

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

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

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2021**

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

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

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 30 SEPTEMBER 2021

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

	Note	(Unaudited)	(Unaudited)	(Audited)	(Audited)
		Current Period 30 September 2021 USD'000	Current Period 30 September 2021 TRY'000	Previous Period 31 December 2020 USD'000	Previous Period 31 December 2020 TRY'000
ASSETS					
CURRENT ASSETS		4.522.945	40.156.967	3.883.556	28.507.242
Cash and Cash Equivalents		1.463.675	12.995.238	1.844.858	13.542.177
Financial Investments		1.094	9.714	5.320	39.048
Trade Receivables		777.824	6.905.911	521.467	3.827.829
<i>Due From Related Parties</i>	3	18.998	168.671	35.282	258.985
<i>Other Trade Receivables from Third Parties</i>		758.826	6.737.240	486.185	3.568.844
Other Receivables		5.880	52.211	6.338	46.520
<i>Due From Related Parties</i>	3	589	5.231	1.484	10.892
<i>Other Receivables from Third Parties</i>		5.291	46.980	4.854	35.628
Financial Derivative Instruments		30.065	266.935	5.110	37.510
Inventories	4	2.089.344	18.550.243	1.376.838	10.106.678
Prepaid Expenses		29.538	262.251	18.117	132.990
<i>Prepaid Expenses to Related Parties</i>	3	1.301	11.550	38	280
<i>Other Prepaid Expenses to Third Parties</i>		28.237	250.701	18.079	132.710
Other Current Assets		125.525	1.114.464	105.508	774.490
NON CURRENT ASSETS		4.506.069	40.007.133	4.016.984	29.486.670
Financial Investments		37	328	27	199
Other Receivables		6.200	55.045	5.357	39.325
<i>Due From Related Parties</i>	3	3.527	31.317	3.877	28.458
<i>Other Receivables from Third Parties</i>		2.673	23.728	1.480	10.867
Financial Derivative Instruments		11	94	-	-
Investments Accounted for Using Equity Method	5	30.978	275.041	31.327	229.956
Investment Properties		49.489	439.390	50.156	368.168
Property, Plant and Equipment	6	3.732.648	33.140.315	3.550.417	26.061.836
Right of Use Assets		48.078	426.860	43.273	317.644
Intangible Assets		295.380	2.622.532	55.952	410.715
<i>Goodwill</i>	7	126.620	1.124.194	-	-
<i>Other Intangible Assets</i>	6	168.760	1.498.338	55.952	410.715
Prepaid Expenses		295.073	2.619.808	241.956	1.776.075
<i>Prepaid Expenses to Related Parties</i>	3	91.050	808.388	87.646	643.367
<i>Other Prepaid Expenses to Third Parties</i>		204.023	1.811.420	154.310	1.132.708
Deferred Tax Assets	12	16.692	148.199	9.851	72.311
Other Non Current Assets		31.483	279.521	28.668	210.441
TOTAL ASSETS		9.029.014	80.164.100	7.900.540	57.993.912

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

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

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

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

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 30 SEPTEMBER 2021

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

	Note	(Unaudited)	(Unaudited)	(Audited)	(Audited)
		Current Period 30 September 2021 USD'000	Current Period 30 September 2021 TRY'000	Previous Period 31 December 2020 USD'000	Previous Period 31 December 2020 TRY'000
LIABILITIES					
CURRENT LIABILITIES		1.720.310	15.301.302	1.285.214	9.434.112
Short Term Borrowings	8	436.113	3.879.004	162.591	1.193.496
Short Term Portion of Long Term Borrowings	8	294.354	2.618.132	353.114	2.592.032
Trade Payables		546.218	4.858.333	513.173	3.766.949
<i>Due to Related Parties</i>	3	13.538	120.410	17.892	131.336
<i>Other Trade Payables to Third Parties</i>		532.680	4.737.923	495.281	3.635.613
Payables for Employee Benefits	10	25.705	228.632	26.878	197.296
Other Payables		18.649	165.875	17.967	131.885
Financial Derivative Instruments		37.544	333.939	8.117	59.582
Deferred Revenue		108.253	962.860	73.863	542.194
Current Tax Liabilities	12	211.759	1.883.489	73.117	536.715
Short Term Provisions	9	30.772	273.706	34.551	253.624
Other Current Liabilities		10.943	97.332	21.843	160.339
NON CURRENT LIABILITIES		1.241.295	11.040.696	1.013.313	7.438.224
Long Term Borrowings	8	525.227	4.671.628	383.181	2.812.743
Long Term Provisions		139.266	1.238.704	131.890	968.136
<i>Long term provisions for employee benefits</i>	10	139.266	1.238.704	131.890	968.136
Deferred Tax Liabilities	12	576.575	5.128.344	497.989	3.655.488
Other Non Current Liabilities		227	2.020	253	1.857
EQUITY		6.067.409	53.822.102	5.602.013	41.121.576
Equity Attributable to Equity Holders of the Parent		5.868.226	52.076.639	5.421.241	39.809.427
Share Capital	13	1.818.371	3.500.000	1.818.371	3.500.000
Inflation Adjustment to Capital		81.366	156.613	81.366	156.613
Treasury Shares (-)		(60.387)	(116.232)	(60.387)	(116.232)
Share Issue Premium (Discounts)		55.303	106.447	55.303	106.447
Other Comprehensive Income (Expenses) Not to be Reclassified to Profit (Loss)		(65.066)	17.263.191	(55.530)	13.067.766
<i>Revaluation Reserve of Tangible Assets</i>		10.589	95.172	10.844	77.866
<i>Actuarial (Loss) Gain funds</i>		(59.970)	(196.395)	(50.689)	(115.606)
<i>Foreign Currency Translation Reserves</i>		(15.685)	17.364.414	(15.685)	13.105.506
Other Comprehensive Income (Expense) to be Reclassified to Profit (Loss)		(147.003)	867.800	(103.971)	241.213
<i>Foreign Currency Translation Reserves</i>		(143.056)	902.902	(101.862)	256.694
<i>Cash Flow Hedging Gain (Loss)</i>		(3.947)	(35.102)	(2.109)	(15.481)
Restricted Reserves Assorted from Profit		1.178.392	4.628.583	1.041.255	3.597.448
Retained Earnings		1.671.421	14.866.456	2.172.478	15.947.079
Net Profit for the Period		1.335.829	10.803.781	472.356	3.309.093
Non-Controlling Interests		199.183	1.745.463	180.772	1.312.149
TOTAL LIABILITIES AND EQUITY		9.029.014	80.164.100	7.900.540	57.993.912

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

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

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

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

CONDENSED CONSOLIDATED PROFIT OR LOSS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2021

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

		(Unaudited) Current Period 1 January - 30 September 2021	(Unaudited) Current Period 1 January - 30 September 2021	(Unaudited) Current Period 1 July- 30 September 2021	(Unaudited) Previous Period 1 January - 30 September 2020	(Unaudited) Previous Period 1 January - 30 September 2020	(Unaudited) Previous Period 1 July- 30 September 2020
	Note	USD'000	TRY'000	TRY'000	USD'000	TRY'000	TRY'000
Revenue	14	5.324.172	43.060.307	18.262.741	3.264.921	21.936.023	8.152.865
Cost of Sales	14	(3.312.360)	(26.789.372)	(11.028.836)	(2.745.302)	(18.444.861)	(6.727.901)
GROSS PROFIT		2.011.812	16.270.935	7.233.905	519.619	3.491.162	1.424.964
Marketing Expenses	15	(30.644)	(247.840)	(81.675)	(28.574)	(191.979)	(65.692)
General Administrative Expenses	15	(53.129)	(429.693)	(157.154)	(51.860)	(348.434)	(113.885)
Research and Development Expenses		(3.770)	(30.494)	(12.586)	(3.044)	(20.449)	(6.995)
Other Operating Income	15	20.383	164.848	43.927	88.433	594.158	258.353
Other Operating Expenses	15	(15.586)	(126.060)	(40.790)	(16.194)	(108.802)	(37.843)
OPERATING PROFIT		1.929.066	15.601.696	6.985.627	508.380	3.415.656	1.458.902
Income from Investing Activities		1.732	14.009	5.255	23.189	155.798	148.784
Expenses from Investing Activities		(1.930)	(15.606)	205	(6.079)	(40.844)	(1.778)
Share of Investments' Profit Accounted by Using The Equity Method	5	547	4.425	5.725	462	3.104	(5.673)
OPERATING PROFIT BEFORE FINANCE INCOME (EXPENSES)		1.929.415	15.604.524	6.996.812	525.952	3.533.714	1.600.235
Finance Income	16	83.191	1.097.534	165.698	17.733	340.965	58.748
Finance Expense	16	(40.231)	(325.373)	(110.003)	(55.070)	(370.002)	(103.268)
PROFIT BEFORE TAX		1.972.375	16.376.685	7.052.507	488.615	3.504.677	1.555.715
Tax (Expense) Income	12	(579.792)	(5.113.890)	(1.840.180)	(258.032)	(1.955.455)	(933.351)
Current Corporate Tax (Expense) Income		(526.411)	(4.682.162)	(1.896.705)	(203.627)	(1.589.921)	(689.616)
Deferred Tax (Expense) Income		(53.381)	(431.728)	56.525	(54.405)	(365.534)	(243.735)
NET PROFIT FOR THE PERIOD		1.392.583	11.262.795	5.212.327	230.583	1.549.222	622.364
Non-Controlling Interests		56.754	459.014	209.701	14.826	99.613	40.756
Equity Holders of the Parent		1.335.829	10.803.781	5.002.626	215.757	1.449.609	581.608
EARNINGS PER SHARE			3,0868	1,4293		0,4142	0,1662
(TRY 1 Nominal value per share)							

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

CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2021

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

		(Unaudited) Current Period 1 January - 30 September 2021 USD'000	(Unaudited) Current Period 1 January - 30 September 2021 TRY'000	(Unaudited) Current Period 1 July- 30 September 2021 TRY'000	(Unaudited) Previous Period 1 January - 30 September 2020 USD'000	(Unaudited) Previous Period 1 January - 30 September 2020 TRY'000	(Unaudited) Previous Period 1 July- 30 September 2020 TRY'000
	Note						
PROFIT FOR THE PERIOD		1.392.583	11.262.795	5.212.327	230.583	1.549.222	622.364
OTHER COMPREHENSIVE INCOME							
Not to be reclassified subsequently to profit or loss							
Increase (Decrease) in Revaluation Reserve of Tangible Assets		(262)	17.306	1.655	18	23.356	12.467
Actuarial Gain (Loss) of Defined Benefit Plans	10	(11.878)	(103.399)	-	(12.979)	(88.803)	-
Tax Effect of Actuarial Gain (Loss) of Defined Benefit Plans	12	2.376	20.680	-	2.596	17.761	-
Foreign Currency Translation Gain (Loss)		-	4.976.532	632.955	-	6.453.048	3.325.079
To be reclassified subsequently to profit or loss							
Gain (Loss) in Cash Flow Hedging Reserves		(2.523)	(25.715)	(95.370)	(806)	(3.682)	(15.162)
Tax Effect of Gain (Loss) in Cash Flow Hedging Reserves	12	763	6.782	23.764	177	810	3.336
Foreign Currency Translation Gain (Loss)		(45.422)	3.077.347	681.461	(45.948)	3.114.944	1.612.055
OTHER COMPREHENSIVE INCOME (LOSS)		(56.946)	7.969.533	1.244.465	(56.942)	9.517.434	4.937.775
TOTAL COMPREHENSIVE INCOME		1.335.637	19.232.328	6.456.792	173.641	11.066.656	5.560.139
Distribution of Total Comprehensive Income							
Non-controlling Interests		52.377	689.614	249.322	9.863	363.619	178.771
Equity Holders of the Parent		1.283.260	18.542.714	6.207.470	163.778	10.703.037	5.381.368

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2021

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

(Unaudited)	Note				Other comprehensive income (expense) not to be reclassified subsequently to profit or loss			Other comprehensive income (expense) to be reclassified subsequently to profit or loss			Retained Earnings			Equity Attributable to the Parent	Non-controlling Interests	Total Shareholders' Equity
		Share Capital	Inflation Adjustment to Capital	Treasury Shares (-)	Share Issue Premium (Discounts)	Revaluation Reserve of Tangible Assets	Foreign Currency Translation Reserves	Actuarial Gain (Loss) Funds	Cash Flow Hedging Gain (Loss)	Foreign Currency Translation Reserves	Restricted Reserves Assorted from Profit	Retained Earnings	Net Profit For The Period			
1 January 2021 (Previously reported)		3.500.000	156.613	(116.232)	106.447	77.866	17.198.251	(115.606)	(15.481)	7.628.480	3.597.448	4.482.548	3.309.093	39.809.427	1.312.149	41.121.576
Effect of change in accounting principle	2.5	-	-	-	-	-	(4.092.745)	-	-	(7.371.786)	-	11.464.531	-	-	-	-
1 January 2021		3.500.000	156.613	(116.232)	106.447	77.866	13.105.506	(115.606)	(15.481)	256.694	3.597.448	15.947.079	3.309.093	39.809.427	1.312.149	41.121.576
Net profit for the period		-	-	-	-	-	-	-	-	-	-	10.803.781	-	10.803.781	459.014	11.262.795
Other comprehensive income (loss)		-	-	-	-	17.306	4.976.532	(80.789)	(19.621)	2.845.505	-	-	-	7.738.933	230.600	7.969.533
Total comprehensive income (loss)		-	-	-	-	17.306	4.976.532	(80.789)	(19.621)	2.845.505	-	-	10.803.781	18.542.714	689.614	19.232.328
Dividends (*)		-	-	-	-	-	-	-	-	-	-	(6.275.502)	-	(6.275.502)	(256.300)	(6.531.802)
Transfers		-	-	-	-	-	-	-	-	1.031.135	2.277.958	(3.309.093)	-	-	-	-
Increase (decrease) due to other changes	2.1	-	-	-	-	-	(717.624)	-	-	(2.199.297)	-	2.916.921	-	-	-	-
30 September 2021		3.500.000	156.613	(116.232)	106.447	95.172	17.364.414	(196.395)	(35.102)	902.902	4.628.583	14.866.456	10.803.781	52.076.639	1.745.463	53.822.102
(Unaudited)																
1 January 2020 (Previously reported)		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
Effect of change in accounting principle	2.5	-	-	-	-	-	(3.018.598)	-	-	(5.127.411)	-	8.146.009	-	-	-	-
1 January 2020		3.500.000	156.613	(116.232)	106.447	58.952	9.346.498	(102.008)	6.474	336.351	3.485.761	10.203.915	3.316.527	30.299.298	948.177	31.247.475
Net profit for the period		-	-	-	-	-	-	-	-	-	-	-	1.449.609	1.449.609	99.613	1.549.222
Other comprehensive income (loss)		-	-	-	-	23.356	6.453.048	(69.331)	(2.872)	2.849.227	-	-	-	9.253.428	264.006	9.517.434
Total comprehensive income (loss)		-	-	-	-	23.356	6.453.048	(69.331)	(2.872)	2.849.227	-	-	1.449.609	10.703.037	363.619	11.066.656
Dividends (*)		-	-	-	-	-	-	-	-	-	-	(780.198)	-	(780.198)	(35.761)	(815.959)
Transfers		-	-	-	-	-	-	-	-	111.687	3.204.840	(3.316.527)	-	-	-	-
Increase (decrease) due to other changes	2.1	-	-	-	-	-	(1.892.322)	-	-	(2.441.834)	-	4.334.156	-	-	-	-
30 September 2020		3.500.000	156.613	(116.232)	106.447	82.308	13.907.224	(171.339)	3.602	743.744	3.597.448	16.962.713	1.449.609	40.222.137	1.276.035	41.498.172

(*) At Annual General Assembly dated 17 March 2021, dividend distribution (gross dividend per share: TRY 1,85 (2020: TRY 0,23) amounting to TRY 6.475.000 thousand from 2020 net profit (14 July 2020: TRY 805.000 thousand) and retained earnings was approved. As of 17 March 2021, which is the dividend distribution decision date of the Company, dividend pertaining to the shares owned by the Company due to the ownership of 3.08% of its own shares with a nominal value of 1 TRY, is shown by netting off the amount of dividends to be distributed. Dividend distribution started on 24 March 2021. The Group paid TRY 256.300 thousand (2020: TRY 35.761 thousand) dividend to non-controlling shares on Isdemir and Erdemir Maden, which are of subsidiaries of the Group in current year.

Retained earnings; in the condensed consolidated financial statements, in accordance with TAS 21, the details of conversion of retained earnings to the presentation currency, Turkish Lira, in the condensed consolidated statement of financial position dated 30 September 2021 by converting to US Dollars at historical rates, are explained in Note 2.1.

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

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2021

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

	Note	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		Current Period 1 January - 30 September 2021	Current Period 1 January - 30 September 2021	Previous Period 1 January - 30 September 2020	Previous Period 1 January - 30 September 2020
		USD'000	TRY'000	USD'000	TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit (Loss) for The Period		1,392,583	11,262,795	230,583	1,549,222
Adjustments to Reconcile Profit (Loss)		656,035	6,185,308	381,905	2,782,812
Adjustments for Depreciation and Amortisation Expenses	6/14/15	163,931	1,325,825	156,238	1,049,722
Adjustments for Impairment Loss (Reversal of Impairment Loss)		(4,597)	(37,185)	3,121	20,973
Adjustments for Provision (Reversal of Provision) for Receivables		(2,998)	(24,250)	(260)	(1,742)
Adjustments for Provision (Reversal of Provision) for Inventories	4	(1,599)	(12,935)	3,148	21,152
Adjustments for Provision (Reversal of Provision) for Property, Plant and Equipment	6	-	-	233	1,563
Adjustments for Provisions		31,076	251,337	28,582	199,223
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	10	23,949	193,703	23,682	159,108
Adjustments for Provision (Reversal of Provision) for Pending Claims and/or Lawsuits	9	7,127	57,634	4,900	40,115
Adjustments for Interest (Income) and Expenses		(25,342)	(204,969)	(2,457)	(16,506)
Adjustments for Interest Income	16	(45,233)	(365,837)	(45,042)	(302,622)
Adjustments for Interest Expense	16	28,065	226,980	43,944	295,248
Deferred Financial Expense from Credit Purchases	15	-	-	1,053	7,076
Unearned Financial Income from Credit Sales		(8,174)	(66,112)	(2,412)	(16,208)
Adjustments for Unrealised Foreign Exchange Differences		(14,539)	(133,692)	(40,606)	(286,779)
Adjustments for Fair Value (Gains) Losses		(17,216)	(139,235)	(4,477)	(30,082)
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments	16	(17,216)	(139,235)	(4,477)	(30,082)
Adjustments for Undistributed Profits of Investments Accounted for Using Equity Method	5	(547)	(4,425)	(462)	(3,104)
Adjustments for Tax (Income) Expenses	12	579,792	5,113,890	258,032	1,955,455
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		1,702	13,762	(15,791)	(106,090)
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment		1,702	13,762	(15,791)	(106,090)
Adjustments for Reconciliation of Profit (Loss)		(58,225)	-	(275)	-
Changes in Working Capital		(898,574)	(7,976,617)	300,291	2,341,208
Adjustments for Decrease (Increase) in Trade Receivables		(220,084)	(1,954,012)	97,307	759,774
Decrease (Increase) in Trade Receivables from Related Parties		16,284	144,578	(4,228)	(33,012)
Decrease (Increase) in Trade Receivables from Third Parties		(2,36,368)	(2,098,590)	101,535	792,786
Adjustments for Decrease (Increase) in Other Receivables Related from Operations		(745)	(6,618)	(3,164)	(24,705)
Decrease (Increase) in Other Receivables from Operations from Third Parties		(745)	(6,618)	(3,164)	(24,705)
Decrease (Increase) in Derivative Financial Instruments		(24,966)	(221,660)	(2,504)	(19,551)
Adjustments for Decrease (Increase) in Inventories		(672,566)	(5,971,620)	209,175	1,633,238
Decrease (Increase) in Prepaid Expenses		(1,837)	(16,906)	(19,963)	(155,871)
Adjustments for Increase (Decrease) in Trade Payables		16,451	146,327	(73,086)	(570,655)
Increase (Decrease) in Trade Payable to Related Parties		(4,354)	(38,726)	(2,882)	(22,502)
Increase (Decrease) in Trade Payable to Third Parties		20,805	185,053	(70,204)	(548,153)
Adjustments for Increase (Decrease) in Other Payables Related from Operations		(37,377)	(330,867)	29,884	233,335
Increase (Decrease) in Other Payables to Third Parties Related from Operations		(37,377)	(330,867)	29,884	233,335
Increase (Decrease) in Derivative Liabilities		44,042	391,731	(3,287)	(25,664)
Adjustments for Other Increase (Decrease) in Working Capital		(1,492)	(12,992)	65,929	511,307
Decrease (Increase) in Other Assets Related from Operations		(19,256)	(170,989)	14,568	110,280
Increase (Decrease) in Other Payables Related from Operations		17,764	157,997	51,361	401,027
Cash Flows Provided by Operating Activities		1,150,044	9,471,486	912,779	6,673,242
Payments Related to Provisions for Employee Termination Benefits	10	(6,405)	(51,807)	(7,414)	(49,814)
Payments Related to Other Provisions	9	(6,965)	(56,331)	(9,252)	(62,158)
Income Taxes Refund (Paid)	12	(387,769)	(3,335,388)	(152,898)	(1,129,186)
CASH FLOWS FROM INVESTING ACTIVITIES		(628,191)	(5,203,518)	(247,605)	(1,901,936)
Cash Outflow Due to Share Purchases of Subsidiaries' not End Up with Losing Control	2.9	(293,791)	(2,096,850)	-	-
Cash Inflow Due to Share Sales and Capital Deduction of Subsidiaries' or Joint Ventures'		-	-	1,981	13,333
Cash Inflows Arising From Purchase of Third Parties' Debt Instruments or Funds		9,057	70,000	13,350	79,700
Cash Outflows Arising From Purchase of Third Parties' Debt Instruments or Funds		(4,885)	(38,410)	(6,636)	(42,810)
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		1,505	12,181	23,356	156,916
Cash Inflow from Sales of Property, Plant and Equipment		1,505	12,181	23,356	156,916
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(288,189)	(2,330,789)	(216,424)	(1,454,086)
Cash Outflow from Purchase of Property, Plant and Equipment	6	(286,093)	(2,313,839)	(215,977)	(1,451,082)
Cash Outflow from Purchase of Intangible Assets	6	(2,096)	(16,950)	(447)	(3,004)
Cash Advances and Debts Given		(52,747)	(826,042)	(63,553)	(657,152)
Other Cash Advances and Debts Given to Related Parties		(3,404)	(30,222)	-	-
Other Cash Advances and Debts Given		(49,343)	(795,820)	(63,553)	(657,152)
Dividends Received	5	859	6,392	321	2,163
CASH FLOWS FROM FINANCING ACTIVITIES		(446,307)	(1,657,783)	(232,140)	598,692
Cash Inflow from Borrowings		841,431	6,880,781	860,675	5,737,822
Cash Inflow from Loans		841,431	6,880,781	860,675	5,737,822
Cash Outflow from Repayments of Borrowings		(476,860)	(2,295,930)	(948,227)	(4,111,484)
Cash Outflow from Loan Repayments		(411,635)	(1,745,930)	(948,227)	(4,111,484)
Cash Outflows from Repayments of Issued Debt Instruments		(65,225)	(550,000)	-	-
Cash Outflow from Debt Payments for Leasing Contracts		(6,006)	(48,576)	(5,881)	(45,916)
Dividends Paid		(826,556)	(6,365,677)	(118,824)	(815,724)
Interest Paid		(27,879)	(225,478)	(37,389)	(251,203)
Interest Received		49,563	397,097	35,509	232,733
Other Cash Inflow (Outflow)		-	-	(18,003)	(147,536)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		(325,593)	(833,341)	263,470	4,128,840
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(52,128)	310,597	(78,925)	638,161
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(377,721)	(522,744)	184,545	4,767,001
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		1,840,609	13,510,993	1,780,737	10,577,931
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		1,462,888	12,988,249	1,965,282	15,344,932

- As of 30 September 2021, the Group's total amount of time deposit interest accrual is TRY 6.989 thousand (USD 787 thousand) (30 September 2020: TRY 31.779 thousand (USD 4.071 thousand)).
- Bank deposits with maturities of more than 3 months in financial investments are reported in condensed consolidated statement of cash flow under "Other Cash Inflow (Outflow)".
- Since the functional currency is US Dollars, the exchange rate differences between the accrual and payment dates of the dividend payables to the shareholders, whose original currency is followed as Turkish Lira in the condensed consolidated statement of financial position, are reported under the "Other Adjustments for Reconciliation of Profit (Loss)" in the condensed consolidated cash flow statements.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2021

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

NOTE 1 – GROUP’S ORGANIZATION AND NATURE OF OPERATIONS

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

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

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

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

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

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

Name of the Company	Country of		2021	2020
	Operation	Operation	Effective Sharehold Interest %	Effective Sharehold Interest %
İskenderun Demir ve Çelik A.Ş.	Turkey	Integrated Steel Production	94,87	94,87
Erdemir Madencilik San. ve Tic. A.Ş.	Turkey	Iron Ore and Pellet	90	90
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Turkey	Steel Service Center	100	100
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100	100
Erdemir Romania S.R.L.	Romania	Silicon Steel Production	100	100
Erdemir Asia Pacific Private Limited	Singapore	Trading	100	100
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
Kümaş Manyezit Sanayi A.Ş.	Turkey	Magnesite Ore, Refractor	100	-
Odak Refrakter ve Madencilik San. Tic. A.Ş.	Turkey	Recycling	100	-
Yenilikçi Yapı Malzemeleri ve Üretim San. Tic. A.Ş.	Turkey	Special Purpose Entity	100	-

The purchase of the all shares of Kümaş Manyezit Sanayi A.Ş. (and its subsidiaries) was completed on 3 February 2021. The share price dated 3 February 2021 has been subject to ultimate adjustment in accordance with the financial statements prepared as of the transfer date, and as a result of the adjustment, the ultimate share price has amounted to USD 295.943 thousand (TRY 2.112.206 thousand) (Note 2.9 and Note 7).

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2021

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

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

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

	Paid Hourly Personnel	Paid Monthly Personnel	30 September 2021 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.067	1.784	5.851
İskenderun Demir ve Çelik A.Ş.	3.139	1.681	4.820
Erdemir Madencilik San. ve Tic. A.Ş.	155	158	313
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	228	79	307
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	284	284
Erdemir Romania S.R.L.	211	40	251
Erdemir Asia Pacific Private Limited	-	1	1
Kümaş Manyezit Sanayi A.Ş.	567	120	687
Odak Refrakter ve Madencilik San. Tic. A.Ş.	11	4	15
Erdemir Enerji Üretim A.Ş.	-	5	5
	<u>8.378</u>	<u>4.156</u>	<u>12.534</u>

	Paid Hourly Personnel	Paid Monthly Personnel	31 December 2020 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.001	1.739	5.740
İskenderun Demir ve Çelik A.Ş.	2.988	1.714	4.702
Erdemir Madencilik San. ve Tic. A.Ş.	156	154	310
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	231	74	305
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	249	249
Erdemir Romania S.R.L.	192	39	231
Erdemir Asia Pacific Private Limited	-	1	1
	<u>7.568</u>	<u>3.970</u>	<u>11.538</u>

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

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

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

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

The financial statements are prepared on the basis of historical cost, with the exception of derivative financial instruments carried at fair value and revaluation of iron ore and fixed assets used in the production of silicon flat steel at the fair value determined at the date of purchase. In determining the historical cost, generally the fair value of the amount paid for the assets is taken as basis.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2021

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

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

2.1 Basis of Presentation (cont’d)

In accordance with the Turkish Accounting Standard No: 34 “Interim Financial Reporting”, entities are allowed to prepare a complete or condensed set of interim financial statements. In this respect, the Group has preferred to prepare condensed interim consolidated financial statements in the interim period. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements as at 31 December 2020.

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”, Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. “Ersem” and Kümaş Manyezit Sanayi A.Ş. “Kümaş” are US Dollars while the functional currency of Erdemir Madencilik San. ve Tic. A.Ş. “Ermaden” and Erdemir Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş., Erdemir Enerji Üretim A.Ş., Odak Refrakter ve Madencilik San. Tic. A.Ş. and Yenilikçi Yapı Malzemeleri ve Üretim San. Tic. A.Ş. are Turkish Lira.

The accompanying condensed consolidated 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 subsidiaries abroad

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

Functional currency of the joint venture

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

Presentation currency translation

In accordance with the Public Oversight, Accounting and Auditing Standards Authority's (“POA”) announcement "On the Next Measurement of Foreign Currency Monetary Items According to Turkish Accounting Standards" dated 15 March 2021, the Group carried out a valuation for the assets and liabilities in the condensed consolidated financial statements based on the current buying and selling rates effective as of the end of the reporting period, and translated them into the presentation currency at the same exchange rates.

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

- a) The assets on condensed financial position as of 30 September 2021 are translated from US Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 8,8785= US \$ 1 and TRY 10,2933= EUR 1 and the liabilities on condensed financial position as of 30 September 2021 are translated from US Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 8,8945= US \$ 1 and TRY 10,3118= EUR 1 on the balance sheet date (31 December 2020: TRY 7,3405= US \$ 1, TRY 9,0079= EUR 1).

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2021

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

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

2.1 Basis of Presentation (cont’d)

Presentation currency translation (cont’d)

- b) For the nine months period ended 30 September 2021, condensed consolidated statements of profit or loss are translated from the average TRY 8,0877 = US \$ 1 and TRY 9,6767 =EUR 1 rates of 2021 January – September period (30 September 2020: TRY 6,7187 = US \$ 1 TRY 7,5615 = 1 EUR).
- c) Earnings of previous years are carried in US Dollar in the condensed consolidated financial statements after being translated into US Dollar at the historical currency rates as per TAS 21, and retained earnings in the statement of condensed consolidated financial position as of 30 September 2021 are presented by being translated at the TRY 8,8945 = US \$ 1 rate, which is the effective foreign currency selling rate as of 30 September 2021 as announced by the Central Bank of the Republic of Turkey (31 December 2020: TRY 7,3405 = US \$ 1).
- d) Exchange differences arising from translation to TRY presentation currency are shown in other comprehensive income as of foreign currency translation reserve.
- e) Share capital and other reserves are presented in the accompanying financial statements at their values in the statutory records and other equity items at their historical cost values. The differences between the values arising from translation of the historical values of these items into the presentation currency and their carrying values from statutory records are recognized as foreign currency translation differences in the statement of other comprehensive income.

USD amounts presented in the condensed interim financial statements

The figures in USD amounts presented in the accompanying condensed interim consolidated financial statements comprising the condensed consolidated statements of financial position as of 30 September 2021 and 31 December 2020, condensed consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows for the interim period ended 30 September 2021 and 2020 represent the condensed consolidated financial statements prepared according to USD reporting currency within the frame of functional currency change that the Company has made, which is effective as of 1 July 2013, prepared in accordance with the TAS 21- Effects of Changes in Foreign Exchange Rates.

Going concern

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

Approval of the consolidated financial statements

The condensed interim consolidated financial statements have been approved and authorized to be published on 26 October 2021 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

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

The Group’s condensed consolidated financial statements are 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. Accordingly, the reclassified condensed consolidated financial statements are detailed in Note 2.5.

2.3 Adoption of New and Revised Financial Reporting Standards

The accounting policies adopted in preparation of the interim condensed consolidated financial statements as of 30 September 2021 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 2021 summarized below.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2021**

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

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

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

Amendments that are mandatorily effective from 2021

**Amendments to TFRS 9, TAS 39, TFRS 7, TFRS 4 and TFRS 16 Interest Rate Benchmark Reform
— Phase 2**

The amendments in Interest Rate Benchmark Reform — Phase 2 (Amendments to TFRS 9, TAS 39, TFRS 7, TFRS 4 and TFRS 16) introduce a practical expedient for modifications required by the reform, clarify that hedge accounting is not discontinued solely because of the IBOR reform, and introduce disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity’s progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition.

The amendments to TFRS 9, TAS 39, TFRS 7, TFRS 4 and TFRS 16 are all effective for annual periods beginning on or after 1 January 2021. Early application is permitted.

The Group assessed that the adoption of this amendment does not have any effect on the Group’s consolidated financial statements.

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 TAS 1	:Classification of Liabilities as Current or Non-Current
Amendments to TFRS 3	:Reference to the Conceptual Framework
Amendments to TAS 16	:Property, Plant and Equipment – Proceeds before Intended Use
Amendments to TAS 37	:Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to TFRS Standards 2018-2020	:Amendments to TFRS 1, TFRS 9 and TAS 41
Amendments to TFRS 4	:Extension of the Temporary Exemption from Applying TFRS 9
Amendments to TFRS 16	:COVID-19 Related Rent Concessions beyond 30 June 2021
Amendments to TAS 1	:Disclosure of Accounting Policies
Amendments to TAS 8	:Definition of Accounting Estimates
Amendments to TAS 12	:Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2021

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

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

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

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

TFRS 17 Insurance Contracts

TFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. TFRS 17 supersedes TFRS 4 Insurance Contracts as of 1 January 2023.

Amendments to TAS 1 Classification of Liabilities as Current or Non-Current

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

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

Amendments to TFRS 3 Reference to the Conceptual Framework

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

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

Amendments to TAS 16 Proceeds before Intended Use

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

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

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

The amendments to TAS 37 specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts.

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2021

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

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

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

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

Annual Improvements to TFRS Standards 2018-2020 Cycle Amendments to TFRS 9 Financial Instruments

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

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

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

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

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

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

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

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

Amendments to TAS 1 Disclosure of Accounting Policies

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

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

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

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

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

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

Amendments to TAS 8 Definition of Accounting Estimates

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

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

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

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

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

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

2.4 Summary of Significant Accounting Policies

The condensed interim consolidated financial statements for the nine months period ended 30 September 2021 have been prepared in accordance with TAS 34. The accounting policies used in the preparation of these condensed interim consolidated financial statements for the nine months period ended 30 September 2021, are consistent with those used in the preparation of annual consolidated financial statements for the year ended 31 December 2020. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2020.

As explained in Note 1 there has been change in total ownership interests and effective interests of the subsidiaries, included in the scope of consolidation as of 30 September 2021, from the interests reported as of 31 December 2020.

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

2.5 Restatement and Errors in the Accounting Policies and Estimates

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

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

As of 31 December 2020, the classifications in the condensed consolidated statement of financial position are as follows:

Account name	(Previously reported)	(Restated)	(Change)
	<u>31 December 2020</u>	<u>31 December 2020</u>	<u>31 December 2020</u>
Retained Earnings	4.482.548	15.947.079	11.464.531
<i>Other Comprehensive Income (Expenses) Not to be Reclassified to Profit (Loss)</i>			
Foreign Currency Translation Reserves	17.198.251	13.105.506	(4.092.745)
<i>Other Comprehensive Income (Expense) to be Reclassified to Profit (Loss)</i>			
Foreign Currency Translation Reserves	7.628.480	256.694	<u>(7.371.786)</u>
			<u>-</u>

As of 1 January 2020, the classifications in the condensed consolidated statement of financial position are as follows:

Account name	(Previously reported)	(Restated)	(Change)
	<u>1 January 2020</u>	<u>1 January 2020</u>	<u>1 January 2020</u>
Retained Earnings	2.057.906	10.203.915	8.146.009
<i>Other Comprehensive Income (Expenses) Not to be Reclassified to Profit (Loss)</i>			
Foreign Currency Translation Reserves	12.365.096	9.346.498	(3.018.598)
<i>Other Comprehensive Income (Expense) to be Reclassified to Profit (Loss)</i>			
Foreign Currency Translation Reserves	5.463.762	336.351	<u>(5.127.411)</u>
			<u>-</u>

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

2.6 Significant changes in current period

The Group management took the necessary actions to minimize the impacts of COVID-19 pandemic on the Group’s operations and financial position. The manufacturing activities of the Group were not suspended during the lockdowns.

In the preparations of the consolidated interim financial statements as at 30 September 2021, the Group assessed the possible impacts of COVID-19 pandemic on the financial statements and reviewed the critical estimates and assumptions used in the preparation of the consolidated financial statements. Within this scope, the Group evaluated the trade receivables, inventories, property, plant and equipment and investment properties included in the consolidated interim financial statements as at 30 September 2021 for any possible impairment but no impairment were identified.

2.7 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the consolidated profit or loss on disposal.

2.8 Segment Reporting

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

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

2.9 Business Combinations

The Company has purchased the total shares of Kümaş Manyezit Sanayi A.Ş. (and its subsidiaries) on 3 February 2021 from Yıldız Holding A.Ş. and Gözde Girişim Sermayesi Yatırım Ortaklığı A.Ş.. The share price dated 3 February 2021 has been subject to ultimate adjustment in accordance with the financial statements prepared as of the transfer date, and as a result of the adjustment, the ultimate share price has amounted to USD 295.943 thousand (TRY 2.112.206 thousand).

The consolidated financial statements of Kümaş Manyezit Sanayi A.Ş., which has been audited as of the date of acquisition, are subject to goodwill calculation as of the reporting period (Note 7).

	3 February 2021 USD'000	3 February 2021 TRY'000
Shares of the subsidiary purchase cost	295.943	2.112.206
Assets	261.533	1.866.613
Cash and cash equivalents	2.152	15.356
Trade receivables	24.095	171.974
Inventories	29.928	213.603
Property, plant and equipment	75.478	538.704
Intangible assets	116.900	834.339
Other current and non-current assets	12.980	92.637
Liabilities	(92.210)	(658.118)
Short term borrowings	(10.000)	(71.372)
Trade payables	(16.594)	(118.433)
Other payables	(35.944)	(256.537)
Payables for employee benefits	(2.844)	(20.297)
Deferred tax liabilities	(18.897)	(134.872)
Other current and non-current liabilities	(7.931)	(56.607)
Fair value of identifiable assets and liabilities	169.323	1.208.495
Shares aquired (%)	100%	100%
Fair value of identifiable assets and liabilities	169.323	1.208.495
Goodwill	126.620	903.711
Paid in cash and cash equivalents	295.943	2.112.206
Cash and cash equivalents obtained	(2.152)	(15.356)
Net cash outflow from the acquisition	293.791	2.096.850

Identifiable assets and liabilities were converted to TRY using the exchange rate of TRY 7,1372 = 1 USD as of 3 February 2021 announced by the Central Bank of the Republic of Turkey.

The Group recorded the amount of goodwill arising during the acquisition on a provisional basis as of 30 September 2021.

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NOTE 3 –RELATED PARTY DISCLOSURES

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

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

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

	30 September 2021	31 December 2020
<u>Due from related parties (short term)</u>		
OYAK Renault Otomobil Fab. A.Ş. ⁽²⁾	113.925	98.111
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽³⁾	6.372	3.807
OYAK Çimento Fabrikaları A.Ş. ⁽¹⁾	32.864	32.903
Miilux Yüksek Mukavemetli Çelik Üretim A.Ş. ⁽¹⁾	12.701	122.328
Other	2.809	1.836
	<u>168.671</u>	<u>258.985</u>

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

	30 September 2021	31 December 2020
<u>Other receivables from related parties (short term)</u>		
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽³⁾	-	6.488
OYAK NYK RO-RO Liman İşletmeleri A.Ş. ⁽¹⁾	5.231	4.404
	<u>5.231</u>	<u>10.892</u>
	30 September 2021	31 December 2020
<u>Other receivables from related parties (long term)</u>		
OYAK NYK RO-RO Liman İşletmeleri A.Ş. ⁽¹⁾	31.317	28.458
	<u>31.317</u>	<u>28.458</u>

Short term and long term other receivables from related parties, consists of monetary receivables within the scope of sub-leases in accordance with TFRS 16. The dividend receivable from the joint venture of İsdemir, the subsidiary of the Company, has been collected as of the reporting period.

- (1) Subsidiaries of the parent company
- (2) Joint venture of the parent company
- (3) Joint venture of the subsidiary
- (4) Ultimate partner

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NOTE 3 –RELATED PARTY DISCLOSURES (cont’d)

	30 September	31 December
	2021	2020
<u>Prepaid expenses to related parties(short term)</u>		
OYAK Elektrik Enerjisi Toptan Satış A.Ş. ⁽¹⁾	7.265	280
OYAK Akaryakıt ve LPG Yatırımları A.Ş. ⁽¹⁾	4.285	-
	<u>11.550</u>	<u>280</u>
	30 September	31 December
	2021	2020
<u>Prepaid expenses to related parties (long term)</u>		
Ordu Yardımlaşma Kurumu ⁽⁴⁾	739.885	611.717
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	68.503	31.650
	<u>808.388</u>	<u>643.367</u>

Prepaid expenses generally related with port services and advance transactions of fixed assets. The Group paid an advance payment of TRY 650.728 thousand to its ultimate partner Ordu Yardımlaşma Kurumu for the purchase of fixed assets on 9 December 2020.

	30 September	31 December
	2021	2020
<u>Due to related parties (short term)</u>		
Omsan Lojistik A.Ş. ⁽¹⁾	46.559	39.134
Omsan Denizcilik A.Ş. ⁽¹⁾	-	12.248
OYAK Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	27.206	19.171
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	10.363	20.228
Omsan Logistica SRL ⁽¹⁾	4.009	2.093
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽¹⁾	16.266	20.904
Doco Petrol ve Danışmanlık A.Ş. ⁽¹⁾	1.663	1.676
Other	14.344	15.882
	<u>120.410</u>	<u>131.336</u>

Trade payables to related parties mainly arise from purchase of services and fixed assets.

- (1) Subsidiaries of the parent company
- (2) Joint venture of the parent company
- (3) Joint venture of the subsidiary
- (4) Ultimate partner

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NOTE 3 –RELATED PARTY DISCLOSURES (cont’d)

<u>Major sales to related parties</u>	1 January - 30 September 2021	1 January - 30 September 2020
Ordu Yardımlaşma Kurumu ⁽⁴⁾	-	156.745
OYAK Renault Otomobil Fab. A.Ş. ⁽²⁾	296.231	289.981
OYAK Çimento Fabrikaları A.Ş. ⁽¹⁾	51.892	38.943
OYAK Elektrik Enerjisi Toptan Satış A.Ş. ⁽¹⁾	-	1.588
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽¹⁾	1.022	833
İskenderun Enerji Üretim ve Ticaret A.Ş. ⁽¹⁾	664.509	205.445
Miilux Yüksek Mukavemetli Çelik Üretim A.Ş. ⁽¹⁾	50.170	17.977
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽³⁾	60.524	44.144
Other	3.109	2.662
	<u>1.127.457</u>	<u>758.318</u>

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

<u>Major purchases from related parties</u>	1 January - 30 September 2021	1 January - 30 September 2020
Omsan Denizcilik A.Ş. ⁽¹⁾	163.029	111.574
OYAK Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	141.001	117.553
Omsan Lojistik A.Ş. ⁽¹⁾	281.403	223.923
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	65.837	57.575
Omsan Logistica SRL ⁽¹⁾	29.113	9.488
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽¹⁾	133.556	100.237
Doco Petrol ve Danışmanlık A.Ş. ⁽¹⁾	21.094	3.611
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽³⁾	103.417	78.803
OYAK Elektrik Enerjisi Toptan Satış A.Ş. ⁽¹⁾	72.176	34.948
Other	15.728	11.451
	<u>1.026.354</u>	<u>749.163</u>

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

- (1) Subsidiaries of the parent company
(2) Joint venture of the parent company
(3) Joint venture of the subsidiary
(4) Ultimate partner

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NOTE 3 –RELATED PARTY DISCLOSURES (cont’d)

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

The period end balances are un-secured and their collections will be in cash. For the nine months period ended 30 September 2021, the Group provides no provision for the receivables from related parties (31 December 2020: None).

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 nine months period ended 30 September 2021, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 30.075 thousand (30 September 2020: TRY 18.719 thousand).

NOTE 4 – INVENTORIES

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

	30 September 2021	31 December 2020
Raw materials	4.438.003	2.400.813
Work in progress	4.187.329	2.017.296
Finished goods	4.470.458	1.861.015
Spare parts	2.179.278	1.668.699
Goods in transit	2.945.973	1.960.470
Other inventories	1.030.555	746.164
Allowance for impairment on inventories (-)	(701.353)	(547.779)
	<u>18.550.243</u>	<u>10.106.678</u>

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

	1 January - 30 September 2021	1 January - 30 September 2020
Opening balance	547.779	416.261
Additional in provisions due to acquisition of subsidiaries	42.732	-
Provision for the period	3.325	24.680
Provision released (-)	(16.260)	(3.528)
Translation difference	123.777	134.433
Closing balance	<u>701.353</u>	<u>571.846</u>

The Group has made a provision for impairment on inventories considered to be not usable within the framework of the aging reports for idle inventory items. The provisions made and released during the period are recognized in the cost of sales (Note 14).

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NOTE 5 – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

	Right to vote ratio %	30 September 2021	Right to vote ratio %	31 December 2020	Business segment
<i>Joint Venture</i>					
İsdemir Linde Gaz Ortaklığı A.Ş.	50	275.041	50	229.956	Industrial Gas Production and Sale

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

	30 September 2021	31 December 2020
Total assets	569.440	492.495
Total liabilities	19.358	32.584
Net assets	550.082	459.911
Group's share on net assets	275.041	229.956

	30 September 2021	31 December 2020
Share capital	175.000	175.000

At the Ordinary General Assembly Meeting of İsdemir Linde Gaz Ortaklığı A.Ş., dated 25 February 2021, decisions regarding the distribution of cash dividend of TRY 12.784 thousand (its effect on statement of cash flows of Group is TRY 6.392 thousand) from the net profit of 2020 have been approved. The dividend has been completed on 12 March 2021.

At the Extraordinary General Assembly Meeting of İsdemir Linde Gaz Ortaklığı A.Ş. dated 9 July 2021, it has been decided to reduce the Company's fully paid-in capital amounting to TRY 175.000 thousand to TRY 140.000 thousand by reducing the amount of TRY 35.000 thousand. Payments regarding the capital reduction were completed as of 12 October 2021.

İsdemir Linde Gaz Ortaklığı A.Ş, as an affiliate of the Group under joint management, has the right of to deduct TRY 113.868 thousand (31 December 2020: TRY 97.254 thousand) from corporate tax of the investment deduction where profit will occur in the upcoming years pursuant to the Resolution No 2012/3305 on Government Aids in Investments and the Cabinet Decision issued in the Official gazette on 22 February 2017. The deferred tax asset of TRY 16.614 thousand of additional investment deduction (its effect in the profit or loss statement of Group is TRY 8.307 thousand) is included in the financial statements prepared as of reporting date.

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

	1 January – 30 September 2021	1 January – 30 September 2020
Revenue	117.482	89.555
Operating profit	26.437	20.347
Net profit (loss) for the period	8.850	6.207
Group's share on net profit	4.425	3.104

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NOTE 6 – TANGIBLE AND INTANGIBLE ASSETS

As of reporting the date, the details of Group’s the movement of tangible assets is as follows:

	30 September 2021	30 September 2020
<u>Opening balance as of 1 January</u>		
Cost	68.046.557	53.620.152
Accumulated depreciation	(41.984.721)	(32.966.171)
Net book value	26.061.836	20.653.981
Net book value at the beginning of the period	26.061.836	20.653.981
Additional in property, plant and equivalent due to acquisition of subsidiaries (Note 2.9)	538.704	-
Additions (*)	2.275.365	1.464.687
Disposals (-)	(25.943)	(50.826)
<i>Cost of disposals</i>	(213.503)	(162.447)
<i>Accumulated depreciation of disposals</i>	187.560	111.621
Transfers to intangible assets	(231)	(2.624)
Currency translation difference	5.609.396	6.500.012
<i>Cost currency translation difference</i>	14.503.169	16.847.384
<i>Accumulated depreciation currency translation difference</i>	(8.893.773)	(10.347.372)
Current period depreciation (-)	(1.318.812)	(1.031.603)
Impairment (-)	-	(1.563)
Net book value at the end of the period	33.140.315	27.532.064
<u>Closing balance end of period</u>		
Cost	85.675.365	71.767.152
Accumulated depreciation	(52.535.050)	(44.235.088)
Net book value	33.140.315	27.532.064

(*) The amount of capitalized borrowing cost is TRY (38.474) thousand for the current period (30 September 2020: TRY 13.605 thousand).

As of 30 September 2021, the Group has no collaterals or pledges upon its tangible assets (30 September 2020: None).

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

As of the reporting date, the details of Group’s the movement of intangible assets is as follows:

	30 September 2021	30 September 2020
<u>Opening balance as of 1 January</u>		
Cost	1.079.279	821.867
Accumulated amortisation	(668.564)	(509.333)
Net book value	<u>410.715</u>	<u>312.534</u>
Net book value at the beginning of the period	410.715	312.534
Additional in intangible assets due to acquisition of subsidiaries (Note 2.9)	834.339	-
Additions	16.950	3.004
Transfers from tangible assets	231	2.624
Currency translation difference	285.581	93.700
<i>Cost currency translation difference</i>	436.902	256.536
<i>Accumulated depreciation currency translation difference</i>	(151.321)	(162.836)
Current period amortisation (-)	(49.478)	(27.106)
Net book value at the end of the period	<u>1.498.338</u>	<u>384.756</u>
<u>Closing balance end of period</u>		
Cost	2.402.419	1.084.031
Accumulated amortisation	(904.081)	(699.275)
Net book value	<u>1.498.338</u>	<u>384.756</u>

As of 30 September 2021, the Group has no collaterals or pledges upon its intangible assets (30 September 2020: None).

The distribution of total depreciation and amortization expenses related to tangible, intangible assets, right of use assets amounting to TRY 20.037 thousand (30 September 2020: TRY 14.493 thousand) and investment properties amounting to TRY 5.391 thousand (30 September 2020: TRY 4.478 thousand) are as follows:

	1 January – 30 September 2021	1 January – 30 September 2020
Associated with cost of production	1.266.744	984.171
General administrative expenses	51.585	43.537
Marketing expenses	56.957	36.107
Research and development expenses	8.192	6.164
Other operating expenses	10.240	7.701
	<u>1.393.718</u>	<u>1.077.680</u>

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

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NOTE 7 – GOODWILL

The purchase of the all shares of Kümaş Manyezit Sanayi A.Ş (and its subsidiaries) was completed on 3 February 2021. The share price dated 3 February 2021 has been subject to ultimate adjustment in accordance with the financial statements prepared as of the transfer date, and as a result of the adjustment, the ultimate share price has amounted to USD 295.943 thousand (TRY 2.112.206 thousand).

As a result of the purchase; the part of the fair value of the acquired assets and liabilities amounting to USD 169.323 thousand (TRY 1.208.495 thousand) below the purchase price is recognized as goodwill amounting to USD 126.620 thousand (TRY 903.711 thousand) (Note 2.9).

In the condensed consolidated financial statements of the Group as at 30 September 2021, Kümaş Manyezit Sanayi A.Ş. (and its subsidiaries) is included.

The Group calculated the recoverable value of the goodwill in accordance with the accounting policies stated in Note 2.7, and it did not determine any impairment in the amount of goodwill associated with the Group's activities as of the reporting period.

	30 September 2021	31 December 2020
Goodwill	1.124.194	-
	<u>1.124.194</u>	<u>-</u>

The goodwill movement of the Group as of the reporting period is as follows:

	1 January - 30 September 2021
Opening balance	-
Due to acquisition of subsidiaries during the year (Note 2.9)	903.711
Translation difference	220.483
Closing balance	<u>1.124.194</u>

The Group recorded the amount of goodwill arising during the acquisition on a provisional basis as of 30 September 2021.

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NOTE 8 – BORROWINGS

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

	30 September 2021	31 December 2020
Short term bank borrowings	3.879.004	1.193.496
Current portion of long term bank borrowings	2.566.061	1.988.924
Long term bank borrowings	4.396.741	2.574.623
Total bank borrowings	<u>10.841.806</u>	<u>5.757.043</u>
Current portion of long term corporate bonds issued	-	562.693
Total corporate bonds issued	-	<u>562.693</u>
Current portion of long term lease payables	56.083	42.661
Cost of current portion of long term lease payables (-)	(4.012)	(2.246)
Long term lease payables	1.121.963	1.012.559
Cost of long term lease payables (-)	(847.076)	(774.439)
Total lease payables	<u>326.958</u>	<u>278.535</u>
Total borrowings	<u>11.168.764</u>	<u>6.598.271</u>

As of 30 September 2021, the breakdown of the Group’s loans and bonds issued with their original currency and weighted average interest rates is presented as follows:

Interest Type	Type of Currency	Weighted Average Rate of Effective Interest (%)	Short Term Portion	Long Term Portion	30 September 2021
No interest	TRY	-	46.013	-	46.013
Fixed	TRY	18,00	16.855	-	16.855
Fixed	US Dollars	1,59	4.626.693	899.880	5.526.573
Fixed	EURO	2,70	16.745	15.849	32.594
Floating	US Dollars	Libor+2,29	1.511.258	2.561.823	4.073.081
Floating	EURO	Euribor+0,8	227.501	919.189	1.146.690
			<u>6.445.065</u>	<u>4.396.741</u>	<u>10.841.806</u>

As of the reporting period, the Group's bond issue payment amounting to TRY 550.000 with a maturity of 28 May 2021, which was realized as of 31 May 2019, has been completed.

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

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NOTE 8– BORROWINGS (cont’d)

As of 31 December 2020, the breakdown of the Group’s loans with their original currency and their weighted average interest rates is as follows:

Interest Type	Type of Currency	Weighted Average Rate of Effective Interest (%)	Short Term Portion	Long Term Portion	31 December 2020
Fixed	TRY	8,74	868.200	-	868.200
Fixed	US Dollars	2,02	477.043	644.140	1.121.183
Fixed	EURO	2,70	14.714	20.613	35.327
Floating	TRY	TRLibor+0,5	562.693	-	562.693
Floating	US Dollars	Libor+1,79	1.656.958	985.855	2.642.813
Floating	EURO	Euribor+0,5	165.505	924.015	1.089.520
			<u>3.745.113</u>	<u>2.574.623</u>	<u>6.319.736</u>

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

	30 September 2021			31 December 2020			
	Bank Borrowings	Lease Payables	Total Borrowings	Bank Borrowings	Corporate Bonds	Lease Payables	Total Borrowings
Within 1 year	6.445.065	52.071	6.497.136	3.182.420	562.693	40.415	3.785.528
Between 1-2 years	599.021	45.507	644.528	1.544.579	-	31.924	1.576.503
Between 2-3 years	2.127.991	35.748	2.163.739	251.807	-	28.534	280.341
Between 3-4 years	388.102	26.202	414.304	133.639	-	23.913	157.552
Between 4-5 years	601.481	22.772	624.253	121.253	-	20.784	142.037
Five years or more	680.146	144.658	824.804	523.345	-	132.965	656.310
	<u>10.841.806</u>	<u>326.958</u>	<u>11.168.764</u>	<u>5.757.043</u>	<u>562.693</u>	<u>278.535</u>	<u>6.598.271</u>

NOTE 9 - PROVISIONS

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

	30 September 2021	31 December 2020
Provision for lawsuits	203.674	195.355
Penalty provision for employment shortage of disabled personnel	17.284	13.551
Provision for state right on mining activities	25.857	23.023
Provision for land occupation	26.891	21.695
	<u>273.706</u>	<u>253.624</u>

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

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NOTE 9 – PROVISIONS (cont’d)

The movement of the provisions is as follows:

	1 January 2021	Additional in provisions due to acquisition of subsidiaries	Change for the period	Payments	Provision released	Translation difference	30 September 2021
Provision for lawsuits	195.355	1.400	33.630	(15.385)	(20.570)	9.244	203.674
Penalty provision for employment shortage of disabled personnel	13.551	-	3.742	-	(43)	34	17.284
Provision for state right on mining activities	23.023	6.247	18.982	(22.024)	-	(371)	25.857
Provision for land occupation	21.695	-	22.151	(18.922)	(258)	2.225	26.891
	<u>253.624</u>	<u>7.647</u>	<u>78.505</u>	<u>(56.331)</u>	<u>(20.871)</u>	<u>11.132</u>	<u>273.706</u>

	1 January 2020	Additional in provisions due to acquisition of subsidiaries	Change for the period	Payments	Provision released	Translation difference	30 September 2020
Provision for lawsuits	196.700	-	37.239	(38.162)	(32.872)	34.155	197.060
Penalty provision for employment shortage of disabled personnel	12.836	-	3.447	(2.882)	(906)	(114)	12.381
Provision for state right on mining activities	19.158	-	14.425	-	-	-	33.583
Provision for land occupation	13.215	-	19.000	(21.114)	(218)	1.306	12.189
	<u>241.909</u>	<u>-</u>	<u>74.111</u>	<u>(62.158)</u>	<u>(33.996)</u>	<u>35.347</u>	<u>255.213</u>

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NOTE 9 – PROVISIONS (cont’d)

Provision for lawsuits

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

	30 September 2021	31 December 2020
Lawsuits filed by the Group	1.071.327	974.124
Provision for lawsuits filed by the Group	165.415	171.111

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

	30 September 2021	31 December 2020
Lawsuits filed against the Group	186.234	175.340
Provision for lawsuits filed against the Group	203.674	195.355

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.

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NOTE 9 – PROVISIONS (cont’d)

Provision for lawsuits (cont’d)

CMB, prepared the Company’s consolidated financial statements as of 31 December 2005, which had been prepared according to the TFRS, by adding the negative goodwill of TRY 152.330 thousand, that had previously been added to the accumulated earnings, to the profit of 2005 on its own motion and account, and published them on Istanbul Stock Exchange Bulletin on 15 August 2006; with the rationale that the Company had not fulfilled its due demand on grounds that “Article 726 and Temporary Provision 1 of CMB’s Communiqué Serial XI, No. 25 authorize the use of TFRS on consolidated financial statements of 2005, although CMB had given the Company a ‘permission’ No. SPK.0.17/83-3483 of 7 March 2006, and the lawsuits regarding this issue are still pending”. 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 31 December 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 30 September 2021 and 31 December 2020 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 June 2019 and 2017/4580 Docket; 2019/4955 Decision number which was served to Company on 28 August 2019, it was notified that 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 30 December 2021.

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 condensed consolidated financial statements as of 30 September 2021 and 31 December 2020.

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NOTE 9 – PROVISIONS (cont’d)

Provision for lawsuits (cont’d)

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 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 Company. Company has applied for the appeal against the decision. A provision amounting to TRY 77.143 thousand recognized on condensed consolidated financial statements for the related lawsuit.

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 18 cases subject to Company’s 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 33 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.

Regarding to ongoing cases, resolutions are made in favor of the Company. 27 lawsuits have been finalized in favor of the Company.

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NOTE 9 – PROVISIONS (cont’d)

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

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, 1.924 tax penalty notifications were notified to the company on 23 December 2019. With the 1.924 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 TRY 25.586 thousand and TRY 23.888 thousand tax loss penalty has been imposed.

6 lawsuits were filed against the notifications for penalty in the Zonguldak Tax Court by the Company on 20 January 2020. Zonguldak Tax Court has accepted the cases and decided to cancel such notifications. The Municipality of Kdz. Ereğli has requested for appeal against the decisions of the court.

No provision has been made in the consolidated financial statements due to the fact that no significant cash outflow is expected in line with the Group Management's assessments for the tax, cultural assets contribution fee and tax penalty charged.

Lawsuits against Cease and Desist Orders and Zoning Administrative Fines of The Municipality of Kdz. Ereğli

The Municipality of Kdz. Ereğli has sealed 15 buildings in Company factory site with cease and desist orders. Subsequently, with Municipal Committee’s decisions, administrative fines amounting to TRY 258.683 thousand have been notified to Company. 15 lawsuits with suspension of execution request have filed against aforementioned cease and desist orders and administrative fines at the Zonguldak Administrative Court. In all lawsuits, the Court has decided to cancel proceedings subject to lawsuits. The Municipality has appealed against these decisions. In 14 cases, the District Administration Court has decided to reject the Municipality’s request for appeal. In the last filed case, the decision has not been notified. In 11 lawsuit, The Municipality has right to appeal under the Council of State. 3 lawsuits have been finalized in favor of the Company without appeal to Council of State.

No provision has been made in the consolidated financial statements due to the fact that no significant cash outflow is expected in line with the Group Management's assessments.

Provision for state right on mining activities

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

Land occupation

The Group have land property within the Erdemir factory area being within the provision and possession of the state. General Communiqué 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 communiqué, 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 is recognized on balance sheet, considering property fair values presented land occupation notifications and yearly probable increases.

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NOTE 10 – EMPLOYEE BENEFITS

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

	30 September 2021	31 December 2020
Due to personnel	162.597	139.640
Social security premiums payable	66.035	57.656
	<u>228.632</u>	<u>197.296</u>

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

	30 September 2021	31 December 2020
Provisions for employee termination benefits	984.548	759.907
Provisions for seniority incentive premium	128.780	108.316
Provision for unpaid vacations	125.376	99.913
	<u>1.238.704</u>	<u>968.136</u>

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 30 September 2021, the employee termination benefit has been updated to a maximum of TRY 8.284,51 (31 December 2020: TRY 7.117,17).

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

The employee termination benefit has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. TAS 19 (“Employee Benefits”) requires actuarial valuation methods to be developed to estimate the Group’s obligation under defined benefit plans. The obligation as of 30 September 2021 has been calculated by an independent actuary. The actuarial assumptions used in the calculation of the present value of the future probable obligation.

	30 September 2021	31 December 2020
Discount rate	%17,90	%12,80
Inflation rate	%14,50	%8,50
Salary increase	real 1,5%	real 1,5%
Maximum liability increase	%14,50	%8,50

Discount rates are determined considering the expected duration of the retirement obligations and the currency in which the obligations will be paid. In calculations as of 30 September 2021 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.

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NOTE 10 – EMPLOYEE BENEFITS (cont’d)

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

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

	1 January - 30 September 2021	1 January - 30 September 2020
Opening balance	759.907	651.998
Additional in provisions due to acquisition of subsidiaries	17.312	-
Service cost	54.830	44.854
Interest cost	83.376	60.340
Actuarial loss/(gain)	103.399	88.803
Termination benefits paid	(37.341)	(37.455)
Translation difference	3.065	913
Closing balance	984.548	809.453

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

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

	1 January - 30 September 2021	1 January - 30 September 2020
Opening balance	108.316	71.234
Service cost	8.495	6.383
Interest cost	11.509	7.044
Actuarial loss/(gain)	10.323	22.733
Termination benefits paid	(9.497)	(8.674)
Translation difference	(366)	(142)
Closing balance	128.780	98.578

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

	1 January - 30 September 2021	1 January - 30 September 2020
Opening balance	99.913	84.092
Additional in provisions due to acquisition of subsidiaries	2.985	-
Provision for the period	105.326	83.490
Vacation paid during the period (-)	(4.969)	(3.685)
Provisions released (-)	(80.156)	(65.736)
Translation difference	2.277	460
Closing balance	125.376	98.621

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NOTE 11 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	30 September 2021	31 December 2020
Letters of guarantees received	5.694.963	4.102.062
	<u>5.694.963</u>	<u>4.102.062</u>

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

	30 September 2021	31 December 2020
A. Total CPM given for the Company's own legal entity	163.046	127.548
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	1.176.996	606.492
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	-	-
D. Other CPM given	-	-
i. Total CPM given in favour of parent entity	-	-
ii. Total CPM given in favour of other Group companies out of the scope of clause B and C	-	-
iii. Total CPM given in favour of other 3rd parties out of the scope of clause C	-	-
	<u>1.340.042</u>	<u>734.040</u>

Total CPM given by the Group in favor of subsidiaries consolidated on line-by-line basis amounting to TRY 1.176.996 thousand has been given as collateral for financial liabilities explained in Note 8 and for raw material procurements. As of 30 September 2021, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2020: 0%).

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

	30 September 2021	31 December 2020
US Dollars	686.062	207.236
Turkish Lira	132.369	106.041
EURO	521.611	420.763
	<u>1.340.042</u>	<u>734.040</u>

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NOTE 12 – TAX ASSETS AND LIABILITIES

The details of the Group's tax expenses as of the reporting period are as follows:

	30 September 2021	31 December 2020
<u>Corporate tax payable:</u>		
Current corporate tax provision	4.682.162	2.151.998
Prepaid taxes and funds (-)	(2.798.673)	(1.615.283)
	<u>1.883.489</u>	<u>536.715</u>
	1 January - 30 September 2021	1 January - 30 September 2020
<u>Taxation:</u>		
Current corporate tax expense	4.682.162	1.589.921
Deferred tax (income) / expense	431.728	365.534
	<u>5.113.890</u>	<u>1.955.455</u>

Corporate tax

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

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

In accordance with the provisional article added to the Corporate Tax Law with the 11th article of the Law No. 7316 published in the Official Gazette No. 31462 dated 22 April 2021, the corporate tax rate has been increased to 25% for corporate income for the 2021 taxation period, and to 23% for corporate income for the 2022 taxation period.

The effective corporate tax rate in Turkey is 25%, 16% in Romania and 17% in Singapore as of 30 September 2021 (31 December 2020: in Turkey 22%, in Romania 16%, in Singapore 17%).

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

Corporate tax (cont’d)

The total amount of the corporate tax paid by the Group in nine months of 2021 is TRY 3.335.388 thousand (30 September 2020: TRY 1.129.186 thousand).

In Turkey, advance tax returns are filed on a quarterly basis. The temporary tax for the nine months period ended 2021 has been calculated over the corporate earnings using the rate 25%, during the temporary taxation period. (31 December 2020: 22%).

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

Deferred tax

The Group recognizes deferred tax assets and liabilities based upon the temporary differences arising between its taxable statutory financial statements and its financial statements prepared in accordance with the TFRS. These differences usually result in the recognition of revenue and expenses in different reporting periods for the TFRS regulations and tax purposes.

In accordance with the Provisional article added to the Corporate Tax Law for subsidiaries in Turkey, the tax rate used in the calculation of deferred tax assets and liabilities (other than land) is 25% for corporate earnings for the 2021 taxation period, 23% for corporate earnings for the 2022 taxation period, and 20% for 2023 and the following years. The tax rate is 16% for the subsidiary operating in Romania and 17% for the subsidiary operating in Singapore. (31 December 2020: in Turkey 20%, 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 2020: 10%).

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

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

Deferred tax (cont’d)

	30 September 2021	31 December 2020
<u>Deferred tax assets:</u>		
Provisions for employee benefits	257.684	193.588
Investment incentive	21.351	-
Provision for lawsuits	49.525	36.066
Fair values of the derivative financial instruments	-	9.139
Inventories	130.594	72.768
Tangible and intangible assets	33.304	21.983
Financial lease payables	64.666	54.991
Other	98.820	57.506
	<u>655.944</u>	<u>446.041</u>
<u>Deferred tax liabilities:</u>		
Tangible and intangible assets	(5.034.917)	(3.847.913)
Fair values of the derivative financial instruments	(21.582)	-
Amortized cost adjustment on loans	(35.436)	(21.515)
Right of use assets	(86.437)	(63.529)
Inventories	(428.631)	(75.885)
Other	(29.086)	(20.376)
	<u>(5.636.089)</u>	<u>(4.029.218)</u>
	<u>(4.980.145)</u>	<u>(3.583.177)</u>

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

Presentation of deferred tax assets/(liabilities):

	30 September 2021	31 December 2020
Deferred tax assets	148.199	72.311
Deferred tax (liabilities)	(5.128.344)	(3.655.488)
	<u>(4.980.145)</u>	<u>(3.583.177)</u>

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

Deferred tax (cont’d)

Movements of deferred tax asset/(liability)

	1 January - 30 September 2021	1 January - 30 September 2020
Opening balance	(3.583.177)	(2.902.426)
Additional in deferred tax assets due to acquisition of	(134.872)	-
Deferred tax (expense)/income	(431.728)	(365.534)
The amount in comprehensive income	27.462	18.571
Translation difference	(857.830)	(985.277)
Closing balance	<u>(4.980.145)</u>	<u>(4.234.666)</u>

Reconciliation of tax provision is as follows:

	1 January - 30 September 2021	1 January - 30 September 2020
Profit before tax	16.376.685	3.504.677
Statutory tax rate	25%	22%
Calculated tax expense according to effective tax rate	(4.094.171)	(771.029)
<u>Reconciliation between the tax provision and calculated tax:</u>		
- Non-deductible expenses	(44.358)	(31.915)
- Effect of currency translation not subject to tax	(1.021.213)	(1.152.583)
- Investment incentive	42.826	-
- Effect of the different tax rates due to foreign subsidiaries	3.026	72
Total tax expense reported in the statement of income	<u>(5.113.890)</u>	<u>(1.955.455)</u>

NOTE 13 – EQUITY

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

<u>Shareholders</u>	(%)	30 September 2021	(%)	31 December 2020
Ataer Holding A.Ş.	49,29	1.724.982	49,29	1.724.982
Quoted in Stock Exchange	47,63	1.667.181	47,63	1.667.181
Erdemir's own shares	3,08	107.837	3,08	107.837
Historical capital	100,00	3.500.000	100,00	3.500.000
Effect of inflation		156.613		156.613
Restated capital		3.656.613		3.656.613
Treasury shares (-)		(116.232)		(116.232)
		<u>3.540.381</u>		<u>3.540.381</u>

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NOTE 14 – 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 931.703 thousand. Group plans to recognize related revenue amount as a revenue in a year.

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

	1 January - 30 September 2021	1 July- 30 September 2021	1 January - 30 September 2020	1 July- 30 September 2020
<u>Sales Revenue</u>				
Domestic sales	33.372.124	13.419.932	17.573.681	6.697.754
Export sales	7.969.145	4.155.968	3.800.245	1.272.375
Other revenues (*)	1.608.790	624.135	519.104	169.416
Interest income from sales with maturities	166.303	68.179	82.501	28.601
Sales returns (-)	(13.709)	(4.043)	(9.286)	(4.350)
Sales discounts (-)	(42.346)	(1.430)	(30.222)	(10.931)
	<u>43.060.307</u>	<u>18.262.741</u>	<u>21.936.023</u>	<u>8.152.865</u>
<u>Cost of sales (-)</u>	<u>(26.789.372)</u>	<u>(11.028.836)</u>	<u>(18.444.861)</u>	<u>(6.727.901)</u>
Gross profit	<u>16.270.935</u>	<u>7.233.905</u>	<u>3.491.162</u>	<u>1.424.964</u>

(*) The total amount of by product exports in other revenues is TRY 682.200 thousand (30 September 2020: TRY 222.399 thousand). Total interest income from export sales with maturities is TRY 5.384 thousand (30 September 2020: TRY 1.694 thousand).

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

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

	1 January - 30 September 2021	1 July- 30 September 2021	1 January - 30 September 2020	1 July- 30 September 2020
Raw material usage	(20.725.067)	(8.797.033)	(13.520.526)	(4.926.830)
Personnel costs	(1.804.684)	(646.965)	(1.517.269)	(566.230)
Energy costs	(1.419.545)	(552.151)	(1.166.753)	(417.352)
Depreciation and amortization expenses	(1.198.199)	(389.514)	(956.213)	(365.675)
Manufacturing overheads	(738.274)	(230.459)	(594.151)	(202.276)
Other cost of goods sold	(308.917)	(126.617)	(297.732)	(121.615)
Non-operating costs (*)	(23.164)	(13.936)	(45.676)	(1.381)
Freight costs for sales delivered to customers	(453.286)	(225.803)	(204.169)	(72.552)
Allowance expenses for impairment on inventories (Note 4)	(3.325)	(1.788)	(24.680)	(7.288)
Inventory provision released (Note 4)	16.260	3.568	3.528	357
Amortization of right of use assets	(652)	(652)	-	-
Other	(130.519)	(47.486)	(121.220)	(47.059)
	<u>(26.789.372)</u>	<u>(11.028.836)</u>	<u>(18.444.861)</u>	<u>(6.727.901)</u>

(*) Non-operating part costs amounting to (23.164) thousand TRY incurred due to planned and/or unplanned halt production in the Group's production facilities is not associated with the product cost and is directly recognized in the cost of sales (30 September 2020: TRY (45.676) thousand).

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

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

	1 January - 30 September 2021	1 July- 30 September 2021	1 January - 30 September 2020	1 July- 30 September 2020
Personnel expenses (-)	(103.250)	(37.320)	(78.898)	(27.438)
Depreciation and amortization (-)	(56.957)	(18.966)	(36.107)	(13.607)
Service expenses (-)	(87.633)	(25.389)	(76.974)	(24.647)
	<u>(247.840)</u>	<u>(81.675)</u>	<u>(191.979)</u>	<u>(65.692)</u>

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

	1 January - 30 September 2021	1 July- 30 September 2021	1 January - 30 September 2020	1 July- 30 September 2020
Personnel expenses (-)	(213.989)	(78.391)	(157.742)	(50.779)
Depreciation and amortization (-)	(42.440)	(15.389)	(36.745)	(13.020)
Benefits and services from third parties (-)	(173.409)	(55.255)	(131.267)	(45.084)
Tax, duty and charges (-)	(11.805)	(4.257)	(17.630)	(7.226)
Provision/ Provision released for doubtful receivables (net)	21.095	79	1.742	4.644
Amortization of right of use assets (-)	(9.145)	(3.941)	(6.792)	(2.420)
	<u>(429.693)</u>	<u>(157.154)</u>	<u>(348.434)</u>	<u>(113.885)</u>

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

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

	1 January - 30 September 2021	1 July- 30 September 2021	1 January - 30 September 2020	1 July- 30 September 2020
<u>Other operating income</u>				
Share transfer agreement receivable incomes	-	-	140.556	5.363
Foreign exchange gain from trade receivables and payables (net)	61.150	4.585	203.024	93.454
Forfeit advances from customers	2.283	2.241	1.386	169
Discount income	142	49	141	46
Provisions released	20.613	7.150	33.778	14.303
Service income	16.591	7.266	13.488	4.856
Maintenance repair and rent income	14.678	5.168	12.887	4.497
Warehouse income	1.551	660	4.246	1.222
Indemnity and penalty detention income	5.793	2.264	2.745	1.130
Insurance indemnity income	2.132	682	142.820	124.408
Lawsuit income	161	56	1.403	946
Overdue interest income	2.075	322	4.511	1.216
Other income and gains	37.679	13.484	33.173	6.743
	<u>164.848</u>	<u>43.927</u>	<u>594.158</u>	<u>258.353</u>

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

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

	1 January - 30 September 2021	1 July- 30 September 2021	1 January - 30 September 2020	1 July- 30 September 2020
<u>Other operating expenses (-)</u>				
Provision expenses	(37.372)	(9.591)	(40.686)	(17.091)
Interest expenses from purchases with maturities	-	-	(7.076)	(255)
Lawsuit compensation expenses	(11.652)	(1.575)	(3.682)	(1.667)
Right of use assets amortization	(10.240)	(3.739)	(7.701)	(2.878)
Donation expenses	(13.805)	(6.286)	(14.350)	(2.002)
Service expenses	(17.156)	(7.471)	(11.759)	(4.042)
Penalty expenses	(4.617)	(2.269)	(3.247)	(2.678)
Other expenses and losses	(31.216)	(9.857)	(20.301)	(7.230)
	<u>(126.060)</u>	<u>(40.790)</u>	<u>(108.802)</u>	<u>(37.843)</u>

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NOTE 16 – FINANCE INCOME AND EXPENSES

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

	1 January - 30 September 2021	1 July- 30 September 2021	1 January - 30 September 2020	1 July- 30 September 2020
<u>Finance income</u>				
Interest income on bank deposits	363.538	77.765	300.005	148.007
Foreign exchange gains (net)	559.038	(7.084)	5.016	(81.422)
Interest income from financial investments	2.299	494	2.617	1.045
Fair value differences of derivative financial instruments (net)	139.235	95.223	30.082	(9.882)
Other financial income	33.424	(700)	3.245	1.000
	<u>1.097.534</u>	<u>165.698</u>	<u>340.965</u>	<u>58.748</u>

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

	1 January - 30 September 2021	1 July- 30 September 2021	1 January - 30 September 2020	1 July- 30 September 2020
<u>Finance expenses (-)</u>				
Interest expenses on borrowings	(195.155)	(53.374)	(268.011)	(66.500)
Interest cost of employee benefits	(94.885)	(42.633)	(67.384)	(25.452)
Interest expenses on leasings	(31.825)	(11.636)	(27.237)	(9.264)
Other financial expenses	(3.508)	(2.360)	(7.370)	(2.052)
	<u>(325.373)</u>	<u>(110.003)</u>	<u>(370.002)</u>	<u>(103.268)</u>

During the period, the borrowing costs of TRY (38.474) thousand have been capitalized as part of the Group’s tangibles (30 September 2020: TRY 13.605 thousand).

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

Additional information about financial instruments

Foreign currency risk management

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). Foreign currency position table represents foreign currencies other than each entity’s functional currency. As of 30 September 2021, the foreign currency position of the Group in terms of original currency is calculated as it as follows:

	30 September 2021				
	TRY (Total in currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	RON (Original currency)
1. Trade Receivables	1.866.592	127.756	166.287	-	13.146
2a. Monetary financial assets	7.504.417	2.873.587	446.679	21	15.962
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	89.838	58.443	2.718	-	1.649
4. CURRENT ASSETS (1+2+3)	9.460.847	3.059.786	615.684	21	30.757
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	332.185	325.641	636	-	-
6b. Non- monetary financial assets	-	-	-	-	-
7. Other	966.528	502.128	43.723	176.988	168
8. NON-CURRENT ASSETS (5+6+7)	1.298.713	827.769	44.359	176.988	168
9. TOTAL ASSETS (4+8)	10.759.560	3.887.555	660.043	177.009	30.925
10. Trade payables	2.997.435	2.334.231	60.094	408.691	5.238
11. Financial liabilities	342.332	96.836	23.807	-	-
12a. Other monetary financial liabilities	3.028.576	2.948.095	6.905	-	4.427
12b. Other non-monetary financial liabilities	-	-	-	-	-
13. CURRENT LIABILITIES (10+11+12)	6.368.343	5.379.162	90.806	408.691	9.665
14. Trade payables	-	-	-	-	-
15. Financial liabilities	1.209.923	273.727	90.789	-	-
16a. Other monetary financial liabilities	1.207.099	1.206.278	-	-	391
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. NON-CURRENT LIABILITIES (14+15+16)	2.417.022	1.480.005	90.789	-	391
18. TOTAL LIABILITIES (13+17)	8.785.365	6.859.167	181.595	408.691	10.056
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	(4.774.197)	-	(463.816)	-	-
19a. Off-balance sheet foreign currency derivative financial assets	-	-	-	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	4.774.197	-	463.816	-	-
20. Net foreign currency asset/liability position (9-18+19)	(2.800.002)	(2.971.612)	14.632	(231.682)	20.869
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	917.829	(3.532.183)	432.007	(408.670)	19.052
22. Fair value of derivative financial instruments used in foreign currency hedge	118.785	-	11.540	-	-
23. Hedged foreign currency assets	4.774.197	-	463.816	-	-
24. Hedged foreign currency liabilities	-	-	-	-	-
25. Exports	8.656.729	-	-	-	-
26. Imports	23.228.431	-	-	-	-

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

Additional information about financial instruments (cont’d)

Foreign currency risk management (cont’d)

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). As of 31 December 2020, the foreign currency position of the Group in terms of original currency is calculated as it as follows:

	31 December 2020				
	TRY (Total in reporting currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	RON (Original currency)
1. Trade Receivables	644.147	48.847	64.720	-	6.700
2a. Monetary financial assets	4.432.914	4.290.040	13.405	21	12.039
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	50.012	22.502	3.004	-	247
4. CURRENT ASSETS (1+2+3)	5.127.073	4.361.389	81.129	21	18.986
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	249.486	249.486	-	-	-
6b. Non- monetary financial assets	-	-	-	-	-
7. Other	613.387	263.500	38.299	61.366	294
8. NON-CURRENT ASSETS (5+6+7)	862.873	512.986	38.299	61.366	294
9. TOTAL ASSETS (4+8)	5.989.946	4.874.375	119.428	61.387	19.280
10. Trade payables	1.868.380	1.282.535	61.515	365.841	3.142
11. Financial liabilities	1.651.528	1.470.108	20.140	-	-
12a. Other monetary financial liabilities	1.448.781	1.436.797	757	-	2.811
12b. Other non-monetary financial liabilities	-	-	-	-	-
13. CURRENT LIABILITIES (10+11+12)	4.968.689	4.189.440	82.412	365.841	5.953
14. Trade payables	-	-	-	-	-
15. Financial liabilities	1.182.748	236.030	105.099	-	-
16a. Other monetary financial liabilities	945.133	944.146	-	-	537
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. Non-current liabilities (14+15+16)	2.127.881	1.180.176	105.099	-	537
18. TOTAL LIABILITIES (13+17)	7.096.570	5.369.616	187.511	365.841	6.490
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	(196.573)	-	(21.822)	-	-
19a. Off-balance sheet foreign currency derivative financial assets	-	-	-	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	196.573	-	21.822	-	-
20. Net foreign currency asset/liability position (9-18+19)	(1.303.197)	(495.241)	(89.905)	(304.454)	12.790
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(1.770.023)	(781.243)	(109.386)	(365.820)	12.249
22. Fair value of derivative financial instruments used in foreign currency hedge	(11.035)	-	(1.225)	-	-
23. Hedged foreign currency assets	196.573	-	21.822	-	-
24. Hedged foreign currency liabilities	-	-	-	-	-
25. Exports	5.508.594	-	-	-	-
26. Imports	16.384.474	-	-	-	-

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2021

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

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

Additional information about financial instruments (cont’d)

Foreign currency risk management (cont’d)

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

As of 30 September 2021 on condensed consolidated statement of financial position are translated by using the following exchange rates for assets TRY 8,8785 = US \$ 1, TRY 10,2933 = EUR 1, TRY 0,0791 = JPY 1 and TRY 2,0689 = RON 1; for liabilities TRY 8,8945 = US \$ 1, TRY 10,3118 = EUR 1, TRY 0,0796 = JPY 1 and TRY 2,0960 = RON 1 (31 December 2020: TRY 7,3405 = US \$ 1, TRY 9,0079 = EUR 1, TRY 0,0709 = JPY 1 and TRY 1,8373 = RON 1).

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency	Depreciation of foreign currency
30 September 2021		
1- TRY net asset/liability	(297.161)	297.161
2- Hedged portion from TRY risk (-)	-	-
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(297.161)	297.161
5- RON net asset/liability	4.290	(4.290)
6- Hedged portion from RON risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- RON net effect (5+6+7)	4.290	(4.290)
9- Euro net asset/liability	492.145	(492.145)
10- Hedged portion from Euro risk (-)	(477.420)	477.420
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	14.725	(14.725)
13- Jap. Yen net asset/liability	(1.854)	1.854
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(1.854)	1.854
TOTAL (4+8+12+16)	(280.000)	280.000

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

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

Additional information about financial instruments (cont’d)

Foreign currency risk management (cont’d)

31 December 2020	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency	Depreciation of foreign currency
1- TRY net asset/liability	(49.524)	49.524
2- Hedged portion from TRY risk (-)	-	-
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(49.524)	49.524
5- RON net asset/liability	2.350	(2.350)
6- Hedged portion from RON risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- RON Dollars net effect (5+6+7)	2.350	(2.350)
9- Euro net asset/liability	(61.328)	61.328
10- Hedged portion from Euro risk (-)	(19.657)	19.657
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	(80.985)	80.985
13- Jap. Yen net asset/liability	(2.159)	2.159
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(2.159)	2.159
TOTAL (4+8+12+16)	(130.318)	130.318

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts are expressed in thousands of Turkish Lira (“TRY Thousand”) unless otherwise indicated.)

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

Additional information about financial instruments (cont’d)

Categories of the financial instruments and their fair values

	Financial assets/ liabilities at amortized cost	Derivative financial instruments through other comprehen- sive income	Derivative financial instruments through profit/loss	Carrying value
30 September 2021				
<u>Financial Assets</u>				
Cash and cash equivalents	12.995.238	-	-	12.995.238
Trade receivables	6.905.911	-	-	6.905.911
Financial investments	9.714	-	328	10.042
Other financial assets	107.256	-	-	107.256
Derivative financial instruments	-	136.513	130.516	267.029
<u>Financial Liabilities</u>				
Financial liabilities	11.168.764	-	-	11.168.764
Trade payables	4.858.333	-	-	4.858.333
Other liabilities	1.188.090	-	-	1.188.090
Derivative financial instruments	-	333.939	-	333.939
31 December 2020				
<u>Financial Assets</u>				
Cash and cash equivalents	13.542.177	-	-	13.542.177
Trade receivables	3.827.829	-	-	3.827.829
Financial investments	39.048	-	199	39.247
Other financial assets	85.845	-	-	85.845
Derivative financial instruments	-	37.510	-	37.510
<u>Financial Liabilities</u>				
Financial liabilities	6.598.271	-	-	6.598.271
Trade payables	3.766.949	-	-	3.766.949
Other liabilities	739.533	-	-	739.533
Derivative financial instruments	-	33.169	26.413	59.582

Group management, considers that the fair values of financial assets and liabilities approximate book values.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2021

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

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

Additional information about financial instruments (cont’d)

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

Financial asset and liabilities at fair value	30 September 2021	Fair value level as of reporting date		
		Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	130.516	-	130.516	-
Derivative financial liabilities	-	-	-	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	136.513	-	136.513	-
Derivative financial liabilities	(333.939)	-	(333.939)	-
Total	(66.910)	-	(66.910)	-

Financial asset and liabilities at fair value	31 December 2020	Fair value level as of reporting date		
		Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	(26.413)	-	(26.413)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	37.510	-	37.510	-
Derivative financial liabilities	(33.169)	-	(33.169)	-
Total	(22.072)	-	(22.072)	-

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2021

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

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

Additional information about financial instruments (cont’d)

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

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

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

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

NOTE 18 – SUBSEQUENT EVENTS

None.

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

Convenience translation to English:

As of 30 September 2021, the accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying financial statements differ from International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board with respect to the application of inflation accounting, certain reclassifications and also for certain disclosures requirement of the POA/CMB. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with IFRS.