders' Equity
	Share Capital	Inflation Adjustment to Capital	Treasury Shares (-)	Share Issue Premium (Discounts)	Revaluation Reserve of Tangible Assets	Foreign Currency Translation Reserves	Actuarial Gain (Loss) Funds	Cash Flow Hedging Gain (Loss)	Foreign Currency Translation Reserves	Restricted Reserves Assorted from Profit	Retained Earnings	Net Profit For The Period			
1 January 2019	3.500.000	156.613	(116.232)	106.447	51.239	10.153.725	(72.105)	13.103	4.349.119	2.287.528	2.339.334	5.597.990	28.366.761	887.864	29.254.625
Net profit for the period	-	-	-	-	-	-	-	-	-	-	3.089.021	-	3.089.021	149.787	3.238.808
Other comprehensive income (loss)	-	-	-	-	3.933	1.268.144	(8.815)	9.591	686.607	-	-	-	1.959.460	53.661	2.013.121
Total comprehensive income (loss)	-	-	-	-	3.933	1.268.144	(8.815)	9.591	686.607	-	-	3.089.021	5.048.481	203.448	5.251.929
Dividends (*)	-	-	-	-	-	-	-	-	-	-	(4.681.185)	-	(4.681.185)	(209.118)	(4.890.303)
Transfers	-	-	-	-	-	-	-	-	-	1.198.233	4.399.757	(5.597.990)	-	-	-
30 September 2019	3.500.000	156.613	(116.232)	106.447	55.172	11.421.869	(80.920)	22.694	5.035.726	3.485.761	2.057.906	3.089.021	28.734.057	882.194	29.616.251
(Unaudited)															
1 January 2018 (Previously reported)	3.500.000	156.613	(116.232)	106.447	33.917	5.587.482	(111.247)	(16.272)	2.077.994	1.567.280	2.144.646	3.753.755	18.684.383	543.774	19.228.157
Effect of compulsory change in accounting principle	-	-	-	-	-	-	-	-	-	-	(11.412)	-	(11.412)	-	(11.412)
1 January 2018 (Restated)	3.500.000	156.613	(116.232)	106.447	33.917	5.587.482	(111.247)	(16.272)	2.077.994	1.567.280	2.133.234	3.753.755	18.672.971	543.774	19.216.745
Net profit for the period	-	-	-	-	-	-	-	-	-	-	-	3.914.388	3.914.388	176.536	4.090.924
Other comprehensive income (loss)	-	-	-	-	26.316	7.258.404	7.255	3.181	3.263.928	-	-	-	10.559.084	317.141	10.876.225
Total comprehensive income (loss)	-	-	-	-	26.316	7.258.404	7.255	3.181	3.263.928	-	-	3.914.388	14.473.472	493.677	14.967.149
Dividends (*)	-	-	-	-	-	-	-	-	-	-	(2.849.417)	-	(2.849.417)	(134.157)	(2.983.574)
Transfers	-	-	-	-	-	-	-	-	-	720.248	3.033.507	(3.753.755)	-	-	-
Decrease/increase in subsidiaries due to changes in share rates not end up with lose control	-	-	-	-	-	-	-	-	-	-	17.500	-	17.500	24.857	42.357
30 September 2018	3.500.000	156.613	(116.232)	106.447	60.233	12.845.886	(103.992)	(13.091)	5.341.922	2.287.528	2.334.824	3.914.388	30.314.526	928.151	31.242.677

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

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

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

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

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

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

	Note	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		Current Period 1 January- 30 September 2019	Current Period 1 January- 30 September 2019	Previous Period 1 January- 30 September 2018	Previous Period 1 January- 30 September 2018
		USD'000	TRY'000	USD'000	TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit (Loss) for The Period		856.002	5.423.692	647.376	3.297.918
Adjustments to Reconcile Profit (Loss)		575.164	3.238.808	889.911	4.090.924
Adjustments for Depreciation and Amortisation Expenses	6/7/14/15	269.499	2.081.244	541.510	3.413.296
Adjustments for Impairment Loss (Reversal of Impairment Loss)		150.712	848.681	139.998	643.572
Adjustments for Provision (Reversal of Provision) for Receivables	15	2.792	15.721	8.300	38.156
Adjustments for Provision (Reversal of Provision) for Inventories	4/14	611	3.439	2.083	9.575
Adjustments for Provision (Reversal of Provision) for Property, Plant and Equipment	6	2.181	12.282	3.416	15.706
Adjustments for Provisions		-	-	2.801	12.875
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	10	24.825	140.385	20.549	86.188
Adjustments for Provision (Reversal of Provision) for Pending Claims and/or Lawsuits	9	20.908	117.739	22.776	104.701
Adjustments for Other Provisions (Reversals)	16	13.403	76.065	10.835	52.047
Adjustments for Interest (Income) and Expenses		(9.486)	(53.419)	(13.062)	(70.560)
Adjustments for Interest Income	16	(12.510)	(70.449)	(49.825)	(229.046)
Adjustments for Interest Expense	16	(66.136)	(372.419)	(67.515)	(310.367)
Deferred Financial Income from Credit Purchases	15	57.554	324.093	26.308	120.937
Unearned Financial Income from Credit Sales		2.203	12.404	76	350
Adjustments for Unrealized Foreign Exchange Differences		(6.131)	(34.527)	(8.694)	(39.966)
Adjustments for Fair Value (Gains) Losses		1.311	7.387	(374)	(1.717)
Adjustments for Fair Value (Gains) Losses on Financial Assets		(22.350)	(125.857)	(442)	(2.033)
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments	16	(994)	(5.598)	(44)	(204)
Adjustments for Undistributed Profits of Investments Accounted for Using Equity Method	5	(21.356)	(120.259)	(398)	(1.829)
Adjustments for Tax (Income) Expenses	12	(994)	(5.598)	(818)	(3.759)
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		225.273	1.274.854	510.168	2.867.438
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment		(690)	(3.880)	3.154	14.497
Adjustments for Reconciliation of Profit (Loss)		(690)	(3.880)	3.154	14.497
Changes in Working Capital		(98.870)	-	(89.200)	-
Adjustments for Decrease (Increase) in Trade Receivables		318.201	1.801.475	(412.099)	(2.468.453)
Decrease (Increase) in Trade Receivables from Related Parties		264.216	1.495.968	(111.683)	(669.004)
Decrease (Increase) in Trade Receivables from Third Parties		(3.544)	(20.056)	3.831	22.948
Adjustments for Decrease (Increase) in Other Receivables Related from Operations		267.760	1.516.024	(115.514)	(691.952)
Decrease (Increase) in Other Receivables from Operations from Third Parties		47	266	8.424	50.461
Decrease (Increase) in Derivative Financial Instruments		47	266	8.424	50.461
Adjustments for Decrease (Increase) in Inventories		(14.260)	(80.698)	(14.313)	(85.738)
Decrease (Increase) in Prepaid Expenses		53.959	305.360	(212.162)	(1.270.893)
Adjustments for Increase (Decrease) in Trade Payables		475	2.688	(6.400)	(38.339)
Increase (Decrease) in Trade Payable to Related Parties		29.683	167.979	14.759	88.515
Increase (Decrease) in Trade Payable to Third Parties		(17.116)	(96.861)	(4.477)	(26.818)
Adjustments for Increase (Decrease) in Other Payables Related from Operations		46.799	264.840	19.236	115.333
Increase (Decrease) in Other Payables to Third Parties Related from Operations		(2.589)	(14.652)	(24.541)	(147.005)
Increase (Decrease) in Derivative Liabilities		(2.589)	(14.652)	(24.541)	(147.005)
Adjustments for Other Increase (Decrease) in Working Capital		37.142	210.189	(6.944)	(41.596)
Decrease (Increase) in Other Assets Related from Operations		(50.472)	(285.625)	(59.239)	(354.854)
Increase (Decrease) in Other Payables Related from Operations		(43.128)	(244.067)	(59.109)	(354.075)
Cash Flows Provided by Operating Activities		(7.344)	(41.558)	(1.130)	(779)
Payments Related to Provisions for Employee Termination Benefits	10	1.162.864	7.121.527	1.019.322	5.035.767
Payments Related to Other Provisions	9	(11.025)	(62.088)	(11.502)	(52.876)
Income Taxes Refund (Paid)	12	(7.812)	(43.993)	(3.495)	(16.068)
		(288.025)	(1.591.754)	(356.949)	(1.668.905)
CASH FLOWS FROM INVESTING ACTIVITIES		(291.329)	(1.664.795)	(191.728)	(1.001.751)
Cash Inflow Due to Share Sales of Subsidiaries' not End Up with Losing Control		-	-	9.936	46.818
Cash Outflows Arising From Purchase of Shares or Capital Increase of Associates and/or Joint Ventures		-	-	(22.929)	(126.034)
Cash Outflows Arising From Purchase of Third Parties' Debt Instruments or Funds		(103.982)	(585.533)	(5.921)	(35.470)
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		3.438	19.350	90	417
Cash Inflow from Sales of Property, Plant and Equipment		3.438	19.350	90	417
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(124.647)	(701.898)	(137.910)	(633.977)
Cash Outflow from Purchase of Property, Plant and Equipment	6	(122.534)	(690.002)	(136.469)	(627.351)
Cash Outflow from Purchase of Intangible Assets	6	(2.113)	(11.896)	(1.441)	(6.626)
Cash Outflow from Purchase of Investment Property		-	-	(15.289)	(70.284)
Cash Advances and Debts Given		(66.741)	(399.919)	(19.705)	(183.221)
Other Cash Advances and Debts Given to Related Parties		(8.664)	(43.866)	(5.513)	(33.022)
Other Cash Advances and Debts Given		(58.077)	(356.053)	(14.192)	(150.199)
Dividends Received	5	603	3.205	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		(742.350)	(4.108.511)	(629.186)	(214.658)
Cash Inflow from Borrowings		1.022.192	5.831.583	888.935	4.097.986
Cash Inflow from Loans		929.341	5.281.583	888.935	4.097.986
Cash Inflow from Issued Debt Instruments		92.851	550.000	-	-
Cash Outflow from Repayments of Borrowings		(945.125)	(4.907.225)	(905.205)	(1.553.902)
Cash Outflow from Loan Repayments		(945.125)	(4.907.225)	(905.205)	(1.553.902)
Cash Outflow from Debt Payments for Leasing Contracts		(6.108)	(34.394)	-	-
Dividends Paid		(793.676)	(4.888.590)	(660.162)	(2.977.130)
Interest Paid		(46.276)	(260.584)	(27.948)	(128.478)
Interest Received		61.009	345.180	75.194	346.866
Other Cash Inflow (Outflow)		(34.366)	(194.481)	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		(177.677)	(349.614)	(173.538)	2.081.509
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(14.925)	(83.131)	(95.575)	433.059
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(192.602)	(432.745)	(269.113)	2.514.568
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		1.650.455	8.682.881	1.860.257	7.016.703
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		1.457.853	8.250.136	1.591.144	9.531.271

- As of 30 September 2019, the Group's total amount of time deposit interest accrual is TRY 5.671 thousand (USD 1.002 thousand) (30 September 2018: TRY 33.490 thousand (USD 5.591 thousand)).
- Bank deposits in financial investments amounting to TRY 194.481 thousand (USD 34.366 thousand) with maturities of more than 3 months are reported in condensed consolidated cash flow under "Other Cash (Inflow) Outflows".
- Exchange differences arising between the accrual and settlement dates of dividend payables to shareholders in Turkish Lira in the condensed financial statements are reported in the "Adjustments for Reconciliation of Profit (Loss)" since the functional currency is USD.

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

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

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

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

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

NOTE 1 – GROUP’S ORGANIZATION AND NATURE OF OPERATIONS

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

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

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

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

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

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

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

Erdemir Enerji Üretim A.Ş., which was established for the purpose of producing renewable energy with 100% capital of the Company not included in consolidation on 2018 financial statements due to inactivity in 2018.

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

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

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

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

NOTE 1 – GROUP’S ORGANIZATION AND NATURE OF OPERATIONS (cont’d)

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

	Paid Hourly Personnel	Paid Monthly Personnel	30 September 2019 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.071	1.691	5.762
İskenderun Demir ve Çelik A.Ş.	2.873	1.720	4.593
Erdemir Madencilik San. ve Tic. A.Ş.	153	123	276
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	216	78	294
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	221	221
Erdemir Romania S.R.L.	210	40	250
Erdemir Asia Pacific Private Limited	-	1	1
	<u>7.523</u>	<u>3.874</u>	<u>11.397</u>
	Paid Hourly Personnel	Paid Monthly Personnel	31 December 2018 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.161	1.683	5.844
İskenderun Demir ve Çelik A.Ş.	2.980	1.744	4.724
Erdemir Madencilik San. ve Tic. A.Ş.	143	129	272
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	221	74	295
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	211	211
Erdemir Romania S.R.L.	220	40	260
Erdemir Asia Pacific Private Limited	-	1	1
	<u>7.725</u>	<u>3.882</u>	<u>11.607</u>

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

The Group’s 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 condensed financial statements are prepared based on the Turkish Financial Reporting Standards and interpretations (“TFRS”) that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority (“POA”) under Article 5 of the Communiqué.

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

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

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

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

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

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED 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 Group has preferred to prepare condensed interim consolidated financial statements in the interim period. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2018.

Functional and reporting currency

The functional currency of the Company and its subsidiaries’ İskenderun Demir ve Çelik A.Ş. “İsdemir” and Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. “Ersem” are US Dollars while the functional currency of Erdemir Madencilik San. ve Tic. A.Ş. “Ermaden”, Erdemir Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş. and Erdemir Enerji Üretim A.Ş. are TRY.

Functional currency for the subsidiaries abroad

The functional currency of the foreign subsidiaries Erdemir Asia Pacific Private Limited “EAPPL” and Erdemir Romania S.R.L is US Dollars and EUR respectively.

Functional currency of the joint venture

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

Presentation currency translation

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

- a) The assets and liabilities on financial position as of 30 September 2019 are translated from US Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 5,6591= US \$ 1 and TRY 6,1836= EUR 1 on the balance sheet date (31 December 2018: TRY 5,2609= US \$ 1, TRY 6,0280= EUR 1).
- b) For the nine months period ended 30 September 2019, condensed consolidated income statements are translated from the average TRY 5,6311 = US \$ 1 and TRY 6,3284=EUR 1 rates of 2019 January - September period (30 September 2018: TRY 4,5970 = US \$ 1 TRY 5,4711 = 1 EUR).
- c) Exchange differences are shown in other comprehensive income as of foreign currency translation reserve.
- d) The differences between presentation of statutory and historical figures are recognised as translation differences under equity. All capital, capital measures and other measures are represented with their statutory figures, other equity accounts are represented with their historic cost figures in the accompanying financial statements.

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

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

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

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

2.1 Basis of Presentation (cont’d)

USD amounts presented in the condensed interim financial statements

The figures in USD amounts presented in the accompanying condensed interim consolidated financial statements comprising the condensed consolidated statements of financial position as of 30 September 2019 and 31 December 2018, condensed consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows for the interim period ended 30 September 2019 and 2018 represent the condensed consolidated 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 Group prepared condensed interim consolidated financial statements in accordance with the going concern assumption.

Approval of the consolidated financial statements

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

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

The Group’s condensed consolidated 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 Group’s condensed consolidated financial statements are prepared in comparison with the previous period in order to allow for the determination of the financial position and performance trends in accordance with a new illustrative financial statements and guidance that has been effective from the interim periods ended after 30 June 2013.

Reclassification on condensed income of income is as follows:

Account	(Previously Reported) 1 January - 30 September 2018	(Restated) 1 January - 30 September 2018	(Change) 1 January - 30 September 2018
Other Operating Expenses ⁽¹⁾	(120.345)	(119.485)	860
Expenses from Investing Activities ⁽¹⁾	(27.566)	(28.426)	(860)
			<u>-</u>

(1) Investment property tax amounting to TRY 860 thousand reported in “Other Operating Expenses” was reclassified to “Expenses from Investing Activities” on the condensed statement of profit or loss for the nine months period ended 30 September 2018.

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

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

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

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

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

2.3 Adoption of New and Revised Financial Reporting Standards

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

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

TFRS 16	:Leases
Amendments to 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
<i>Annual Improvements to 2015–2017 Cycle</i>	:Amendments to <i>TFRS 3, TFRS 11, TMS 12 and TMS 23</i>

TFRS 16 Leases

General impact of application of TFRS 16 Leases

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

Within the scope of the simplified transition application of this method defined in the related standard, no reclassification is required in the comparative information of the financial statements and retained earnings.

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

Impact of the new definition of a lease

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

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

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

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

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

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

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

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

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

IFRS 16 Leases (cont’d)

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

The Group 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 Group accounts for leases previously classified as operating leases under TMS 17, which were off-balance sheet.

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

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

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under 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 (such as personal computers and office furniture), the Group 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 condensed consolidated financial statements of the Group 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 Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by TMS 17.

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

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

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

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

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

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

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

IFRS 16 Leases (cont’d)

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.

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

This amendment clarifies that an entity applies IFRS 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.

IFRS 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 IAS 12.

Amendments to IAS 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 IFRS Standards 2015–2017 Cycle

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

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

New and revised IFRSs in issue but not yet effective and amendments and interpretations to the existing standards

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

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

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

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

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

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

New and revised IFRSs in issue but not yet effective and amendments and interpretations to the existing standards (cont’d)

IFRS 17	:Insurance Contracts
Amendments to IFRS 3	:Business Combinations
Amendments to IAS 1	:Presentation of Financial Statements
Amendments to IAS 8	:Accounting Policies, Changes in Accounting Estimates and Errors

IFRS 17 Insurance Contracts

IFRS 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. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.

Amendments to IFRS 3 Business Combinations

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

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

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

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

The Group is assessing the effects of these amendments and improvements on the consolidated financial position and performance of the Group.

2.4 Summary of Significant Accounting Policies

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

NOTE

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

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

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

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

2.4 Summary of Significant Accounting Policies (cont’d)

As explained in Note 1 there has been no change in total ownership interests and effective interests of the subsidiaries, included in the scope of consolidation as of 30 September 2019, from the interests reported as of 31 December 2018.

Effects of Revised Accounting Policies

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

TFRS 16 Leases

The Group 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. For the leases classified as operating leases in accordance with TAS 17, the Group has reflected in the consolidated 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 Group as of 1 January 2019 due to facilitation practices in the transition to TFRS 16.

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

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

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

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

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

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

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

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

2.4 Summary of Significant Accounting Policies (cont’d)

Effects of Revised Accounting Policies (cont’d)

IFRS 16 Leases (cont’d)

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

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

As of 1 January 2019 the details of lease liabilities within the scope of the amendments to IFRS 16 recognized under condensed consolidated financial statements are as follows:

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

Prior to the date of initial application of TFRS 16 “Leases”, the commitments regarding operational leases, which are followed under TAS 17, have no material impact on the financial results or financial position of the Group. Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

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

	<u>Effect of TFRS 16 1 January 2019</u>
Right of use land	201.550
Car leases	<u>8.022</u>
	<u>209.572</u>

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 consolidated financial statements. If changes in accounting estimates are related to only one period, they are recognized in the period when changes are applied; if changes in estimates are related to future periods, they are recognized both in the period where the change is applied and future periods prospectively.

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

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

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

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

2.5 Restatement and Errors in the Accounting Policies and Estimates (cont’d)

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

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

2.6 Segment Reporting

The operations of the Group in İskenderun and Ereğli have been defined as geographical segments. However, the segments with similar economic characteristics have been combined into a single operating segment considering the nature of the products and the production processes, methods to allocate the products and the type of customers or to provide services.

NOTE 3 –RELATED PARTY DISCLOSURES

The immediate parent and ultimate controlling parties of the Group are Ataer Holding A.Ş. and Ordu Yardımlaşma Kurumu respectively (Note 1).

The transactions between the Group and its subsidiaries, which are related parties of the Group, have been eliminated in the consolidation and therefore are not disclosed in this note.

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

	30 September 2019	31 December 2018
<u>Due from related parties (short term)</u>		
OYAK Renault Otomobil Fab. A.Ş. ⁽²⁾	27.343	53.806
Bolu Çimento Sanayi A.Ş. ⁽¹⁾	4.235	3.776
Adana Çimento Sanayi T.A.Ş. ⁽¹⁾	8.777	8.525
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽³⁾	4.178	724
Miilux OY ⁽¹⁾	6.409	-
Miilux Yüksek Mukavemetli Çelik Üretim A.Ş. ⁽¹⁾	38.958	-
OYAK NYK RO-RO Liman İşletmeleri A.Ş. ⁽¹⁾	3.556	-
Other	376	1.755
	<u>93.832</u>	<u>68.586</u>

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

⁽¹⁾ Subsidiaries of the parent company

⁽²⁾ Joint venture of the parent company

⁽³⁾ Joint venture of the subsidiary

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

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

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

NOTE 3 –RELATED PARTY DISCLOSURES (cont’d)

	30 September 2019	31 December 2018
<u>Other receivables from related parties (short term)</u>		
OYAK NYK RO-RO Liman İşletmeleri A.Ş. ⁽¹⁾	6.973	-
	<u>6.973</u>	<u>-</u>

	30 September 2019	31 December 2018
<u>Other receivables from related parties (long term)</u>		
OYAK NYK RO-RO Liman İşletmeleri A.Ş. ⁽¹⁾	24.273	-
	<u>24.273</u>	<u>-</u>

Short term and long term other receivables from related parties, consists of monetary receivables from rented out lease agreements within the scope of sub-leases in accordance with TFRS 16.

	30 September 2019	31 December 2018
<u>Prepaid expenses to related parties (long term)</u>		
OYAK Konut İnşaat A.Ş. ⁽¹⁾	-	509
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	24.400	67.757
	<u>24.400</u>	<u>68.266</u>

Long term prepaid expenses to related parties arise from advances given for tangible assets.

	30 September 2019	31 December 2018
<u>Due to related parties (short term)</u>		
Omsan Lojistik A.Ş. ⁽¹⁾	29.093	24.447
Omsan Denizcilik A.Ş. ⁽¹⁾	2.976	2.863
OYAK Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	13.799	12.053
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	6.821	15.484
Omsan Logistica SRL ⁽¹⁾	1.192	846
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽¹⁾	5.435	7.067
OYAK Elektrik Enerjisi Toptan Satış A.Ş. ⁽¹⁾	-	813
OYAK Grup Sigorta ve Reasürans Brokerliği A.Ş. ⁽¹⁾	245	74.262
Other	2.539	9.937
	<u>62.100</u>	<u>147.772</u>

Trade payables to related parties mainly arise from purchased service transactions, tangibles and energy.

⁽¹⁾ Subsidiaries of the parent company

⁽²⁾ Joint venture of the parent company

⁽³⁾ Joint venture of the subsidiary

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

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

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

NOTE 3 –RELATED PARTY DISCLOSURES (cont’d)

	1 January - 30 September 2019	1 January - 30 September 2018
<u>Major sales to related parties</u>		
OYAK Renault Otomobil Fab. A.Ş. ⁽²⁾	202.458	227.647
OYAK NYK RO-RO Liman İşletmeleri A.Ş. ⁽¹⁾	4.220	-
Adana Çimento Sanayi T.A.Ş. ⁽¹⁾	15.031	21.083
Miilux OY ⁽²⁾	10.843	-
OYAK Elektrik Enerjisi Toptan Satış A.Ş. ⁽¹⁾	2.228	-
Bolu Çimento Sanayi A.Ş. ⁽¹⁾	6.233	8.790
Aslan Çimento A.Ş. ⁽¹⁾	253	2.450
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽¹⁾	1.543	4.399
Miilux Yüksek Mukavemetli Çelik Üretim A.Ş. ⁽¹⁾	33.695	-
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽³⁾	37.431	33.485
Other	2.852	3.376
	<u>316.787</u>	<u>301.230</u>

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

	1 January - 30 September 2019	1 January - 30 September 2018
<u>Major purchases from related parties</u>		
Miilux OY ⁽²⁾	33.764	-
Omsan Denizcilik A.Ş. ⁽¹⁾	126.314	137.152
OYAK Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	95.539	78.483
Omsan Lojistik A.Ş. ⁽¹⁾	199.209	139.146
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	117.960	32.362
Omsan Logistica SRL ⁽¹⁾	11.443	12.245
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽¹⁾	85.284	81.650
OYAK Grup Sigorta ve Reasürans Brokerliği A.Ş. ⁽¹⁾	7.153	17.059
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽³⁾	64.325	52.386
Ordu Yardımlaşma Kurumu	1.155	197.717
Omsan Havacılık A.Ş. ⁽¹⁾	-	13.412
OYAK Elektrik Enerjisi Toptan Satış A.Ş. ⁽¹⁾	35.543	17.272
Other	11.769	9.832
	<u>789.458</u>	<u>788.716</u>

Purchases from related parties are generally related to services, fixed assets and energy purchases.

⁽¹⁾ Subsidiaries of the parent company

⁽²⁾ Joint venture of the parent company

⁽³⁾ Joint venture of the subsidiary

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

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

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

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

NOTE 3 –RELATED PARTY DISCLOSURES (cont’d)

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

The period end balances are un-secured and their collections will be in cash. For the nine months period ended 30 September 2019, the Group provides no provision for the receivables from related parties (31 December 2018: None).

Benefits of the key management:

For the nine months period ended 30 September 2019, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 18.825 thousand (30 September 2018: TRY 17.136 thousand).

NOTE 4 – INVENTORIES

As of the reporting date, the detail of the Group’s inventories is as follows:

	30 September 2019	31 December 2018
Raw materials	2.495.058	2.133.042
Work in progress	1.950.586	1.712.760
Finished goods	2.531.883	2.322.664
Spare parts	1.247.059	1.115.108
Goods in transit	845.737	1.405.980
Other inventories	577.597	548.341
Allowance for impairment on inventories (-)	(386.312)	(347.745)
	<u>9.261.608</u>	<u>8.890.150</u>

The movement of the allowance for impairment on inventories is as follows:

	1 January - 30 September 2019	1 January - 30 September 2018
Opening balance	347.745	228.247
Provision for the period	20.845	16.528
Provision released (-)	(8.563)	(822)
Translation difference	26.285	138.921
Closing balance	<u>386.312</u>	<u>382.874</u>

The Group 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).

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

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

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

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

NOTE 5 – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Group’s detail of the investments accounted for using equity method of the as follows:

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

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

	30 September 2019	31 December 2018
Total assets	384.007	380.489
Total liabilities	67.016	89.921
Net assets	316.991	290.568
Group's share on net assets	158.496	145.284

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

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

İsdemir Linde Gaz Ortaklığı A.Ş., as an affiliate of the Group under joint management, has the right of to deduct the investment deduction where profit will occur in the upcoming years pursuant to the Resolution No 2012/3305 on Government Aids in Investments and the Cabinet Decision issued in the Official gazette on 22 February 2017. Since İsdemir Linde Gaz Ortaklığı A.Ş. 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 73.173 thousand (its effect in the profit or loss statement of İsdemir is TRY 36.586 thousand) is not included in the financial statements prepared as of 30 September 2019.

In the Annual General Assembly dated 1 March 2019, it has been approved to distribute cash dividend from net profit of 2018 amounting to TRY 6.409 thousand. As of 29 March 2019 dividend payment has completed.

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

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

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

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

NOTE 6 – TANGIBLE AND INTANGIBLE ASSETS

As of reporting the date the movement of tangible assets are as follows:

	30 September 2019	30 September 2018
<u>Opening balance as of 1 January</u>		
Cost	46.803.093	33.090.796
Accumulated depreciation	(28.742.882)	(20.018.934)
Net book value	18.060.211	13.071.862
Net book value at the beginning of the period	18.060.211	13.071.862
Additions (*)	702.135	638.814
Disposals (-)	(15.470)	(14.914)
<i>Cost</i>	(82.556)	(100.828)
<i>Accumulated depreciation</i>	67.086	85.914
Transfers to intangible assets	(10.442)	(4.229)
Currency translation difference	1.354.239	7.617.673
<i>Cost currency translation difference</i>	3.485.690	19.307.677
<i>Accumulated depreciation currency translation difference</i>	(2.131.451)	(11.690.004)
Current period depreciation (-)	(825.585)	(658.099)
Impairment (-)	-	(12.875)
Net book value at the end of the period	19.265.088	20.638.232
<u>Closing balance end of period</u>		
Cost	50.897.920	52.932.230
Accumulated depreciation	(31.632.832)	(32.293.998)
Net book value	19.265.088	20.638.232

(*) The amount of capitalized borrowing cost is TRY 12.133 thousand for the current period (30 September 2018: TRY 11.463 thousand).

As of 30 September 2019, the Group has no collaterals or pledges upon its tangible assets (30 September 2018: None).

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

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

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

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

As of the reporting date the movement of intangible assets is as follows:

	30 September 2019	30 September 2018
<u>Opening balance as of 1 January</u>		
Cost	702.679	487.752
Accumulated amortisation	(419.163)	(276.441)
Net book value	<u>283.516</u>	<u>211.311</u>
Net book value at the beginning of the period	283.516	211.311
Additions	11.896	6.626
Transfers from tangible assets	10.442	4.229
Currency translation difference	21.243	119.446
<i>Cost currency translation difference</i>	52.416	285.800
<i>Accumulated depreciation currency translation difference</i>	(31.173)	(166.354)
Current period amortisation (-)	(26.587)	(23.430)
Net book value at the end of the period	<u><u>300.510</u></u>	<u><u>318.182</u></u>
<u>Closing balance end of period</u>		
Cost	777.433	784.407
Accumulated amortisation	(476.923)	(466.225)
Net book value	<u><u>300.510</u></u>	<u><u>318.182</u></u>

As of 30 September 2019, the Group has no collaterals or pledges upon its intangible assets (30 September 2018: None).

The distribution of depreciation and amortization expenses related to tangible, intangible assets and investment properties amounting to TRY 3.270 thousand (30 September 2018: TRY 1.154 thousand) are as follows:

	1 January – 30 September 2019	1 January – 30 September 2018
Associated with cost of production	787.027	632.409
General administrative expenses	31.776	22.406
Marketing expenses	31.147	25.547
Research and development expenses	5.492	2.321
	<u><u>855.442</u></u>	<u><u>682.683</u></u>

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

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

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

NOTE 7 – RIGHT OF USE ASSETS

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

	30 September 2019
Net book value at the beginning of the period	-
Opening effect of change in accounting principle (Note 2.4)	209.572
Effect of lease increases	43.221
Transfers of sub-lease agreements to receivables	(29.704)
Currency translation difference	15.884
<i>Cost currency translation difference</i>	15.930
<i>Accumulated depreciation currency translation difference</i>	(46)
Current period depreciation (-)	(9.323)
Net book value at the end of the period	229.650

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

	30 September 2019	1 January 2019
Right to use land	216.941	201.550
Car leases	12.709	8.022
	229.650	209.572

The Group has usage permit agreements regarding the port areas of the General Directorate of National Real Estate. Usage permit periods of the tangibles that will expire in 2048 and 2049 are measured at their present value by reducing the borrowing rate by 16% and are accounted for in the condensed consolidated statement of financial position as of 1 January 2019 in the notes to use rights and borrowings (Note 8).

In addition, car rental contracts whose useful lives are between 2020-2022 and whose borrowing rate has been reduced by 25% are measured at their present value and accounted in the condensed consolidated statement of financial position in accordance with the above explanations.

As of 1 June 2019, in accordance with the current contract conditions with the General Directorate of National Real Estate the use permit agreement, which will expire in 2049 for the Group's port sites in Yarımca, is subjected to sub-leasing to OYAK NYK RO-RO Liman İşletmeleri A.Ş. has been rented out. In accordance with the TFRS 16, use permit agreement; has been recognized in Other Receivables from Related Parties (Note 3) from the “Right of Use Assets” since the effective date of the sub-lease agreement.

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

	30 September 2019
General administration expenses	3.499
Other operating expenses	5.824
	9.323

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

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

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

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

NOTE 8 – BORROWINGS

The Group’s detail of the borrowings as of reporting date is as follows:

	30 September 2019	31 December 2018
Short term bank borrowings	4.087.681	3.654.083
Current portion of long term bank borrowings	1.083.411	1.066.402
Long term bank borrowings	1.388.164	1.400.475
Total bank borrowings	<u>6.559.256</u>	<u>6.120.960</u>
Current portion of long term corporate bonds issued	11.956	-
Long term corporate bonds issued	550.000	-
Total corporate bonds issued	<u>561.956</u>	<u>-</u>
Current portion of long term lease payables	41.686	-
Cost of current portion of long term lease payables (-)	(3.607)	-
Long term lease payables	901.730	-
Cost of long term lease payables (-)	(707.883)	-
Total lease payables	<u>231.926</u>	<u>-</u>
Total borrowings	<u>7.353.138</u>	<u>6.120.960</u>

As of 31 May 2019; bond issue 28 May 2021 term, quarterly TRLibor + 0,50 spread coupon interest, principal and coupon interest payment at the end of maturity TRY 550.000 thousand was performed.

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

Interest Type	Type of Currency	Weighted Average Rate of Effective Interest (%)	Short Term Portion	Long Term Portion	30 September 2019
No interest	TRY	-	107.383	-	107.383
Fixed	TRY	19,69	510.689	-	510.689
Fixed	US Dollars	3,12	2.505.057	59.405	2.564.462
Fixed	EURO	2,70	10.568	28.473	39.041
Floating	TRY	TRLibor+0,5	11.956	550.000	561.956
Floating	US Dollars	Libor+1,87	1.941.528	960.967	2.902.495
Floating	EURO	Euribor+1,71	95.867	339.319	435.186
			<u>5.183.048</u>	<u>1.938.164</u>	<u>7.121.212</u>

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

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

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

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

NOTE 8 – BORROWINGS (cont’d)

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

Interest Type	Type of Currency	Weighted Average Rate of Interest (%)	Short Term Portion	Long Term Portion	31 December 2018
No interest	TRY	-	32.284	-	32.284
Fixed	US Dollars	3,31	2.835.450	72.873	2.908.323
Fixed	EURO	2,80	12.035	32.145	44.180
Floating	US Dollars	Libor+1,64	1.743.193	1.008.245	2.751.438
Floating	EURO	Euribor+2,23	97.523	287.212	384.735
			4.720.485	1.400.475	6.120.960

Breakdown of loan repayments according to their maturities are as follows:

	30 September 2019				31 December 2018	
	Bank Borrowings	Corporate Bonds Issued	Lease Payables	Total Borrowings	Bank Borrowings	Total Borrowings
Within 1 year	5.171.092	11.956	38.079	5.221.127	4.720.485	4.720.485
Between 1-2 years	332.697	550.000	30.619	913.316	740.278	740.278
Between 2-3 years	673.010	-	23.633	696.643	242.089	242.089
Between 3-4 years	161.401	-	19.476	180.877	189.274	189.274
Between 4-5 years	38.570	-	16.841	55.411	107.370	107.370
Five years or more	182.486	-	103.278	285.764	121.464	121.464
	6.559.256	561.956	231.926	7.353.138	6.120.960	6.120.960

NOTE 9 - PROVISIONS

As of reporting date the Group’s short term provisions are as follows:

	30 September 2019	31 December 2018
Provision for lawsuits	193.073	165.568
Penalty provision for employment shortage of disabled	11.490	10.421
Provision for state right on mining activities	11.760	7.650
Provision for land occupation	8.143	7.013
Provision for the potential tax penalty	10.386	10.125
	234.852	200.777

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

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

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

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

NOTE 9 – PROVISIONS (cont’d)

The movement of the provisions is as follows:

	1 January 2019	Change for the period	Payments	Provision released	Translation difference	30 September 2019
Provision for lawsuits	165.568	44.711	(13.264)	(5.819)	1.877	193.073
Penalty provision for employment shortage of disabled personnel	10.421	4.452	(2.883)	(514)	14	11.490
Provision for state right on mining activities	7.650	14.350	(10.240)	-	-	11.760
Provision for land occupation	7.013	18.885	(17.606)	-	(149)	8.143
Provision for the tax penalty	10.125	-	-	-	261	10.386
	<u>200.777</u>	<u>82.398</u>	<u>(43.993)</u>	<u>(6.333)</u>	<u>2.003</u>	<u>234.852</u>

	1 January 2018	Change for the period	Payments	Provision released	Translation difference	30 September 2018
Provision for lawsuits	103.689	63.071	(10.115)	(34.242)	52.875	175.278
Penalty provision for employment shortage of disabled personnel	6.374	2.924	-	-	17	9.315
Provision for state right on mining activities	5.102	5.207	(5.495)	-	-	4.814
Provision for land occupation	11.665	15.087	(458)	-	(229)	26.065
Provision for the tax penalty	7.584	-	-	-	4.090	11.674
	<u>134.414</u>	<u>86.289</u>	<u>(16.068)</u>	<u>(34.242)</u>	<u>56.753</u>	<u>227.146</u>

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

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

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

NOTE 9 – PROVISIONS (cont’d)

Provision for lawsuits

As of reporting date, lawsuits filed by and against the Group are as follows:

	30 September 2019	31 December 2018
Lawsuits filed by the Group	793.787	763.070
Provision for lawsuits filed by the Group	211.557	200.393

The provision for the lawsuits filed by the Group represents the doubtful trade receivables and other receivables.

	30 September 2019	31 December 2018
Lawsuits filed against the Group	539.461	498.341
Provision for lawsuits filed against the Group	193.073	165.568

The Company, prepared its consolidated financial statements as of 31 March 2005, 30 June 2005 and 30 September 2005 according to CMB’s Communiqué Serial XI No 25 on “Accounting Standards to be implemented in Capital Markets” which is not in effect today, whereas its consolidated financial statements of 31 December 2005 was prepared according to International Financial Reporting Standards by virtue of the Article 726 and Temporary Article 1 of the aforementioned Communiqué, and CMB’s letter no. SPK.017/83-3483 dated 7 March 2006, sent to the Group Management. The aforementioned Communiqué (Serial XI No. 25 on the “Accounting Standards to be implemented in Capital Markets”), and Communiqués inserting some provisions thereto together with the Communiqués amending it, became effective starting with the consolidated financial statements of the first interim period ending after 1 January 2005.

CMB asked the Company to prepare its consolidated financial statements of 31 December 2005 all over again according to the same accounting standards set used during the period, to publish those statements, and to submit them to the General Assembly Approval as soon as possible, by stating on its decision no. 21/526 dated 5 May 2006 that the Company’s changing the accounting standards set used during the term (Serial XI, No 25) at the end of the same term (IFRS) caused a decrease amounting to TRY 152.330 thousand on the period due to negative goodwill income.

The Company challenged the aforementioned decision before the 11th Administrative Court of Ankara (E. 2006/1396). This lawsuit was rejected on 29 March 2007, but the Company appealed this rejection on 11 October 2007. 13th Chamber of the Council of State rejected the appeal on 12 May 2010; however the Company also appealed this rejection on 2 September 2010. However, 13th Chamber of the Council of State also dismissed this appeal against rejection on 6 June 2012 with its decision No. E. 2010/4196, K. 2012/1499. This decision was notified to the Company’s lawyers on 16 July 2012.

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

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

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

NOTE 9 – PROVISIONS (cont’d)

Provision for lawsuits (cont’d)

CMB, prepared the Company’s consolidated financial statements as of 31 December 2005, which had been prepared according to the TFRS, by adding the negative goodwill of TRY 152.330 thousand, that had previously been added to the accumulated earnings, to the profit of 2005 on its own motion and account, and published them on Istanbul Stock Exchange Bulletin on 15 August 2006; with the rationale that the Company had not fulfilled its due demand on grounds that “Article 726 and Temporary Provision 1 of CMB’s Communiqué Serial XI, No. 25 authorize the use of TFRS on consolidated financial statements of 2005, although CMB had given the Company a ‘permission’ No. SPK.0.17/83-3483 of 7 March 2006 and the lawsuits regarding this issue are still pending”.

The Company challenged CMB’s aforementioned decision by a separate lawsuit on 10 October 2006. 11th Administrative Court of Ankara rejected this case on 25 June 2007. The Company appealed this rejection 11 October 2007; 13th Chamber of the Council of State, accepted the appeal request and abolished the rejection judgment. CMB appealed the Chamber’s decision on 6 September 2010. 13th Chamber of the Council of State accepted CMB’s appeal and reverted its previous abolishment decision, and ratified 11th Administrative Court of Ankara’s judgment by the majority of the votes on 30 May 2012 with its decision no. E. 2010/4405; K. 2012/1352. This decision was notified to the Company’s lawyers on 20 July 2012.

Had the Company started to prepare its consolidated financial statements in accordance with TFRS after December 31, 2005, it would also have to present the comparative consolidated financial statements in accordance with TFRS based on “TFRS 1: First-time adoption of International Financial Reporting Standards” and the previously recognized negative goodwill would be transferred directly to retained earnings on 1 January 2005 instead of recognizing in the consolidated income statement in accordance with “TFRS 3: Business Combinations”. Therefore, the net profit for the periods ended 30 September 2019 and 31 December 2018 will not be affected from the above mentioned disputes.

Company’s Shareholders’ General Assembly, which was held at 30 March 2006, decided dividend distribution according to the consolidated financial statements as of 31 December 2005, which was prepared according to TFRS. Privatization Administration, who has a usufruct right over 1 (one) equity share among the Company shares it transferred to Ataer Holding A.Ş., filed a lawsuit at 1 May 2006 the 3th Commercial Court of Ankara against the aforementioned General Assembly decision, and claimed that, dividend distribution decision must be abolished and TRY 35.673 thousand allegedly unpaid dividend must be paid to itself (E. 2006/218). The Court rejected the case on 23 October 2008; Privatization Administration appealed this rejection on 7 January 2009. Court of Appeals’ 11th Chamber reversed this rejection judgment on 30 November 2010; this time the Company appealed the Chamber’s decision on 18 February 2011. However, the Chamber rejected the Company’s appeal on 14 July 2011. The case file, sent back to 3th Commercial Court of Ankara once again. The case was dismissed at the hearing held on 26 June 2015. Decision of the local court has been reversed by the Supreme Court 11th Civil Chamber with the decision dated 24 May 2017 and 2015/15771 Docket; 2017/3040 Decision number By the decision of the Supreme Court 11 th Civil Chamber dated 27.06.2019 and 2017/4580 Docket; 2019/4955 Decision number which was served to our Company on 28 August 2019, it was notified that our Company’s request for revision of the decision has been rejected. By the preliminary proceedings report of Ankara 3rd Commercial Court of First Instance dated 5 August 2019 which was also served to our Company on 28 August 2019, it was notified that the hearing (2019/148 Docket number) will be held on 21 November 2019.

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

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

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

NOTE 9 – PROVISIONS (cont’d)

Provision for lawsuits (cont’d)

The Company, based on the above mentioned reasons, doesn’t expect for the possible effects of changes in the net profit for the year ended 31 December 2005 due to the lawsuits mentioned above to have any impact in the accompanying condensed consolidated financial statements as of 30 September 2019 and 31 December 2018.

Enerjia Metal Maden Sanayi ve Ticaret A.Ş. initiated a debt collection proceeding that might end with a bankruptcy judgment against the Company based on the Export Protocol No. 69187 of 2 July 2009 and “Additional Terms to the Erdemir-Enerjia Export Protocol No. 68197” drafted by and between Enerjia and the Company. However the process stopped upon the Company’s objection to Enerjia’s request, and that led Enerjia to file a lawsuit against the Company before the 7th Commercial Court of Ankara on 27 March 2010 claiming that the objection should be overruled and USD 68.313 thousand should be paid to itself (E. 2010/259). The Court dismissed the case, in favor of the Company, on 23 June 2011.

Enerjia appealed this rejection. 23rd Chamber of the Court of Appeals accepted this rejection on 6 April 2012 (E. 2011/2915, K.2012/2675) and after this, the case file was sent back to the 7th Commercial Court of Ankara and received case file number E. 2013/17. The case file was sent to the 4th Commercial Court of Ankara due to the case shall seen by delegation according to the regulatory framework regarding the commercial courts.

The Court has dismissed the case at the hearing held on 9 September 2015. Decision of the local court has been approved by the Supreme Court 23th Civil Chamber with the decision dated 07.05.2018 and 2017/2657 Docket; 2018/2943 Decision number. The decision of approval has been notified to our Company on 26 June 2018. Enerjia has applied for revision of the decision. Enerjia Metal Maden Sanayi ve Ticaret A.Ş.’s apply for revision of the decision has dismissed by the Supreme Court 23th Civil Chamber with the decision dated 1 July 2019 and 2018/2167 Docket; 2019/3098 Decision number. No possible material cash outflow expected according to the evaluations of Company management and judicial decisions, as a result no provision recognised on condensed financial statements for related lawsuit.

Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.). located at Illinois state of United States of America and the Company executed a contract in 2008. The company fulfilled all its performances arisen from this contract in January and February in 2009. Corus International Trading Ltd. Co. sold to third parties the products supplied from our company but thereafter alleged that they directed claim to some compensation and that these claims must be covered by Erdemir. Parties could not reach an exact agreement about this matter and then Corus International Trading Ltd. Co filed an action for compensation at amount of USD 4.800 thousand together with accessory against the Company in Illinois State District Court of USA. It is learnt through a notified made to the Company on 21 July 2010. After the subject case is dismissed by the court from jurisdiction aspect; this time a lawsuit is re-filed by Tata Steel International (North America) Ltd.) in Texas State District Court. This case is also dismissed by the court from jurisdiction aspect.

It is learnt through a notified made to the Company on 31 October 2012 that Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.) filed an action for compensation at amount of USD 4.800 thousand together with accessory against the Company before Ankara 14. Commercial Court of First Instance. As a result of adjudication made; the court adjudged to dismiss the case on procedural grounds because of non-competence and to send the file to commissioned and competent Karadeniz Ereğli Commercial Court of First Instance in Duty when the judgment becomes definite and in case of request. The case continued on file no. 2013/63 in Karadeniz Ereğli 2nd Civil Court of First Instance.

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

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

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

NOTE 9 – PROVISIONS (cont’d)

Provision for lawsuits (cont’d)

At the hearing of the ongoing case dated 28 November 2017, Kdz. Ereğli 2. Civil Court of First Instance has decided to partially accept the case against our Company. Our company has applied for the appeal against the decision. A provision amounting to TRY 49.079 thousand recognised on condensed financial statements for related lawsuit.

Provision for state right on mining activities

According to “Mining Law” numbered 3213 and regulation on “Mining Law Enforcement” published in the Official Gazette, numbered 25716 on 3 February 2005, the Group is calculated state right on mining activities based on the sales and recognized provision on condensed financial statements.

Land occupation

The Group have land property within the Erdemir factory area being within the provision and possession of the state. General Communique of National Estate with the series number 336 lays down the methods and principles of designation, estimation and collection of land occupation to be undertaken by the administration in respect of the land properties within the private possession of the treasury. In accordance with the communique, the land occupation is going to be designated and estimated by the relevant value designation commission with the condition of not being less than 3% of the minimum value which is the basis for the property tax of the land property.

In current period, land occupation provision recognised on balance sheet, considering property fair values presented land occupation notifications and yearly probable increases.

Tax Penalty Provision

As a result of the comprehensive corporate tax audit carried out by the relevant tax administration for the period 2009-2014 for one of the Group’s subsidiaries, Erdemir Romania SRL in Romania, a total payment of TRY 10.386 thousand (RON 7.579 thousand) was notified for all tax and tax penalties. As of 30 September 2019 provision recognized in the accompanying financial statements for the amount to be paid.

Resolution of Constitutional Court on Electric and Coal Gas Tax

The claims filed every month for refunding of taxes paid and deduction thereof from Electric and Coal Gas Tax collected by the Municipality on the Electric and Coal Gas consumption quantity produced by the Company in the facilities and used for industrial production of the Company were concluded in the court of first instance and the Council of State against the company. Thereafter, the Company used its right on 16 March 2015 to apply the Constitutional Court individually. In the General Assembly Resolution adopted by the Constitutional Court notified to the Company on 27 December 2018, it is stated that the property rights of the Company were violated, and retrial was decided for the applicable claims to eliminate the consequences of the violation of the property rights.

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

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

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

NOTE 9 – PROVISIONS (cont’d)

Resolution of Constitutional Court on Electric and Coal Gas Tax (cont’d)

The 15 cases which The Constitutional Court has decided to be retrialed have been retrialed under Zonguldak Tax Court and the Court has resolved in favor of the Company. Municipality of Kdz. Ereğli has appealed against these resolutions however such resolutions have not finalized yet.

In the consolidated 4 cases subject to Company’s individual application, The Constitutional Court has decided to retrial of the cases, on the grounds that the property rights of the Company were violated, and the consequences of the violation of the property rights should be eliminated.

The aforementioned 4 cases which The Constitutional Court has sent to Zonguldak Tax Court to be retrialed, have been retrialed under Zonguldak Tax Court and the Court has resolved in favor of the Company. Municipality of Kdz. Ereğli still has right to appeal against these resolutions which are notified to Company in the current month.

Regarding to ongoing cases, resolutions are made in favor of Company.

NOTE 10 – EMPLOYEE BENEFITS

The Group’s short term payables of the employee termination benefits are as follows:

	30 September 2019	31 December 2018
Due to personnel	112.863	153.178
Social security premiums payable	44.849	36.298
	<u>157.712</u>	<u>189.476</u>

The Group’s long term provisions of the employee termination benefits as of the reporting date are as follows:

	30 September 2019	31 December 2018
Provisions for employee termination benefits	592.509	527.970
Provisions for seniority incentive premium	62.800	55.351
Provision for unpaid vacations	81.876	86.070
	<u>737.185</u>	<u>669.391</u>

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

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

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

NOTE 10 – EMPLOYEE BENEFITS (cont’d)

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

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

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

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

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

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

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

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

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

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

NOTE 10 – EMPLOYEE BENEFITS (cont’d)

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

	1 January - 30 September 2019	1 January - 30 September 2018
Opening balance	527.970	511.971
Service cost	39.547	36.149
Interest cost	63.114	44.350
Actuarial loss/(gain)	11.617	(9.493)
Termination benefits paid	(49.768)	(41.664)
Translation difference	29	1.647
Closing balance	<u>592.509</u>	<u>542.960</u>

According to the current labor agreement, employees completing their 5th, 10th, 15th and 20th service years receive seniority incentive premium payments.

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

	1 January - 30 September 2019	1 January - 30 September 2018
Opening balance	55.351	43.468
Service cost	4.451	3.622
Interest cost	6.614	3.876
Actuarial loss/(gain)	4.445	4.874
Termination benefits paid	(7.858)	(5.083)
Translation difference	(203)	(30)
Closing balance	<u>62.800</u>	<u>50.727</u>

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

	1 January - 30 September 2019	1 January - 30 September 2018
Opening balance	86.070	81.374
Provision for the period	75.143	64.891
Vacation paid during the period (-)	(4.462)	(6.129)
Provisions released (-)	(75.575)	(53.061)
Translation difference	700	(6.567)
Closing balance	<u>81.876</u>	<u>80.508</u>

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	30 September 2019	31 December 2018
Letters of guarantees received	<u>2.800.363</u>	<u>3.378.056</u>
	<u>2.800.363</u>	<u>3.378.056</u>

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

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

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

NOTE 11 – COMMITMENTS AND CONTINGENCIES (cont’d)

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

	30 September 2019	31 December 2018
A. Total CPM given for the Company's own legal entity	75.312	103.870
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	170.941	221.267
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	-	-
D. Other CPM given	-	-
i. Total CPM given in favour of parent entity	-	-
ii. Total CPM given in favour of other Group companies out of the scope of clause B and C	-	-
iii. Total CPM given in favour of other 3rd parties out of the scope of clause C	-	-
	<u>246.253</u>	<u>325.137</u>

Total CPM given by the Group in favor of subsidiaries consolidated on line-by-line basis amounting to TRY 170.941 thousand has been given as collateral for financial liabilities explained in Note 8 and for raw material procurements. As of 30 September 2019, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2018: 0%).

The breakdown of the Group’s collaterals, pledges and mortgages according to their original currency is as follows:

	30 September 2019	31 December 2018
US Dollars	155.067	221.267
TRY	65.833	79.155
EURO	25.353	24.715
	<u>246.253</u>	<u>325.137</u>

NOTE 12 – TAX ASSETS AND LIABILITIES

Group’s income tax payable as follows:

	30 September 2019	31 December 2018
<u>Corporate tax payable:</u>		
Current corporate tax provision	1.277.018	2.527.182
Prepaid taxes and funds (-)	(1.087.038)	(2.022.466)
	<u>189.980</u>	<u>504.716</u>

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

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

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

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

	1 January - 30 September 2019	1 January - 30 September 2018
<u>Taxation:</u>		
Current corporate tax expense	1.277.018	2.245.218
Deferred tax (income) / expense	(2.164)	622.220
	<u>1.274.854</u>	<u>2.867.438</u>

Corporate tax

The Group, except its subsidiaries in Romania and Singapore, is subject to Turkish corporate taxes in force. The necessary provisions are allocated in the consolidated financial statements for the estimated liabilities based on the Group’s results for the year. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the consolidated financial statements, have been calculated on a separate-entity basis.

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

The effective corporate tax rate in Turkey is 22%, 16% in Romania and 17% in Singapore as of 30 September 2019 (31 December 2018: in Turkey 22%, in Romania 16%, in Singapore 17%). The total amount of the corporate tax paid by the Group in nine months of 2019 is TRY 1.591.754 thousand (30 September 2018: TRY 1.668.905 thousand).

Pursuant to the Provisional Article 10 of the Law No. 7061 added with the Article 91 of the Law on Corporate Income Tax, published in the Official Gazette dated December 5, 2017 and numbered 30261, the corporate tax rate for corporate earnings to be obtained during the tax years 2018, 2019 and 2020 has been increased from 20% to 22%.

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

Deferred tax

The Group recognizes deferred tax assets and liabilities based upon the temporary differences arising between its taxable statutory financial statements and its financial statements prepared in accordance with the 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.

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.

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

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

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

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

Deferred tax (cont’d)

The effective corporate tax rate is 17% in Singapore and 16% in Romania (31 December 2018: in Turkey 22%, in Romania 16%, in Singapore 17). The deferred tax on the temporary timing differences arising from land is calculated with the 10% tax rate (31 December 2018: 10%).

As the companies in Turkey cannot give a consolidated corporate tax declaration, subsidiaries that have deferred tax assets are not netted off with subsidiaries that have deferred tax liabilities and disclosed separately.

	30 September 2019	31 December 2018
<u>Deferred tax assets:</u>		
Provisions for employee benefits	150.964	137.095
Provision for lawsuits	35.798	29.747
Inventories	24.741	88.971
Provision for other doubtful receivables	17.860	16.531
Tangible and intangible assets	23.496	17.416
Lease payables	46.380	-
Other	64.832	69.407
	<u>364.071</u>	<u>359.167</u>
<u>Deferred tax liabilities:</u>		
Tangible and intangible assets	(2.899.619)	(2.729.613)
Fair values of the derivative financial instruments	(13.552)	(11.721)
Amortized cost adjustment on loans	(16.183)	(11.075)
Right of use assets	(46.176)	-
Inventories	(62.049)	(96.070)
Other	(15.860)	(9.332)
	<u>(3.053.439)</u>	<u>(2.857.811)</u>
	<u>(2.689.368)</u>	<u>(2.498.644)</u>

In the financial statements which are prepared according to the TAS, of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its affiliates that are separate taxpayer entities, the net deferred tax assets and liabilities of the related companies are classified separately within the accounts of deferred tax assets and liabilities of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its subsidiaries’ consolidated financial statements. The temporary differences disclosed above besides the deferred tax asset and liabilities, have been prepared on the basis of the gross values and show the net deferred tax position.

Presentation of deferred tax assets/(liabilities):

	30 September 2019	31 December 2018
Deferred tax assets	49.159	67.552
Deferred tax (liabilities)	(2.738.527)	(2.566.196)
	<u>(2.689.368)</u>	<u>(2.498.644)</u>

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

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

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

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

Deferred tax (cont’d)

Movements of deferred tax asset / (liability):

	1 January - 30 September 2019	1 January - 30 September 2018
Opening balance	(2.498.644)	(1.561.975)
Effects of change in accounting policy	-	3.218
Deferred tax (expense)/income	2.164	(622.220)
The amount in comprehensive income	(149)	(2.986)
Translation difference	(192.739)	(1.162.116)
Closing balance	(2.689.368)	(3.346.079)

Reconciliation of tax provision is as follows:

	1 January - 30 September 2019	1 January - 30 September 2018
Profit before tax	4.513.662	6.958.362
Statutory tax rate	22%	22%
Calculated tax expense acc. to effective tax rate	(993.006)	(1.530.840)
<u>Reconciliation between the tax provision and calculated tax:</u>		
- Non-deductible expenses	(18.211)	(17.652)
- Effect of currency translation to non taxable assets	(263.436)	(1.319.429)
- Investment incentive	-	1.555
- Effect of the different tax rates due to foreign subsidiaries	(201)	(1.072)
Total tax exp. in reported in the stat. of income	(1.274.854)	(2.867.438)

NOTE 13 – EQUITY

As of the reporting date the detail of the capital structure is as follows:

<u>Shareholders</u>	(%)	30 September 2019	(%)	31 December 2018
Ataer Holding A.Ş.	49,29	1.724.982	49,29	1.724.982
Quoted in Stock Exchange	47,63	1.667.181	47,63	1.667.181
Erdemir's own shares	3,08	107.837	3,08	107.837
Historical capital	100,00	3.500.000	100,00	3.500.000
Effect of inflation		156.613		156.613
Restated capital		3.656.613		3.656.613
Treasury shares		(116.232)		(116.232)
		3.540.381		3.540.381

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

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

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

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

NOTE 14 – SALES AND COST OF SALES

	1 January - 30 September 2019	1 July- 30 September 2019	1 January - 30 September 2018	1 July- 30 September 2018
<u>Sales Revenue</u>				
Domestic sales	16.007.701	5.177.497	15.292.536	5.866.256
Export sales	4.355.389	1.049.712	3.542.448	1.693.661
Other revenues (*)	562.355	152.726	519.664	208.152
Interest income from sales with maturities	148.275	47.906	100.164	44.386
Sales returns (-)	(30.408)	(4.947)	(9.235)	(4.403)
Sales discounts (-)	(32.051)	(6.449)	(23.927)	(15.763)
	<u>21.011.261</u>	<u>6.416.445</u>	<u>19.421.650</u>	<u>7.792.289</u>
<u>Cost of sales (-)</u>	<u>(16.586.915)</u>	<u>(5.240.079)</u>	<u>(13.182.288)</u>	<u>(5.324.844)</u>
Gross profit	<u>4.424.346</u>	<u>1.176.366</u>	<u>6.239.362</u>	<u>2.467.445</u>

(*) The total amount of by product exports in other revenues is TRY 249.101 thousand (30 September 2018: TRY 189.109 thousand). Total interest income from export sales with maturities is TRY 3.289 thousand.

The Group derives its revenue from the transfer of goods at a point in time in the following major product lines. The amount of performance obligations in the ongoing contracts of the Group will be eligible for recognition in the future is TRY 206.734 thousand. The Company planning to recognize related revenue amount as a revenue in a year.

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

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

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

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

As of the reporting date the detail of the cost of sales is as follows:

	1 January - 30 September 2019	1 July- 30 September 2019	1 January - 30 September 2018	1 July- 30 September 2018
Raw material usage	(12.370.557)	(3.841.834)	(9.949.208)	(4.055.074)
Personnel costs	(1.222.400)	(406.927)	(1.147.335)	(417.065)
Energy costs	(963.509)	(324.454)	(585.542)	(233.633)
Depreciation and amortization expenses	(770.943)	(249.456)	(593.298)	(240.191)
Manufacturing overheads	(476.937)	(150.307)	(361.953)	(155.243)
Other cost of goods sold	(306.360)	(100.309)	(202.206)	(65.984)
Non-operating costs (*)	(134.778)	(69.706)	(57.105)	(38.017)
Freight costs for sales delivered to customers	(221.698)	(51.803)	(216.853)	(92.849)
Allowance expenses for impairment on inventories (Note 4)	(20.845)	(4.059)	(16.528)	(7.686)
Inventory provision released (Note 4)	8.563	6.903	822	109
Other	(107.451)	(48.127)	(53.082)	(19.211)
	<u>(16.586.915)</u>	<u>(5.240.079)</u>	<u>(13.182.288)</u>	<u>(5.324.844)</u>

(*) Due to the planned/ unplanned halt production of plant of the Group’s, operations were suspended temporarily in the current period. As a result of this, unallocated overheads, TRY (134.778) thousand, has been accounted directly under cost of sales (30 September 2018: TRY (57.105) thousand).

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

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

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

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

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

The Group’s detail of marketing expenses according to their nature as of the reporting date are as follows:

	1 January - 30 September 2019	1 July- 30 September 2019	1 January - 30 September 2018	1 July- 30 September 2018
Personnel expenses (-)	(75.492)	(24.699)	(65.444)	(22.169)
Depreciation and amortization (-)	(31.147)	(10.375)	(25.547)	(10.657)
Service expenses (-)	(69.246)	(21.317)	(56.923)	(23.196)
	<u>(175.885)</u>	<u>(56.391)</u>	<u>(147.914)</u>	<u>(56.022)</u>

The Group’s detail of the general administrative expenses according to their nature as of the reporting date are as follows:

	1 January - 30 September 2019	1 July- 30 September 2019	1 January - 30 September 2018	1 July- 30 September 2018
Personnel expenses (-)	(145.748)	(49.833)	(134.271)	(44.432)
Depreciation and amortization (-)	(31.776)	(10.925)	(22.406)	(9.997)
Benefits and services from third parties (-)	(127.062)	(46.452)	(104.691)	(37.712)
Tax, duty and charges (-)	(10.456)	(2.708)	(12.091)	(3.753)
Provision/ Provision released for doubtful receivables (net)	(3.439)	(299)	(35.169)	(5.465)
Amortization of right of use assets (-)	(3.499)	(1.467)	-	-
	<u>(321.980)</u>	<u>(111.684)</u>	<u>(308.628)</u>	<u>(101.359)</u>

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

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

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

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

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

The Group’s detail of the other operating income according to it’s nature as of the reporting date is as follows:

	1 January - 30 September 2019	1 July- 30 September 2019	1 January - 30 September 2018	1 July- 30 September 2018
<u>Other operating income</u>				
Foreign exchange gain from trade receivables and payables (net)	-	(24.096)	157.626	124.675
Forfeit advances from customers	8.553	2.052	262	37
Discount income	183	60	2.761	218
Provisions released	6.333	2.188	34.242	19.700
Service income	14.636	4.674	13.793	5.944
Maintenance repair and rent income	12.082	4.226	11.557	4.406
Warehouse income	7.965	2.034	4.267	2.195
Indemnity and penalty detention income	3.714	889	9.166	7.341
Insurance indemnity income	67.764	63.692	9.253	3.533
Lawsuit income	130	29	190	68
Overdue interest income	5.292	567	3.907	1.708
Other income and gains	25.993	2.327	14.043	1.447
	<u>152.645</u>	<u>58.642</u>	<u>261.067</u>	<u>171.272</u>

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

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

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

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

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

The Group’s detail of the other operating expenses according to it’s nature as of the reporting date are as follows:

	1 January - 30 September 2019	1 July- 30 September 2019	1 January - 30 September 2018	1 July- 30 September 2018
<u>Other operating expenses (-)</u>				
Provision expenses	(49.163)	(19.405)	(65.995)	(30.156)
Interest expenses from purchases with maturities	(12.404)	(2.843)	(350)	(39)
Foreign exchange expenses from trade receivables and payables (net)	(26.506)	(26.506)	-	-
Lawsuit compensation expenses	(5.048)	(1.800)	(6.262)	(3.930)
Right of use assets amortization	(5.824)	(2.129)	(13.249)	(7.112)
Donation expenses	(2.907)	(484)	(2.554)	(621)
Service expenses	(12.219)	(8.648)	(6.376)	(2.122)
Previous period corporate tax adjustments	(14.523)	(23)	-	-
Stock exchange registration expenses	(3.240)	(11)	(2.158)	(239)
Penalty expenses	(527)	13	(544)	(154)
Discount expenses	-	-	(5.406)	(475)
Other expenses and losses	(20.676)	(4.412)	(16.591)	(6.126)
	<u>(153.037)</u>	<u>(66.248)</u>	<u>(119.485)</u>	<u>(50.974)</u>

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

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

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

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

NOTE 16 – FINANCE INCOME AND EXPENSES

The Group’s detail of the financial income as of the reporting date is as follows:

	1 January - 30 September 2019	1 July- 30 September 2019	1 January - 30 September 2018	1 July- 30 September 2018
<u>Finance income</u>				
Interest income on bank deposits	372.419	103.163	310.367	137.132
Foreign exchange gains (net)	438.279	(67.151)	956.201	414.992
Interest income from financial investments	11.041	3.522	204	204
Fair value differences of derivative financial instruments (net)	120.259	101.816	1.829	(2.929)
Financial assets provision released	53.419	183	-	-
Other financial income	982	982	782	561
	<u>996.399</u>	<u>142.515</u>	<u>1.269.383</u>	<u>549.960</u>

The Group’s detail of the financial expenses as of the reporting date are as follows

	1 January - 30 September 2019	1 July- 30 September 2019	1 January - 30 September 2018	1 July- 30 September 2018
<u>Finance expenses (-)</u>				
Interest expenses on borrowings	(299.819)	(139.136)	(120.937)	(51.722)
Interest cost of employee benefits	(69.728)	(26.322)	(48.226)	(18.197)
Interest expenses on leasings	(24.274)	(8.986)	-	-
Allowance for impairment on financial assets	-	-	(25.588)	(25.588)
Other financial expenses	(9.610)	(2.699)	(4.591)	(2.717)
	<u>(403.431)</u>	<u>(177.143)</u>	<u>(199.342)</u>	<u>(98.224)</u>

During the period, the interest expenses of TRY 12.133 thousand have been capitalized as part of the Group’s tangibles (30 September 2018: TRY 11.463 thousand).

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

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

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

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

Additional information about financial instruments

Foreign currency risk management

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). Foreign currency position table represents foreign currencies other than each entity’s functional currency. As of 30 September 2019, the foreign currency position of the Group in terms of original currency is calculated as it as follows:

	TRY (Total in reporting currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	RON (Original currency)
1. Trade Receivables	536.261	44.981	77.689	-	8.404
2a. Monetary financial assets	8.173.694	1.300.972	1.110.367	156	5.138
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	618.839	605.066	2.067	-	769
4. CURRENT ASSETS (1+2+3)	9.328.794	1.951.019	1.190.123	156	14.311
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	229.803	229.803	-	-	-
6b. Non- monetary financial assets	-	-	-	-	-
7. Other	779.787	235.553	77.893	1.192.945	147
8. Non-current assets (5+6+7)	1.009.590	465.356	77.893	1.192.945	147
9. Total assets (4+8)	10.338.384	2.416.375	1.268.016	1.193.101	14.458
10. Trade payables	912.494	620.295	46.501	11.157	3.146
11. Financial liabilities	774.543	668.108	17.212	-	-
12a. Other monetary financial liabilities	685.844	663.238	1.555	-	10.035
12b. Other non-monetary financial liabilities	-	-	-	-	-
13. Current liabilities (10+11+12)	2.372.881	1.951.641	65.268	11.157	13.181
14. Trade payables	-	-	-	-	-
15. Financial liabilities	1.111.638	743.847	59.479	-	-
16a. Other monetary financial liabilities	720.488	719.915	-	-	443
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. Non-current liabilities (14+15+16)	1.832.126	1.463.762	59.479	-	443
18. Total liabilities (13+17)	4.205.007	3.415.403	124.747	11.157	13.624
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	(6.117.703)	395.000	(1.053.222)	-	-
19a. Off-balance sheet foreign currency derivative financial assets	569.819	395.000	28.271	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	6.687.522	-	1.081.493	-	-
20. Net foreign currency asset/liability position (9-18+19)	15.674	(604.028)	90.047	1.181.944	834
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	4.734.751	(1.839.647)	1.063.309	(11.001)	(82)
22. Fair value of derivative financial instruments used in foreign currency hedge	112.538	27.056	13.824	-	-
23. Hedged foreign currency assets	6.687.522	-	1.081.493	-	-
24. Hedged foreign currency liabilities	569.819	395.000	28.271	-	-
25. Exports	4.607.779	-	-	-	-
26. Imports	11.711.980	-	-	-	-

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

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

(Amounts are expressed in thousands of 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 individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). As of 31 December 2018, the foreign currency position of the Group in terms of original currency is calculated as it as follows:

	31 December 2018				
	TRY (Total in reporting currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	RON (Original currency)
1. Trade Receivables	963.794	71.325	142.855	-	24.355
2a. Monetary financial assets	216.789	130.934	12.133	171	9.766
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	390.865	389.161	12	27.534	252
4. Current assets (1+2+3)	1.571.448	591.420	155.000	27.705	34.373
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	8.095	8.095	-	-	-
6b. Non- monetary financial assets	-	-	-	-	-
7. Other	321.954	164.785	22.223	487.162	35
8. Non-current assets (5+6+7)	330.049	172.880	22.223	487.162	35
9. Total assets (4+8)	1.901.497	764.300	177.223	514.867	34.408
10. Trade payables	583.245	457.703	20.063	3.597	3.323
11. Financial liabilities	141.843	32.284	18.175	-	-
12a. Other monetary financial liabilities	1.082.601	1.064.602	667	-	10.864
12b. Other non-monetary financial liabilities	-	-	-	-	-
13. Current liabilities (10+11+12)	1.807.689	1.554.589	38.905	3.597	14.187
14. Trade payables	-	-	-	-	-
15. Financial liabilities	319.358	-	52.979	-	-
16a. Other monetary financial liabilities	653.342	650.794	-	-	1.980
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. Non-current liabilities (14+15+16)	972.700	650.794	52.979	-	1.980
18. Total liabilities (13+17)	2.780.389	2.205.383	91.884	3.597	16.167
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	(714.873)	-	(118.592)	-	-
19a. Off-balance sheet foreign currency derivative financial assets	-	-	-	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	714.873	-	118.592	-	-
20. Net foreign currency asset/liability position (9-18+19)	(1.593.765)	(1.441.083)	(33.253)	511.270	18.241
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(1.591.711)	(1.995.029)	63.104	(3.426)	17.954
22. Fair value of derivative financial instruments used in foreign currency hedge	49.219	-	8.165	-	-
23. Hedged foreign currency assets	714.873	-	118.592	-	-
24. Hedged foreign currency liabilities	-	-	-	-	-
25. Exports	5.613.076				
26. Imports	13.809.566				

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

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

(Amounts are expressed in thousands of 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 Group’s sensitivity to a 10% (+/-) change in the TRY, RON, EUR 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 30 September 2019 asset and liability balances are translated by using the following exchange rates: TRY 5,6591 = US \$ 1, TRY 6,1836 = EUR 1, TRY 0,0523= JPY 1 and TRY 1,2945 = RON 1(31 December 2018: TRY 5,2609 = US \$ 1, TRY 6,0280 = EUR 1, TRY 0,0475= JPY 1 and TRY 1,2866 = RON 1).

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency	Depreciation of foreign currency
30 September 2019		
1- TRY net asset/liability	(99.903)	99.903
2- Hedged portion from TRY risk (-)	39.500	(39.500)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(60.403)	60.403
5- RON net asset/liability	108	(108)
6- Hedged portion from RON risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- RON net effect (5+6+7)	108	(108)
9- Euro net asset/liability	706.952	(706.952)
10- Hedged portion from Euro risk (-)	(651.270)	651.270
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	55.682	(55.682)
13- Jap. Yen net asset/liability	6.181	(6.181)
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	6.181	(6.181)
TOTAL (4+8+12+16)	1.568	(1.568)

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

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

(Amounts are expressed in thousands of 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	(144.108)	144.108
2- Hedged portion from TRY risk (-)	-	-
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(144.108)	144.108
5- RON net asset/liability	2.347	(2.347)
6- Hedged portion from RON risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- RON Dollars net effect (5+6+7)	2.347	(2.347)
9- Euro net asset/liability	51.442	(51.442)
10- Hedged portion from Euro risk (-)	(71.487)	71.487
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	(20.045)	20.045
13- Jap. Yen net asset/liability	2.431	(2.431)
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	2.431	(2.431)
TOTAL (4+8+12+16)	(159.375)	159.375

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

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

(Amounts are expressed in thousands of 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)

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
30 September 2019				
<u>Financial Assets</u>				
Cash and cash equivalents	8.255.807	-	-	8.255.807
Trade receivables	3.320.951	-	-	3.320.951
Financial investments	849.172	-	153	849.325
Other financial assets	272.325	-	-	272.325
Derivative financial instruments	-	28.819	115.770	144.589
<u>Financial Liabilities</u>				
Financial liabilities	7.353.138	-	-	7.353.138
Trade payables	2.250.437	-	-	2.250.437
Other liabilities	350.864	-	-	350.864
Derivative financial instruments	-	589	82.595	83.184
31 December 2018				
<u>Financial Assets</u>				
Cash and cash equivalents	8.659.336	-	-	8.659.336
Trade receivables	4.401.474	-	-	4.401.474
Financial investments	61.000	-	8.095	69.095
Other financial assets	11.197	-	-	11.197
Derivative financial instruments	-	19.794	39.599	59.393
<u>Financial Liabilities</u>				
Financial liabilities	6.120.960	-	-	6.120.960
Trade payables	1.935.922	-	-	1.935.922
Other liabilities	431.997	-	-	431.997
Derivative financial instruments	-	1.843	2.683	4.526

Financial asset and liabilities at fair value

	30 September 2019	Fair value level as of reporting date		
		Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	115.770	-	115.770	-
Derivative financial liabilities	(82.595)	-	(82.595)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	28.819	-	28.819	-
Derivative financial liabilities	(589)	-	(589)	-
Total	61.405	-	61.405	-

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

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

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

(Amounts are expressed in thousands of 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)

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

Financial asset and liabilities at fair value	31 December 2018	Fair value level as of reporting date		
		Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	39.599	-	39.599	-
Derivative financial liabilities	(2.683)	-	(2.683)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	19.794	-	19.794	-
Derivative financial liabilities	(1.843)	-	(1.843)	-
Total	54.867	-	54.867	-

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

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

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

NOTE 18 – SUBSEQUENT EVENTS

None.

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

Convenience translation to English:

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