(CONVENIENCE TRANSLATION OF
CONSOLIDATED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH- SEE NOTE 37)

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2019 AND INDEPENDENT AUDITOR'S REPORT

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

INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Ereğli Demir ve Çelik Fabrikaları T.A.Ş.

A) Report on the Audit of the Financial Statements

1) Opinion

We have audited the consolidated financial statements of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Turkish Financial Reporting Standards ("TFRS").

2) Basis for Opinion

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

3) Key Audit Matters

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

<table>
<tr><th>Key Audit Matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td> Revenue recognition
While conducting its assessments, the Group management takes into account the detailed conditions set out in TFRS 15 regarding the fulfilment of performance obligations and recognition of the transaction costs allocated to them as revenue, in particular whether the control of goods and services have passed to the customer.
The Group recognizes revenue by analyzing whether the significant risks and rewards are transferred to the buyer according to the delivery terms of export sales.
In this context, revenue recognition has been determined as one of the key audit matters since determining whether the revenue recognition criteria are met as well as determining whether the revenue is recorded in the financial statements in the correct period requires significant judgment of management.
Please refer to notes 2.8.1 and 24 to the consolidated financial statements for the Group's disclosures on revenue recognition, including the related accounting policy. </td>
<td> We performed the following procedures in relation to the revenue recognition:

The design and implementation of the controls on the revenue process have been evaluated. The Group's sales and delivery procedures have been analyzed.
Terms of trade and delivery with respect to contracts made with customers have been examined and the timing of revenue recognition in the financial statements for the different shipment arrangements has been assessed.
For substantive procedures, special emphasis is given for transactions where the goods billed but revenue has not been earned. Customers with the longest delivery period have been identified among the existing customers of the Group and a date range has been determined and sales lists have been provided from the relevant departments. The control of the completeness and accuracy of these lists have been tested.

In addition, we assessed the adequacy of the disclosures in Note 24 under TFRS. </td></tr>
</table>

3) Key Audit Matters (cont'd)

Key Audit Matter	How the matter was addressed in the audit
Application of TFRS 16, "Leases" and its impacts on the consolidated financial statements and notes to the consolidated financial statements TFRS 16, "Leases" ("TFRS 16") is effective for periods beginning on or after 1 January 2019. The Group has preferred the simplified transition method in the first time adoption of TFRS 16 and has not restated comparative consolidated financial statements. The application of the new standard resulted in the recognition of right of use assets amounting to TL 244.950 thousand and increase in financial lease payables amounting to TL 246.650 thousand. The calculation of right of use assets and lease payables requires the assessment of the Group management. The substantial part of these estimates are interest rate used to discount cash flows and assessment of options to extend to terminate lease contracts. In addition to this, the notes to the consolidated financial statements of the Group as of 31 December 2019 are significantly affected by the application of TFRS 16. Therefore, the impacts of the first time adoption of TFRS 16 on the consolidated financial statements and the notes to the consolidated financial statements are determined as a key audit matter. Please refer to notes 2.7 and 16 to the consolidated financial statements for the amounts and disclosures, including the related accounting policies.	We performed the following procedures in relation to the application of TFRS 16, the impacts of the consolidated financial statements and notes to the consolidated financial statements: • Understanding and evaluating the significant process affecting financial reporting related to the adoption of TFRS 16, • Recalculation of the right of use assets and related financial lease liabilities on a sample basis in the consolidated financial statements. • Evaluating the compliance of inputs used in the calculation like rent increase rate, interest rate etc, • Selecting the lease contracts used in the calculation of right of use assets and financial liabilities on a sample basis and testing the compliance of the term of the lease contracts and the assessment of the extention options applied if such options exist with the provision of the contract, • Evaluating the completeness of the contract lists obtained from Group management, In addition, we assessed the adequacy of the disclosures under TFRS 16.

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4) Emphasis of Matter

Without qualifying our opinion, we draw attention to the matter in Note 17 to the accompanying consolidated financial statements. The court cases related to Capital Market Board's ("CMB") claim that the Company had prepared its 31 December 2005 financial statements in accordance with International Financial Reporting Standards instead of Communique Serial XI, No: 25 on "Accounting Standards in Capital Markets" without taking the permission of the CMB in prior years were concluded against the Company at Council of State and such conclusions declared to the Company via notifications sent in July 2012. On 1 August 2012, the Company applied to the Administrative Court to remove the conflicting decisions of this court, but the Administrative Court decided to reject the application by the notification made on 17 February 2014. For the lawsuit filed by the Republic of Turkey Prime Ministry Privatization Administration ("PA") 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. The Company has applied for rectification. Legal process is ongoing as of the date of audit report and our opinion is not qualified in respect of this matter.

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

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

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

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

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

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

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

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

6) Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (cont'd)

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. (The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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B) Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 398 of the Turkish Commercial Code No. 6102 ("TCC"), the auditor's report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Company on 11 February 2020.

In accordance with paragraph four of the Article 402 of TCC, nothing has come to our attention that may cause us to believe that the Group's set of accounts and financial statements prepared for the period 1 January-31 December 2019 does not comply with TCC and the provisions of the Company's articles of association in relation to financial reporting.

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

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

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

Volkan Becerik
Partner

İstanbul, 11 February 2020

TABLE OF CONTENTS **Page**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira ("TRY Thousand") unless otherwise indicated.)

ASSETS	Note	(Audited) Current Period 31 December 2019 USD'000	(Audited) Current Period 31 December 2019 TRY'000	(Audited) Previous Period 31 December 2018 USD'000	(Audited) Previous Period 31 December 2018 TRY'000
CURRENT ASSETS		**4.063.282**	**24.136.704**	**4.279.144**	**22.512.149**
Cash and Cash Equivalents	4	1.782.772	10.590.024	1.645.980	8.659.336
Financial Investments	5	17.054	101.304	11.595	61.000
Trade Receivables		562.973	3.344.177	836.639	4.401.474
Due From Related Parties	*33*	*29.173*	*173.296*	*13.037*	*68.586*
Other Trade Receivables from Third Parties	*8*	*533.800*	*3.170.881*	*823.602*	*4.332.888*
Other Receivables		990	5.881	342	1.800
Due From Related Parties	*33*	*643*	*3.817*	-	-
Other Receivables from Third Parties	*9*	*347*	*2.064*	*342*	*1.800*
Financial Derivative Instruments	6	8.087	48.040	10.064	52.945
Inventories	10	1.570.513	9.329.163	1.689.853	8.890.150
Prepaid Expenses		16.874	100.233	17.108	90.005
Prepaid Expenses to Related Parties	*33*	*1.062*	*6.308*	-	-
Other Prepaid Expenses to Third Parties	*11*	*15.812*	*93.925*	*17.108*	*90.005*
Other Current Assets	21	104.019	617.882	67.563	355.439
NON CURRENT ASSETS		**3.793.798**	**22.535.921**	**3.662.864**	**19.269.961**
Financial Investments	5	27	161	1.539	8.095
Other Receivables		6.244	37.087	1.786	9.397
Due From Related Parties	*33*	*4.232*	*25.136*	-	-
Other Receivables from Third Parties	*9*	*2.012*	*11.951*	*1.786*	*9.397*
Financial Derivative Instruments	6	344	2.044	1.226	6.448
Investments Accounted for Using Equity Method	12	33.807	200.820	27.616	145.284
Investment Properties	13	51.044	303.214	45.993	241.962
Property, Plant and Equipment	14	3.476.984	20.653.981	3.432.913	18.060.211
Right of Use Assets	16	41.236	244.950	-	-
Intangible Assets	15	52.613	312.534	53.891	283.516
Prepaid Expenses		86.499	513.820	62.969	331.275
Prepaid Expenses to Related Parties	*33*	*4.313*	*25.620*	*12.976*	*68.266*
Other Prepaid Expenses to Third Parties	*11*	*82.186*	*488.200*	*49.993*	*263.009*
Deferred Tax Assets	31	7.055	41.911	12.840	67.552
Other Non Current Assets	21	37.945	225.399	22.091	116.221
TOTAL ASSETS		**7.857.080**	**46.672.625**	**7.942.008**	**41.782.110**

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira ("TRY Thousand") unless otherwise indicated.)

LIABILITIES	Note	(Audited) Current Period 31 December 2019 USD'000	(Audited) Current Period 31 December 2019 TRY'000	(Audited) Previous Period 31 December 2018 USD'000	(Audited) Previous Period 31 December 2018 TRY'000
CURRENT LIABILITIES		**1.590.932**	**9.450.454**	**1.499.266**	**7.887.487**
Short Term Borrowings	7	703.600	4.179.522	694.574	3.654.083
Short Term Portion of Long Term Borrowings	7	232.285	1.379.822	202.703	1.066.402
Trade Payables		494.364	2.936.622	367.983	1.935.922
Due to Related Parties	*33*	*14.432*	*85.731*	*28.089*	*147.772*
Other Trade Payables to Third Parties	*8*	*479.932*	*2.850.891*	*339.894*	*1.788.150*
Payables for Employee Benefits	18	25.817	153.358	36.016	189.476
Other Payables	9	11.673	69.341	8.133	42.786
Financial Derivative Instruments	6	3.905	23.199	408	2.144
Deferred Revenue	22	42.227	250.833	52.622	276.841
Current Tax Liabilities	31	34.606	205.569	95.937	504.716
Short Term Provisions	19	40.724	241.909	38.164	200.777
Non Current Liabilities	21	1.731	10.279	2.726	14.340
NON CURRENT LIABILITIES		**1.005.807**	**5.974.696**	**881.978**	**4.639.998**
Long Term Borrowings	7	360.532	2.141.633	266.204	1.400.475
Financial Derivative Instruments	6	13.387	79.524	453	2.382
Long Term Provisions		135.909	807.324	127.239	669.391
Long term provisions for employee benefits	*18*	*135.909*	*807.324*	*127.239*	*669.391*
Deferred Tax Liabilities	31	495.663	2.944.337	487.787	2.566.196
Other Non Current Liabilities	21	316	1.878	295	1.554
EQUITY		**5.260.341**	**31.247.475**	**5.560.764**	**29.254.625**
Equity Attributable to Equity Holders of the Parent		**5.099.305**	**30.299.298**	**5.391.722**	**28.366.761**
Share Capital	23	1.818.371	3.500.000	1.818.371	3.500.000
Inflation Adjustment to Capital	23	81.366	156.613	81.366	156.613
Treasury Shares (-)	23	(60.387)	(116.232)	(60.387)	(116.232)
Share Issue Premium (Discounts)	23	55.303	106.447	55.303	106.447
Other Comprehensive Income (Expenses) Not to be Reclassified to Profit (Loss)		(53.206)	12.322.040	(47.992)	10.132.859
Revaluation Reserve of Tangible Assets		*10.628*	*58.952*	*10.760*	*51.239*
Actuarial (Loss) Gain funds		*(48.149)*	*(102.008)*	*(43.067)*	*(72.105)*
Foreign Currency Translation Reserves		*(15.685)*	*12.365.096*	*(15.685)*	*10.153.725*
Other Comprehensive Income (Expense) to be Reclassified to Profit (Loss)		(69.727)	5.470.236	(56.338)	4.362.222
Foreign Currency Translation Reserves		*(70.817)*	*5.463.762*	*(58.829)*	*4.349.119*
Cash Flow Hedging Gain (Loss)		*1.090*	*6.474*	*2.491*	*13.103*
Restricted Reserves Assorted from Profit	23	1.024.835	3.485.761	805.774	2.287.528
Retained Earnings	23	1.717.773	2.057.906	1.635.660	2.339.334
Net Profit for the Period		584.977	3.316.527	1.159.965	5.597.990
Non-Controlling Interests		**161.036**	**948.177**	**169.042**	**887.864**
TOTAL LIABILITIES AND EQUITY		**7.857.080**	**46.672.625**	**7.942.008**	**41.782.110**

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira ("TRY Thousand") unless otherwise indicated.)

	Note	(Audited) Current Period 1 January - 31 December 2019 USD'000	(Audited) Current Period 1 January - 31 December 2019 TRY'000	(Audited) Previous Period 1 January - 31 December 2018 USD'000	(Audited) Previous Period 1 January - 31 December 2018 TRY'000
Revenue	24	4.844.375	27.465.185	5.597.856	27.015.254
Cost of Sales	24	(3.960.495)	(22.454.025)	(3.860.745)	(18.631.954)
GROSS PROFIT		**883.880**	**5.011.160**	**1.737.111**	**8.383.300**
Marketing Expenses	26	(40.990)	(232.394)	(43.158)	(208.281)
General Administrative Expenses	26	(78.455)	(444.799)	(90.362)	(436.088)
Research and Development Expenses	26	(4.409)	(24.999)	(3.636)	(17.546)
Other Operating Income	27	41.264	233.949	54.893	264.913
Other Operating Expenses	27	(29.036)	(164.627)	(35.637)	(171.987)
OPERATING PROFIT		**772.254**	**4.378.290**	**1.619.211**	**7.814.311**
Income from Investing Activities	28	12.549	71.145	2.183	10.534
Expenses from Investing Activities	28	(5.460)	(30.956)	(30.673)	(148.029)
Share of Investments' Profit Accounted by Using The Equity Method	12	6.794	38.517	1.152	5.558
OPERATING PROFIT BEFORE FINANCE INCOME (EXPENSES)		**786.137**	**4.456.996**	**1.591.873**	**7.682.374**
Finance Income	29	186.285	1.124.097	212.569	1.234.773
Finance Expense	30	(90.609)	(513.709)	(59.360)	(286.470)
PROFIT BEFORE TAX		**881.813**	**5.067.384**	**1.745.082**	**8.630.677**
Tax (Expense) Income	31	(265.496)	(1.573.177)	(533.992)	(2.785.956)
Current Corporate Tax (Expense) Income		(251.026)	(1.491.142)	(480.371)	(2.527.182)
Deferred Tax (Expense) Income		(14.470)	(82.035)	(53.621)	(258.774)
NET PROFIT FOR THE PERIOD		**616.317**	**3.494.207**	**1.211.090**	**5.844.721**
Non-Controlling Interests		31.340	177.680	51.125	246.731
Equity Holders of the Parent		584.977	3.316.527	1.159.965	5.597.990
EARNINGS PER SHARE (TRY 1 Nominal value per share)	32		0,9476		1,5994

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

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira ("TRY Thousand") unless otherwise indicated.)

	Note	(Audited) Current Period 1 January - 31 December 2019 USD'000	(Audited) Current Period 1 January - 31 December 2019 TRY'000	(Audited) Previous Period 1 January - 31 December 2018 USD'000	(Audited) Previous Period 1 January - 31 December 2018 TRY'000
PROFIT FOR THE PERIOD		**616.317**	**3.494.207**	**1.211.090**	**5.844.721**
OTHER COMPREHENSIVE INCOME					
Not to be reclassified subsequently to profit or loss					
Increase (Decrease) in Revaluation Reserve of Tangible Assets		(139)	7.713	(369)	17.322
Actuarial Gain (Loss) of Defined Benefit Plans	18	(6.689)	(39.363)	10.056	51.444
Tax Effect of Actuarial Gain (Loss) of Defined Benefit Plans	31	1.472	8.660	(2.212)	(11.318)
Foreign Currency Translation Gain (Loss)		-	2.211.371	-	4.566.243
To be reclassified subsequently to profit or loss					
Gain (Loss) in Cash Flow Hedging Reserves		(1.796)	(8.499)	8.724	37.660
Tax Effect of Gain (Loss) in Cash Flow Hedging Reserves	31	395	1.870	(1.919)	(8.285)
Foreign Currency Translation Gain (Loss)		(12.957)	1.207.194	(22.149)	2.481.276
OTHER COMPRHENSIVE INCOME (LOSS)		**(19.714)**	**3.388.946**	**(7.869)**	**7.134.342**
TOTAL COMPREHENSIVE INCOME		**596.603**	**6.883.153**	**1.203.221**	**12.979.063**
Distribution of Total Comprehensive Income					
Non-controlling Interests		30.230	269.431	53.499	457.866
Equity Holders of the Parent		566.373	6.613.722	1.149.722	12.521.197

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

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

						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				
(Audited)		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	**Equity Attributable to the Parent**	Non-controlling Interests	**Total Shareholders' Equity**
1 January 2019		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**51.239**	**10.153.725**	**(72.105)**	**13.103**	**4.349.119**	**2.287.528**	**2.339.334**	**5.597.990**	**28.366.761**	**887.864**	**29.254.625**
Net profit for the period		-	-	-	-	-	-	-	-	-	-	-	3.316.527	**3.316.527**	177.680	**3.494.207**
Other comprehensive income (loss)		-	-	-	-	7.713	2.211.371	(29.903)	(6.629)	1.114.643	-	-	-	**3.297.195**	91.751	**3.388.946**
Total comprehensive income (loss)		-	-	-	-	7.713	2.211.371	(29.903)	(6.629)	1.114.643	-	-	3.316.527	**6.613.722**	269.431	**6.883.153**
Dividends (*)		-	-	-	-	-	-	-	-	-	-	(4.681.185)	-	**(4.681.185)**	(209.118)	**(4.890.303)**
Transfers	23	-	-	-	-	-	-	-	-	-	1.198.233	4.399.757	(5.597.990)	-	-	-
31 December 2019		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**58.952**	**12.365.096**	**(102.008)**	**6.474**	**5.463.762**	**3.485.761**	**2.057.906**	**3.316.527**	**30.299.298**	**948.177**	**31.247.475**
(Audited)																
1 January 2018 (Previously reported)		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**33.917**	**5.587.482**	**(111.247)**	**(16.272)**	**2.077.994**	**1.567.280**	**2.144.646**	**3.753.755**	**18.684.383**	**543.774**	**19.228.157**
Effect of compulsory change in accounting principle		-	-	-	-	-	-	-	-	-	-	(11.412)	-	**(11.412)**	-	**(11.412)**
1 January 2018 (Restated)		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**33.917**	**5.587.482**	**(111.247)**	**(16.272)**	**2.077.994**	**1.567.280**	**2.133.234**	**3.753.755**	**18.672.971**	**543.774**	**19.216.745**
Net profit for the period		-	-	-	-	-	-	-	-	-	-	-	5.597.990	**5.597.990**	246.731	**5.844.721**
Other comprehensive income (loss)		-	-	-	-	17.322	4.566.243	39.142	29.375	2.271.125	-	-	-	**6.923.207**	211.135	**7.134.342**
Total comprehensive income (loss)		-	-	-	-	17.322	4.566.243	39.142	29.375	2.271.125	-	-	5.597.990	**12.521.197**	457.866	**12.979.063**
Dividends (*)		-	-	-	-	-	-	-	-	-	-	(2.849.417)	-	**(2.849.417)**	(134.157)	**(2.983.574)**
Transfers	23	-	-	-	-	-	-	-	-	-	720.248	3.033.507	(3.753.755)	-	-	-
Decrease/increase in subsidiaries due to changes in share rates not end up with lose control		-	-	-	-	-	-	-	-	-	-	22.010	-	**22.010**	20.381	**42.391**
31 December 2018		**3.500.000**	**156.613**	**(116.232)**	**106.447**	**51.239**	**10.153.725**	**(72.105)**	**13.103**	**4.349.119**	**2.287.528**	**2.339.334**	**5.597.990**	**28.366.761**	**887.864**	**29.254.625**

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Note	(Audited) Current Period 1 January- 31 December 2019 USD'000	(Audited) Current Period 1 January- 31 December 2019 TRY'000	(Audited) Previous Period 1 January- 31 December 2018 USD'000	(Audited) Previous Period 1 January- 31 December 2018 TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES		**1.146.929**	**7.243.107**	**772.078**	**4.218.719**
Profit (Loss) for The Period		**616.317**	**3.494.207**	**1.211.090**	**5.844.721**
Adjustments to Reconcile Profit (Loss)		**374.537**	**2.750.735**	**644.570**	**3.750.073**
Adjustments for Depreciation and Amortisation Expenses	24/26/27	202.753	1.149.507	188.219	908.345
Adjustments for Impairment Loss (Reversal of Impairment Loss)		(3.162)	(17.919)	28.974	139.825
Adjustments for Provision (Reversal of Provision) for Receivables	*8/9*	*495*	*2.811*	*3.102*	*14.967*
Adjustments for Provision (Reversal of Provision) for Inventories	*10*	*3.984*	*22.588*	*5.605*	*27.048*
Adjustments for Provision (Reversal of Provision) for Property, Plant and Equipment	*14*	*(7.641)*	*(43.318)*	*20.267*	*97.810*
Adjustments for Provisions		35.289	201.538	51.218	249.234
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	*18*	*29.548*	*167.527*	*30.586*	*147.605*
Adjustments for Provision (Reversal of Provision) for Pending Claims and/or Lawsuits	*19*	*15.227*	*87.794*	*15.024*	*74.566*
Adjustments for Other Provisions (Reversals)	*30*	*(9.486)*	*(53.783)*	*5.608*	*27.063*
Adjustments for Interest (Income) and Expenses		(12.155)	(68.913)	(69.344)	(334.651)
Adjustments for Interest Income	*29*	*(78.986)*	*(447.813)*	*(97.535)*	*(470.705)*
Adjustments for Interest Expense	*30*	*66.291*	*375.838*	*36.718*	*177.203*
Deffered Financial Expense from Credit Purchases	*27*	*3.231*	*18.318*	*76*	*367*
Unearned Financial Income from Credit Sales		*(2.691)*	*(15.256)*	*(8.603)*	*(41.516)*
Adjustments for Unrealised Foreign Exchange Differences		(7.537)	(45.394)	(820)	(3.959)
Adjustments for Fair Value (Gains) Losses		(2.638)	(14.957)	(5.339)	(27.834)
Adjustments for Fair Value (Gains) Losses on Financial Assets		*-*	*-*	*(61)*	*(2.364)*
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments	*29*	*(2.638)*	*(14.957)*	*(5.278)*	*(25.470)*
Adjustments for Undistributed Profits of Investments Accounted for Using Equity Method	12	(6.794)	(38.517)	(1.152)	(5.558)
Adjustments for Tax (Income) Expenses	31	265.496	1.573.177	533.992	2.785.956
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		2.155	12.213	8.022	38.715
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment	*28*	*2.155*	*12.213*	*8.022*	*38.715*
Adjustments for Reconciliation of Profit (Loss)		(98.870)	-	(89.200)	-
Changes in Working Capital		**490.151**	**2.911.593**	**(465.735)**	**(2.450.155)**
Adjustments for Decrease (Increase) in Trade Receivables		288.085	1.711.282	(142.081)	(747.474)
Decrease (Increase) in Trade Receivables from Related Parties		*(16.136)*	*(95.851)*	*8.951*	*47.090*
Decrease (Increase) in Trade Receivables from Third Parties		*304.221*	*1.807.133*	*(151.032)*	*(794.564)*
Adjustments for Decrease (Increase) in Other Receivables Related from Operations		420	2.495	7.055	37.116
Decrease (Increase) in Other Receivables from Operations from Third Parties		*420*	*2.495*	*7.055*	*37.116*
Decrease (Increase) in Derivative Financial Instruments		2.859	16.984	(9.077)	(47.753)
Adjustments for Decrease (Increase) in Inventories		118.949	706.581	(349.142)	(1.836.801)
Decrease (Increase) in Prepaid Expenses		5.010	29.761	(8.924)	(46.947)
Adjustments for Increase (Decrease) in Trade Payables		126.381	750.727	117.956	620.587
Increase (Decrease) in Trade Payable to Related Parties		*(13.657)*	*(81.126)*	*13.800*	*72.600*
Increase (Decrease) in Trade Payable to Third Parties		*140.038*	*831.853*	*104.156*	*547.987*
Adjustments for Increase (Decrease) in Other Payables Related from Operations		(6.659)	(39.556)	(14.802)	(77.872)
Increase (Decrease) in Other Payables to Third Parties Related from Operations		*(6.659)*	*(39.556)*	*(14.802)*	*(77.872)*
Increase (Decrease) in Derivative Liabilities		17.273	102.604	3.346	17.603
Adjustments for Other Increase (Decrease) in Working Capital		(62.167)	(369.285)	(70.066)	(368.614)
Decrease (Increase) in Other Assets Related from Operations		*(50.798)*	*(301.751)*	*(56.186)*	*(295.592)*
Increase (Decrease) in Other Payables Related from Operations		*(11.369)*	*(67.534)*	*(13.880)*	*(73.022)*
Cash Flows Provided by Operating Activities		**1.481.005**	**9.156.535**	**1.389.925**	**7.144.639**
Payments Related to Provisions for Employee Termination Benefits	18	(12.155)	(68.916)	(13.218)	(63.790)
Payments Related to Other Provisions	19	(9.564)	(54.223)	(8.642)	(41.703)
Income Taxes Refund (Paid)	31	(312.357)	(1.790.289)	(595.987)	(2.820.427)
CASH FLOWS FROM INVESTING ACTIVITIES		**(277.981)**	**(1.622.352)**	**(281.674)**	**(1.454.010)**
Cash Inflow Due to Share Sales of Subsidiaries' not End Up with Losing Control		-	-	9.692	42.391
Cash Ouflow Due to Share Purchases of Subsidiaries' not End Up with Losing Control		-	-	(1.512)	(8.000)
Cash Outflows Arising From Purchase of Shares or Capital Increase of Associates and/or Joint Ventures		-	-	(22.929)	(87.334)
Cash Outflows Arising From Purchase of Third Parties' Debt Instruments or Funds		(1.533)	(8.691)	(11.629)	(61.181)
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		4.256	24.134	1.951	9.413
Cash Inflow from Sales of Property, Plant and Equipment	14/15/28	*4.256*	*24.134*	*1.951*	*9.413*
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(250.962)	(1.422.829)	(196.703)	(949.288)
Cash Outflow from Purchase of Property, Plant and Equipment	*14*	*(248.376)*	*(1.408.170)*	*(194.113)*	*(936.790)*
Cash Outflow from Purchase of Intangible Assets	*15*	*(2.586)*	*(14.659)*	*(2.590)*	*(12.498)*
Cash Outflow from Purchase of Investment Property	*13*	-	-	(19.225)	(92.779)
Cash Advances and Debts Given		(30.345)	(218.171)	(41.319)	(307.232)
Other Cash Advances and Debts Given to Related Parties		*(8.663)*	*(42.646)*	*(12.976)*	*(68.266)*
Other Cash Advances and Debts Given		*(21.682)*	*(175.525)*	*(28.343)*	*(238.966)*
Dividends Received	*12*	603	3.205	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		**(704.296)**	**(3.568.048)**	**(621.488)**	**(1.029.091)**
Cash Inflow from Borrowings		1.260.449	7.219.324	1.207.169	5.838.030
Cash Inflow from Loans	*7*	*1.167.598*	*6.669.324*	*1.207.169*	*5.838.030*
Cash Inflow from Issued Debt Instruments	*7*	*92.851*	*550.000*	*-*	*-*
Cash Outflow from Repayments of Borrowings		(1.172.737)	(5.908.300)	(1.234.176)	(4.207.464)
Cash Outflow from Loan Repayments	*7*	*(1.172.737)*	*(5.908.300)*	*(1.234.176)*	*(4.207.464)*
Cash Outflow from Debt Payments for Leasing Contracts		(7.055)	(40.069)	-	-
Dividends Paid		(793.679)	(4.888.779)	(660.958)	(2.977.190)
Interest Paid	7	(55.333)	(313.709)	(39.320)	(189.758)
Interest Received		67.626	384.679	105.797	507.291
Other Cash Inflow (Ouflow)	5	(3.567)	(21.194)	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		**164.652**	**2.052.707**	**(131.084)**	**1.735.618**
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(34.370)	(157.657)	(78.718)	(69.440)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**130.282**	**1.895.050**	**(209.802)**	**1.666.178**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	1.650.455	8.682.881	1.860.257	7.016.703
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	**1.780.737**	**10.577.931**	**1.650.455**	**8.682.881**

- As of 31 December 2019, the Group's total amount of time deposit interest accrual is TRY 12.093 thousand (USD 2.035 thousand) (31 December 2018: TRY 25.860 thousand (USD 4.916 thousand)).
- Bank deposits with maturities of more than 3 months in financial investments amounting to TRY 21.194 thousand (USD 3.567 thousand) are reported in consolidated statement of cash flow under "Other Cash Inflow (Outflows)".
- Exchange differences arising between the accrual and settlement dates of dividend payables to shareholders in Turkish Lira in the financial statements are reported under the "Adjustments for Reconciliation of Profit (Loss)" since the functional currency is USD.

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 main parent and ultimate controlling party of the Group are ATAER Holding A.Ş. and Ordu Yardımlaşma Kurumu, respectively.

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

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. was incorporated in Turkey as a joint stock company in 1960. The principal activities of the Company are production of iron and steel 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 Mühendilik 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
Erdemir Enerji Üretim A.Ş.	Turkey	Renewable Energy Production	100	100
İsdemir Linde Gaz Ortaklığı A.Ş.	Turkey	Industrial Gas Production and Sales	47	47

A new Company called "Erdemir Enerji Üretim A.Ş." for energy production with the % 100 capital of the Company. The Company isn't included the consolidation due to not started it's operations in 2018.

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

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

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

	Paid Hourly Personnel	Paid Monthly Personnel	31 December 2019 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.055	1.699	5.754
İskenderun Demir ve Çelik A.Ş.	2.886	1.725	4.611
Erdemir Madencilik San. ve Tic. A.Ş.	158	138	296
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	217	77	294
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	228	228
Erdemir Romania S.R.L.	205	39	244
Erdemir Asia Pacific Private Limited	-	1	1
	7.521	3.907	11.428

	Paid Hourly Personnel	Paid Montly Personnel	31 December 2018 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.161	1.683	5.844
İskenderun Demir ve Çelik A.Ş.	2.980	1.744	4.724
Erdemir Madencilik San. ve Tic. A.Ş.	143	129	272
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	221	74	295
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	211	211
Erdemir Romania S.R.L.	220	40	260
Erdemir Asia Pacific Private Limited	-	1	1
	7.725	3.882	11.607

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

The Group's subsidiaries incorporated in Turkey maintain their legal books of account and prepare their statutory financial statements in accordance with accounting principles issued by the Turkish Commercial Code ("TCC") and tax legislation.

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

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

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

2.1 Basis of Presentation (cont'd)

The 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. (Derivative financial instruments and iron ore and silicon steel used in the production of fixed assets). Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Functional and reporting presentation currency

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

The financial statements of each entity of the Group are presented in the currency (functional currency) valid in the basic economic environment in which they operate. 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" and Erdemir Mühendislik Yönetim ve Danışmanlık Himetleri A.Ş. are Turkish Lira.

The accompanying financial statements are prepared in Turkish Lira (TRY) in accordance with the requirements of Capital Markets Board ("CMB") Communiqué Serial II, No: 14.1 "Basis of Financial Reporting in Capital Markets", which was published in the Official Gazette No:28676 on 13 June 2013.

Functional currency for the foreign subsidiaries

The functional currency of the foreign subsidiaries Erdemir Asia Pacific Private Limited "EAPPL" is US Dollars; Erdemir Romania S.R.L is EURO.

Functional currency of the joint venture

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

Translation to presentation currency

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

a) The assets and liabilities on financial position as of 31 December 2019 are translated from USD Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 5,9402=US $ 1 and TRY 6,6506=EUR 1 on the balance sheet date (31 December 2018: TRY 5,2609= US $ 1, TRY 6,0280=EUR 1).

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

2.1 Basis of Presentation (cont'd)

Presentation currency translation (cont'd)

b) For the year ended 31 December 2019, statements of profit or loss are translated from the 12 months average TRY 5,6695 = US $ 1 and TRY 6,3469=EUR 1 rates of 2019 January - December period (31 December 2018: TRY 4,8260 = US $ 1 TRY 5,6772 = 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 financial statements

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

Going concern

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

Approval of the consolidated financial statements

The consolidated financial statements have been approved and authorized to be published on 11 February 2020 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

2.2 Restatement and errors in the accounting policies and estimates

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

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

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

Based on the changes in TFRS 16 "Leases" and accounting principle change effective from 1 January 2019, effects of the adjustments in the consolidated financial statements of the Group summarized below:

	Before change in accounting policy 1 January 2019	Effect of TFRS 16 1 January 2019	After change in accounting policy 1 January 2019
Right of Use Assets	-	209.572	209.572
Prepaid Expenses	90.005	(10.778)	79.227
Deferred Tax Assets	67.552	40.353	107.905
Short Term Portion of Long Term Borrowings	1.066.402	29.728	1.096.130
Long Term Borrowings	1.400.475	169.066	1.569.541
Deferred Tax Liabilities	2.566.196	40.353	2.606.549

2.3 Consolidation Principles

The consolidated financial statements include the accounts of the parent company, Ereğli Demir ve Çelik Fabrikaları T.A.Ş., and its subsidiaries on the basis set out in sections below. The financial statements of the companies included in the consolidation have been prepared as of the date of the consolidated financial statements and are based on the statutory records with adjustments and reclassifications for the purpose of presentation in conformity TAS/TFRS promulgated by the POA as set out in the communiqué numbered II-14.1, and Group accounting and disclosure policies.

Subsidiaries are the Companies controlled by Erdemir when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Subsidiaries are included in the scope of consolidation from the date on which control over their activities is transferred to the Group, and are excluded from the scope of consolidation on the date when control disappears.

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company;

(i) has power over the investee, (ii) is exposed, or has rights, to variable returns from its involvement with the investee; (iii) has the ability to use its power to affect its returns.

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

2.3 Consolidation Principles (cont'd)

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The statement of financial position and statements profit or loss of the Subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by Erdemir and its Subsidiaries is eliminated against the related shareholders' equity. Intercompany transactions and balances between Erdemir and its Subsidiaries are eliminated on consolidation. The cost of, and the dividends arising from, shares held by Erdemir in its Subsidiaries are eliminated from shareholders' equity and income for the year, respectively. The table below sets out all Subsidiaries included in the scope of consolidation and discloses their direct and indirect ownership, which are identical to their economic interests, (%) and their functional currencies as of reporting date.

	31 December 2019			31 December 2018		
	Functional Currency	Ownership Interest	Effective Shareholding	Functional Currency	Ownership Interest	Effective Shareholding
İsdemir	US Dollars	94,87	94,87	US Dollars	94,87	94,87
Ersem	US Dollars	100	100	US Dollars	100	100
Ermaden	Turkish Lira	90	90	Turkish Lira	90	90
Erdemir Mühendislik	Turkish Lira	100	100	Turkish Lira	100	100
Erdemir Romania S.R.L.	Euro	100	100	Euro	100	100
Erdemir Asia Pasific	US Dollars	100	100	US Dollars	100	100
Erdemir Enerji Üretim	Turkish Lira	100	100	Turkish Lira	100	100
İsdemir Linde Gaz	US Dollars	50	47	US Dollars	50	47

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

The Group's 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. Comparative information is reclassified when necessary and important differences are explained in order to ensure compliance with the presentation of the current period consolidated financial statements.

2.5 Significant Judgments and Estimates of the Group on Application of Accounting Policies

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

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

2.5 Significant Judgments and Estimates of the Group on Application of Accounting Policies (cont'd)

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

The Group calculates depreciation for the property, plant and equipment by taking into account their production amounts on the basis of cash flow unit set by independent valuation firm and useful lives that are stated in Note 2.8.3 and 2.8.4 (Note 14, Note 15).

2.5.2 Deferred tax

The Group recognizes deferred tax on the temporary timing differences between the carrying amounts of assets and liabilities in the financial statements prepared in accordance with TFRS and statutory financial statements which is used in the computation of taxable profit. The related differences are generally due to the timing difference of the tax base of some income and expense items between statutory and TFRS financial statements. The Group has deferred tax assets resulting from tax loss carry-forwards and deductible temporary differences, which could reduce taxable income in the future periods. All or partial amounts of the realizable deferred tax assets are estimated in current circumstances. The main factors which are considered include future earnings potential; cumulative fiscal losses in recent years; history of loss carry-forwards and other tax assets expiring, the carry-forward period associated with the deferred tax assets, future reversals of existing taxable temporary differences that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset (Note 31).

2.5.3 Fair values of derivative financial instruments

The Group values its derivative financial instruments by using the foreign exchange and interest rate estimations and based on the valuation estimates of the market values as of the reporting date (Note 6).

2.5.4 Provision for doubtful receivables

Allowance for doubtful receivables reflect the future loss that the Group anticipates to incur from the trade receivables as of the balance sheet date which is subject to collection risk considering the current economic conditions. During the impairment test for the receivables, the debtors are assessed with their prior year performances, their credit risk in the current market, their performance after the reporting date up to the issuing date of the financial statements; and also the renegotiation conditions with these debtors are considered. As of reporting date the provision for doubtful receivables is presented in Note 8 and Note 9.

2.5.5 Provision for impairment of inventories

During the assessment of the provision for impairment of inventories the following are considered; analyzing the inventories physically and historically, considering the employment and usefulness of the inventories respecting to provision for inventories accounting policy of the Company. Sales prices listed and related data by sales prices of realized sales after reporting date, average discount rates given for sale and expected cost incurred to sell are used to determine the net realizable value of the inventories. As a result of this, the provision for inventories with the net realizable values below the costs and the slow moving inventories are presented in Note 10.

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

2.5 Significant Judgments and Estimates of the Group on Application of Accounting Policies (cont'd)

2.5.6 Provisions for employee benefits

Actuarial assumptions about discount rates, inflation rates, real salary increases rate and employee turnover rates are made to calculate Group's provision for employee benefits. The details related to employee benefits plans are stated in Note 18.

2.5.7 Provision for lawsuits

Provision for lawsuits is evaluated by the Group based on opinions of Group Legal Counsel and legal consultants. The Group determines the liabilities reliably through the possible cash outflow depending on management's best estimates. As of Reporting date, provision for lawsuits is stated in Note 19.

2.5.8 Impairments on assets

The Group, performs impairment tests for assets that are subject to depreciation and amortization in case of being not possible to prevent recovery of the assets at each reporting period. Assets are grouped at the lowest levels which there are separately identifiable cash flows for evaluation of impairment (cash generating units). As a result of the impairment tests performed by the Group, additional impairment is estimated in the accompanying financial statements for the non-financial assets recognized in expenses from investment activities. The Group recognized the amount of provisions released in income from investment activities (Note 28).

2.5.9 Impairment on financial assets

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

2.5.10 Calculation of loss allowance

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

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

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

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

2.6 Offsetting

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

2.7 Adoption of New and Revised Financial Reporting Standards

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2019 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of 1 January 2019 summarized below.

Efffects of these standarts and interpretations on Group's financial position and performance summarized following paragraphs.

New and Amended Turkish Financial Reporting Standards

a) Amendments that are mandatorily effective from 2019 year

TFRS 16	*Leases*
TFRS Interpretation 23	*Uncertainty over Income Tax Treatments*
Amendments to TAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to TAS 19	*Plan Amendment, Curtailment or Settlement Emp. Benefit*
Annual Improvements to TFRS Standards 2015–2017 Cycle	*Amendments to TFRS 3 Business Combinations, TFRS 11 Joint Arrangements*, *TAS 12 Income Taxes and TAS 23 Borrowing Costs*

TFRS 16 Leases

General impact of application of TFRS 16 Leases

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

Within the scope of the simplified transition application of the mentioned method defined in the relevant standard, it is not necessary to restate the comparative information of the consolidated financial statements and previous years' profits.

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

Impact of the new definition of a lease

The Group made use of the practical expedient available on transition to TFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with TAS 17 and TFRS Interpretation 4 continue to apply to those leases entered or modified before 1 January 2019.

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

2.7 Adoption of New and Revised Financial Reporting Standards (cont'd)

New and Amended Turkish Financial Reporting Standards (cont'd)

TFRS 16 Leases (cont'd)

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

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

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

The Group applied the definition of a lease and related guidance set out in TFRS 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

TFRS 16 changes how the Group accounts for leases previously classified as operating leases under TAS 17, which were off-balance sheet.

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

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

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under TAS 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 TAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

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

2.7 Adoption of New and Revised Financial Reporting Standards (cont'd)

New and Amended Turkish Financial Reporting Standards (cont'd)

TFRS 16 Leases (cont'd)

Impact on Lessee Accounting (cont'd)

Operating leases (cont'd)

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.

Finance leases

The main differences between TFRS 16 and TAS 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 TAS 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.

Because of this change, the Group has reclassified certain of its operating sublease agreements as finance leases and accounted for them as new finance leases entered into at the date of initial application. As required by IFRS 9, an allowance for expected credit losses has been recognized on the finance lease receivables.

Amendments to TAS 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 TAS 12.

Amendments to TAS 19 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).

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

2.7 Adoption of New and Revised Financial Reporting Standards (cont'd)

New and Amended Turkish Financial Reporting Standards (cont'd)

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, TAS 12 Income Taxes; income tax consequences of dividends in profit or loss, and TAS 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.

b) New and revised TFRSs in issue but not yet effective

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

TFRS 17	Insurance Contracts
Amendments to TFRS 3	Definition of a Business
Amendments to TAS 1 and TAS 8	Definition of Material
Amendments to TFRS 9, TAS 39 and TFRS 7	Interest Rate Benchmark Reform

TFRS 17 Insurance Contracts

TFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. TFRS 17 supersedes TFRS 4 Insurance Contracts as of 1 January 2021.

Amendments to TFRS 3 Definition of a Business

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

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

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

2.7 Adoption of New and Revised Financial Reporting Standards (cont'd)

New and Amended Turkish Financial Reporting Standards (cont'd)

Amendments to TAS 1 and TAS 8 Definition of Material

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

Amendments to TFRS 9, TAS 39 and TFRS 7 Interest Rate Benchmark Reform

The amendments clarify that entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.

Effects of TFRS 16 on the Group's financial statements

The Group started to apply TFRS 16 standard for the first time on January 1, 2019 by making use of the facilitating practices in transition to TFRS 16. For leases previously classified as operating leases pursuant to TAS 17, the Group has reflected a pre-payment to the consolidated financial statements as of January 1, 2019, or a right of use at an amount equal to the lease liability, which is adjusted for the amount of all lease payments accrued.

In this context, the application of TFRS 16 Leases standard does not have an impact on the previous years profits of the Group dated 1 January 2019, due to the preferred facilitated transition method.

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 TAS 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 %.

As of January 1, 2019, the details of the lease liabilities recognized in the consolidated financial statements under TFRS 16 are as follows:

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

Prior to the first application date of TFRS 16 "Leases", commitments regarding operating lease pursuant to TAS 17 have no significant impact on the financial results or financial position of the Group. Payments related to leasing low-value assets are accounted for as a straight-line expense reflected in profit or loss.

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

2.7 Adoption of New and Revised Financial Reporting Standards (cont'd)

Effects of TFRS 16 on the Group's financial statements (cont'd)

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

	Effect of TFRS 16 1 January 2019
Right of use land	201.550
Car leases	8.022
	209.572

2.8 Valuation Principles Applied / Significant Accounting Policies

Accounting policies implemented during preparation of financial statemens as follows:

2.8.1 Revenue recognition

Group recognizes revenue when the goods or services are transferred to the customer and when performance obligation is fulfilled. Goods are counted to be transferred when the control belongs to the customer. 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.

Group recognizes revenue based on the following main principles:

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

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

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

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

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

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.2 Inventories

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

2.8.3 Property, plant and equipment

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

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

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

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

The rates that are used to depreciate the property, plant and equipment are as follows:

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

Expenses after the capitalization are added to the cost of related asset and reflected in financial statements as a separate asset if they shall mostly provide an economic benefit and their cost is measured in a trustable manner. Property, plant and equipment are reviewed for impairment if there are conditions showing that the securities are more than amount recoverable. Assets are grouped at the lowest level which is cash-generating unit in order to determine impairment (cash-generating unit).

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

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.3 Property, plant and equipment (cont'd)

Carrying amount of a tangible asset and recoverable value is the one which is higher than the net sales price following the deduction of commensurable value for the sale of the asset. Useful life of assets are reviewed as of date of balance sheet and adjusted, if required.

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

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

2.8.4 Intangible assets

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

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

The amortization rates of the intangible assets are stated below:

	Rates
Rights	2-33%
Other intangible fixed assets	20-33%

2.8.5 Investment properties

Investment properties, which are held to earn rental income and/or for capital appreciation are measured initially at cost any accumulated impairment losses.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of profit or loss under income (expense) from investment activities.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

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

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.6 Leases

The Group as lessee

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

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

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

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

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

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

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

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.6 Leases (cont'd)

The Group as lessee (cont'd)

The Group did not make any such adjustments during the periods presented.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For a contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy. Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in 'Other expenses' in profit or loss.

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

The right-of-use assets are presented as a separate line in the consolidated statement of financial position. (Note 16).

The Group as lessor

The Group enters into lease agreements as a lessor with respect to some of its investment properties.

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

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

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

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

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

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.6 Leases (cont'd)

Accounting Policy Applied for Leases Until 31 December 2018

Financial Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor and lessee

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

2.8.7 Impairment of assets

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

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

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.8 Borrowing costs

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

All other borrowing costs are recognized directly in the consolidated statement of profit or loss of the period in which they are incurred.

2.8.9 Financial Instruments

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

Financial assets

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

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

<u>Classification of financial assets</u>

Financial assets that meet the following conditions are measured subsequently at amortised cost:

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

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

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.9 Financial Instruments (cont'd)

Financial assets (cont'd)

<u>Classification of financial assets (cont'd)</u>

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

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

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

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

(i) Amortised cost and effective interest method

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

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

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

Interest income is recognised in profit or loss and is included in the "finance income – interest income" line item (Note 29).

(ii) Financial assets at FVTPL

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

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

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.9 Financial instruments (cont'd)

Financial assets (cont'd)

Classification of financial assets (cont'd)

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

Foreign exchange gains and losses

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

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

Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

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

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

Measurement and recognition of expected credit losses

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

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

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

Financial assets (cont’d)

2.8.9 Financial instruments (cont’d)

Measurement and recognition of expected credit losses (cont’d)

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

Derecognition of financial assets

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

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

Financial liabilities

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

A financial liability is subsequently classified at amortized cost except:

a) Financial liabilities at FVTPL: These liabilities including derivative instruments are subsequently measured at fair value.
b) Financial liabilities arising if the transfer of the financial asset does not meet the conditions of derecognition from the financial statements or if the ongoing relationship approach is applied: When the Group continues to present an asset based on the ongoing relationship approach, a liability in relation to this is also recognised in the financial statements. The transferred asset and the related liability are measured to reflect the rights and liabilities that the Company continues to hold. The transferred liability is measured in the same manner as the net book value of the transferred asset.

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

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.9 Financial instruments (cont'd)

Financial liabilities (cont'd)

c) A contingent consideration recognized in the financial statements by the entity acquired in a business combination where TFRS 3 is applied: After initial recognition, the related contingent consideration is measured as at FVTPL.

The Entity does not reclassify any financial liability.

<u>Derecognition of financial liabilities</u>

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, options and interest rate swaps. Further details of derivative financial instruments are disclosed in Note 6.

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

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

Hedge accounting

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

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

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.9 Financial instruments (cont'd)

Hedge accounting (cont'd)

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

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

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

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

Note 6 sets out details of the fair values of the derivative instruments used for hedging purposes.

Movements in the hedging reserve in equity are detailed in Note 6.

2.8.10 The effects of foreign exchange rate changes

Foreign currency transactions are recorded at the rates of exchange prevailing on the dates of the transactions. Each subsidiaries' financial conditions and performance results stated as Turkish Lira in presentation currency in consolidated financial statements.

The Group records foreign currency (currencies other than the functional currency of the related company) transactions using exchange rates of the date the transaction is completed. Foreign currency monetary items are evaluated with exchange rates as of reporting date and arising foreign exchange income/expenses are recorded in consolidated statement of profit or loss. All monetary assets and liabilities are evaluated with exchange rates of the reporting date and related foreign currency translation differences are transferred to consolidated statement of profit or loss.

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

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.10 The effects of foreign exchange rate changes (cont'd)

Non-monetary foreign currency items that are recognized at cost are evaluated with historic exchange rates. Non-monetary foreign currency items that are recognized at fair value are evaluated with exchange rates of the dates their fair values are determined.

2.8.11 Earnings per share

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

In Turkey, companies can increase their share capital by distributing "bonus shares" to shareholders from retained earnings. In computing earnings per share, such "bonus share" distributions are assessed as issued shares.

2.8.12 Subsequent events

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

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

2.8.13 Provisions, contingent liabilities and contingent assets

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

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

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

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.14 Related parties

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

(a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

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

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

2.8.15 Taxation and deferred income taxes

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.

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

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

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.15 Taxation and deferred income taxes (cont'd)

Current tax

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

Deferred tax

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

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

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

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

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

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

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

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

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.15 Taxation and deferred income taxes (cont'd)

Current and deferred tax for the period

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

2.8.16 Employee benefits

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

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

The Group makes certain assumptions about discount rates, inflation rates, future salary increases and employee turnover rates in calculation of provisions for employee benefits. The present value of employee benefits is calculated by an independent actuary and some changes are done in accounting assumptions used in calculations. The impact of the changes in assumptions is recognized in the statement of profit or loss. The details related with the defined benefit plans are stated in Note 18.

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

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

2.8.17 Government grants and incentives

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

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

2.8 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.8.18 Statement of cash flows

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

Cash flows arising from operating activities represent the cash flows that are used in or provided by the Group's steel products and metal sales activities.

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

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

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

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

2.8.19 Share capital and dividends

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

2.8.20 Repurchased shares (Erdemir shares)

When share capital recognized as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, is net of any tax effects, and is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings or accumulated losses.

NOTE 3 – SEGMENTAL REPORTING

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

NOTE 4 – CASH AND CASH EQUIVALENTS

As of reporting date the detail of cash and cash equivalents as follows:

	31 December 2019	31 December 2018
Cash	21	37
Banks – demand deposits	246.738	256.671
Banks – time deposits	10.343.265	8.402.628
	10.590.024	8.659.336
TFRS 9 effect	-	49.405
Time deposit interest accruals (-)	(12.093)	(25.860)
Cash and cash equivalents excluding interest accruals	10.577.931	8.633.476

The details of demand deposits are presented below:

	31 December 2019	31 December 2018
US Dollars	116.886	172.772
Turkish Lira	48.845	58.492
EURO	56.402	12.895
Romanian Lei	24.410	12.286
Other	195	226
	246.738	256.671

The details of time deposits in banks as follows:

	31 December 2019	31 December 2018
US Dollars	8.914.765	8.303.821
Turkish Lira	659.338	38.671
EURO	768.868	59.870
Romanian Lei	294	266
	10.343.265	8.402.628

Group's bank deposits consist of deposits with maturity from 1 day to 3 months depending on immediate cash needs. Interest is received based on current short-term rates on the market.

NOTE 5 – FINANCIAL INVESTMENTS

As of reporting date the detail of financial investments as follows:

Financial assets shown at amortized value:

	31 December 2019	31 December 2018
Tresuary bonds	80.110	61.502
Bank deposits	21.194	-
TFRS 9 effect	-	(502)
	101.304	61.000

The Group invested in USD and TRY denominated fixed income securities which terms will be expired in 2020 issued by banks or private sector in Turkey to make profit. These fixed income securities held for collection of contractual cash flows that includes principal and interest payments related with principal amount. In addition,

Group classified a deposit of 21.194 thousand TRY (EUR 3.180 thousand) with a maturity of 21 September 2020 to financial investments.

As of reporting period long term financial investments as follows:

	31 December 2019	31 December 2018
Fair value differences reflected in income statement	161	143
Investments in subsidirias	-	7.952
	161	8.095

As of reporting date, ratios, shares of subsidiaries and amounts and subsidiaries recognized as financial investments as follows:

Company	Ratio %	31 December 2019	Ratio %	31 December 2018
Financial investments without an active market				
Teknopark Hatay A.Ş.	5	161	5	143
Consolidated subsidiary				
Erdemir Enerji Üretim A.Ş. (*)	100	-	100	7.952
		161		8.095

(*) As of 31 December 2018, non-operating joint venture Erdemir Enerji Üretim A.Ş. recognized with cost value on financial investments on financial statements since the effect on financials are not material.

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS

As of reporting date the detail of financial derivative instruments as follows:

	31 December 2019		31 December 2018	
	Asset	Liability	Asset	Liability
Fair value hedging derivative financial assets				
Forward contracts for fair value hedges of currency risk of sales	2.996	3.668	34.117	226
Forward contracts	490	5.276	85	78
Cross currency swap contracts	30.945	7.374	-	-
Interest rate swap contracts	1.069	79.352	5.397	2.379
	35.500	95.670	39.599	2.683
Cash flow hedging derivative financial assets				
Forward contracts for cash flow hedges of currency risk of sales	2.297	4.632	17.250	1.843
Interest rate swap contracts for cash flow hedges of interest rate risk of borrowings	60	-	714	-
Commodity swap contracts for cash flow hedges of price fluctuations of raw material purchases	12.227	2.421	1.830	-
	14.584	7.053	19.794	1.843
	50.084	102.723	59.393	4.526

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Derivative instruments for fair value hedge

As of reporting date, the details of forward, swap and cross currency swap transactions for fair value hedge are as follows:

		Assets		Liabilities	
31 December 2019		Nominal value	Fair Value	Nominal value	Fair Value
Forward contracts for fair value hedges of currency risk of sales					
Buy USD/Sell EUR	Less than 3 months	202.744	2.978	57.301	3.668
Buy USD/Sell EUR	Between 3 - 6 months	420	18	-	-
		203.164	2.996	57.301	3.668
Forward contracts					
Buy USD/Sell EUR	Less than 3 months	-	-	304.603	1.726
Buy TRY/Sell EUR	Less than 3 months	-	-	82.101	3.410
Buy TRY/Sell USD	Less than 3 months	25.831	490	-	-
Buy USD/Sell EUR	Between 6 - 12 months	-	-	21.546	140
		25.831	490	408.250	5.276
Interest rate swap contracts					
USD floating interest collection / Fixed interest payment	Between 1 - 5 years	163.356	1.069	-	-
TRY floating interest collection / Fixed interest payment	Between 1 - 5 years	-	-	550.000	78.186
USD basis floating interest collection / Basis floating interest payment	Between 3 - 6 months	-	-	80.367	500
USD basis floating interest collection / Basis floating interest payment	Between 1 - 5 years	-	-	163.356	666
		163.356	1.069	793.723	79.352
Cross rate					
TRY Collection / EUR Payment	Less than 3 months	-	-	175.000	7.374
TRY Collection / USD Payment	Less than 3 months	300.000	7.143	-	-
TRY Collection / USD Payment	Between 3 - 6 months	137.500	23.666	-	-
TRY Collection / USD Payment	Between 6 - 12 months	20.000	136	-	-
		457.500	30.945	175.000	7.374
		849.851	35.500	1.434.274	95.670

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Derivative instruments for fair value hedge (cont'd)

		Assets		Liabilities	
31 December 2018		Nominal value	Fair Value	Nominal value	Fair Value
Forward contracts for fair value hedges of currency risk of sales					
Buy USD/Sell EUR	Less than 3 months	664.473	34.107	75.031	226
Buy USD/Sell EUR	Between 3 - 6 months	1.827	10	-	-
		666.300	34.117	75.031	226
Forward contracts					
Buy USD/Sell EUR	Less than 3 months	-	-	2.766	25
Buy USD/Sell EUR	Between 3 - 6 months	-	-	5.304	53
Buy EUR/Sell USD	Less than 3 months	2.773	31	-	-
Buy EUR/Sell USD	Between 3 - 6 months	5.317	54	-	-
		8.090	85	8.070	78
Interest rate swap contracts					
USD floating interest collection / Fixed interest payment	Between 1 - 5 years	241.125	5.397	-	-
		241.125	5.397	-	-
Basis interest swap contracts					
USD basis floating interest collection / Basis floating interest payment	Between 1 - 5 years	-	-	454.655	2.379
		-	-	454.655	2.379
		915.515	39.599	537.756	2.683

Derivative instruments for cash flow hedge

Forward contracts for cash flow hedges of currency risk of sales:

Buy USD – Sell EUR forward contracts measured at fair value through other comprehensive income are designated as hedging instruments in cash flow hedges of forecast sales in EUR. These forecast transactions are highly probable and their maturities vary between January 2020 and April 2021.

The terms and conditions of the forward contracts match the terms and conditions of the expected highly probable forecast sales in EUR. As a result, no hedge ineffectiveness arises requiring recognition and is tracked under other comprehensive income accounts since the aforementioned derivative transaction is a cash flow hedge derivative transaction until the sales is realized in accordance with hedge accounting. After the revenue is recognized, those derivative transactions are recognised in the profit or loss table as fair value hedges until the receivable amounts are collected.

In respect of these contracts which has a nominal value of TRY 1.151.302 thousand for the purpose of hedging cash flow risk, with related deferred tax effect TRY (15.821) thousand was included in other comprehensive income (31 December 2018: TRY 15.407 thousand).

In the current period, TRY 62.563 thousand resulting from the sales related forward contracts was accounted under the revenue account of the profit or loss table (31 December 2018: TRY (115.593) thousand).

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Derivative instruments for cash flow hedge (cont'd)

Cross currency and interest rate swap contracts for cash flow hedges of interest rate and currency risk of borrowings:

Group has fixing contracts for future interest and principle payments of floating interest rate borrowings. The fair values of these contracts match the floating rate borrowings and was included in other comprehensive income/expense. The maturities of these transactions will be completed in April 2020.

The terms and conditions of those contracts match the terms and conditions of the floating rate borrowings. Therefore, it is considered that hedging is fully effective and in accordance with hedge accounting, it is reflected in other comprehensive income / expense accounts.

In respect of these contracts which has a nominal value of TRY 22.847 thousand, for the purpose of hedging cash flow risk, with related deferred tax effect TRY (654) thousand was included in other comprehensive income (31 December 2018: TRY 714 thousand).

Commodity swap contracts for hedges of price risk of raw material purchases:

The Group purchases iron ore on an ongoing basis as its operating activities. The Group has concluded iron ore swap contracts in order to be protected from price risk of iron ore which shall be supplied in future and shall be used in the production of related sales in line with its contracted sales. Group's iron ore forward contracts measured at fair value through other comprehensive income/expense match iron ore price risk associated with future long term sales contracts. The terms and conditions of the iron ore swap contracts made for these sales transactions match the terms and conditions of the sales transactions. Therefore, it is not possible to record any income or expense arising from the ineffectiveness of the protection process.

The maturities' varies until January 2021 contracts of 191 thousands tons of iron ore has a nominal value of TRY 87.369 thousand and fair value of TRY 11.208 thousand except from deffered tax effect recognized on other comprehensive income (31 December 2018: TRY 1.019 thousand).

The maturities' varies until September 2020 contracts of 43 thousands tons of coal, has a nominal value of TRY 40.196 thousand and fair value of TRY (3.232) thousand except from deffered tax effect recognized in other comprehensive income (31 December 2018: TRY 811 thousand).

As of 31 December 2019, not reflected from other comprehensive income to inventory cost thousand (31 December 2018: TRY (3.293) thousand).

NOTE 7 – BORROWINGS

As of reporting date details of borrowings disclosed at amortized are as follows:

	31 December 2019	31 December 2018
Short term bank borrowings	4.179.522	3.654.083
Current portion of long term bank borrowings	1.332.364	1.066.402
Long term bank borrowings	1.380.494	1.400.475
Total bank borrowings	6.892.380	6.120.960
Current portion of long term corporate bonds issued	11.947	-
Long term corporate bonds issued	550.000	-
Total corporate bonds issued	561.947	-
Current portion of long term lease payables	42.656	-
Cost of current portion of long term lease payables (-)	(7.145)	-
Long term lease payables	909.906	-
Cost of long term lease payables (-)	(698.767)	-
Total lease payables	246.650	-
Total borrowings	7.700.977	6.120.960

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

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

Interest Type	Type of Currency	Weighted Average Rate of Effective Interest (%)	Short Term Portion	Long Term Portion	31 December 2019
No interest	Turkish Lira	-	39.103	-	39.103
Fixed	Turkish Lira	13,85	867.556	-	867.556
Fixed	US Dollars	3,02	2.582.283	49.075	2.631.358
Fixed	EURO	2,70	11.145	25.346	36.491
Floating	Turkish Lira	TRLibor+0,5	11.947	550.000	561.947
Floating	US Dollars	Libor+1,87	1.904.563	922.264	2.826.827
Floating	EURO	Euribor+1,62	107.236	383.809	491.045
			5.523.833	1.930.494	7.454.327

NOTE 7 – BORROWINGS (cont'd)

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

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

Maturity distribution of financial borrowings as follows:

	31 December 2019				31 December 2018	
	Bank Borrowings	Corporate Bonds Issued	Lease Payables	Total Borrowings	Bank Borrowings	Total Borrowings
Within 1 year	5.511.886	11.947	35.511	5.559.344	4.720.485	4.720.485
Between 1-2 years	295.397	550.000	29.986	875.383	740.278	740.278
Between 2-3 years	710.738	-	22.349	733.087	242.089	242.089
Between 3-4 years	143.974	-	18.724	162.698	189.274	189.274
Between 4-5 years	53.637	-	15.575	69.212	107.370	107.370
5 years or more	176.748	-	124.505	301.253	121.464	121.464
	6.892.380	561.947	246.650	7.700.977	6.120.960	6.120.960

Movement of net financial borrowings of bank loans and issued bonds as follows:

	31 December 2019	31 December 2018
Opening balance	6.120.960	4.490.428
Interest expenses	342.029	177.203
Interest paid	(313.709)	(189.758)
Unrealised foreign exchange differences	(22.666)	(3.959)
Capitalized	16.689	16.480
Cash inflow from loans	6.669.324	5.838.030
Bonds issued	550.000	-
Cash outflow from loan repayments	(5.908.300)	(4.207.464)
Closing balance	7.454.327	6.120.960

NOTE 7 – BORROWINGS (cont'd)

Reconciliation of net financial borrowings of financial leases as follows:

	31 December 2019
Opening balance	-
Opening effect of change in accounting principle	198.794
The effect of the increase in the lease contract liability	53.490
Cash outflow effect	(40.069)
Increase in interest expenses	33.809
Foreign exchange effect	626
Closing balance	246.650

NOTE 8 – TRADE RECEIVABLES AND PAYABLES

As of the reporting date, the details of the Group's trade receivables are as follows:

	31 December 2019	31 December 2018
Short term trade receivables		
Trade receivables	3.316.241	4.469.265
Due from related parties (Note 33)	173.296	68.586
Provision for doubtful trade receivables (-)	(145.360)	(136.377)
	3.344.177	4.401.474

As of the reporting date, the details of the Group's trade receivables are as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Opening balance	136.377	98.576
Provision for the period	4.769	39.863
Doubtful receivables collected (-)	(1.540)	-
Provision released (-)	(6.536)	(26.970)
Translation difference	12.290	24.908
Closing balance	145.360	136.377

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 90 days and therefore are all classified as current. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method.

NOTE 8 – TRADE RECEIVABLES AND PAYABLES (cont'd)

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

As the Group provides services and products to a large number of customers, collection risk is widely distributed amongst these customers and there is no significant credit risk exposure. Therefore, the Group does not provide for any further provision beyond the doubtful receivables provisions that the Group has already provided for in the consolidated financial statements. The detail of overdue receivables included in trade receivables as of the reporting date is disclosed in the management of credit risk management. Other disclosures as to the Group's credit risk are given in note 34. The Group provides provision according to the balances of all unsecured receivables under legal follow up.

Group's past due but not impaired receivable amount is TRY 9.761 thousand and the maturities' of them between 0 and 60 days (Note 34).

In accordance with TFRS 9 "Financial Instruments" standart, expected credit loss measured regarding trade receivables and no significant effect ascertained on financial statements.

As of the balance sheet date, the details of the Group's trade payables are as follows:

Short term trade payables	31 December 2019	31 December 2018
Trade payables	2.849.408	1.786.442
Due to related parties (Note 33)	85.731	147.772
Expense accruals	1.483	1.708
	2.936.622	1.935.922

Trade payables consist of payables to sellers for products or services purchased in the ordinary course of business. The average credit period on purchases of certain goods is 35 days.

NOTE 9 – OTHER RECEIVABLES AND PAYABLES

As of the reporting date, the details of the Group's other receivables are as follows:

Short term other receivables	31 December 2019	31 December 2018
Due to related parties (Note 33)	3.817	-
Receivables from water system construction	1.560	1.504
Deposits and guarantees given	504	296
	5.881	1.800

Long term other receivables	31 December 2019	31 December 2018
Due From Related Parties (Note 33)	25.136	-
Receivables from Privatization Authority	81.221	75.142
Receivables from water system construction	11.306	8.817
Deposits and guarantees given	645	580
Provision for receivables from Privatization Authority (-)	(81.221)	(75.142)
	37.087	9.397

Privatization Administration Litigation

In the litigation filed by the Company for indemnification of the payments made to the Company as per the share transfer agreement, with the File No 2015/125 E to the 19th Commercial Court of First Instance in Ankara against the Privatization Administration, the Court decided to accept the claim partially and to collect the amount of TRY 52.857 thousandwith the interest to be accrued thereon from 26 January 2012 and pay such amounts to the Company. the ruling was appealed by TR Prime Ministry Privatization Administration, where after 11th Chamber Office of the Supreme Court approved the resolution number 2016/14048 E.2018/6111 K. of the 19th Commercial Court of First Instance in Ankara, and such approval decision was notified to our Company. As the adjustment process against the approval decision was not eliminated, our company has continued to carry the provisions for the receivables in the financial statements in the reporting period related to this subject.

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

	1 January - 31 December 2019	1 January - 31 December 2018
Opening balance	75.142	73.193
Provision for the period	6.118	2.457
Provision released (-)	-	(383)
Other doubtful receivables collected (-)	-	(414)
Translation difference	(39)	289
Closing balance	81.221	75.142

NOTE 9 – OTHER RECEIVABLES AND PAYABLES (cont'd)

As of the reporting date, the details of the Group's short term other payables are as follows:

Short term other payables	31 December 2019	31 December 2018
Taxes payable	35.805	30.014
Deposits and guarantees received	29.570	8.897
Dividend payables to shareholders (*)	3.966	3.875
	69.341	42.786

(*) Dividend payable represents the uncollected balances by shareholders related to the prior years.

NOTE 10 – INVENTORIES

As of the reporting date, the details of the Group's inventories are as follows:

	31 December 2019	31 December 2018
Raw materials	2.287.962	2.133.042
Work in progress	1.877.323	1.712.760
Finished goods	2.635.693	2.322.664
Spare parts	1.281.245	1.115.108
Goods in transit	1.106.346	1.405.980
Other inventories	556.855	548.341
Allowance for impairment on inventories (-)	(416.261)	(347.745)
	9.329.163	8.890.150

The movement of the allowance for impairment on inventories:

	1 January - 31 December 2019	1 January - 31 December 2018
Opening balance	347.745	228.247
Provision for the period	33.314	30.450
Provision released (-)	(10.726)	(3.402)
Translation difference	45.928	92.450
Closing balance	416.261	347.745

The Group has provided an allowance for the impairment on the inventories 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 24).

NOTE 11 – PREPAID EXPENSES

As of the reporting date, the details of the Group's short term prepaid expenses are as follows:

	31 December 2019	31 December 2018
Insurance expenses	56.976	56.359
Order advances given	21.390	17.197
Due to related parties (Note 33)	6.308	-
Prepaid utility allowance to employees	11.624	9.718
Other prepaid expenses	3.935	6.731
	100.233	90.005

As of the reporting date, the details of the Group's long term prepaid expenses are as follows:

	31 December 2019	31 December 2018
Order advances given	486.201	225.384
Due to related parties (Note 33)	25.620	68.266
Insurance expenses	-	25.409
Other prepaid expenses	1.999	12.216
	513.820	331.275

NOTE 12 – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

The details of the Group's financial investments accounted for using equity method as follows:

	Right to vote ratio %	31 December 2019	Right to vote ratio %	31 December 2018	Business segment
Joint Venture					
İsdemir Linde Gaz Ortaklığı A.Ş.	50	200.820	50	145.284	Industrial Gas Production and Sale

The Group's shares on assets of investments accounted for using equity method as follows:

	31 December 2019	31 December 2018
Total assets	408.249	380.489
Total liabilities	6.609	89.921
Net assets	401.640	290.568
Group's share on net assets	200.820	145.284

NOTE 12 – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (cont'd)

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

	1 January – 31 December 2019	1 January – 31 December 2018
Revenue	98.345	82.922
Operating profit	14.335	11.767
Net profit (loss) for the period	77.033	11.116
Group's share on net profit	38.517	5.558

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. As a result of the forecasts made by the Company's management, as it becomes available, the deferred tax asset of TRY 82.411 thousand (its effect in the profit or loss statement of Company is TRY 41.206 thousand) is included in the financial statements prepared as of 31 December 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.

NOTE 13 – INVESTMENT PROPERTIES

	Land	Buildings	Total
Cost			
Opening balance as of 1 January	144.196	98.784	242.980
Translation difference	19.090	13.994	33.084
Transfers (*)	9.868	25.954	35.822
Closing balance as of 31 December 2019	173.154	138.732	311.886
Accumulated Depreciation			
Opening balance as of 1 January	-	(1.018)	(1.018)
Translation difference	-	(474)	(474)
Charge for the period	-	(4.390)	(4.390)
Transfers (*)	-	(2.790)	(2.790)
Closing balance as of 31 December 2019	-	(8.672)	(8.672)
Net book value as of 31 December 2018	144.196	97.766	241.962
Net book value as of 31 December 2019	173.154	130.060	303.214

(*) After a part of Erdemir Çelik Servis Merkezi A.Ş.'s land and buildings in Manisa were rented, they were classified to investment properties (Note 14).

NOTE 13 – INVESTMENT PROPERTIES (cont'd)

	Land	Buildings	Total
Cost			
Opening balance as of 1 January	101.695	-	101.695
Translation difference	40.340	8.166	48.506
Addition	2.161	90.618	92.779
Closing balance as of 31 December 2018	144.196	98.784	242.980
Accumulated Depreciation			
Opening balance as of 1 January	-	-	-
Translation difference	-	(84)	(84)
Charge for the period	-	(934)	(934)
Closing balance as of 31 December 2018	-	(1.018)	(1.018)
Net book value as of 31 December 2017	101.695	-	101.695
Net book value as of 31 December 2018	144.196	97.766	241.962

The fair value of the Group's investment properties is TRY 933.303 thousand (31 December 2018: TRY 901.487 thousand) according to the most recent valuation reports. The fair values of the investment properties have been determined in reference to the valuations of independent valuation firms authorized by the CMB of Turkey. The valuations are undertaken predominantly by using the precedent values of similar properties as references under market approach.

All investment properties of the Group consist of land and buildings.

The Group does not have contractual obligations regarding the purchase, construction or development of investment properties or maintenance, repair or improvement.

For the year ended 31 December 2019, the Group generated rent income amounting to TRY 11.411 thousand (31 December 2018: TRY 1.257 thousand) from rented investment properties under operating leases (Note 28). The Group also has investment properties that do not generate rental income.

The Group has recognized (2.327) thousand TL (31 December 2018: (2.227) thousand TL) of estate tax expenses related to investment properties for the year ended 31 December 2019 under investment expenses (Note 28).

Amortization distribution of investment properties is as follows:

	31 December 2019	31 December 2018
General administrative expenses	4.390	934
	4.390	934

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Machinery and equipment	Vehicles	Furniture and Fixtures	Other Property, Plant and Equipment	Construction in Progress (CIP)	Total
Cost									
Opening balance as of 1 January	298.834	4.538.894	7.256.025	30.709.607	1.703.606	836.663	265.350	1.194.114	46.803.093
Translation difference	38.342	580.649	937.145	3.966.685	202.534	96.730	19.222	147.953	5.989.260
Additions (*)	-	1.678	9.217	140.837	44.869	16.088	19.479	1.192.691	1.424.859
Transfers from CIP (**)	48.821	116.070	136.063	762.334	8.232	6.138	1.889	(1.093.233)	(13.686)
Transfers to investment properties (***)	(9.868)	-	(25.954)	-	-	-	-	-	(35.822)
Disposals	-	(24.292)	(14.647)	(479.894)	(20.277)	(5.769)	(2.673)	-	(547.552)
Closing balance as of 31 December 2019	376.129	5.212.999	8.297.849	35.099.569	1.938.964	949.850	303.267	1.441.525	53.620.152
Accumulated Depreciation									
Opening balance as of 1 January	-	(3.364.344)	(5.202.609)	(18.431.953)	(1.029.278)	(443.025)	(188.521)	(83.152)	(28.742.882)
Transfers to investment properties (***)	-	-	2.790	-	-	-	-	-	2.790
Translation difference	-	(432.631)	(675.428)	(2.368.613)	(115.630)	(47.252)	(14.054)	(11.041)	(3.664.649)
Charge for the period	-	(98.220)	(152.509)	(742.508)	(53.463)	(40.850)	(28.403)	-	(1.115.953)
Impairment (****)	-	949	5.813	29.059	4.145	-	3.352	-	43.318
Disposals	-	24.027	14.647	451.261	15.185	5.355	730	-	511.205
Closing balance as of 31 December 2019	-	(3.870.219)	(6.007.296)	(21.062.754)	(1.179.041)	(525.772)	(226.896)	(94.193)	(32.966.171)
Net book value as of 31 December 2018	298.834	1.174.550	2.053.416	12.277.654	674.328	393.638	76.829	1.110.962	18.060.211
Net book value as of 31 December 2019	376.129	1.342.780	2.290.553	14.036.815	759.923	424.078	76.371	1.347.332	20.653.981

(*) The amount of capitalized borrowing cost is TRY 16.689 thousand for the current period (31 December 2018: TRY 16.480 thousand).
(**) TRY 13.686 thousand is transferred to intangible assets (Note 15).
(***) After a part of Erdemir Çelik Servis Merkezi A.Ş.'s land and buildings in Manisa were rented, it was classified to investment properties (Note 13).
(****) The Group recorded the impairment provisions in the financial statements of Erdemir Romania S.R.L for the property,plant and equipment that will be out of use and will not generate independent cash flow. The recoverable amounts of property, plant and equipment are reviewed in line with the increase in Erdemir Romania S.R.L's net profitability and Management's forecasts in the following periods. As a result of the review. For non used assets, an impairment loss of TRY 43.318 thousand is recognised that on statement of profit or loss under expenses from investment activities (Note 28).

As of 31 December 2019, the Group has no collaterals or pledges upon its property, plant and equipment.

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (cont'd)

Cost	Land	Land Improvements	Buildings	Machinery and equipment	Vehicles	Furniture and Fixtures	Other Property, Plant and Equipment	Construction in Progress (CIP)	Total
Opening balance as of 1 January	218.337	3.237.524	5.025.209	21.731.205	1.233.293	614.226	219.698	811.304	33.090.796
Translation difference	80.471	1.257.353	1.996.460	8.576.399	432.678	207.447	40.590	332.714	12.924.112
Additions (*)	210	9.284	137.576	171.831	30.843	26.216	11.663	565.647	953.270
Transfers from CIP (**)	63	34.883	96.803	333.223	8.724	6.299	1.152	(491.990)	(10.843)
Disposals	(247)	(150)	(23)	(103.051)	(1.932)	(17.525)	(7.753)	(23.561)	(154.242)
Closing balance as of 31 December 2018	298.834	4.538.894	7.256.025	30.709.607	1.703.606	836.663	265.350	1.194.114	46.803.093
Accumulated Depreciation									
Opening balance as of 1 January	-	(2.356.873)	(3.636.434)	(12.753.336)	(745.586)	(325.575)	(142.179)	(58.951)	(20.018.934)
Translation difference	-	(923.000)	(1.441.366)	(5.058.592)	(240.770)	(95.196)	(25.276)	(24.201)	(7.808.401)
Charge for the period	-	(82.841)	(119.801)	(616.945)	(44.760)	(34.108)	(25.396)	-	(923.851)
Impairment (****)	-	(1.720)	(5.031)	(91.005)	-	(39)	(15)	-	(97.810)
Disposals	-	90	23	87.925	1.838	11.893	4.345	-	106.114
Closing balance as of 31 December 2018	-	(3.364.344)	(5.202.609)	(18.431.953)	(1.029.278)	(443.025)	(188.521)	(83.152)	(28.742.882)
Net book value as of 31 December 2017	218.337	880.651	1.388.775	8.977.869	487.707	288.651	77.519	752.353	13.071.862
Net book value as of 31 December 2018	298.834	1.174.550	2.053.416	12.277.654	674.328	393.638	76.829	1.110.962	18.060.211

(*) The amount of capitalized borrowing cost is TRY 16.480 thousand for the current period (31 December 2017: TRY 4.176 thousand).
(**) TRY 10.843 thousand is transferred to intangible assets (Note 15).
(***) The Group has reviewed the recoverable amounts of property,plant and equipment, which will be out of use and will not generate independent cash flow from the blast furnaces that Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and İskenderun Demir ve Çelik A.Ş. decided to rebuild in its production facilities during the period. As a result of the review. For non used assets, an impairment loss of TRY 97.180 thousand is recognised that on statement of profit or loss under expenses from investment activities (Note 28).

As of 31 December 2018, the Group has no collaterals or pledges upon its intangible assets.

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (cont'd)

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

	31 December 2019	31 December 2018
Associated with cost of production	1.039.350	865.368
General administrative expenses	28.069	19.129
Marketing, sales and distribution expenses	41.340	36.021
Research and development expenses	7.194	3.333
	1.115.953	923.851

NOTE 15 – INTANGIBLE ASSETS

	Rights	Other Intangible Assets	Total
Cost			
Opening balance as of 1 January	668.304	34.375	702.679
Translation difference	85.716	5.127	90.843
Additions	13.897	762	14.659
Transfers from CIP	13.686	-	13.686
Closing balance as of 31 December 2019	781.603	40.264	821.867
Accumulated amortization			
Opening balance as of 1 January	(387.566)	(31.597)	(419.163)
Translation difference	(49.911)	(4.998)	(54.909)
Charge for the period	(34.513)	(748)	(35.261)
Closing balance as of 31 December 2019	(471.990)	(37.343)	(509.333)
Net book value as of 31 December 2018	280.738	2.778	283.516
Net book value as of 31 December 2019	309.613	2.921	312.534

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

NOTE 15 – INTANGIBLE ASSETS (cont'd)

	Rights	Other Intangible Assets	Total
Cost			
Opening balance as of 1 January	465.590	22.162	487.752
Translation difference	180.358	11.228	191.586
Additions	12.061	437	12.498
Transfers from CIP	10.295	548	10.843
Closing balance as of 31 December 2018	668.304	34.375	702.679
Accumulated amortization			
Opening balance as of 1 January	(256.399)	(20.042)	(276.441)
Translation difference	(98.929)	(10.852)	(109.781)
Charge for the period	(32.238)	(703)	(32.941)
Closing balance as of 31 December 2018	(387.566)	(31.597)	(419.163)
Net book value as of 31 December 2017	209.191	2.120	211.311
Net book value as of 31 December 2018	280.738	2.778	283.516

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

	31 December 2019	31 December 2018
Associated with cost of production	24.348	21.716
General administrative expenses	10.770	11.053
Marketing, sales and distribution expenses	-	4
Research and development expenses	143	168
	35.261	32.941

NOTE 16 – RIGHT OF USE ASSETS

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

	Right to Use Land	Car Leases	Total
Cost			
Opening balance as of 1 January	-	-	-
Effect of change in accounting principle	201.550	8.022	209.572
Additions to assets of operating lease	39.528	12.549	52.077
Transfers of sub-lease agreements to receivables	(30.373)	-	(30.373)
Translation difference	26.245	1.635	27.880
Closing balance as of 31 December 2019	236.950	22.206	259.156
Accumulated Depreciation			
Opening balance as of 1 January	-	-	-
Charge for the period	7.999	6.233	14.232
Transfers of sub-lease agreements to receivables	(669)	-	(669)
Translation difference	345	298	643
Closing balance as of 31 December 2019	7.675	6.531	14.206
Net book value as of 31 December 2019	229.275	15.675	244.950

The items right of use assets recognized in profit or loss is as follows:

	31 December 2019
Amortization of assets to operating lease (Note 16)	(14.232)
Interest expense from lease transactions (Note 30)	(33.809)
Income from sub-lease of the right of use assets	4.581

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

	31 December 2019	31 December 2018
Right to use land	229.275	201.550
Car leases	15.675	8.022
	244.950	209.572

The Group has usage permit agreements regarding the port areas of the General Directorate of National Real Estate. The values of tangibles with usage permit periods expiring in 2048 and 2049 are measured at their present value by reducing the borrowing rate by 16% at the initial calculation and are accounted for in the consolidated statement of financial position as of 1 January 2019 in the notes of right of use assets and borrowing (Note 7).

NOTE 16 – RIGHT OF USE ASSETS (cont'd)

The Group has a usage permit agreement of regarding the forest land and energy transmission line of the General Directorate of Forestry. Forest land use permit will expire in 2039, and the energy transmission line use permit will expire in 2064. The values of the immovable assets were measured at present value by reducing the borrowing rate in the first calculation with 15% and accounted in the right of use assets and borrowings notes in the consolidated statement of financial position.

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

As of 1 June 2019, in accordance with the current contract conditions with the General Directorate of National Real Estate the use permit agreement, which will expire in 2049 for the Group's port sites in Yarımca, is rented out to OYAK NYK RO-RO Liman İşletmeleri A.Ş. In accordance with the TFRS 16, use permit agreement; has been recognized in Other Receivables from Related Parties "(Note 33) by being written off from the "Right of Use Assets" since the effective date of the sub-lease agreement.

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

	31 December 2019
General administration expenses	6.233
Other operating expenses	7.999
	14.232

NOTE 17 – GOVERNMENT GRANTS AND INCENTIVES

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

- ✓ Incentives under the jurisdiction of the research and development law (100% corporate tax exemption etc.)
- ✓ Support in cash from Tubitak – Teydeb, in return for research and devolopment expenditures,
- ✓ Inward processing permission certificates,
- ✓ Social Security Institution incentives
- ✓ Insurance premium employer share incentive.

Research and development incentive premiums received or certain to be received amounts to TRY 2.181 thousand (31 December 2018: TRY 1.266 thousand) which are accounted under statement of profit or loss for the year ended 31 December 2019.

NOTE 18 – EMPLOYEE BENEFITS

The Group's short term payables for employee benefits are as follows:

	31 December 2019	31 December 2018
Due to personnel	109.689	153.178
Social security premiums payable	43.669	36.298
	153.358	189.476

As of the reporting date long term provisions of the employee benefits of the Group are as follows:

	31 December 2019	31 December 2018
Provisions for employee termination benefits	651.998	527.970
Provisions for seniority incentive premium	71.234	55.351
Provision for unpaid vacations	84.092	86.070
	807.324	669.391

According to the articles of Turkish Labor Law in force, the Group have obligation to pay the legal employee termination benefits to each employee whose are 25 years of working life by completing at least one year of service, leaving for military services and deceased.

As of 31 December 2019, the amount payable consists of one month's salary limited to a maximum of TRY 6.379,86 (31 December 2018: TRY 5.434,42) for each year of service. As of 1 January 2020, the employment termination benefit has been updated to a maximum of TRY 6.730,15.

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

The employment 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 December 2019 has been calculated by an independent actuary and projected unit credit method is used in the calculation. The actuarial assumptions used in the calculation of the present value of the future probable obligation are as follows:

	31 December 2019	31 December 2018
Discount rate	%12,50	%16,00
Inflation rate	%8,20	%11,30
Salary increase	real 1,5%	real 1,5%
Maximum liability increase	%8,20	%11,30

NOTE 18 – EMPLOYEE BENEFITS (cont'd)

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

The anticipated rate of resignation which do not result in the payment of employee benefits is also considered in the calculation. The anticipated rate of resignation is assumed to be related with the past experience, therefore past experiences of employees are analyzed and considered in the calculation. In the actuarial calculation as of 31 December 2019, the anticipated rate of resignation is considered to be inversely proportional to the past experience. The anticipated rate of resignation is between 2%-0% for the employees with past experience between 0-15 years or over.

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

	1 January - 31 December 2019	1 January - 31 December 2018
Opening balance	527.970	511.971
Service cost	52.214	47.858
Interest cost	86.906	67.345
Actuarial loss/(gain)	39.363	(51.444)
Termination benefits paid	(55.011)	(49.700)
Translation difference	556	1.940
Closing balance	651.998	527.970

The principal assumptions used in the calculation of retirement pay liability are discount rate and anticipated turnover rate. All other variables were held constant, the sensitivity analysis of the assumptions which was used for the calculation of provision for employment termination benefits as of 31 December 2019 as follows:

	Interest rate	
Change in rate	1% increase	1% decrease
Change in employee benefits liability	(49.935)	57.240

	Inflation rate	
Change in rate	1% increase	1% decrease
Change in employee benefits liability	59.090	(52.231)

NOTE 18 – EMPLOYEE BENEFITS (cont'd)

According to the current collective 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 - 31 December 2019	1 January - 31 December 2018
Opening balance	55.351	43.468
Service cost	5.988	4.954
Interest cost	9.085	5.859
Actuarial loss/(gain)	9.378	8.423
Termination benefits paid	(8.506)	(7.276)
Translation difference	(62)	(77)
Closing balance	71.234	55.351

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

	1 January - 31 December 2019	1 January - 31 December 2018
Opening balance	86.070	81.374
Provision for the period	98.374	81.331
Vacation paid during the period (-)	(5.399)	(6.814)
Provisions released (-)	(94.418)	(68.165)
Translation difference	(535)	(1.656)
Closing balance	84.092	86.070

NOTE 19 – PROVISIONS

The Group's short term provisions are as follows:

	31 December 2019	31 December 2018
Provision for lawsuits	196.700	165.568
Penalty provision for employment shortage of disabled	12.836	10.421
Provision for state right on mining activities	19.158	7.650
Provision for land occupation	13.215	7.013
Provision for the potential tax penalty	-	10.125
	241.909	200.777

NOTE 19 – PROVISIONS (cont'd)

The movement of the short term provisions is as follows:

	1 January 2019	Change for the period	Payments	Provision released	Translation difference	31 December 2019
Provision for lawsuits	165.568	57.019	(20.051)	(12.854)	7.018	196.700
Penalty provision for employment shortage of disabled personnel	10.421	5.802	(2.902)	(518)	33	12.836
Provision for state right on mining activities	7.650	21.749	(10.241)	-	-	19.158
Provision for land occupation	7.013	27.257	(21.029)	-	(26)	13.215
Provision for the tax penalty	10.125	-	-	(10.661)	536	-
	200.777	111.827	(54.223)	(24.033)	7.561	241.909

	1 January 2018	Change for the period	Payments	Provision released	Translation difference	31 December 2018
Provision for lawsuits	103.689	80.437	(14.307)	(38.454)	34.203	165.568
Penalty provision for employment shortage of disabled personnel	6.374	4.075	-	-	(28)	10.421
Provision for state right on mining activities	5.102	8.043	(5.495)	-	-	7.650
Provision for land occupation	11.665	20.465	(21.901)	-	(3.216)	7.013
Provision for the tax penalty	7.584	-	-	-	2.541	10.125
	134.414	113.020	(41.703)	(38.454)	33.500	200.777

NOTE 19 – PROVISIONS (cont'd)

Provision for lawsuits

As of 31 December 2019 and 31 December 2018, lawsuits filed by and against the Group are as follows:

	31 December 2019	31 December 2018
Lawsuits filed by the Group	880.306	763.070
Provision for lawsuits filed by the Group	218.121	200.393

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

	31 December 2019	31 December 2018
Lawsuits filed against the Group	153.052	498.341
Provision for lawsuits filed against the Group	196.700	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.

NOTE 19 – 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 judgement. 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 statement of profit or loss in accordance with "TFRS 3: Business Combinations". Therefore, the net profit for the periods ended December 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 judgement 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. By the decision of the Supreme Court 11th Civil Chamber dated 27.06.2019 and 2017/4580 Docket; 2019/4955 Decision number which was served to our Company on 28.08.2019, it was notified that our Company's request for revision of the decision has been rejected. The case is still pending in the file No. 2019/418 E. of the 3rd Commercial Court of First Instance of Ankara. Next hearing will be held on 02.04.2020.

NOTE 19 – PROVISIONS (cont'd)

Provision for lawsuits (cont'd)

The Company, based on the above mentioned reasons, does not 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 December 2019 and 31 December 2018.

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 notification 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 notification 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 judgement 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 52.083 thousand recognised on financial statements for the related lawsuit.

Lawsuit against Tax Penalty Notifications of The Municipality of Kdz. Ereğli's

A real estate tax review was carried out by the Municipality of Kdz Ereğli under the name of "Real Estate Tax Determination Field Study" at Company's Ereğli facilities in August 2019. As a result of this tax inspection, 1924 tax penalty notifications were notified to our company on 23 December 2019. With the 1924 tax penalty notices, the building tax and related cultural assets contribution share has been levied for 2014 to 2019, as well as the tax loss penalty for the same periods. The amount of tax and related cultural assets contribution assessment is 25.586 thousand TRY and 23.888 thousand TRY tax loss penalty has been imposed.

6 lawsuits have been filed at the Zonguldak Tax Court on 20 January 2020 against penalty notifications and the lawsuits are still pending.

No provision has been set aside in our accounting records for the tax levied, cultural assets contribution share and tax penalty imposed since there is no cash out flow highly likely to occur according to the Group Management's assessments.

NOTE 19 – PROVISIONS (cont'd)

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, on 16 March 2015, the Company used its right 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 regarding to consolidated 15 cases.

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

The aforementioned 19 cases which the Constitutional Court has sent to Zonguldak Tax Court to be retrialed, have been retrialed by Zonguldak Tax Court and the Court has resolved in favor of the Company. Those 19 resolutions which were appealed against by the Municipality of Kdz. Ereğli have not been finalized yet.

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

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 of Erdemir Romania SRL, one of the subsidiaries of the Group, in 2009-2014 by the local tax authority in Romania, tax payments and penalties are issued for the years 2009, 2013 and 2014. The lawsuit filed against the tax authority has been resulted in favor of the Company. In line with the evaluations of the Group Management and the usual practices of public lawsuits, the provision in the financial statements was reversed due to the fact that there will be no cash outflow regarding the lawsuit. The defendant tax office has the right to appeal.

NOTE 20 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	31 December 2019	31 December 2018
Letters of guarantees received	2.853.670	3.378.056
	2.853.670	3.378.056

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

	31 December 2019	31 December 2018
A. Total CPM given for the Company's own legal entity	77.498	103.870
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	182.133	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	-	-
	259.631	325.137

TRY 182.133 thousand of total CPM given in favor of subsidiaries is related with financial borrowings stated in Note 7. As of 31 December 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 given regarding service purchases according to their TRY equivalents of foreign currency is as follows:

	31 December 2019	31 December 2018
US Dollars	167.519	221.267
Turkish Lira	64.844	79.155
EURO	27.268	24.715
	259.631	325.137

NOTE 21 – OTHER ASSETS AND LIABILITIES

As of the reporting date, the details of the Group's other assets and liabilities are as follows:

Other current assets

	31 December 2019	31 December 2018
Other VAT receivable	456.381	172.096
Deferred VAT	143.042	160.040
Prepaid taxes and funds	2.886	2.345
Other current assets	15.573	20.958
	617.882	355.439

Other non-current assets

	31 December 2019	31 December 2018
Other VAT receivable	225.399	116.221
	225.399	116.221

Other current liabilities

	31 December 2019	31 December 2018
VAT payable	3.509	10.552
Other current liabilities	6.770	3.788
	10.279	14.340

Other non-current liabilities

	31 December 2019	31 December 2018
Other non-current liabilities	1.878	1.554
	1.878	1.554

NOTE 22 – DEFERRED INCOME

As of the reporting date, the details of the Group's short term deferred income are as follows:

	31 December 2019	31 December 2018
Advances received	230.930	266.047
Deferred income	19.903	10.794
	250.833	276.841

NOTE 23 – EQUITY

As of the Group's reporting date the capital structure is as follows:

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

The Company is subject to registered capital limit. The board of directors may, at any time it may think necessary, increase the capital by means of issuing bearer shares each with a nominal value of 1 Kr (one Kurus) up to the amount of the registered capital, which is TRY 7.000.000.000 in accordance with the requirements as set forth herein.

The issued capital of the Company consists of 350.000.000.000 lots of shares (31 December 2018: 350.000.000.000 lots). The nominal value of each share is 1 Kr (Turkish cent) (31 December 2018: 1 Kr). This capital is split between A and B group shares. Group A shares consist of 1 share with a share value of 1 Kr and Group B shares consist of 3.499.999.999,99 shares representing TRY 349.999.999.999 of the issued capital.

The Board of Directors consists of 9 members 3 of which are independent. The number and qualifications of independent members are ascertained in compliance with the CMB's Communique numbered II-17,1 on Corporate Governance Principles.

The General Assembly has to choose one member to the Board of Directors from the nominees of the Privatization Administration as the beneficiary owner representing A Group shares. In case, the Board member representing the A Group shares leaves the board within the chosen period, a new board member is obliged to be chosen from the nominees of the Privatization Administration as the beneficiary owner. For decisions to be taken about the rights assigned to A Group shares, the board member representing A Group shares is also obliged to use an affirmative vote.

NOTE 23 – EQUITY (cont'd)

The decisions to change the Articles of Association of the Company that will have an effect on the board of directors' meeting and decision quorum, rights assigned to A Group shares, rights assigned to A Group shares in relation to investments and employment decisions and any other changes in the Articles of Association of the Company which will directly or indirectly affect the rights of A Group shares, have to receive an affirmative vote of the beneficiary owner representing the A Group shares. Otherwise, the decisions are accepted as invalid.

Article IV-K of Articles of Association "According to Turkish Commercial Code Article 329, transactions of an entity's own shares" Erdemir, as of 31 December 2019, holds its own shares with a nominal value of TRY 107.837 thousand (31 December 2018: TRY 107.837 thousand). Erdemir's own shares have been reclassified with its inflation adjusted value in the consolidated balance sheet as a deduction under equity.

Other Equity Items	31 December 2019	31 December 2018
Share Premium	106.447	106.447
Revaluation Reserves of Tangible Assets	58.952	51.239
Cash Flow Hedging Reserves	6.474	13.103
Foreign Currency Translation Reserves	17.828.858	14.502.844
Actuarial (Loss)/ Gain Fund	(102.008)	(72.105)
Restricted Reserves Assorted from Profit	3.485.761	2.287.528
-Legal Reserves	*3.485.761*	*2.287.528*
Retained Earnings	2.057.906	2.339.334
	23.442.390	19.228.390

However, in accordance with the communiqué numbered II-14,1 "Communiqué on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") on 13 June 2013 which is published on Official Gazette numbered 28676, "Paid-in capital", "Restricted profit reserves" and "Share premium" should be presented by using their registered amounts in the statutory records. The restatement differences (e.g. inflation restatement differences) arising from the application of this Communiqué should be associated with the:

- "Capital restatement differences" item following the "paid-in capital" line item in the financial statements, if the differences are caused by "paid-in capital" and have not been added to capital yet;
- "Retained earnings", if the differences are arising from "restricted profit reserves" and "share premium" and have not been associated with either profit distribution or capital increase yet.

Other equity items are carried at the amounts that are valued based on the TFRS.

Capital restatement differences may only be considered as part of the paid-up capital.

Listed companies distribute dividend in accordance with the Communiqué No. II-19.1 issued by the CMB which is effective from 1 February 2014.

NOTE 23 – EQUITY (cont'd)

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate for the publicly-held subsidiaries. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of incorporation. In addition, dividend can be distributed by fixed or variable installments and advance dividend can be paid in accordance with profit on interim financial statements of the Company.

In accordance with the Turkish Commercial Code (TCC), unless the required reserves and the dividend for shareholders as determined in the article of association or in the dividend distribution policy of the company are set aside, no decision may be made to set aside other reserves, to transfer profits to the subsequent year or to distribute dividends to the holders of usufruct right certificates, to the members of the board of directors or to the employees; and no dividend can be distributed to these persons unless the determined dividend for shareholders is paid in cash.

Inflation adjustments to issued capital and historical amount of extraordinary reserves can be used as an internal source of capital increase, dividend distribution in cash or the net off from prior period losses. In case of usage of the inflation adjustment differences in dividend distribution in cash, it is subject to corporate tax.

Other sources which might be used in dividend distribution, except the net profit for the period, in statutory books of the Company are equal to TRY 5.476.744 thousand as of 31 December 2019.

The legal reserves and the share premium, which is regarded as legal reserve in accordance with TCC Article 466, are presented using their amounts in statutory records. In this context, the difference of inflation restatements in accordance with TFRS framework, that are not subject to profit distribution or capital increase as of the date of financial statements, is associated with the prior periods' profit or loss.

According to the first paragraph of Article 519 numbered 6102 of the Turkish Commercial Code ("TCC"), 5% of the profit shall be allocated as the first legal reserves, up to 20% of the paid/ issued capital. First dividend is appropriated for shareholders after deducting from the profit. Following the deduction of the amounts from the "profit", General Assembly of Shareholders is authorized to decide whether shall be the remaining balance shall be fully or totally placed in extraordinary legal reserves or whether it is distributed, also taking into consideration the Company's profit distribution policy. According to the sub-clause 3 of the clause 2 of Article 519 of the Turkish Commercial Code, after deducting dividends amounting to 5% of the paid/issued capital from the part decided to be allocated; ten percent of the remaining balance shall be appropriated to second legal reserves. If it is decided to distribute the profit as bonus share, through the method of adding the profit to the capital, second legal reserves is not appropriated.

According to the CMB Communiqué, until the Company's Article of Association was revised on 31 March 2008, an amount equal to the first dividend distributed to shareholders is allocated as status reserves in order to be used in the plant expansion. Also according to the 13th Article of Association before the revision on 31 March 2008, 5% of the net profit for the period after taxation is estimated to be allocated as legal reserves up until reaching 50% of the paid/issued capital. The reserve amount that exceeds the 20% of the legal reserves, defined by the Article 519 of TCC, is recorded as status reserve.

The Company's Shareholders' General Assembly, which was held at 30 March 2012, decided status reserves can be used as an internal source of capital increase and profit sharing.

NOTE 23 – EQUITY (cont'd)

Cash flow hedging reserve arises from the recognition of the changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows directly in equity. The amounts deferred in equity are recognized in the consolidated statement of profit or loss in the same period, if the hedged item affects profit or loss.

Since the fair values of the assets could not be reasonably determined during the transfer of the subsidiaries to the Group, the assets of each of the Company were revalued during the initial acquisition and the difference between the cost value of the Company's revaluated fair value and the cost value of initial recognition is recorded in the tangible asset revaluation increases (decreases) fund.

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

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

NOTE 24 – SALES AND COST OF SALES

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 230.930 thousand (Note 22). The Company plans to recognize related revenue amount as a revenue in a year.

	1 January - 31 December 2019	1 January - 31 December 2018
Sales Revenue		
Domestic sales	21.115.987	20.998.266
Export sales	5.552.947	5.355.325
Other revenues (*)	698.400	687.965
Interest income from sales with maturities	185.981	151.322
Sales returns (-)	(42.992)	(23.075)
Sales discounts (-)	(45.138)	(154.549)
	27.465.185	27.015.254
Cost of sales (-)	(22.454.025)	(18.631.954)
Gross profit	5.011.160	8.383.300

(*) The total amount of product exports in other revenues is TRY 285.507 thousand (31 December 2018: TRY 257.751 thousand). Total interest income from export sales with maturities is TRY 4.022 thousand.

NOTE 24 – SALES AND COST OF SALES (cont'd)

As of Group's reporting date, the detail of cost of sales is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Raw material usage	(16.792.357)	(14.069.003)
Personnel costs	(1.665.469)	(1.590.098)
Energy costs	(1.322.528)	(872.028)
Depreciation and amortization expenses	(1.043.369)	(837.703)
Manufacturing overheads	(636.082)	(464.170)
Other cost of goods sold	(382.191)	(284.382)
Non-operating costs (*)	(148.019)	(77.096)
Freight costs for sales delivered to customers	(301.394)	(329.314)
Allowance expenses for impairment on inventories (Note 10)	(33.314)	(30.450)
Inventory provision released (Note 10)	10.726	3.402
Other	(140.028)	(81.112)
	(22.454.025)	(18.631.954)

(*) Due to the planned/ unplanned halt production of plant of the Group's, operations were suspended temporarily in the current period. As a result of this, unallocated overheads, TRY (148.019) thousand, has been accounted directly under cost of sales (31 December 2018: TRY (77.096) thousand).

NOTE 25 – RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

As of Group's reporting date, the detail of marketing, sales and distribution expenses according to their nature is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Marketing expenses (-)	(232.394)	(208.281)
General administrative expenses (-)	(444.799)	(436.088)
Research and development expenses (-)	(24.999)	(17.546)
	(702.192)	(661.915)

NOTE 26 – OPERATING EXPENSES ACCORDING TO THEIR NATURE

As of Group's reporting date, the detail of marketing, sales and distribution expenses according to their nature is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Personnel expenses (-)	(99.323)	(88.530)
Depreciation and amortization (-)	(41.340)	(36.025)
Service expenses (-)	(91.731)	(83.726)
	(232.394)	(208.281)

As of Group's reporting date, the detail of general administrative expenses is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Personnel expenses (-)	(193.873)	(183.535)
Depreciation and amortization (-)	(43.229)	(31.116)
Benefits and services from third parties (-)	(185.850)	(162.976)
Tax, duty and charges (-)	(12.803)	(17.899)
Provision/ Provision released for doubtful receivables (net)	(2.811)	(40.562)
Amortization of right of use assets (-)	(6.233)	-
	(444.799)	(436.088)

As of Group's reporting date, the detail of research and development expenses is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Personnel expenses (-)	(12.827)	(10.502)
Depreciation and amortization (-)	(7.337)	(3.501)
Other (-)	(4.835)	(3.543)
	(24.999)	(17.546)

NOTE 27 – OTHER INCOME/(EXPENSES) FROM OPERATING ACTIVITIES

As of Group's reporting date, the detail of other operating income is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Other operating income		
Foreign exchange gain from trade receivables and payables	6.101	129.773
Forfeit advances from customers	8.624	664
Discount income	4.050	2.896
Provisions released	24.033	38.454
Service income	19.680	19.597
Maintenance repair and rent income	16.567	14.989
Warehouse income	9.466	7.252
Indemnity and penalty detention income	9.759	14.476
Insurance indemnity income	90.352	11.130
Lawsuit income	367	326
Overdue interest income	6.832	7.802
Other income and gains	38.118	17.554
	233.949	264.913

As of Group's reporting date, the detail of other operating expenses is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Other operating expenses (-)		
Provision expenses	(62.821)	(84.512)
Interest expenses from purchases with maturities	(18.318)	(367)
Lawsuit compensation expenses	(6.842)	(7.894)
Right of use assets amortization	(7.999)	(20.572)
Donation expenses	(4.761)	(3.913)
Service expenses	(18.788)	(8.991)
Previous period corporate tax adjustments	(14.569)	-
Stock exchange registration expenses	(3.262)	(2.265)
Penalty expenses	(757)	(12.794)
Discount expenses	-	(8.368)
Other expenses and losses	(26.510)	(22.311)
	(164.627)	(171.987)

NOTE 28 –INCOME/(EXPENSES) FROM INVESMENT ACTIVITIES

As of Group's reporting date, the detail of income from investment activities is as follows:

Income From Investment Activities	1 January - 31 December 2019	1 January - 31 December 2018
Income from sales on tangible assets	16.416	9.277
Rent income from investment properties	11.411	1.257
Property,plant and equipment provisions released (Note 14)	43.318	-
	71.145	10.534

As of Group's reporting date, the detail of expenses from investment activities is as follows:

Expenses From Investment Activities (-)	1 January - 31 December 2019	1 January - 31 December 2018
Loss on sales of tangible assets	(175)	(27.486)
Loss on disposal of tangible assets	(28.454)	(20.506)
Impairment of property, plant and equipment (Note 14)	-	(97.810)
Expenses from investment properties (-)	(2.327)	(2.227)
	(30.956)	(148.029)

NOTE 29 – FINANCE INCOME

As of Group's reporting date, the breakdown of finance income is as follows:

Finance income	1 January - 31 December 2019	1 January - 31 December 2018
Interest income on bank deposits	418.745	470.705
Foreign exchange gains (net)	604.993	735.209
Interest income from financial investments	29.068	2.568
Fair value differences of derivative financial instruments (net)	14.957	25.470
Financial assets provision released	53.783	-
Other financial income	2.551	821
	1.124.097	1.234.773

NOTE 30 – FINANCE EXPENSES

As of Group's reporting date, the breakdown of finance expenses is as follows:

Finance expenses (-)	1 January - 31 December 2019	1 January - 31 December 2018
Interest expenses on borrowings	(342.029)	(177.203)
Interest cost of employee benefits	(95.991)	(73.204)
Interest expenses on leasings	(33.809)	-
Allowance for impairment on financial assets	-	(27.063)
Other financial expenses	(41.880)	(9.000)
	(513.709)	(286.470)

During the period, the interest expenses of TRY 16.689 thousand have been capitalized as part of the Group's property, plant and equipment (31 December 2018: TRY 16.480 thousand).

NOTE 31 – TAX ASSETS AND LIABILITIES

	31 December 2019	31 December 2018
Corporate tax payable:		
Current corporate tax provision	1.491.142	2.527.182
Prepaid taxes and funds (-)	(1.285.573)	(2.022.466)
	205.569	504.716

	1 January - 31 December 2019	1 January - 31 December 2018
Taxation:		
Current corporate tax expense	1.491.142	2.527.182
Deferred tax (income) / expense	82.035	258.774
	1.573.177	2.785.956

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 December 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 2019 is TRY 1.790.289 thousand (31 December 2018: TRY 2.820.427 thousand).

In Turkey, advance tax returns are filed on a quarterly basis. The temporary tax of 2019 has been calculated over the corporate earnings using the rate 22%, during the temporary taxation period. (31 December 2018: 22%).

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%.

NOTE 31 – TAX ASSETS AND LIABILITIES (cont'd)

Corporate tax (cont'd)

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

Losses can be carried forward to offset the future taxable income for up to maximum 5 years (Romania: 7 years). However, losses cannot be carried back to offset the profits of the previous periods, retrospectively.

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

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes on dividends distributed, except for the dividends distributed to fully fledged taxpayer companies receiving and declaring these dividends and to Turkish branches of foreign companies. The rate of %15 income withholding tax is applied to all companies in the since 22 July 2006 by the decision of the Council of Ministers, numbered 2006/10731. Undistributed dividends incorporated in share capital are not subject to the income withholding taxes.

19,8 % withholding tax must be applied to the investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Investment disbursements without any investment incentive certificate after this date which are directly related to production facilities of the company can be deducted by 40% from the taxable income. The investments without investment incentive certificates do not qualify for tax allowance.

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 TFRS. These differences usually result in the recognition of income and expenses tax bases in different reporting periods in the financial statements prepared according to TFRS.

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 as of 31 December 2019 (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%)

NOTE 31 – TAX ASSETS AND LIABILITIES (cont'd)

Deferred tax (cont'd)

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 December 2019	31 December 2018
Deferred tax assets:		
Provisions for employee benefits	164.160	137.095
Provision for lawsuits	36.056	29.747
Fair values of the derivative financial instruments	11.581	-
Inventories	21.881	88.971
Provision for other doubtful receivables	17.869	16.531
Tangible and intangible assets	19.782	17.416
Financial lease payables	42.409	-
Other	65.063	69.407
	378.801	359.167
Deferred tax liabilities:		
Tangible and intangible assets	(3.059.711)	(2.729.613)
Fair values of the derivative financial instruments	-	(11.721)
Amortized cost adjustment on loans	(19.085)	(11.075)
Right of Use Assets	(48.433)	-
Inventories	(132.676)	(96.070)
Other	(21.322)	(9.332)
	(3.281.227)	(2.857.811)
	(2.902.426)	(2.498.644)

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

Presentation of deferred tax assets/(liabilities):

	31 December 2019	31 December 2018
Deferred tax assets	41.911	67.552
Deferred tax (liabilities)	(2.944.337)	(2.566.196)
	(2.902.426)	(2.498.644)

NOTE 31 – TAX ASSETS AND LIABILITIES (cont'd)

Deferred tax (cont'd)

Movements of deferred tax asset/(liability)

	1 January - 31 December 2019	1 January - 31 December 2018
Opening balance	(2.498.644)	(1.561.975)
Effects of change in accounting policy	-	3.218
Deferred tax (expense)/income	(82.035)	(258.774)
The amount in comprehensive income	10.530	(19.603)
Translation difference	(332.277)	(661.510)
Closing balance	(2.902.426)	(2.498.644)

Reconciliation of tax provision is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Profit before tax	5.067.384	8.630.677
Statutory tax rate	22%	22%
Calculated tax expense acc. to effective tax rate	(1.114.824)	(1.898.749)
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	(8.188)	(11.196)
- Adjustment effect of rates subjected to corporate tax and deffered tax	(259.117)	(111.100)
- Effect of currency translation to non taxable assets	(191.692)	(763.368)
- Investment incentive	(632)	-
- Effect of the different tax rates due to foreign subsidiaries	1.276	(1.543)
Total tax exp. in reported in the stat. of income	(1.573.177)	(2.785.956)

NOTE 31 – TAX ASSETS AND LIABILITIES (cont’d)

As of Group’s reporting date, the details of the tax gains/(losses) of the other comprehensive income are as follows:

	1 January -31 December 2019		
Other comprehensive income/(loss) □	Amount before tax	Tax income/ (expense)	Amount after tax
Change in revaluation reserves of fixed assets	7.713	-	7.713
Change in actuarial (loss)/gain	(39.363)	8.660	(30.703)
Change in cash flow hedging reserves	(8.499)	1.870	(6.629)
Change in foreign currency translation reserves	3.418.565	-	3.418.565
	3.378.416	10.530	3.388.946

	1 January -31 December 2018		
Other comprehensive income/(loss) □	Amount before tax	Tax income/ (expense)	Amount after tax
Change in revaluation reserves of fixed assets	17.322	-	17.322
Change in actuarial (loss)/gain	51.444	(11.318)	40.126
Change in cash flow hedging reserves	37.660	(8.285)	29.375
Change in foreign currency translation reserves	7.047.519	-	7.047.519
	7.153.945	(19.603)	7.134.342

NOTE 32 – EARNINGS PER SHARE

	1 January - 31 December 2019	1 January- 31 December 2018
Number of shares outstanding	350.000.000.000	350.000.000.000
Net profit attributable to equity holders - TRY thousand	3.316.527	5.597.990
Profit per share with 1 TRY nominal value TRY %	0,9476 / %94,76	1,5994 / %159,94

NOTE 33 – RELATED PARTY DISCLOSURES

The immediate parent and ultimate controlling parent 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.

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

NOTE 33 – RELATED PARTY DISCLOSURES (cont'd)

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

Due from related parties (short term)	31 December 2019	31 December 2018
OYAK Renault Otomobil Fab. A.Ş.[2]	69.773	53.806
Bolu Çimento Sanayi A.Ş.[1]	4.756	3.776
Adana Çimento Sanayi T.A.Ş. [1]	6.034	8.525
İsdemir Linde Gaz Ortaklığı A.Ş.[3]	-	724
Miilux Yüksek Mukavemetli Çelik Üretim A.Ş. [1]	92.064	-
Other	669	1.755
	173.296	68.586

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

Other receivables from related parties (short term)	31 December 2019	31 December 2018
OYAK NYK RO-RO Liman İşletmeleri A.Ş. [1]	3.817	-
	3.817	-

Other receivables from related parties (long term)	31 December 2019	31 December 2018
OYAK NYK RO-RO Liman İşletmeleri A.Ş. [1]	25.136	-
	25.136	-

According to TFRS 16 provision, other short term and long term receivables from related parties arise from monetary receivables under the sub-lease transactions.

Prepaid expenses to related parties(short term)	31 December 2019	31 December 2018
OYAK Denizcilik ve Liman İşletmeleri A.Ş.[1]	6.264	-
Omsan Lojistik A.Ş.[1]	44	-
	6.308	-

(1) Subsidiaries of the parent company
(2) Joint venture of the parent company
(3) Joint venture of subsidiary

NOTE 33 – RELATED PARTY DISCLOSURES (cont'd)

Prepaid expenses to related parties (long term)	31 December 2019	31 December 2018
OYAK Pazarlama Hizmet ve Turizm A.Ş.[1]	8	-
OYAK Konut İnşaat A.Ş.[1]	-	509
OYAK Savunma ve Güvenlik Sistemleri A.Ş.[1]	25.612	67.757
	25.620	68.266

Prepaid expenses generally related with port services and advance transactions of tangible assets.

Due to related parties (short term)	31 December 2019	31 December 2018
Omsan Lojistik A.Ş.[1]	29.535	24.447
Omsan Denizcilik A.Ş.[1]	3.141	2.863
OYAK Pazarlama Hizmet ve Turizm A.Ş.[1]	16.891	12.053
OYAK Savunma ve Güvenlik Sistemleri A.Ş.[1]	10.849	15.484
OYAK Denizcilik ve Liman İşletmeleri A.Ş.[1]	11.404	7.067
OYAK Grup Sigorta ve Reasürans Brokerliği A.Ş.[1]	-	74.262
Other	13.911	11.596
	85.731	147.772

Trade payables to related parties mainly arise from purchase of services, tangible assets and energy.

Major sales to related parties	1 January - 31 December 2019	1 January - 31 December 2018
OYAK Renault Otomobil Fab. A.Ş.[2]	271.773	305.221
OYAK NYK RO-RO Liman İşletmeleri A.Ş. [1]	13.714	-
Adana Çimento Sanayi T.A.Ş.[1]	21.904	27.521
Miilux OY [2]	10.917	-
OYAK Elektrik Enerjisi Toptan Satış A.Ş.[1]	13.363	-
Bolu Çimento Sanayi A.Ş.[1]	8.521	10.531
Aslan Çimento A.Ş.[1]	-	2.572
OYAK Denizcilik ve Liman İşletmeleri A.Ş.[1]	11.621	15.882
İskenderun Enerji Üretim ve Ticaret A.Ş. [1]	51.953	-
Miilux Yüksek Mukavemetli Çelik Üretim A.Ş. [1]	73.531	-
İsdemir Linde Gaz Ortaklığı A.Ş.[3]	56.963	49.642
Other	4.803	4.734
	539.063	416.103

(1) Subsidiaries of the parent company
(2) Joint venture of the parent company
(3) Joint venture of subsidiary

NOTE 33 – RELATED PARTY DISCLOSURES (cont'd)

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

Major purchases from related parties	1 January - 31 December 2019	1 January - 31 December 2018
Miilux OY [2]	36.257	-
Omsan Denizcilik A.Ş.[1]	175.185	171.129
OYAK Pazarlama Hizmet ve Turizm A.Ş.[1]	130.675	104.398
Omsan Lojistik A.Ş.[1]	271.747	203.566
OYAK Savunma ve Güvenlik Sistemleri A.Ş.[1]	158.378	58.278
Omsan Logistica SRL[1]	14.399	16.342
OYAK Denizcilik ve Liman İşletmeleri A.Ş.[1]	121.928	121.671
OYAK Grup Sigorta ve Reasürans Brokerliği A.Ş. [1]	-	97.830
İsdemir Linde Gaz Ortaklığı A.Ş.[3]	91.838	77.229
Ordu Yardımlaşma Kurumu	10.998	9.268
Omsan Havacılık A.Ş.[1]	-	14.422
OYAK Elektrik Enerjisi Toptan Satış A.Ş.[1]	61.949	29.004
Other	15.347	13.397
	1.088.701	916.534

The major purchases from related parties are generally due to the purchase of services, tangible assets and energy.

(1) Subsidiaries of the parent company
(2) Joint venture of the parent company
(3) Joint venture of subsidiary

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

The period end balances are un-secured and their collections will be done in cash. As of 31 December 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:

The key management of the Group consists of the Board of Directors, the Group President and Vice Presidents the General Manager and Assistant General Managers. For the year ended 31 December 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 22.396 thousand (31 December 2018: TRY 21.509 thousand).

NOTE 34 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

(a) Capital risk management

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

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

The capital structure of the Group consists of debt which includes the financial liabilities disclosed in Note 7, cash and cash equivalents and equity attributable to equity holders of the parent company, comprising issued capital, reserves and retained earnings as disclosed in Note 23.

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

As of reporting date the net (credit) debt /equity ratio is as follows:

	Note	31 December 2019	31 December 2018
Total financial liabilities	7	7.700.977	6.120.960
Less: Cash and cash equivalents	4	10.590.024	8.659.336
Net (credit) debt		(2.889.047)	(2.538.376)
Total adjusted equity (*)		31.343.009	29.313.627
Total resources		28.453.962	26.775.251
Net (credit) debt/Total adjusted equity ratio		-9%	-9%
Distribution of net (credit) debt/ total adjusted equity		-10/110	-9/109

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

NOTE 34 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

(b) Significant accounting policies

The Group’s accounting policies related to the financial instruments are disclosed in Note 2 “Summary of Significant Accounting Policies, 2.8.8 Financial Instruments”.

(c) Financial risk management objectives

The Group manages its financial instruments through a separate treasury function which was established for that purpose. The developments are followed on a real time basis. The Group’s corporate treasury function manages the financial instruments through daily regular meetings by evaluating the domestic and international markets and by considering the daily cash inflows and outflows in accordance with the policies and regulations issued by the Group Risk Management Unit. At the end of each day, each Group company prepares a “daily cash report” and Group Risk Management Unit calculates daily for cash and cash equivalents. The information included therein is consolidated by the treasury function and used to determine the cash management strategies. Additionally, the Group’s annual payment schedules are followed through the weekly reports and annual cash management is followed by the monthly reports.

The Group utilizes derivative financial instruments as required and within the terms and conditions determined by the Group Risk Management Unit. Instruments that are highly liquid and securing a high-level yield are preferred when determining the financial instruments. In that respect, the Group has a right to claim the accrued interest on time deposits when withdraw before the predetermined maturity.

(d) Market risk

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

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

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

NOTE 34 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(e) Credit risk management

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

Credit risk of financial instruments	Receivables					Derivative financial instruments
	Trade Receivables		Other Receivables		Bank Deposits	
31 December 2019	Related Party	Other Party	Related Party	Other Party		
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	173.296	3.170.881	28.953	14.015	10.590.003	50.084
- Secured part of the maximum credit risk exposure via collateral etc.	-	2.736.481	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	173.296	3.161.120	28.953	14.015	10.590.003	50.084
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	9.761	-	-	-	-
- secured part via collateral etc.	-	4.265	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	145.360	-	81.221	-	-
- Impairment (-)	-	(145.360)	-	(81.221)	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
- Not overdue (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-

The financial assets of 9,761 thousand TL which is overdue but not impaired is in the between of 0-3 months.

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

NOTE 34 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(e) Credit risk management (cont'd)

Credit risk of financial instruments	Receivables					Derivative financial instruments
	Trade Receivables		Other Receivables		Bank Deposits	
31 December 2018	Related Party	Other Party	Related Party	Other Party		
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	68.586	4.332.888	-	11.197	8.659.299	59.393
- Secured part of the maximum credit risk exposure via collateral etc.	-	3.971.736	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	68.586	4.330.238	-	11.197	8.659.299	59.393
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	2.650	-	-	-	-
- secured part via collateral etc.	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	136.377	-	75.142	-	-
- Impairment (-)	-	(136.377)	-	(75.142)	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
- Not overdue (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-

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

NOTE 34 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(e) Credit risk management (cont'd)

Explanation on the credit risk which the Group is exposed:

In order to minimize credit risk, the Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group monitors the credibility of the parties with whom they perform transactions and also takes into account the credit rating of the related instruments when making the investment preference. The credit rating information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Before accepting any new customer, credit limits by customer are determined and defined after the assessment of the potential customer's credit quality.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. In order to minimize the credit risk, the Group has performed credit ratings considering the default risks of the counterparties and categorized the related parties.

The Group's current credit risk rating methodology includes the following categories:

Category	Description	Basis for recognizing expected credit losses
Secured receivables	Consist of secured receivables	Not generating credit losses
Recoverable receivables	The counterparty has a low risk of default and secured	Not generating credit losses
Doubtful or past due receivables	Amount is past due or there has been a significant	%100 allowance for unsecured receivables
Write-off	There is evidence indicating the asset is credit-impaired	Amount is written off

NOTE 34 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(f) Foreign currency risk management

As of reporting period, stated in Note 2.8.9 the foreign currency position of the Group in terms of original currency is calculated as follows

31 December 2019

	TRY (Total in reporting currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	RON (Original currency)
1. Trade Receivables	512.431	78.967	61.779	-	16.335
2a. Monetary financial assets	2.193.591	1.323.384	127.107	156	17.971
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	41.233	30.488	1.600	-	76
4. CURRENT ASSETS (1+2+3)	**2.747.255**	**1.432.839**	**190.486**	**156**	**34.382**
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	262.197	262.197	-	-	-
6b. Non- monetary financial assets	-	-	-	-	-
7. Other	336.825	16.430	39.212	1.094.943	121
8. NON-CURRENT ASSETS (5+6+7)	**599.022**	**278.627**	**39.212**	**1.094.943**	**121**
9. TOTAL ASSETS (4+8)	**3.346.277**	**1.711.466**	**229.698**	**1.095.099**	**34.503**
10. Trade payables	1.240.228	882.693	37.845	1.915.314	1.346
11. Financial liabilities	1.072.497	954.116	17.800	-	-
12a. Other monetary financial liabilities	703.990	698.992	314	-	2.103
12b. Other non-monetary financial liabilities	-	-	-	-	-
13. CURRENT LIABILITIES (10+11+12)	**3.016.715**	**2.535.801**	**55.959**	**1.915.314**	**3.449**
14. Trade payables	-	-	-	-	-
15. Financial liabilities	1.170.295	761.140	61.522	-	-
16a. Other monetary financial liabilities	788.877	787.967	-	-	658
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. NON-CURRENT LIABILITIES (14+15+16)	**1.959.172**	**1.549.107**	**61.522**	**-**	**658**
18. TOTAL LIABILITIES (13+17)	**4.975.887**	**4.084.908**	**117.481**	**1.915.314**	**4.107**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	**(603.780)**	**82.101**	**(103.131)**	**-**	**-**
19a. Off-balance sheet foreign currency derivative financial assets	257.101	82.101	26.313	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	860.881	-	129.444	-	-
20. Net foreign currency asset/liability position (9-18+19)	**(2.233.390)**	**(2.291.341)**	**9.086**	**(820.215)**	**30.396**
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**(2.007.668)**	**(2.420.360)**	**71.405**	**(1.915.158)**	**30.199**
22. Fair value of derivative financial instruments used in foreign currency hedge	21.078	23.572	(375)	-	-
23. Hedged foreign currency assets	860.881	-	129.444	-	-
24. Hedged foreign currency liabilities	257.101	82.101	26.313	-	-
25. Exports	5.842.476				
26. Imports	15.103.243				

NOTE 34 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(f) Foreign currency risk management (cont'd)

31 December 2018

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

NOTE 34 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(f) Foreign currency risk management (cont'd)

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

As of 31 December 2019 asset and liability balances are translated by using the following exchange rates: TRY 5,9402 = US $ 1,TRY 6,6506 = EUR 1 and TRY 0,0543= JPY 1 (31 December 2018: TRY 5,2609 = US $ 1,TRY 6,0280 = EUR 1 and TRY 0,0475= JPY 1).

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2019	Appreciation of foreign currency	Depreciation of foreign currency
1- TRY net asset/liability	(237.344)	237.344
2- Hedged portion from TRY risk (-)	8.210	(8.210)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(229.134)	229.134
5- RON net asset/liability	4.204	(4.204)
6- Hedged portion from RON risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- RON net effect (5+6+7)	4.204	(4.204)
9- Euro net asset/liability	74.631	(74.631)
10- Hedged portion from Euro risk (-)	(68.588)	68.588
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	6.043	(6.043)
13- Jap. Yen net asset/liability	(4.453)	4.453
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(4.453)	4.453
TOTAL (4+8+12+16)	**(223.340)**	**223.340**

NOTE 34 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(f) Foreign currency risk management (cont'd)

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2018	Appreciation of foreign currency	Depreciation of foreign currency
1- TRY net asset/liability	(144.108)	144.108
2- Hedged portion from TRY risk (-)	-	-
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(144.108)	144.108
5- RON net asset/liability	2.347	(2.347)
6- Hedged portion from RON risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- RON Dollars net effect (5+6+7)	2.347	(2.347)
9- Euro net asset/liability	51.442	(51.442)
10- Hedged portion from Euro risk (-)	(71.487)	71.487
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	(20.045)	20.045
13- Jap. Yen net asset/liability	2.431	(2.431)
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	2.431	(2.431)
TOTAL (4+8+12+16)	**(159.375)**	**159.375**

(g) Interest rate risk management

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

In addition, through the use of deposits in which the Group has a right to claim the accrued interest when withdrawn before the predetermined maturity, the Group minimizes the interest rate risk by increasing the share of floating rate denominated assets in its consolidated the balance sheet. Furthermore, for borrowings denominated in foreign currencies, except for US Dollars, the Group minimizes its interest rate risk by leveraging in foreign currencies that bear lower interest rate. In addition, a higher interest rate is applied to the trade receivables with a maturity when compared to the interest rate exposed for trade payables.

Interest rate sensivity

The following sensitivity analysis is based on forecasted interest rate changes for the liabilities denominated in variable interest rates. The information details the Group's sensitivity to an increase/decrease of 0,50% for US Dollars and EURO, 0,25% for Jap.Yen and 1,00% for TRY denominated interest rates.

NOTE 34 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(g) Interest rate risk management (cont'd)

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

Interest position table

	31 December 2019	31 December 2018
Floating interest rate financial instruments		
Financial liabilities	3.879.819	3.136.173

For the year round, if the US Dollars, EURO and Jap. Yen denominated interest rates increase/decrease by 100 base points in TRY, 50 base points in US Dollars and EURO and 25 base points in Jap.Yen respectively ceteris paribus, the profit before taxation and non-controlling interest after considering the effect of capitalization and hedging would be lower/higher TRY 13.486 thousand.

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and loating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

As the critical terms of the interest rate swap contracts and their corresponding hedged items are the same, the Group performs a qualitative assessment of effectiveness and it is expected that the value of the interest rate swap contracts and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying interest rates. The main source of hedge ineffectiveness in these hedge relationships is the effect of the counterparty and the Group's own credit risk on the fair value of the interest rate swap contracts, which is not reflected in the fair value of the hedged item attributable to the change in interest rates. No other sources of ineffectiveness emerged from these hedging relationships.

Interest rate swap contract assets and liabilities are included in Note 6.

NOTE 34 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(h) Liquidity risk management

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

Liquidity risk tables

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

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

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

NOTE 34 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(h) Liquidity risk management (cont'd)

31 December 2019

Contractual maturity analysis	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Borrowings from banks	7.454.327	7.873.139	2.271.570	3.442.751	1.959.355	199.463
Financial lease payables	246.650	952.562	10.664	31.992	141.900	768.006
Trade payables	2.936.622	2.936.622	2.936.622	-	-	-
Other financial liabilities (*)	374.155	374.155	374.155	-	-	-
Total liabilities	**11.011.754**	**12.136.478**	**5.593.011**	**3.474.743**	**2.101.255**	**967.469**
Derivative financial liabilities						
Derivative cash inflows	50.084	2.751.920	1.503.065	974.373	274.482	-
Derivative cash outflows	(102.723)	(2.894.582)	(1.117.886)	(959.252)	(817.444)	-
	(52.639)	**(142.662)**	**385.179**	**15.121**	**(542.962)**	**-**

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

NOTE 34 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(h) Liquidity risk management (cont'd)

31 December 2018

Contractual maturity analysis	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Borrowings from banks	6.120.960	6.374.418	1.665.280	3.196.581	1.371.859	140.698
Trade payables	1.935.922	1.935.922	1.935.922	-	-	-
Other financial liabilities (*)	431.997	431.997	431.997	-	-	-
Total liabilities	**8.488.879**	**8.742.337**	**4.033.199**	**3.196.581**	**1.371.859**	**140.698**
Derivative financial liabilities						
Derivative cash inflows	59.393	2.578.421	1.169.126	1.092.584	316.711	-
Derivative cash outflows	(4.526)	(2.646.058)	(1.107.857)	(1.069.485)	(468.716)	-
	54.867	**(67.637)**	**61.269**	**23.099**	**(152.005)**	**-**

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

NOTE 35 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES)

Categories of the financial instruments and their fair values

31 December 2019	Financial assets/ liabilities at amortized cost	Derivative financial instruments through other comprehensive income	Derivative financial instruments through profit/loss	Carrying value	Note
Financial Assets					
Cash and cash equivalents	10.590.024	-	-	10.590.024	4
Trade receivables	3.344.177	-	-	3.344.177	8
Financial investments	101.304	-	161	101.465	5
Other financial assets	42.968	-	-	42.968	9
Derivative financial instruments	-	14.584	35.500	50.084	6
Financial Liabilities					
Financial liabilities	7.700.977	-	-	7.700.977	7
Trade payables	2.936.622	-	-	2.936.622	8
Other liabilities	374.155	-	-	374.155	9/18/22
Derivative financial instruments	-	7.053	95.670	102.723	6
31 December 2018					
Financial Assets					
Cash and cash equivalents	8.659.336	-	-	8.659.336	4
Trade receivables	4.401.474	-	-	4.401.474	8
Financial investments	61.000	-	8.095	69.095	5
Other financial assets	11.197	-	-	11.197	9
Derivative financial instruments	-	19.794	39.599	59.393	6
Financial Liabilities					
Financial liabilities	6.120.960	-	-	6.120.960	7
Trade payables	1.935.922	-	-	1.935.922	8
Other liabilities	431.997	-	-	431.997	9/18/22
Derivative financial instruments	-	1.843	2.683	4.526	6

NOTE 35 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (cont'd)

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

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

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

The following methods and assumptions are used to estimate the fair values of financial instruments:

Financial assets

Financial assets that are carried at cost value including cash and cash equivalents are assumed to reflect their fair values due to their short term nature.

The carrying value of receivables, with related impairments are assumed to reflect their fair values.

Financial liabilities

Fair values of short term borrowings and trade payables are assumed to approximate their carrying values due to their short term nature.

Fair values of long term financial liabilities are assumed to approximate their carrying values due to mostly they have floating interest rates and repricing at short term.

Financial asset and liabilities at fair value		Fair value level as of reporting date		
	31 December 2019	Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	35.500	-	35.500	-
Derivative financial liabilities	(95.670)	-	(95.670)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	14.584	-	14.584	-
Derivative financial liabilities	(7.053)	-	(7.053)	-
Total	(52.639)	-	(52.639)	-

NOTE 35 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (cont'd)

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

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

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

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

NOTE 36 – SUBSEQUENT EVENTS

None.

NOTE 37 – 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 at December 31, 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 ("TFRS") 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 TFRS.