

**(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 - 31 MARCH 2019**

| <b>TABLE OF CONTENTS</b>   |  | <b>PAGE</b> |
|--|--|-------------|
| <b>CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....</b>           |  | <b>1-2</b>  |
| <b>CONDENSED CONSOLIDATED STATEMENT OF INCOME.....</b>                       |  | <b>3</b>    |
| <b>CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME.....</b>   |  | <b>4</b>    |
| <b>CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY .....</b>           |  | <b>5</b>    |
| <b>CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW .....</b>                   |  | <b>6</b>    |
| <b>NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS.....</b> |  | <b>7-41</b> |
| NOTE 1   | GROUP'S ORGANIZATION AND NATURE OF OPERATIONS .....  | 7-8         |
| NOTE 2   | BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS .....   | 8-14        |
| NOTE 3   | RELATED PARTY TRANSACTIONS .....   | 15-17       |
| NOTE 4   | INVENTORIES .....  | 17          |
| NOTE 5   | INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD .....  | 18          |
| NOTE 6   | TANGIBLE AND INTANGIBLE ASSETS .....   | 19-20       |
| NOTE 7   | BORROWINGS.....  | 21-22       |
| NOTE 8   | OTHER PAYABLES.....  | 22          |
| NOTE 9   | PROVISIONS.....  | 22-27       |
| NOTE 10  | EMPLOYEE BENEFITS.....   | 27-29       |
| NOTE 11  | COMMITMENTS AND CONTINGENCIES .....  | 30          |
| NOTE 12  | TAX ASSETS AND LIABILITIES.....  | 31-33       |
| NOTE 13  | EQUITY .....   | 34          |
| NOTE 14  | SALES AND COST OF SALES .....  | 34-35       |
| NOTE 15  | EXPENSES ACCORDING TO THEIR NATURE AND<br>OTHER OPERATING INCOME/EXPENSES.....   | 35-36       |
| NOTE 16  | FINANCE INCOME AND EXPENSES .....  | 37          |
| NOTE 17  | NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS .....   | 38-41       |
| NOTE 18  | SUBSEQUENT EVENTS .....  | 41          |
| NOTE 19  | OTHER ISSUES AFFECTING THE CONDENSED INTERIM CONSOLIDATED FINANCIAL<br>STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR<br>UNDERSTANDABLE AND INTERPRETABLE PRESENTATION..... | 41          |

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

### CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 31 MARCH 2019

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

|   | Note | (Unaudited)      | (Unaudited)       | (Audited)        | (Audited)         |
|---|------|------------------|-------------------|------------------|-------------------|
|   |      | Current Period   | Current Period    | Previous Period  | Previous Period   |
|   |      | 31 March         | 31 March          | 31 December      | 31 December       |
|   |      | 2019             | 2019              | 2018             | 2018              |
| ASSETS  |      | USD'000          | TRY'000           | USD'000          | TRY'000           |
| <b>Current Assets</b>                         |      | <b>4.341.673</b> | <b>24.436.672</b> | <b>4.279.144</b> | <b>22.512.149</b> |
| Cash and Cash Equivalents                     |      | 1.833.594        | 10.320.200        | 1.645.980        | 8.659.336         |
| Financial Investments                         |      | 38.946           | 219.205           | 11.595           | 61.000            |
| Financial Derivative Instruments              |      | 7.982            | 44.927            | 10.064           | 52.945            |
| Trade Receivables                             |      | 759.001          | 4.271.965         | 836.639          | 4.401.474         |
| <i>Due From Related Parties</i>               | 3    | <i>12.270</i>    | <i>69.063</i>     | <i>13.037</i>    | <i>68.586</i>     |
| <i>Other Trade Receivables</i>                |      | <i>746.731</i>   | <i>4.202.902</i>  | <i>823.602</i>   | <i>4.332.888</i>  |
| Other Receivables                             |      | 332              | 1.868             | 342              | 1.800             |
| Inventories                                   | 4    | 1.598.818        | 8.998.786         | 1.689.853        | 8.890.150         |
| Prepaid Expenses                              |      | 27.176           | 152.959           | 17.108           | 90.005            |
| Other Current Assets                          |      | 75.824           | 426.762           | 67.563           | 355.439           |
| <b>Non Current Assets</b>                     |      | <b>3.684.744</b> | <b>20.739.215</b> | <b>3.662.864</b> | <b>19.269.961</b> |
| Other Receivables                             |      | 1.670            | 9.397             | 1.786            | 9.397             |
| Financial Investments                         |      | 27               | 153               | 1.539            | 8.095             |
| Financial Derivative Instruments              |      | 1.026            | 5.772             | 1.226            | 6.448             |
| Investments Accounted for Using Equity Method | 5    | 27.369           | 154.042           | 27.616           | 145.284           |
| Investment Properties                         |      | 45.799           | 257.775           | 45.993           | 241.962           |
| Property, Plant and Equipment                 | 6    | 3.458.549        | 19.466.099        | 3.432.913        | 18.060.211        |
| Intangible Assets                             | 6    | 53.981           | 303.824           | 53.891           | 283.516           |
| Prepaid Expenses                              |      | 55.640           | 313.170           | 62.969           | 331.275           |
| <i>Due to Related Parties</i>                 | 3    | <i>10.086</i>    | <i>56.769</i>     | <i>12.976</i>    | <i>68.266</i>     |
| <i>Other Prepaid Expenses</i>                 |      | <i>45.554</i>    | <i>256.401</i>    | <i>49.993</i>    | <i>263.009</i>    |
| Deferred Tax Assets                           | 12   | 11.072           | 62.319            | 12.840           | 67.552            |
| Other Non Current Assets                      |      | 29.611           | 166.664           | 22.091           | 116.221           |
| <b>TOTAL ASSETS</b>                           |      | <b>8.026.417</b> | <b>45.175.887</b> | <b>7.942.008</b> | <b>41.782.110</b> |

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.

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

### CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 31 MARCH 2019

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

|   | Note | (Unaudited)                                   | (Unaudited)                                   | (Audited)   | (Audited)   |
|---|------|---|---|---|---|
|   |      | Current Period<br>31 March<br>2019<br>USD'000 | Current Period<br>31 March<br>2019<br>TRY'000 | Previous Period<br>31 December<br>2018<br>USD'000 | Previous Period<br>31 December<br>2018<br>TRY'000 |
| <b>LIABILITIES</b>  |      |   |   |   |   |
| <b>Current Liabilities</b>  |      | <b>2.262.936</b>                              | <b>12.736.714</b>                             | <b>1.499.266</b>                                  | <b>7.887.487</b>                                  |
| Short Term Borrowings   | 7    | 555.695                                       | 3.127.676                                     | 694.574   | 3.654.083   |
| Short Term Portion of Long Term Borrowings  | 7    | 207.874                                       | 1.169.997                                     | 202.703   | 1.066.402   |
| Financial Derivative Instruments  |      | 2.374   | 13.360  | 408   | 2.144   |
| Trade Payables  |      | 356.946                                       | 2.009.035                                     | 367.983   | 1.935.922   |
| <i>Due to Related Parties</i>   | 3    | 20.550  | 115.665                                       | 28.089  | 147.772   |
| <i>Other Trade Payables</i>   |      | 336.396                                       | 1.893.370                                     | 339.894   | 1.788.150   |
| Other Payables  | 8    | 880.635                                       | 4.956.564                                     | 8.133   | 42.786  |
| Deferred Revenue  |      | 33.709  | 189.726                                       | 52.622  | 276.841   |
| Current Tax Liabilities   | 12   | 134.885                                       | 759.186                                       | 95.937  | 504.716   |
| Short Term Provisions   | 9    | 39.321  | 221.312                                       | 38.164  | 200.777   |
| Payables for Employee Benefits  | 10   | 35.975  | 202.484                                       | 36.016  | 189.476   |
| Other Current Liabilities   |      | 15.522  | 87.374  | 2.726   | 14.340  |
| <b>Non Current Liabilities</b>  |      | <b>908.721</b>                                | <b>5.114.643</b>                              | <b>881.978</b>                                    | <b>4.639.998</b>                                  |
| Long Term Borrowings  | 7    | 270.117                                       | 1.520.329                                     | 266.204   | 1.400.475   |
| Financial Derivative Instruments  |      | 944   | 5.311   | 453   | 2.382   |
| Provisions for Employee Benefits  | 10   | 122.267                                       | 688.168                                       | 127.239   | 669.391   |
| Deferred Tax Liabilities  | 12   | 515.106                                       | 2.899.221                                     | 487.787   | 2.566.196   |
| Other Non Current Liabilities   |      | 287   | 1.614   | 295   | 1.554   |
| <b>EQUITY</b>   |      | <b>4.854.760</b>                              | <b>27.324.530</b>                             | <b>5.560.764</b>                                  | <b>29.254.625</b>                                 |
| <b>Equity Attributable to Equity Holders of the Parent</b>                        |      | <b>4.716.380</b>                              | <b>26.552.628</b>                             | <b>5.391.722</b>                                  | <b>28.366.761</b>                                 |
| 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<br>Reclassified to Profit or Loss |      | (48.090)                                      | 11.510.519                                    | (47.992)  | 10.132.859  |
| <i>Revaluation Reserve of Tangible Assets</i>                                     |      | 10.662  | 55.282  | 10.760  | 51.239  |
| <i>Foreign Currency Translation Reserves</i>                                      |      | (15.685)                                      | 11.527.342                                    | (15.685)  | 10.153.725  |
| <i>Actuarial (Loss) Gain funds</i>  |      | (43.067)                                      | (72.105)                                      | (43.067)  | (72.105)  |
| Other Comprehensive Income (Expense) to be<br>Reclassified to Profit or Loss      |      | (61.807)                                      | 4.854.964                                     | (56.338)  | 4.362.222   |
| <i>Cash Flow Hedging Gain (Loss)</i>  |      | 3.268   | 18.391  | 2.491   | 13.103  |
| <i>Foreign Currency Translation Reserves</i>                                      |      | (65.075)                                      | 4.836.573                                     | (58.829)  | 4.349.119   |
| Restricted Reserves Assorted from Profit  |      | 1.024.835                                     | 3.485.761                                     | 805.774   | 2.287.528   |
| Retained Earnings   |      | 1.720.771                                     | 2.057.906                                     | 1.635.660   | 2.339.334   |
| Net Profit for the Period   |      | 186.018                                       | 996.650                                       | 1.159.965   | 5.597.990   |
| <b>Non-Controlling Interests</b>  |      | <b>138.380</b>                                | <b>771.902</b>                                | <b>169.042</b>                                    | <b>887.864</b>                                    |
| <b>TOTAL LIABILITIES AND EQUITY</b>   |      | <b>8.026.417</b>                              | <b>45.175.887</b>                             | <b>7.942.008</b>                                  | <b>41.782.110</b>                                 |

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 INCOME FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

|   |    | (Unaudited)<br>Current Period<br>1 January -<br>31 March 2019<br>USD'000 | (Unaudited)<br>Current Period<br>1 January -<br>31 March 2019<br>TRY'000 | (Unaudited)<br>Previous Period<br>1 January -<br>31 March 2018<br>USD'000 | (Unaudited)<br>Previous Period<br>1 January -<br>31 March 2018<br>TRY'000 |
|---|----|--|--|---|---|
| Revenue   | 14 | 1.333.409  | 7.144.139  | 1.422.108   | 5.418.802   |
| Cost of Sales   | 14 | (1.028.887)  | (5.512.573)  | (979.508)   | (3.732.319)   |
| <b>GROSS PROFIT</b>   |    | <b>304.522</b>   | <b>1.631.566</b>   | <b>442.600</b>  | <b>1.686.483</b>  |
| Marketing Expenses  | 15 | (10.623)   | (56.914)   | (11.021)  | (41.993)  |
| General Administrative Expenses                                   | 15 | (18.962)   | (101.593)  | (29.138)  | (111.026)   |
| Research and Development Expenses                                 |    | (1.003)  | (5.372)  | (1.035)   | (3.943)   |
| Other Operating Income  | 15 | 7.252  | 38.853   | 8.427   | 32.111  |
| Other Operating Expenses  | 15 | (8.772)  | (46.997)   | (6.377)   | (24.301)  |
| <b>OPERATING PROFIT</b>   |    | <b>272.414</b>   | <b>1.459.543</b>   | <b>403.456</b>  | <b>1.537.331</b>  |
| Income from Investing Activities                                  |    | 2.225  | 11.921   | 35  | 132   |
| Expenses from Investing Activities                                |    | (1.496)  | (8.014)  | (2.865)   | (10.916)  |
| Share of Investments' Profit Accounted by Using The Equity Method | 5  | 356  | 1.905  | 360   | 1.371   |
| <b>OPERATING PROFIT BEFORE FINANCE INCOME (EXPENSES)</b>          |    | <b>273.499</b>   | <b>1.465.355</b>   | <b>400.986</b>  | <b>1.527.918</b>  |
| Finance Income  | 16 | 54.862   | 318.572  | 24.445  | 106.740   |
| Finance Expense   | 16 | (15.186)   | (81.361)   | (13.400)  | (51.058)  |
| <b>PROFIT BEFORE TAX</b>  |    | <b>313.175</b>   | <b>1.702.566</b>   | <b>412.031</b>  | <b>1.583.600</b>  |
| Tax (Expense) Income  | 12 | (119.303)  | (663.837)  | (121.094)   | (475.014)   |
| Current Corporate Tax (Expense) Income                            |    | (91.038)   | (512.401)  | (98.155)  | (387.606)   |
| Deferred Tax (Expense) Income                                     |    | (28.265)   | (151.436)  | (22.939)  | (87.408)  |
| <b>NET PROFIT FOR THE PERIOD</b>                                  |    | <b>193.872</b>   | <b>1.038.729</b>   | <b>290.937</b>  | <b>1.108.586</b>  |
| Non-Controlling Interests   |    | 7.854  | 42.079   | 11.899  | 45.339  |
| Equity Holders of the Parent                                      |    | 186.018  | 996.650  | 279.038   | 1.063.247   |
| <b>EARNINGS PER SHARE</b>   |    |  | 0,2848   |   | 0,3038  |
| (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 OTHER COMPREHENSIVE INCOME FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

|   | (Unaudited)<br>Current Period<br>1 January -<br>31 March 2019<br>USD'000 | (Unaudited)<br>Current Period<br>1 January -<br>31 March 2019<br>TRY'000 | (Unaudited)<br>Previous Period<br>1 January -<br>31 March 2018<br>USD'000 | (Unaudited)<br>Previous Period<br>1 January -<br>31 March 2018<br>TRY'000 |
|---|--|--|---|---|
| <b>PROFIT FOR THE PERIOD</b>                                  | <b>193.872</b>   | <b>1.038.729</b>   | <b>290.937</b>  | <b>1.108.586</b>  |
| <b>OTHER COMPREHENSIVE INCOME</b>                             |  |  |   |   |
| <b>Not to be reclassified subsequently to profit or loss</b>  |  |  |   |   |
| Increase (Decrease) in Revaluation Reserve of Tangible Assets | (102)  | 4.043  | 64  | 2.542   |
| Foreign Currency Translation Gain (Loss)                      | -  | 1.373.617  | -   | 727.386   |
| <b>To be reclassified subsequently to profit or loss</b>      |  |  |   |   |
| Gain (Loss) in Cash Flow Hedging Reserves                     | 996  | 6.780  | (3.564)   | (15.054)  |
| Tax Effect of Gain (Loss) in Cash Flow Hedging Reserves       | (219)  | (1.492)  | 784   | 3.312   |
| Foreign Currency Translation Gain (Loss)                      | (6.524)  | 538.531  | (2.110)   | 239.068   |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>                      | <b>(5.849)</b>   | <b>1.921.479</b>   | <b>(4.826)</b>  | <b>957.254</b>  |
| <b>TOTAL COMPREHENSIVE INCOME</b>                             | <b>188.023</b>   | <b>2.960.208</b>   | <b>286.111</b>  | <b>2.065.840</b>  |
| <b>Distribution of Total Comprehensive Income</b>             |  |  |   |   |
| Non-controlling Interests                                     | 7.573  | 93.156   | 11.230  | 71.304  |
| Equity Holders of the Parent                                  | 180.450  | 2.867.052  | 274.881   | 1.994.536   |

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 THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

| (Unaudited)   | Note | 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 |                                   |                           |                            |
| <b>1 January 2019</b>                               |      | <b>3.500.000</b>   | <b>156.613</b>                  | <b>(116.232)</b>    | <b>106.447</b>                  | <b>51.239</b>                          | <b>10.153.725</b>                     | <b>(72.105)</b>             | <b>13.103</b>  | <b>4.349.119</b>                      | <b>2.287.528</b>                         | <b>2.339.334</b>  | <b>5.597.990</b>          | <b>28.366.761</b>                 | <b>887.864</b>            | <b>29.254.625</b>          |
| Net profit for the period                           |      | -  | -                               | -                   | -                               | -                                      | -                                     | -                           | -  | -                                     | -  | 996.650           | <b>996.650</b>            | 42.079                            | <b>1.038.729</b>          |                            |
| Other comprehensive income (loss)                   |      | -  | -                               | -                   | -                               | 4.043                                  | 1.373.617                             | -                           | 5.288  | 487.454                               | -  | -                 | <b>1.870.402</b>          | 51.077                            | <b>1.921.479</b>          |                            |
| Total comprehensive income (loss)                   |      | -  | -                               | -                   | -                               | 4.043                                  | 1.373.617                             | -                           | 5.288  | 487.454                               | -  | 996.650           | <b>2.867.052</b>          | 93.156                            | <b>2.960.208</b>          |                            |
| Dividends (*)                                       |      | -  | -                               | -                   | -                               | -                                      | -                                     | -                           | -  | -                                     | (4.681.185)                              | -                 | <b>(4.681.185)</b>        | (209.118)                         | <b>(4.890.303)</b>        |                            |
| Transfers   |      | -  | -                               | -                   | -                               | -                                      | -                                     | -                           | -  | 1.198.233                             | 4.399.757                                | (5.597.990)       | -                         | -                                 | -                         |                            |
| <b>31 March 2019</b>                                |      | <b>3.500.000</b>   | <b>156.613</b>                  | <b>(116.232)</b>    | <b>106.447</b>                  | <b>55.282</b>                          | <b>11.527.342</b>                     | <b>(72.105)</b>             | <b>18.391</b>  | <b>4.836.573</b>                      | <b>3.485.761</b>                         | <b>2.057.906</b>  | <b>996.650</b>            | <b>26.552.628</b>                 | <b>771.902</b>            | <b>27.324.530</b>          |
| (Unaudited)   |      |  |                                 |                     |                                 |  |                                       |                             |  |                                       |  |                   |                           |                                   |                           |                            |
| <b>1 January 2018 (Previously reported)</b>         |      | <b>3.500.000</b>   | <b>156.613</b>                  | <b>(116.232)</b>    | <b>106.447</b>                  | <b>33.917</b>                          | <b>5.587.482</b>                      | <b>(111.247)</b>            | <b>(16.272)</b>  | <b>2.077.994</b>                      | <b>1.567.280</b>                         | <b>2.144.646</b>  | <b>3.753.755</b>          | <b>18.684.383</b>                 | <b>543.774</b>            | <b>19.228.157</b>          |
| Effect of compulsory change in accounting principle |      | -  | -                               | -                   | -                               | -                                      | -                                     | -                           | -  | -                                     | -  | (11.412)          | -                         | <b>(11.412)</b>                   | -                         | <b>(11.412)</b>            |
| <b>1 January 2018 (Restated)</b>                    |      | <b>3.500.000</b>   | <b>156.613</b>                  | <b>(116.232)</b>    | <b>106.447</b>                  | <b>33.917</b>                          | <b>5.587.482</b>                      | <b>(111.247)</b>            | <b>(16.272)</b>  | <b>2.077.994</b>                      | <b>1.567.280</b>                         | <b>2.133.234</b>  | <b>3.753.755</b>          | <b>18.672.971</b>                 | <b>543.774</b>            | <b>19.216.745</b>          |
| Net profit for the period                           |      | -  | -                               | -                   | -                               | -                                      | -                                     | -                           | -  | -                                     | -  | 1.063.247         | <b>1.063.247</b>          | 45.339                            | <b>1.108.586</b>          |                            |
| Other comprehensive income (loss)                   |      | -  | -                               | -                   | -                               | 2.542                                  | 727.386                               | -                           | (11.742)   | 213.103                               | -  | -                 | <b>931.289</b>            | 25.965                            | <b>957.254</b>            |                            |
| Total comprehensive income (loss)                   |      | -  | -                               | -                   | -                               | 2.542                                  | 727.386                               | -                           | (11.742)   | 213.103                               | -  | 1.063.247         | <b>1.994.536</b>          | 71.304                            | <b>2.065.840</b>          |                            |
| Dividends (*)                                       |      | -  | -                               | -                   | -                               | -                                      | -                                     | -                           | -  | -                                     | (2.849.417)                              | -                 | <b>(2.849.417)</b>        | (130.097)                         | <b>(2.979.514)</b>        |                            |
| Transfers   |      | -  | -                               | -                   | -                               | -                                      | -                                     | -                           | -  | -                                     | 720.248                                  | 3.033.507         | (3.753.755)               | -                                 | -                         |                            |
| <b>31 March 2018</b>                                |      | <b>3.500.000</b>   | <b>156.613</b>                  | <b>(116.232)</b>    | <b>106.447</b>                  | <b>36.459</b>                          | <b>6.314.868</b>                      | <b>(111.247)</b>            | <b>(28.014)</b>  | <b>2.291.097</b>                      | <b>2.287.528</b>                         | <b>2.317.324</b>  | <b>1.063.247</b>          | <b>17.818.090</b>                 | <b>484.981</b>            | <b>18.303.071</b>          |

(\*) 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 (gross dividend per share: TRY 1,38 (2018: TRY 0,84) (30 March 2018: TRY 2.940.000 thousand). 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. The Group will pay TRY 209.118 thousand dividend to non-controlling interests on Isdemir and Erdemir Maden apart from the Equity holders of the Parent in current year (2018: TRY 130.097 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 THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

| Note  | (Unaudited)  | (Unaudited)  | (Unaudited)   | (Unaudited)   |
|---|--|--|---|---|
|   | Current Period<br>1 January-<br>31 March 2019<br>USD'000 | Current Period<br>1 January-<br>31 March 2019<br>TRY'000 | Previous Period<br>1 January-<br>31 March 2018<br>USD'000 | Previous Period<br>1 January-<br>31 March 2018<br>TRY'000 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   | <b>419.479</b>   | <b>2.328.203</b>   | <b>473.948</b>  | <b>1.507.639</b>  |
| Profit (Loss) for The Period  | 193.872  | 1.038.729  | 290.937   | 1.108.586   |
| Adjustments to Reconcile Profit (Loss)  | 152.682  | 843.268  | 166.471   | 648.639   |
| Adjustments for Depreciation and Amortisation Expenses  | 6/14 50.777  | 272.049  | 47.213  | 179.899   |
| Adjustments for Impairment Loss (Reversal of Impairment Loss)   | 2.349  | 12.581   | 8.612   | 32.829  |
| Adjustments for Provision (Reversal of Provision) for Receivables                                     | 694  | 3.715  | 7.197   | 27.437  |
| Adjustments for Provision (Reversal of Provision) for Inventories                                     | 4 1.655  | 8.866  | 1.415   | 5.392   |
| Adjustments for Provisions  | 9.446  | 51.223   | 5.736   | 22.244  |
| Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits                   | 10 6.096   | 32.666   | 6.878   | 26.206  |
| Adjustments for Provision (Reversal of Provision) for Pending Claims and/or Lawsuits                  | 9 3.350  | 18.557   | 2.728   | 10.668  |
| Adjustments for Free Provision (Reversal of Provision) for Possible Risks                             | -  | -  | (3.870)   | (14.630)  |
| Adjustments for Interest (Income) and Expenses  | (24.621)   | (131.916)  | (19.120)  | (72.534)  |
| Adjustments for Interest Income   | 16 (26.365)  | (141.258)  | (20.734)  | (79.005)  |
| Adjustments for Interest Expense  | 16 10.315  | 55.264   | 8.308   | 31.657  |
| Unearned Financial Income from Credit Sales   | (8.571)  | (45.922)   | (6.694)   | (25.186)  |
| Adjustments for Unrealised Foreign Exchange Differences   | (1.380)  | (7.391)  | (352)   | (1.340)   |
| Adjustments for Fair Value (Gains) Losses   | (2.203)  | (11.816)   | 925   | 3.523   |
| Adjustments for Fair Value (Gains) Losses on Financial Assets   | (302)  | (1.629)  | -   | -   |
| Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments                         | 16 (1.901)   | (10.187)   | 925   | 3.523   |
| Adjustments for Undistributed Profits of Investments Accounted for Using Equity Method                | 5 (356)  | (1.905)  | (360)   | (1.371)   |
| Adjustments for Tax (Income) Expenses   | 12 119.303   | 663.837  | 121.094   | 475.014   |
| Adjustments for Losses (Gains) on Disposal of Non-Current Assets                                      | (633)  | (3.394)  | 2.723   | 10.375  |
| Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment                           | (633)  | (3.394)  | 2.723   | 10.375  |
| <b>Changes in Working Capital</b>   | <b>128.867</b>   | <b>724.761</b>   | <b>68.051</b>   | <b>(84.307)</b>   |
| Adjustments for Decrease (Increase) in Trade Receivables  | 88.839   | 500.022  | 40.921  | 35.518  |
| Decrease (Increase) in Trade Receivables from Related Parties   | 767  | 4.317  | 538   | (1.767)   |
| Decrease (Increase) in Trade Receivables from Third Parties   | 88.072   | 495.705  | 40.383  | 37.285  |
| Adjustments for Decrease (Increase) in Other Receivables Related from Operations                      | 426  | 2.399  | 901   | (627)   |
| Decrease (Increase) in Other Receivables from Operations from Third Parties                           | 426  | 2.399  | 901   | (627)   |
| Decrease (Increase) in Derivative Financial Instruments   | 2.282  | 12.844   | (1.310)   | (5.563)   |
| Adjustments for Decrease (Increase) in Inventories  | 89.636   | 504.508  | (48.999)  | (441.039)   |
| Decrease (Increase) in Prepaid Expenses   | (4.671)  | (26.289)   | (4.667)   | (21.149)  |
| Adjustments for Increase (Decrease) in Trade Payables   | (11.037)   | (62.120)   | 45.172  | 222.621   |
| Increase (Decrease) in Trade Payable to Related Parties   | (7.539)  | (42.432)   | (1.180)   | (2.131)   |
| Increase (Decrease) in Trade Payable to Third Parties   | (3.498)  | (19.688)   | 46.352  | 224.752   |
| Adjustments for Increase (Decrease) in Other Payables Related from Operations                         | (21.568)   | (121.394)  | (1.442)   | (29.623)  |
| Increase (Decrease) in Other Payables to Third Parties Related from Operations                        | (21.568)   | (121.394)  | (1.442)   | (29.623)  |
| Increase (Decrease) in Derivative Liabilities   | 5.354  | 30.134   | 129   | 1.697   |
| Adjustments for Other Increase (Decrease) in Working Capital  | (20.394)   | (115.343)  | 37.346  | 153.858   |
| Decrease (Increase) in Other Assets Related from Operations   | (14.269)   | (80.869)   | 5.553   | 16.003  |
| Increase (Decrease) in Other Payables Related from Operations   | (6.125)  | (34.474)   | 31.793  | 137.855   |
| <b>Cash Flows Provided by Operating Activities</b>  | <b>475.421</b>   | <b>2.606.758</b>   | <b>525.459</b>  | <b>1.672.918</b>  |
| Payments Related to Provisions for Employee Termination Benefits                                      | 10 (2.694)   | (14.432)   | (4.365)   | (16.630)  |
| Payments Related to Other Provisions  | 9 (1.156)  | (6.192)  | (578)   | (2.202)   |
| Income Taxes Refund (Paid)  | 12 (52.092)  | (257.931)  | (46.568)  | (146.447)   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   | <b>(66.233)</b>  | <b>(359.779)</b>   | <b>(63.977)</b>   | <b>(250.436)</b>  |
| Cash Outflows Arising From Purchase of Shares or Capital Increase of Associates and/or Joint Ventures | -  | -  | (22.929)  | (91.224)  |
| Cash Outflows Arising From Purchase of Third Parties' Debt Instruments or Funds                       | (27.885)   | (150.362)  | -   | -   |
| Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets                            | 2.961  | 15.866   | 138   | 527   |
| Cash Inflow from Sales of Property, Plant and Equipment   | 2.961  | 15.866   | 138   | 527   |
| Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets                        | (43.083)   | (230.829)  | (39.458)  | (150.350)   |
| Cash Outflow from Purchase of Property, Plant and Equipment   | 6 (42.993)   | (230.349)  | (39.426)  | (150.229)   |
| Cash Outflow from Purchase of Intangible Assets   | 6 (90)   | (480)  | (32)  | (121)   |
| Cash Advances and Debts Given   | 1.170  | 2.341  | (1.728)   | (9.389)   |
| Other Cash Advances and Debts Given   | 1.170  | 2.341  | (1.728)   | (9.389)   |
| Dividends Received  | 5 603  | 3.205  | -   | -   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   | <b>(149.080)</b>   | <b>(413.810)</b>   | <b>(41.697)</b>   | <b>42.544</b>   |
| Cash Inflow from Borrowings   | 161.899  | 860.516  | 291.859   | 1.101.402   |
| Cash Inflow from Loans  | 161.899  | 860.516  | 291.859   | 1.101.402   |
| Cash Outflow from Repayments of Borrowings  | (329.375)  | (1.375.091)  | (353.360)   | (1.133.519)   |
| Cash Outflow from Loan Repayments   | (329.375)  | (1.375.091)  | (353.360)   | (1.133.519)   |
| Interest Paid   | (8.145)  | (43.640)   | (8.476)   | (32.299)  |
| Interest Received   | 26.541   | 144.405  | 28.280  | 106.960   |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES</b>    | <b>204.166</b>   | <b>1.554.614</b>   | <b>368.274</b>  | <b>1.299.747</b>  |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents  | (14.471)   | 119.603  | (9.342)   | 446.905   |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>   | <b>189.695</b>   | <b>1.674.217</b>   | <b>358.932</b>  | <b>1.746.652</b>  |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD  | 1.650.455  | 8.682.881  | 1.860.257   | 7.016.703   |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>   | <b>1.840.150</b>   | <b>10.357.098</b>  | <b>2.219.189</b>  | <b>8.763.355</b>  |

As of 31 March 2019, the Group's total amount of impairment and time deposit interest accrual in accordance with TFRS 9 is TRY 36.898 thousand (USD 6.556 thousand) (31 March 2018: TRY 17.301 thousand (USD 4.381 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**

### **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 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](http://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 rolled products, alloyed and non-alloyed iron, steel and pig iron castings, 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 Operation | Operation                           | 2019 Share % | 2018 Share % |
|--|----------------------|-------------------------------------|--------------|--------------|
| 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 | 50           | 50           |
| Erdemir Enerji Üretim A.Ş.                     | Turkey               | Renewable Energy Production         | 100          | 100          |

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

(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 THREE MONTHS PERIOD ENDED 31 MARCH 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<br>Personnel | Paid Monthly<br>Personnel | 31 March 2019<br>Personnel    |
|--|--------------------------|---------------------------|-------------------------------|
| Ereğli Demir ve Çelik Fab.T.A.Ş.               | 4.137                    | 1.680                     | 5.817                         |
| İskenderun Demir ve Çelik A.Ş.                 | 2.940                    | 1.744                     | 4.684                         |
| Erdemir Madencilik San. ve Tic. A.Ş.           | 154                      | 130                       | 284                           |
| Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. | 220                      | 77                        | 297                           |
| Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.     | -                        | 216                       | 216                           |
| Erdemir Romania S.R.L.                         | 220                      | 40                        | 260                           |
| Erdemir Asia Pacific Private Limited           | -                        | 2                         | 2                             |
|  | <u>7.671</u>             | <u>3.889</u>              | <u>11.560</u>                 |
|  | Paid Hourly<br>Personnel | Paid Monthly<br>Personnel | 31 December 2018<br>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 Company and all its subsidiaries in Turkey maintain their legal books of account and prepare their statutory financial statements (“Statutory Financial Statements”) in accordance with accounting principles issued by the Turkish Commercial Code (“TCC”) and tax legislation.

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

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

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.

(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 THREE MONTHS PERIOD ENDED 31 MARCH 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.

##### 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 31 March 2019 are translated from US Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 5,6284 =US \$ 1 and TRY 6,3188=EUR 1 on the balance sheet date (31 December 2018: TRY 5,2609= US \$ 1, TRY 6,0280=EUR 1).
- b) For the three months period ended 31 March 2019, condensed consolidated income statements are translated from the average TRY 5,3578 = US \$ 1 and TRY 6,0885=EUR 1 rates of 2019 January - March period (31 March 2018: TRY 3,8104 = US \$ 1 TRY 4,6822 = 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.

##### 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 31 March 2019 and 31 December 2018, condensed consolidated statement of income and other comprehensive income and consolidated statement of cash flows for the interim period ended 31 March 2019 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.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 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)**

Approval of the consolidated financial statements

The condensed interim consolidated financial statements have been approved and authorized to be published on 26 April 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 of income statement is as follows:

| <b>Account</b>                        | (Previously<br>Reported)<br>1 January -<br>31 March 2018 | (Restated)<br>1 January -<br>31 March 2018 | (Difference)<br>1 January -<br>31 March 2018 |
|---------------------------------------|--|--|--|
| Revenue <sup>(1)</sup>                | 5.419.869  | 5.418.802                                  | (1.067)                                      |
| Other Operating Income <sup>(1)</sup> | 31.044   | 32.111                                     | 1.067  |
|                                       |  |  | <u>-</u>                                     |

(1) Overdue interest income amounting to TRY 1.067 thousand reported in “Revenue” was reclassified to “Other Operating Income” on the condensed statement of income for the three months period ended 31 March 2018.

**2.3 Adoption of New and Revised Financial Reporting Standards**

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

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

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

(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 THREE MONTHS PERIOD ENDED 31 MARCH 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**

###### General impact of application of IFRS 16 Leases

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

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

###### Impact of the new definition of a lease

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

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

The 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:

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;

(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 THREE MONTHS PERIOD ENDED 31 MARCH 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 Lessee Accounting (cont’d)**

##### *Operating leases (cont’d)*

- a) Recognised depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- b) 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 TFRS 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 TFRS 16.

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

##### *Finance leases*

The main differences between TFRS 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. TFRS 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.

##### **Impact on Lessor Accounting**

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

(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 THREE MONTHS PERIOD ENDED 31 MARCH 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)**

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

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

##### **TFRS Interpretation 23 Uncertainty over Income Tax Treatments**

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

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

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

##### **Annual Improvements to TFRS Standards 2015–2017 Cycle**

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

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

##### **2.4 Summary of Significant Accounting Policies**

The condensed interim consolidated financial statements for the three months period ended 31 March 2019 have been prepared in accordance with TAS 34. The accounting policies used in the preparation of these condensed interim consolidated financial statements for the three months period ended 31 March 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.

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 31 March 2019, from the interests reported as of 31 December 2018.

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 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

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.

|            | Before change in<br>accounting policy<br>1 January 2019 | Effect of TFRS 16<br>1 January 2019 | After change in<br>accounting policy<br>1 January 2019 |
|------------|---|-------------------------------------|--|
| Tangibles  | 18.060.211  | 195.133                             | 18.255.344   |
| Borrowings | 6.120.960   | 195.133                             | 6.316.093  |

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%.

##### 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.

##### 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.



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

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

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

**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:

|   | 31 March      | 31 December   |
|---|---------------|---------------|
| <u>Due from related parties (short term)</u>    | <u>2019</u>   | <u>2018</u>   |
| OYAK Renault Otomobil Fab. A.Ş. <sup>(2)</sup>  | 57.247        | 53.806        |
| Bolu Çimento Sanayi A.Ş. <sup>(1)</sup>         | 2.836         | 3.776         |
| Adana Çimento Sanayi T.A.Ş. <sup>(1)</sup>      | 8.296         | 8.525         |
| İsdemir Linde Gaz Ortaklığı A.Ş. <sup>(3)</sup> | 233           | 724           |
| Other   | 451           | 1.755         |
|   | <u>69.063</u> | <u>68.586</u> |

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

|   | 31 March      | 31 December   |
|---|---------------|---------------|
| <u>Prepaid expenses to related parties (long term)</u>  | <u>2019</u>   | <u>2018</u>   |
| OYAK Konut İnşaat A.Ş. <sup>(1)</sup>                   | 544           | 509           |
| OYAK Savunma ve Güvenlik Sistemleri A.Ş. <sup>(1)</sup> | 56.225        | 67.757        |
|   | <u>56.769</u> | <u>68.266</u> |

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

<sup>(1)</sup> Subsidiaries of the parent company

<sup>(2)</sup> Joint venture of the parent company

<sup>(3)</sup> 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 THREE MONTHS PERIOD ENDED 31 MARCH 2019**

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

**NOTE 3 –RELATED PARTY DISCLOSURES (cont’d)**

|   | 31 March<br>2019 | 31 December<br>2018 |
|---|------------------|---------------------|
| <u>Due to related parties (short term)</u>                    |                  |                     |
| Omsan Lojistik A.Ş. <sup>(1)</sup>                            | 26.872           | 24.447              |
| Omsan Denizcilik A.Ş. <sup>(1)</sup>                          | 12.273           | 2.863               |
| OYAK Pazarlama Hizmet ve Turizm A.Ş. <sup>(1)</sup>           | 12.217           | 12.053              |
| OYAK Savunma ve Güvenlik Sistemleri A.Ş. <sup>(1)</sup>       | 14.390           | 15.484              |
| OYAK Denizcilik ve Liman İşletmeleri A.Ş. <sup>(1)</sup>      | 8.355            | 7.067               |
| OYAK Grup Sigorta ve Reasürans Brokerliği A.Ş. <sup>(1)</sup> | 37.117           | 74.262              |
| Other   | 4.441            | 11.596              |
|   | <u>115.665</u>   | <u>147.772</u>      |

Trade payables to related parties mainly arise from purchased service transactions.

On 21 September 2018, the Group purchased bond amounting to TRY 35.470 thousand from it’s related party Hektaş Ticaret A.Ş..The financial asset purchased by the Group has a floating interest once every 3 months and the maturity of 20 September 2019. As of 31 March 2019, net book value is TRY 35.632 thousand.

|   | 1 January -<br>31 March 2019 | 1 January -<br>31 March 2018 |
|---|------------------------------|------------------------------|
| <u>Major sales to related parties</u>           |                              |                              |
| OYAK Renault Otomobil Fab. A.Ş. <sup>(2)</sup>  | 77.135                       | 74.855                       |
| Adana Çimento Sanayi T.A.Ş. <sup>(1)</sup>      | 4.402                        | 6.715                        |
| Bolu Çimento Sanayi A.Ş. <sup>(1)</sup>         | 1.451                        | 3.381                        |
| İsdemir Linde Gaz Ortaklığı A.Ş. <sup>(3)</sup> | 12.215                       | 9.862                        |
| Other   | 2.130                        | 1.964                        |
|   | <u>97.333</u>                | <u>96.777</u>                |

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

|   | 1 January -<br>31 March 2019 | 1 January -<br>31 March 2018 |
|---|------------------------------|------------------------------|
| <u>Major purchases from related parties</u>                   |                              |                              |
| Omsan Denizcilik A.Ş. <sup>(1)</sup>                          | 33.260                       | 30.978                       |
| OYAK Pazarlama Hizmet ve Turizm A.Ş. <sup>(1)</sup>           | 30.715                       | 25.606                       |
| Omsan Lojistik A.Ş. <sup>(1)</sup>                            | 61.209                       | 45.250                       |
| OYAK Savunma ve Güvenlik Sistemleri A.Ş. <sup>(1)</sup>       | 31.473                       | 9.820                        |
| Omsan Logistica SRL <sup>(1)</sup>                            | 4.435                        | 3.747                        |
| OYAK Denizcilik ve Liman İşletmeleri A.Ş. <sup>(1)</sup>      | 26.391                       | 20.266                       |
| OYAK Grup Sigorta ve Reasürans Brokerliği A.Ş. <sup>(1)</sup> | 9.879                        | 1.045                        |
| İsdemir Linde Gaz Ortaklığı A.Ş. <sup>(3)</sup>               | 20.739                       | 14.207                       |
| OYAK Elektrik Enerjisi Toptan Satış A.Ş. <sup>(1)</sup>       | 14.564                       | -                            |
| Other   | 3.779                        | 7.396                        |
|   | <u>236.444</u>               | <u>158.315</u>               |

The major purchases from related parties are generally consist of service transactions.

<sup>(1)</sup> Subsidiaries of the parent company

<sup>(2)</sup> Joint venture of the parent company

<sup>(3)</sup> 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 THREE MONTHS PERIOD ENDED 31 MARCH 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 three months period ended 31 March 2019, the Group provides no provision for the receivables from related parties (31 December 2018: None).

Salaries, bonuses and other benefits of the key management:

For the three months period ended 31 March 2019, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 3.632 thousand (31 March 2018: TRY 10.419 thousand).

#### NOTE 4 – INVENTORIES

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

|   | 31 March<br>2019 | 31 December<br>2018 |
|---|------------------|---------------------|
| Raw materials                               | 2.280.632        | 2.133.042           |
| Work in progress                            | 1.973.956        | 1.712.760           |
| Finished goods                              | 2.204.017        | 2.322.664           |
| Spare parts                                 | 1.210.672        | 1.115.108           |
| Goods in transit                            | 1.143.438        | 1.405.980           |
| Other inventories                           | 567.379          | 548.341             |
| Allowance for impairment on inventories (-) | (381.308)        | (347.745)           |
|   | <u>8.998.786</u> | <u>8.890.150</u>    |

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

|                          | 1 January -<br>31 March 2019 | 1 January -<br>31 March 2018 |
|--------------------------|------------------------------|------------------------------|
| Opening balance          | 347.745                      | 228.247                      |
| Provision for the period | 8.874                        | 5.418                        |
| Provision released (-)   | (8)                          | (26)                         |
| Translation difference   | 24.697                       | 10.956                       |
| Closing balance          | <u>381.308</u>               | <u>244.595</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 THREE MONTHS PERIOD ENDED 31 MARCH 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:

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

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

|                             | 31 March<br>2019 | 31 December<br>2018 |
|-----------------------------|------------------|---------------------|
| Total assets                | 375.455          | 380.489             |
| Total liabilities           | 67.372           | 89.921              |
| Net assets                  | 308.083          | 290.568             |
| Group's share on net assets | 154.042          | 145.284             |

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

|                                  | 1 January –<br>31 March 2019 | 1 January –<br>31 March 2019 |
|----------------------------------|------------------------------|------------------------------|
| Revenue                          | 22.316                       | 15.260                       |
| Net profit (loss) for the period | 3.810                        | 2.743                        |
| Group's share on net profit      | 1.905                        | 1.371                        |

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 67.230 thousand (its effect in the profit or loss statement of Isdemir is TRY 33.615 thousand) is not included in the financial statements prepared as of 31 March 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.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 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:

|   | 31 March<br>2019  | 31 March<br>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  | <u>18.060.211</u> | <u>13.071.862</u> |
| Net book value at the beginning of the period                   | 18.060.211        | 13.071.862        |
| Opening effect of change in accounting principle (Note 2.4)     | 195.133           | -                 |
| Additions (*)   | 235.424           | 152.927           |
| Disposals (-)   | (14.534)          | (10.902)          |
| <i>Cost of disposals</i>  | (73.133)          | (68.781)          |
| <i>Accumulated depreciation of disposals</i>                    | 58.599            | 57.879            |
| Transfers to intangible assets                                  | (8.705)           | (2.853)           |
| Currency translation difference                                 | 1.262.375         | 609.174           |
| <i>Cost currency translation difference</i>                     | 3.239.949         | 1.536.167         |
| <i>Accumulated depreciation currency translation difference</i> | (1.977.574)       | (926.993)         |
| Current period depreciation (-)                                 | (263.805)         | (183.339)         |
| Net book value at the end of the period                         | <u>19.466.099</u> | <u>13.636.869</u> |
| <u>Closing balance end of period</u>                            |                   |                   |
| Cost  | 50.391.761        | 34.708.256        |
| Accumulated depreciation  | (30.925.662)      | (21.071.387)      |
| Net book value  | <u>19.466.099</u> | <u>13.636.869</u> |

(\*) The amount of capitalized borrowing cost is TRY 5.075 thousand for the current period (31 March 2018: TRY 2.698 thousand).

As of 31 March 2019, the Group has no collaterals or pledges upon its tangible assets (31 March 2018: None).

Net book value of the intangible assets acquired by financial lease as follows:

|                   | 31 March<br>2019 | 31 December<br>2018 |
|-------------------|------------------|---------------------|
| Right to use land | 203.055          | 191.390             |
| Car leases        | 3.543            | 3.743               |
|                   | <u>206.598</u>   | <u>195.133</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 THREE MONTHS PERIOD ENDED 31 MARCH 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:

|   | 31 March<br>2019 | 31 March<br>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   | 480              | 121              |
| Transfers from tangible assets                                  | 8.705            | 2.853            |
| Currency translation difference                                 | 19.664           | 9.725            |
| <i>Cost currency translation difference</i>                     | 48.858           | 22.791           |
| <i>Accumulated depreciation currency translation difference</i> | (29.194)         | (13.066)         |
| Current period amortisation (-)                                 | (8.541)          | (6.408)          |
| Net book value at the end of the period                         | <u>303.824</u>   | <u>217.602</u>   |
| <u>Closing balance end of period</u>                            |                  |                  |
| Cost  | 760.722          | 513.517          |
| Accumulated amortisation  | (456.898)        | (295.915)        |
| Net book value  | <u>303.824</u>   | <u>217.602</u>   |

As of 31 March 2019, the Group has no collaterals or pledges upon its intangible assets (31 March 2018:None).

The distribution of depreciation and amortization expenses related to tangible, intangible assets and investment properties are as follows:

|                                    | 1 January –<br>31 March<br>2019 | 1 January –<br>31 March<br>2018 |
|------------------------------------|---------------------------------|---------------------------------|
| Associated with cost of production | 251.773                         | 177.269                         |
| General administrative expenses    | 9.842                           | 5.117                           |
| Marketing expenses                 | 10.040                          | 6.720                           |
| Research and development expenses  | 1.728                           | 641                             |
|                                    | <u>273.383</u>                  | <u>189.747</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 THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

#### NOTE 7 – BORROWINGS

As of reporting the date the detail of borrowings are as follows:

|   | 31 March<br>2019 | 31 December<br>2018 |
|---|------------------|---------------------|
| Short term borrowings                   | 3.127.676        | 3.654.083           |
| Current portion of long term borrowings | 1.136.404        | 1.066.402           |
| Short term lease payables               | 35.073           | -                   |
| Cost of short term lease payables       | (1.480)          | -                   |
| Total short term borrowings             | <u>4.297.673</u> | <u>4.720.485</u>    |
| Long term borrowings                    | 1.351.613        | 1.400.475           |
| Long term lease payables                | 783.871          | -                   |
| Cost of long term lease payables        | (615.155)        | -                   |
| Total long term borrowings              | <u>1.520.329</u> | <u>1.400.475</u>    |
|   | <u>5.818.002</u> | <u>6.120.960</u>    |

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

| Interest Type | Type of<br>Currency | Weighted<br>Average Rate<br>of Interest (%) | Short Term Portion | Long Term Portion | 31 March 2019    |
|---------------|---------------------|---|--------------------|-------------------|------------------|
| No interest   | TRY                 | -   | 2.339              | -                 | 2.339            |
| Fixed         | US Dollars          | 3,45  | 2.577.279          | 71.219            | 2.648.498        |
| Fixed         | EURO                | 2,75  | 11.799             | 33.933            | 45.732           |
| Floating      | US Dollars          | Libor+1,69                                  | 1.584.388          | 933.367           | 2.517.755        |
| Floating      | EURO                | Euribor+2,06                                | 88.275             | 313.094           | 401.369          |
|               |                     |   | <u>4.264.080</u>   | <u>1.351.613</u>  | <u>5.615.693</u> |

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<br>Currency | Weighted<br>Average Rate<br>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          |
|               |                     |   | <u>4.720.485</u>   | <u>1.400.475</u>  | <u>6.120.960</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 THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

#### NOTE 7 – BORROWINGS (cont’d)

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

|                    | 31 March<br>2019 | 31 December<br>2018 |
|--------------------|------------------|---------------------|
| Within 1 year      | 4.264.080        | 4.720.485           |
| Between 1-2 years  | 652.759          | 740.278             |
| Between 2-3 years  | 268.890          | 242.089             |
| Between 3-4 years  | 212.313          | 189.274             |
| Between 4-5 years  | 74.547           | 107.370             |
| Five years or more | 143.104          | 121.464             |
|                    | <u>5.615.693</u> | <u>6.120.960</u>    |

#### NOTE 8 – OTHER PAYABLES

Group’s short term other payables are as follows:

|                                       | 31 March<br>2019 | 31 December<br>2018 |
|---------------------------------------|------------------|---------------------|
| <u>Short term other payables</u>      |                  |                     |
| Taxes payable                         | 54.280           | 30.014              |
| Deposits and guarantees received      | 8.137            | 8.897               |
| Dividend payables to shareholders (*) | 4.894.147        | 3.875               |
|                                       | <u>4.956.564</u> | <u>42.786</u>       |

(\*) In the annual General Assembly 21 March 2019, it has been approved to distribute cash dividend from net profit of 2018 amounting to TRY 4.830.000 thousand. Dividend payables to shareholders consist of minority shares and dividend payables which hasn’t collected by shareholders.

#### NOTE 9 – PROVISIONS

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

|   | 31 March<br>2019 | 31 December<br>2018 |
|---|------------------|---------------------|
| Provision for lawsuits                                | 179.515          | 165.568             |
| Penalty provision for employment shortage of disabled | 8.425            | 10.421              |
| Provision for state right on mining activities        | 9.670            | 7.650               |
| Provision for land occupation                         | 13.089           | 7.013               |
| Provision for the potential tax penalty               | 10.613           | 10.125              |
|   | <u>221.312</u>   | <u>200.777</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 THREE MONTHS PERIOD ENDED 31 MARCH 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<br>2019 | Change<br>for the period | Payments       | Provision<br>released | Translation<br>difference | 31 March<br>2019 |
|---|-------------------|--------------------------|----------------|-----------------------|---------------------------|------------------|
| Provision for lawsuits  | 165.568           | 15.692                   | (3.449)        | (6.091)               | 7.795                     | 179.515          |
| Penalty provision for employment shortage of disabled personnel | 10.421            | 1.390                    | (2.743)        | (489)                 | (154)                     | 8.425            |
| Provision for state right on mining activities                  | 7.650             | 2.020                    | -              | -                     | -                         | 9.670            |
| Provision for land occupation                                   | 7.013             | 6.035                    | -              | -                     | 41                        | 13.089           |
| Provision for the tax penalty                                   | 10.125            | -                        | -              | -                     | 488                       | 10.613           |
|   | <u>200.777</u>    | <u>25.137</u>            | <u>(6.192)</u> | <u>(6.580)</u>        | <u>8.170</u>              | <u>221.312</u>   |

|   | 1 January<br>2018 | Change<br>for the period | Payments       | Provision<br>released | Translation<br>difference | 31 March<br>2018 |
|---|-------------------|--------------------------|----------------|-----------------------|---------------------------|------------------|
| Provision for lawsuits  | 103.689           | 7.376                    | (1.822)        | (3.541)               | 3.875                     | 109.577          |
| Penalty provision for employment shortage of disabled personnel | 6.374             | 698                      | -              | -                     | 9                         | 7.081            |
| Provision for state right on mining activities                  | 5.102             | 1.242                    | -              | -                     | -                         | 6.344            |
| Provision for land occupation                                   | 11.665            | 4.893                    | (380)          | -                     | 36                        | 16.214           |
| Provision for the tax penalty                                   | 7.584             | -                        | -              | -                     | 591                       | 8.175            |
|   | <u>134.414</u>    | <u>14.209</u>            | <u>(2.202)</u> | <u>(3.541)</u>        | <u>4.511</u>              | <u>147.391</u>   |

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 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:

|   | 31 March<br>2019 | 31 December<br>2018 |
|---|------------------|---------------------|
| Lawsuits filed by the Group               | 789.080          | 763.070             |
| Provision for lawsuits filed by the Group | 212.768          | 200.393             |

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

|  | 31 March<br>2019 | 31 December<br>2018 |
|--|------------------|---------------------|
| Lawsuits filed against the Group               | 530.111          | 498.341             |
| Provision for lawsuits filed against the Group | 179.515          | 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 (TFRS) 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 THREE MONTHS PERIOD ENDED 31 MARCH 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 March 31, 2019 and December 31, 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. The decision of reversal has been notified to the Company on 2 August 2017. Erdemir has applied for revision of the decision against the Supreme Court 11th Civil Chamber’s decision dated 24 May 2017 and 2015/15771 Docket; 2017/3040 decision number. Conclusion of the application for revision of the decision is expected.

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 consolidated financial statements as of 31 March 2019 and 31 December 2018.

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

### **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019**

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

---

#### **NOTE 9 – PROVISIONS (cont’d)**

##### **Provision for lawsuits (cont’d)**

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 68.312.520 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. Conclusion of the application for revision of the decision is expected. No possible material cash outflow expected according to the evaluations of Company management and expert’s reports, as a result no provision recognised on 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. 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 46.205 thousand recognised on financial statements for related lawsuit.

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

### **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019**

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

---

#### **NOTE 9 – PROVISIONS (cont’d)**

##### **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 obliged to pay state right on mining activities based on the sales.

##### **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 10.613 thousand (RON 7.579 thousand) was notified for all tax and tax penalties. As of 31 March 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.

#### **NOTE 10 – EMPLOYEE BENEFITS**

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

|                                  | 31 March<br>2019 | 31 December<br>2018 |
|----------------------------------|------------------|---------------------|
| Due to personnel                 | 119.245          | 153.178             |
| Social security premiums payable | 83.239           | 36.298              |
|                                  | <u>202.484</u>   | <u>189.476</u>      |

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

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

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

**NOTE 10 – EMPLOYEE BENEFITS (cont’d)**

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

|  | 31 March<br>2019 | 31 December<br>2018 |
|--|------------------|---------------------|
| Provisions for employee termination benefits | 548.938          | 530.083             |
| Provisions for seniority incentive premium   | 58.793           | 55.351              |
| Provision for unpaid vacations               | 80.437           | 83.957              |
|  | <u>688.168</u>   | <u>669.391</u>      |

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

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

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

The employee termination benefit has been calculated by estimating the present value of the future probable obligation of the 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 31 March 2019 has been calculated by an independent actuary. The actuarial assumptions used in the calculation of the present value of the future probable obligation are as follows:

|                            | 31 March 2019 | 31 December 2018 |
|----------------------------|---------------|------------------|
| Discount rate              | % 16,00       | % 16,00          |
| Inflation rate             | % 11,30       | % 11,30          |
| Salary increase            | real 1,5%     | real 1,5%        |
| Maximum liability increase | % 11,30       | % 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 31 March 2019 a fixed discount rate is used. Long term inflation estimates are made using an approach consistent with discount rate estimates and long term inflation rate fixed over years is used.

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

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

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

**NOTE 10 – EMPLOYEE BENEFITS (cont’d)**

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.

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

|                           | 1 January -<br>31 March 2019 | 1 January -<br>31 March 2018 |
|---------------------------|------------------------------|------------------------------|
| Opening balance           | 530.083                      | 511.971                      |
| Service cost              | 12.375                       | 11.081                       |
| Interest cost             | 19.536                       | 13.719                       |
| Termination benefits paid | (13.388)                     | (14.638)                     |
| Translation difference    | 332                          | 149                          |
| Closing balance           | <u>548.938</u>               | <u>522.282</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 -<br>31 March 2019 | 1 January -<br>31 March 2018 |
|------------------------|------------------------------|------------------------------|
| Opening balance        | 55.351                       | 43.468                       |
| Service cost           | 1.362                        | 1.105                        |
| Interest cost          | 2.059                        | 1.165                        |
| Translation difference | 21                           | 15                           |
| Closing balance        | <u>58.793</u>                | <u>45.753</u>                |

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

|                                     | 1 January -<br>31 March 2019 | 1 January -<br>31 March 2018 |
|-------------------------------------|------------------------------|------------------------------|
| Opening balance                     | 83.957                       | 81.374                       |
| Provision for the period            | 11.709                       | 9.128                        |
| Vacation paid during the period (-) | (1.044)                      | (1.992)                      |
| Provisions released (-)             | (14.375)                     | (9.992)                      |
| Translation difference              | 190                          | 173                          |
| Closing balance                     | <u>80.437</u>                | <u>78.691</u>                |

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

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

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

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

The guarantees received by the Group are as follows:

|                                | 31 March<br>2019 | 31 December<br>2018 |
|--------------------------------|------------------|---------------------|
| Letters of guarantees received | 3.312.091        | 3.378.056           |
|                                | <u>3.312.091</u> | <u>3.378.056</u>    |

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

|   | 31 March<br>2019 | 31 December<br>2018 |
|---|------------------|---------------------|
| A. Total CPM given for the Company's own legal entity                                     | 84.178           | 103.870             |
| B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis           | 548.387          | 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>632.565</u>   | <u>325.137</u>      |

Total CPM given by the Group in favor of subsidiaries consolidated on line-by-line basis amounting to TRY 548.387 thousand has been given as collateral for financial liabilities explained in Note 7. As of 31 March 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:

|            | 31 March<br>2019 | 31 December<br>2018 |
|------------|------------------|---------------------|
| US Dollars | 544.580          | 221.267             |
| TRY        | 62.078           | 79.155              |
| EURO       | 25.907           | 24.715              |
|            | <u>632.565</u>   | <u>325.137</u>      |



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

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

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

**NOTE 12 – TAX ASSETS AND LIABILITIES**

Group’s income tax payable as follows:

|                                      | 31 March<br>2019             | 31 December<br>2018          |
|--------------------------------------|------------------------------|------------------------------|
| <u>Corporate tax payable:</u>        |                              |                              |
| Corporation tax for the year of 2018 | 2.527.182                    | -                            |
| Current corporate tax provision      | 512.401                      | 2.527.182                    |
| Prepaid taxes and funds (-)          | (2.280.397)                  | (2.022.466)                  |
|                                      | <u>759.186</u>               | <u>504.716</u>               |
|                                      | 1 January -<br>31 March 2019 | 1 January -<br>31 March 2018 |
| <u>Taxation:</u>                     |                              |                              |
| Current corporate tax expense        | 512.401                      | 387.606                      |
| Deferred tax (income) / expense      | 151.436                      | 87.408                       |
|                                      | <u>663.837</u>               | <u>475.014</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 31 March 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 three months of 2019 is TRY 257.931 thousand (31 March 2018: TRY 146.447 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%.

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

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

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

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

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. 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.

|   | 31 March<br>2019   | 31 December<br>2018 |
|---|--------------------|---------------------|
| <u>Deferred tax assets:</u>                         |                    |                     |
| Provisions for employee benefits                    | 140.659            | 137.095             |
| Provision for lawsuits                              | 34.152             | 29.747              |
| Inventories   | 25.815             | 88.971              |
| Provision for other doubtful receivables            | 17.316             | 16.531              |
| Tangible and intangible assets                      | 19.254             | 17.416              |
| Other   | 66.044             | 69.407              |
|   | <u>303.240</u>     | <u>359.167</u>      |
| <u>Deferred tax liabilities:</u>                    |                    |                     |
| Tangible and intangible assets                      | (2.941.566)        | (2.729.613)         |
| Fair values of the derivative financial instruments | (7.097)            | (11.721)            |
| Amortized cost adjustment on loans                  | (10.714)           | (11.075)            |
| Inventories   | (171.148)          | (96.070)            |
| Other   | (9.617)            | (9.332)             |
|   | <u>(3.140.142)</u> | <u>(2.857.811)</u>  |
|   | <u>(2.836.902)</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.

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

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

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

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

Presentation of deferred tax assets/(liabilities):

|                            | 31 March<br>2019   | 31 December<br>2018 |
|----------------------------|--------------------|---------------------|
| Deferred tax assets        | 62.319             | 67.552              |
| Deferred tax (liabilities) | (2.899.221)        | (2.566.196)         |
|                            | <u>(2.836.902)</u> | <u>(2.498.644)</u>  |

Movements of deferred tax asset/(liability)

|   | 1 January -<br>31 March 2019 | 1 January -<br>31 March 2018 |
|---|------------------------------|------------------------------|
| Opening balance                                 | (2.498.644)                  | (1.561.975)                  |
| Effects of change in accounting policy (TFRS 9) | -                            | 3.218                        |
| Deferred tax (expense)/income                   | (151.436)                    | (87.408)                     |
| The amount in comprehensive income              | (1.492)                      | 3.312                        |
| Translation difference                          | (185.330)                    | (78.575)                     |
| Closing balance                                 | <u>(2.836.902)</u>           | <u>(1.721.428)</u>           |

Reconciliation of tax provision is as follows:

|   | 1 January -<br>31 March 2019 | 1 January -<br>31 March 2018 |
|---|------------------------------|------------------------------|
| Profit before tax   | 1.702.566                    | 1.583.600                    |
| Statutory tax rate  | 22%                          | 22%                          |
| Calculated tax expense according to effective tax rate              | (374.565)                    | (348.392)                    |
| <u>Reconciliation between the tax provision and calculated tax:</u> |                              |                              |
| - Non-deductible expenses   | (8.083)                      | (6.054)                      |
| - Effect of currency translation not subject to tax                 | (281.234)                    | (137.696)                    |
| - Investment incentive  | -                            | 16.735                       |
| - Effect of the different tax rates<br>due to foreign subsidiaries  | 45                           | 393                          |
| Total tax expense reported in the statement of income               | <u>(663.837)</u>             | <u>(475.014)</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 THREE MONTHS PERIOD ENDED 31 MARCH 2019

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

#### NOTE 13 – EQUITY

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

| <u>Shareholders</u>      | (%)    | 31 March         | (%)    | 31 December      |
|--------------------------|--------|------------------|--------|------------------|
|                          |        | 2019             |        | 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)        |
|                          |        | <u>3.540.381</u> |        | <u>3.540.381</u> |

#### NOTE 14 – SALES AND COST OF SALES

|  | 1 January -<br>31 March 2019 | 1 January -<br>31 March 2018 |
|--|------------------------------|------------------------------|
| <u>Sales Revenue</u>                       |                              |                              |
| Domestic sales                             | 5.140.869                    | 4.540.231                    |
| Export sales                               | 1.795.538                    | 738.494                      |
| Other revenues (*)                         | 193.137                      | 120.934                      |
| Interest income from sales with maturities | 47.893                       | 25.452                       |
| Sales returns (-)                          | (21.445)                     | (2.279)                      |
| Sales discounts (-)                        | (11.853)                     | (4.030)                      |
|  | <u>7.144.139</u>             | <u>5.418.802</u>             |
| <u>Cost of sales (-)</u>                   | <u>(5.512.573)</u>           | <u>(3.732.319)</u>           |
| Gross profit                               | <u>1.631.566</u>             | <u>1.686.483</u>             |

(\*) The total amount of by product exports in other revenues is TRY 90.034 thousand (31 March 2018: TRY 41.288 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 175.337 thousand. The Company planning to recognize related revenue amount as a revenue in a year.

(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 THREE MONTHS PERIOD ENDED 31 MARCH 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 -<br>31 March 2019 | 1 January -<br>31 March 2018 |
|---|------------------------------|------------------------------|
| Raw material usage  | (4.184.766)                  | (2.809.725)                  |
| Personnel costs   | (372.443)                    | (347.718)                    |
| Energy costs  | (312.339)                    | (172.054)                    |
| Depreciation and amortization expenses                    | (250.439)                    | (167.421)                    |
| Manufacturing overheads                                   | (140.063)                    | (94.341)                     |
| Other cost of goods sold                                  | (122.082)                    | (48.864)                     |
| Non-operating costs                                       | -                            | (6.672)                      |
| Freight costs for sales delivered to customers            | (96.716)                     | (64.244)                     |
| Allowance expenses for impairment on inventories (Note 4) | (8.874)                      | (5.418)                      |
| Inventory provision released (Note 4)                     | 8                            | 26                           |
| Other   | (24.859)                     | (15.888)                     |
|   | <u>(5.512.573)</u>           | <u>(3.732.319)</u>           |

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

As of the reporting date the detail of marketing expenses according to their nature are as follows:

|                                   | 1 January -<br>31 March 2019 | 1 January -<br>31 March 2018 |
|-----------------------------------|------------------------------|------------------------------|
| Personnel expenses (-)            | (22.591)                     | (20.577)                     |
| Depreciation and amortization (-) | (10.040)                     | (6.720)                      |
| Service expenses (-)              | (24.283)                     | (14.696)                     |
|                                   | <u>(56.914)</u>              | <u>(41.993)</u>              |

As of the reporting date the detail of the general administrative expenses according to their nature are as follows:

|  | 1 January -<br>31 March 2019 | 1 January -<br>31 March 2018 |
|--|------------------------------|------------------------------|
| Personnel expenses (-)                                       | (44.191)                     | (44.192)                     |
| Depreciation and amortization (-)                            | (9.842)                      | (5.117)                      |
| Service expenses (-)   | (40.218)                     | (31.650)                     |
| Tax, duty and charges (-)                                    | (3.627)                      | (2.630)                      |
| Provision/ Provision released for doubtful receivables (net) | (3.715)                      | (27.437)                     |
|  | <u>(101.593)</u>             | <u>(111.026)</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 THREE MONTHS PERIOD ENDED 31 MARCH 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)**

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

|   | 1 January -<br>31 March 2019 | 1 January -<br>31 March 2018 |
|---|------------------------------|------------------------------|
| <u>Other operating income</u>                                   |                              |                              |
| Foreign exchange gain from trade receivables and payables (net) | -                            | 12.784                       |
| Forfeit advances from customers                                 | 5.242                        | 184                          |
| Discount income   | 62                           | 2.353                        |
| Provisions released   | 6.580                        | 3.541                        |
| Service income  | 2.464                        | 3.608                        |
| Maintenance repair and rent income                              | 3.949                        | 3.688                        |
| Warehouse income  | 3.115                        | 859                          |
| Indemnity and penalty detention income                          | 697                          | 791                          |
| Insurance indemnity income                                      | 1.646                        | 277                          |
| Lawsuit income  | 53                           | 48                           |
| Overdue interest income   | 3.325                        | 1.067                        |
| Other income and gains  | 11.720                       | 2.911                        |
|   | <u>38.853</u>                | <u>32.111</u>                |

As of the reporting date the detail of the other operating expenses according to their nature are as follows:

|   | 1 January -<br>31 March 2019 | 1 January -<br>31 March 2018 |
|---|------------------------------|------------------------------|
| <u>Other operating expenses (-)</u>                                 |                              |                              |
| Provision expenses  | (17.082)                     | (8.074)                      |
| Discount expenses   | -                            | (4.273)                      |
| Foreign exchange expenses from trade receivables and payables (net) | (2.583)                      | -                            |
| Lawsuit compensation expenses                                       | (1.651)                      | (953)                        |
| Port facility pre-licence expenses                                  | (7.398)                      | (1.659)                      |
| Donation expenses   | (713)                        | (476)                        |
| Service expenses  | (1.736)                      | (2.760)                      |
| Stock exchange registration expenses                                | (3.083)                      | (1.844)                      |
| Rent expenses   | (762)                        | (362)                        |
| Penalty expenses  | (482)                        | (307)                        |
| Interest expenses from purchases with maturities                    | (4.585)                      | -                            |
| Other expenses and losses   | (6.922)                      | (3.593)                      |
|   | <u>(46.997)</u>              | <u>(24.301)</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 THREE MONTHS PERIOD ENDED 31 MARCH 2019**

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

**NOTE 16 – FINANCE INCOME AND EXPENSES**

As of the reporting date the detail of the finance income is as follows:

|  | 1 January -<br>31 March 2019 | 1 January -<br>31 March 2018 |
|--|------------------------------|------------------------------|
| <u>Finance income</u>  |                              |                              |
| Interest income on bank deposits                                 | 141.258                      | 79.005                       |
| Foreign exchange gains (net)                                     | 163.546                      | 27.648                       |
| Interest income from financial investments                       | 3.581                        | -                            |
| Fair value differences of derivative financial instruments (net) | 10.187                       | -                            |
| Other financial income   | -                            | 87                           |
|  | <u>318.572</u>               | <u>106.740</u>               |

As of the reporting date the detail of the finance expenses are as follows:

|  | 1 January -<br>31 March 2019 | 1 January -<br>31 March 2018 |
|--|------------------------------|------------------------------|
| <u>Finance expenses (-)</u>                                      |                              |                              |
| Interest expenses on borrowings                                  | (55.264)                     | (31.657)                     |
| Interest cost of employee benefits                               | (21.595)                     | (14.884)                     |
| Fair value differences of derivative financial instruments (net) | -                            | (3.523)                      |
| Other financial expenses   | (4.502)                      | (994)                        |
|  | <u>(81.361)</u>              | <u>(51.058)</u>              |

During the period, the interest expenses of TRY 5.075 thousand have been capitalized as part of the Group’s property, plant and equipment (31 March 2018: TRY 2.698 thousand).

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 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 31 March 2019, the foreign currency position of the Group in terms of original currency is calculated as it as follows:

31 March 2019

|  | TRY<br>(Total in<br>reporting currency) | TRY<br>(Original<br>currency) | EURO<br>(Original<br>currency) | Jap. Yen<br>(Original<br>currency) | RON<br>(Original<br>currency) |
|--|---|-------------------------------|--------------------------------|------------------------------------|-------------------------------|
| 1. Trade Receivables   | 1.014.332                               | 43.821                        | 149.056                        | -                                  | 21.530                        |
| 2a. Monetary financial assets  | 1.609.724                               | 1.370.892                     | 31.323                         | 181                                | 30.896                        |
| 2b. Non- monetary financial assets   | -                                       | -                             | -                              | -                                  | -                             |
| 3. Other   | 518.492                                 | 510.826                       | 32                             | 107.995                            | 1.747                         |
| <b>4. CURRENT ASSETS (1+2+3)</b>   | <b>3.142.548</b>                        | <b>1.925.539</b>              | <b>180.411</b>                 | <b>108.176</b>                     | <b>54.173</b>                 |
| 5. Trade receivables   | -                                       | -                             | -                              | -                                  | -                             |
| 6a. Monetary financial assets  | 153                                     | 153                           | -                              | -                                  | -                             |
| 6b. Non- monetary financial assets   | -                                       | -                             | -                              | -                                  | -                             |
| 7. Other   | 362.541                                 | 202.192                       | 21.403                         | 522.837                            | 93                            |
| <b>8. Non-current assets (5+6+7)</b>   | <b>362.694</b>                          | <b>202.345</b>                | <b>21.403</b>                  | <b>522.837</b>                     | <b>93</b>                     |
| <b>9. Total assets (4+8)</b>   | <b>3.505.242</b>                        | <b>2.127.884</b>              | <b>201.814</b>                 | <b>631.013</b>                     | <b>54.266</b>                 |
| 10. Trade payables   | 681.249                                 | 566.387                       | 16.678                         | 90.987                             | 3.853                         |
| 11. Financial liabilities  | 136.006                                 | 35.932                        | 15.837                         | -                                  | -                             |
| 12a. Other monetary financial liabilities  | 1.354.626                               | 1.329.394                     | 1.828                          | -                                  | 10.369                        |
| 12b. Other non-monetary financial liabilities  | -                                       | -                             | -                              | -                                  | -                             |
| <b>13. Current liabilities (10+11+12)</b>  | <b>2.171.881</b>                        | <b>1.931.713</b>              | <b>34.343</b>                  | <b>90.987</b>                      | <b>14.222</b>                 |
| 14. Trade payables   | -                                       | -                             | -                              | -                                  | -                             |
| 15. Financial liabilities  | 515.743                                 | 168.717                       | 54.920                         | -                                  | -                             |
| 16a. Other monetary financial liabilities  | 671.662                                 | 669.138                       | -                              | -                                  | 1.913                         |
| 16b. Other non-monetary financial liabilities  | -                                       | -                             | -                              | -                                  | -                             |
| <b>17. Non-current liabilities (14+15+16)</b>  | <b>1.187.405</b>                        | <b>837.855</b>                | <b>54.920</b>                  | <b>-</b>                           | <b>1.913</b>                  |
| <b>18. Total liabilities (13+17)</b>   | <b>3.359.286</b>                        | <b>2.769.568</b>              | <b>89.263</b>                  | <b>90.987</b>                      | <b>16.135</b>                 |
| <b>19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)</b>      | <b>(585.705)</b>                        | <b>-</b>                      | <b>(92.692)</b>                | <b>-</b>                           | <b>-</b>                      |
| 19a. Off-balance sheet foreign currency derivative financial assets  | -                                       | -                             | -                              | -                                  | -                             |
| 19b. Off-balance sheet foreign currency derivative financial liabilities                                     | 585.705                                 | -                             | 92.692                         | -                                  | -                             |
| <b>20. Net foreign currency asset/liability position (9-18+19)</b>   | <b>(439.749)</b>                        | <b>(641.684)</b>              | <b>19.859</b>                  | <b>540.026</b>                     | <b>38.131</b>                 |
| <b>21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)</b> | <b>(735.077)</b>                        | <b>(1.354.702)</b>            | <b>91.116</b>                  | <b>(90.806)</b>                    | <b>36.291</b>                 |
| 22. Fair value of derivative financial instruments used in foreign currency hedge                            | 38.968                                  | -                             | 6.167                          | -                                  | -                             |
| 23. Hedged foreign currency assets   | 585.705                                 | -                             | 92.692                         | -                                  | -                             |
| 24. Hedged foreign currency liabilities  | -                                       | -                             | -                              | -                                  | -                             |
| 25. Exports  | 1.885.572                               | -                             | -                              | -                                  | -                             |
| 26. Imports  | 3.747.260                               | -                             | -                              | -                                  | -                             |



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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 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<br>(Total in<br>reporting currency) | TRY<br>(Original<br>currency) | EURO<br>(Original<br>currency) | Jap. Yen<br>(Original<br>currency) | RON<br>(Original<br>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                           |
| <b>4. Current assets (1+2+3)</b>   | <b>1.571.448</b>                        | <b>591.420</b>                | <b>155.000</b>                 | <b>27.705</b>                      | <b>34.373</b>                 |
| 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                            |
| <b>8. Non-current assets (5+6+7)</b>   | <b>330.049</b>                          | <b>172.880</b>                | <b>22.223</b>                  | <b>487.162</b>                     | <b>35</b>                     |
| <b>9. Total assets (4+8)</b>   | <b>1.901.497</b>                        | <b>764.300</b>                | <b>177.223</b>                 | <b>514.867</b>                     | <b>34.408</b>                 |
| 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  | -                                       | -                             | -                              | -                                  | -                             |
| <b>13. Current liabilities (10+11+12)</b>  | <b>1.807.689</b>                        | <b>1.554.589</b>              | <b>38.905</b>                  | <b>3.597</b>                       | <b>14.187</b>                 |
| 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  | -                                       | -                             | -                              | -                                  | -                             |
| <b>17. Non-current liabilities (14+15+16)</b>  | <b>972.700</b>                          | <b>650.794</b>                | <b>52.979</b>                  | <b>-</b>                           | <b>1.980</b>                  |
| <b>18. Total liabilities (13+17)</b>   | <b>2.780.389</b>                        | <b>2.205.383</b>              | <b>91.884</b>                  | <b>3.597</b>                       | <b>16.167</b>                 |
| <b>19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)</b>      | <b>(714.873)</b>                        | <b>-</b>                      | <b>(118.592)</b>               | <b>-</b>                           | <b>-</b>                      |
| 19a. Off-balance sheet foreign currency derivative financial assets  | -                                       | -                             | -                              | -                                  | -                             |
| 19b. Off-balance sheet foreign currency derivative financial liabilities                                     | 714.873                                 | -                             | 118.592                        | -                                  | -                             |
| <b>20. Net foreign currency asset/liability position (9-18+19)</b>   | <b>(1.593.765)</b>                      | <b>(1.441.083)</b>            | <b>(33.253)</b>                | <b>511.270</b>                     | <b>18.241</b>                 |
| <b>21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)</b> | <b>(1.591.711)</b>                      | <b>(1.995.029)</b>            | <b>63.104</b>                  | <b>(3.426)</b>                     | <b>17.954</b>                 |
| 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 THREE MONTHS PERIOD ENDED 31 MARCH 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 31 March 2019 asset and liability balances are translated by using the following exchange rates: TRY 5,6284 = US \$ 1, TRY 6,3188 = EUR 1, TRY 0,0507 = JPY 1 and TRY 1,3192 = 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<br>assets and before tax and non-controlling interest |                                     |
|--|--|-------------------------------------|
|  | Appreciation of<br>foreign currency  | Depreciation of<br>foreign currency |
| 31 March 2019                              |  |                                     |
| 1- TRY net asset/liability                 | (64.168)   | 64.168                              |
| 2- Hedged portion from TRY risk (-)        | -  | -                                   |
| 3- Effect of capitalization (-)            | -  | -                                   |
| 4- TRY net effect (1+2+3)                  | (64.168)   | 64.168                              |
| 5- RON net asset/liability                 | 5.030  | (5.030)                             |
| 6- Hedged portion from US Dollars risk (-) | -  | -                                   |
| 7- Effect of capitalization (-)            | -  | -                                   |
| 8- RON net effect (5+6+7)                  | 5.030  | (5.030)                             |
| 9- Euro net asset/liability                | 71.119   | (71.119)                            |
| 10- Hedged portion from Euro risk (-)      | (58.570)   | 58.570                              |
| 11- Effect of capitalization (-)           | -  | -                                   |
| 12- Euro net effect (9+10+11)              | 12.549   | (12.549)                            |
| 13- Jap. Yen net asset/liability           | 2.581  | (2.581)                             |
| 14- Hedged portion from Jap. Yen risk (-)  | -  | -                                   |
| 15- Effect of capitalization (-)           | -  | -                                   |
| 16- Jap. Yen net effect (13+14+15)         | 2.581  | (2.581)                             |
| <b>TOTAL (4+8+12+16)</b>                   | <b>(44.008)</b>  | <b>44.008</b>                       |

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 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 US Dollars 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)                          |
| <b>TOTAL (4+8+12+16)</b>                   | <b>(159.375)</b>  | <b>159.375</b>                   |

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