

**(CONVENIENCE TRANSLATION OF CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH - SEE NOTE 18)**

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

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 31 MARCH 2020**

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(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 18)

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

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 31 MARCH 2020

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

	Note	(Unaudited)	(Unaudited)	(Audited)	(Audited)
		Current Period 31 March 2020 USD'000	Current Period 31 March 2020 TRY'000	Previous Period 31 December 2019 USD'000	Previous Period 31 December 2019 TRY'000
ASSETS					
CURRENT ASSETS		4.098.871	26.708.242	4.063.282	24.136.704
Cash and Cash Equivalents		1.969.946	12.836.167	1.782.772	10.590.024
Financial Investments		26.249	171.036	17.054	101.304
Trade Receivables		505.617	3.294.601	562.973	3.344.177
<i>Due From Related Parties</i>	3	27.953	182.143	29.173	173.296
<i>Other Trade Receivables from Third Parties</i>		477.664	3.112.458	533.800	3.170.881
Other Receivables		4.538	29.573	990	5.881
<i>Due From Related Parties</i>	3	4.168	27.161	643	3.817
<i>Other Receivables from Third Parties</i>		370	2.412	347	2.064
Financial Derivative Instruments		26.393	171.976	8.087	48.040
Inventories	4	1.435.522	9.353.864	1.570.513	9.329.163
Prepaid Expenses		16.647	108.469	16.874	100.233
<i>Prepaid Expenses to Related Parties</i>	3	1.062	6.919	1.062	6.308
<i>Other Prepaid Expenses to Third Parties</i>		15.585	101.550	15.812	93.925
Other Current Assets		113.959	742.556	104.019	617.882
NON CURRENT ASSETS		3.786.629	24.673.675	3.793.798	22.535.921
Financial Investments		27	177	27	161
Other Receivables		5.727	37.319	6.244	37.087
<i>Due From Related Parties</i>	3	3.893	25.367	4.232	25.136
<i>Other Receivables from Third Parties</i>		1.834	11.952	2.012	11.951
Financial Derivative Instruments		54	353	344	2.044
Investments Accounted for Using Equity Method	5	29.566	192.654	33.807	200.820
Investment Properties		50.822	331.158	51.044	303.214
Property, Plant and Equipment	6	3.466.892	22.590.267	3.476.984	20.653.981
Right of Use Assets		41.229	268.646	41.236	244.950
Intangible Assets	6	51.330	334.467	52.613	312.534
Prepaid Expenses		106.858	696.282	86.499	513.820
<i>Prepaid Expenses to Related Parties</i>	3	4.312	28.095	4.313	25.620
<i>Other Prepaid Expenses to Third Parties</i>		102.546	668.187	82.186	488.200
Deferred Tax Assets	11	7.225	47.079	7.055	41.911
Other Non Current Assets		26.899	175.273	37.945	225.399
TOTAL ASSETS		7.885.500	51.381.917	7.857.080	46.672.625

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 18)

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

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 31 MARCH 2020

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

	Note	(Unaudited)	(Unaudited)	(Audited)	(Audited)
		Current Period 31 March 2020 USD'000	Current Period 31 March 2020 TRY'000	Previous Period 31 December 2019 USD'000	Previous Period 31 December 2019 TRY'000
LIABILITIES					
CURRENT LIABILITIES		1.580.863	10.300.904	1.590.932	9.450.454
Short Term Borrowings	7	598.909	3.902.488	703.600	4.179.522
Short Term Portion of Long Term Borrowings	7	305.981	1.993.770	232.285	1.379.822
Trade Payables		441.170	2.874.665	494.364	2.936.622
<i>Due to Related Parties</i>	3	12.492	81.396	14.432	85.731
<i>Other Trade Payables to Third Parties</i>		428.678	2.793.269	479.932	2.850.891
Payables for Employee Benefits	9	27.724	180.648	25.817	153.358
Other Payables		13.580	88.489	11.673	69.341
Financial Derivative Instruments		8.854	57.694	3.905	23.199
Deferred Revenue		59.724	389.162	42.227	250.833
Current Tax Liabilities	11	60.534	394.439	34.606	205.569
Short Term Provisions	8	38.999	254.115	40.724	241.909
Non Current Liabilities		25.388	165.434	1.731	10.279
NON CURRENT LIABILITIES		1.005.984	6.554.989	1.005.807	5.974.696
Long Term Borrowings	7	341.172	2.223.076	360.532	2.141.633
Financial Derivative Instruments		11.922	77.685	13.387	79.524
Long Term Provisions		126.474	824.104	135.909	807.324
<i>Long term provisions for employee benefits</i>	9	126.474	824.104	135.909	807.324
Deferred Tax Liabilities	11	526.127	3.428.246	495.663	2.944.337
Other Non Current Liabilities		289	1.878	316	1.878
EQUITY		5.298.653	34.526.024	5.260.341	31.247.475
Equity Attributable to Equity Holders of the Parent		5.136.982	33.483.619	5.099.305	30.299.298
Share Capital	12	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)		(53.280)	14.328.843	(53.206)	12.322.040
<i>Revaluation Reserve of Tangible Assets</i>		10.554	65.592	10.628	58.952
<i>Actuarial (Loss) Gain funds</i>		(48.149)	(102.008)	(48.149)	(102.008)
<i>Foreign Currency Translation Reserves</i>		(15.685)	14.365.259	(15.685)	12.365.096
Other Comprehensive Income (Expense) to be Reclassified to Profit (Loss)		(81.290)	6.347.316	(69.727)	5.470.236
<i>Foreign Currency Translation Reserves</i>		(84.363)	6.327.295	(70.817)	5.463.762
<i>Cash Flow Hedging Gain (Loss)</i>		3.073	20.021	1.090	6.474
Restricted Reserves Assorted from Profit		1.026.843	3.498.681	1.024.835	3.485.761
Retained Earnings		2.300.742	5.361.513	1.717.773	2.057.906
Net Profit for the Period		49.314	300.438	584.977	3.316.527
Non-Controlling Interests		161.671	1.042.405	161.036	948.177
TOTAL LIABILITIES AND EQUITY		7.885.500	51.381.917	7.857.080	46.672.625

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

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(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 18)

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

CONDENSED CONSOLIDATED PROFIT OR LOSS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

		(Unaudited) Current Period 1 January - 31 March 2020 USD'000	(Unaudited) Current Period 1 January - 31 March 2020 TRY'000	(Unaudited) Previous Period 1 January - 31 March 2019 USD'000	(Unaudited) Previous Period 1 January - 31 March 2019 TRY'000
Revenue	13	1.047.030	6.378.927	1.333.409	7.144.139
Cost of Sales	13	(902.969)	(5.501.248)	(1.028.887)	(5.512.573)
GROSS PROFIT		144.061	877.679	304.522	1.631.566
Marketing Expenses	14	(9.444)	(57.537)	(10.623)	(56.914)
General Administrative Expenses	14	(18.137)	(110.497)	(18.962)	(101.593)
Research and Development Expenses		(1.046)	(6.371)	(1.003)	(5.372)
Other Operating Income	14	16.307	99.349	7.252	38.853
Other Operating Expenses	14	(6.344)	(38.653)	(8.772)	(46.997)
OPERATING PROFIT		125.397	763.970	272.414	1.459.543
Income from Investing Activities		557	3.391	2.225	11.921
Expenses from Investing Activities		(2.029)	(12.363)	(1.496)	(8.014)
Share of Investments' Profit Accounted by Using The Equity Method	5	(664)	(4.044)	356	1.905
OPERATING PROFIT BEFORE FINANCE INCOME (EXPENSES)		123.261	750.954	273.499	1.465.355
Finance Income	15	41.978	281.889	54.862	318.572
Finance Expense	15	(21.477)	(130.846)	(15.186)	(81.361)
PROFIT BEFORE TAX		143.762	901.997	313.175	1.702.566
Tax (Expense) Income	11	(90.781)	(579.219)	(119.303)	(663.837)
Current Corporate Tax (Expense) Income		(61.713)	(402.125)	(91.038)	(512.401)
Deferred Tax (Expense) Income		(29.068)	(177.094)	(28.265)	(151.436)
NET PROFIT FOR THE PERIOD		52.981	322.778	193.872	1.038.729
Non-Controlling Interests		3.667	22.340	7.854	42.079
Equity Holders of the Parent		49.314	300.438	186.018	996.650
EARNINGS PER SHARE			0,0858		0,2848
(TRY 1 Nominal value per share)					

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

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

CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

	(Unaudited) Current Period 1 January - 31 March 2020 USD'000	(Unaudited) Current Period 1 January - 31 March 2020 TRY'000	(Unaudited) Previous Period 1 January - 31 March 2019 USD'000	(Unaudited) Previous Period 1 January - 31 March 2019 TRY'000
PROFIT FOR THE PERIOD	52.981	322.778	193.872	1.038.729
OTHER COMPREHENSIVE INCOME				
Not to be reclassified subsequently to profit or loss				
Increase (Decrease) in Revaluation Reserve of Tangible Assets	(79)	6.640	(102)	4.043
Foreign Currency Translation Gain (Loss)	-	2.000.163	-	1.373.617
To be reclassified subsequently to profit or loss				
Gain (Loss) in Cash Flow Hedging Reserves	2.542	17.367	996	6.780
Tax Effect of Gain (Loss) in Cash Flow Hedging Reserves	(559)	(3.820)	(219)	(1.492)
Foreign Currency Translation Gain (Loss)	(15.174)	944.421	(6.524)	538.531
OTHER COMPREHENSIVE INCOME (LOSS)	(13.270)	2.964.771	(5.849)	1.921.479
TOTAL COMPREHENSIVE INCOME	39.711	3.287.549	188.023	2.960.208
Distribution of Total Comprehensive Income				
Non-controlling Interests	2.033	103.228	7.573	93.156
Equity Holders of the Parent	37.678	3.184.321	180.450	2.867.052

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

(Unaudited)					Other comprehensive income (expense) not to be reclassified subsequently to profit or loss			Other comprehensive income (expense) to be reclassified subsequently to profit or loss			Retained Earnings			Equity Attributable to the Parent	Non-controlling Interests	Total Shareholders' Equity
	Share Capital	Inflation Adjustment to Capital	Treasury Shares (-)	Share Issue Premium (Discounts)	Revaluation Reserve of Tangible Assets	Foreign Currency Translation Reserves	Actuarial Gain (Loss) Funds	Cash Flow Hedging Gain (Loss)	Foreign Currency Translation Reserves	Restricted Reserves Assorted from Profit	Retained Earnings	Net Profit For The Period				
1 January 2020	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	
Net profit for the period	-	-	-	-	-	-	-	-	-	-	-	300.438	300.438	22.340	322.778	
Other comprehensive income (loss)	-	-	-	-	6.640	2.000.163	-	13.547	863.533	-	-	-	2.883.883	80.888	2.964.771	
Total comprehensive income (loss)	-	-	-	-	6.640	2.000.163	-	13.547	863.533	-	-	300.438	3.184.321	103.228	3.287.549	
Dividends (*)	-	-	-	-	-	-	-	-	-	-	-	-	-	(9.000)	(9.000)	
Transfers	-	-	-	-	-	-	-	-	-	12.920	3.303.607	(3.316.527)	-	-	-	
31 March 2020	3.500.000	156.613	(116.232)	106.447	65.592	14.365.259	(102.008)	20.021	6.327.295	3.498.681	5.361.513	300.438	33.483.619	1.042.405	34.526.024	
(Unaudited)																
1 January 2019	3.500.000	156.613	(116.232)	106.447	51.239	10.153.725	(72.105)	13.103	4.349.119	2.287.528	2.339.334	5.597.990	28.366.761	887.864	29.254.625	
Net profit for the period	-	-	-	-	-	-	-	-	-	-	-	996.650	996.650	42.079	1.038.729	
Other comprehensive income (loss)	-	-	-	-	4.043	1.373.617	-	5.288	487.454	-	-	-	1.870.402	51.077	1.921.479	
Total comprehensive income (loss)	-	-	-	-	4.043	1.373.617	-	5.288	487.454	-	-	996.650	2.867.052	93.156	2.960.208	
Dividends (*)	-	-	-	-	-	-	-	-	-	-	(4.681.185)	-	(4.681.185)	(209.118)	(4.890.303)	
Transfers	-	-	-	-	-	-	-	-	-	1.198.233	4.399.757	(5.597.990)	-	-	-	
31 March 2019	3.500.000	156.613	(116.232)	106.447	55.282	11.527.342	(72.105)	18.391	4.836.573	3.485.761	2.057.906	996.650	26.552.628	771.902	27.324.530	

(*) In annual General Assembly dated 30 March 2020, The Group paid TRY 9.000 thousand dividend to non-controlling interests on Erdemir Maden of subsidiaries of the Group in current year.

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 18)

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

	Note	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		Current Period 1 January- 31 March 2020	Current Period 1 January- 31 March 2020	Previous Period 1 January- 31 March 2019	Previous Period 1 January- 31 March 2019
		USD'000	TRY'000	USD'000	TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES		340.714	2.189.025	416.589	2.316.706
Profit (Loss) for The Period		52.981	322.778	193.872	1.038.729
Adjustments to Reconcile Profit (Loss)		131.147	824.027	154.919	855.251
Adjustments for Depreciation and Amortisation Expenses	6/13/14	49.728	302.964	52.158	279.447
Adjustments for Impairment Loss (Reversal of Impairment Loss)		1.150	7.014	2.349	12.581
Adjustments for Provision (Reversal of Provision) for Receivables		(60)	(358)	694	3.715
Adjustments for Provision (Reversal of Provision) for Inventories	4/13	1.210	7.372	1.655	8.866
Adjustments for Provisions		6.978	44.458	9.446	51.223
Adjustments for Provision (Reversal of Provision) for Employee Termination Benefits	9	5.424	33.047	6.096	32.666
Adjustments for Provision (Reversal of Provision) for Pending Claims and/or Lawsuits	8	1.554	11.411	3.350	18.557
Adjustments for Interest (Income) and Expenses		7.568	46.112	(23.765)	(127.331)
Adjustments for Interest Income	15	(7.008)	(42.693)	(26.365)	(141.258)
Adjustments for Interest Expense	15	17.845	108.720	10.315	55.264
Deferred Financial Expense from Credit Purchases	14	1.053	6.416	856	4.585
Unearned Financial Income from Credit Sales		(4.322)	(26.331)	(8.571)	(45.922)
Adjustments for Unrealised Foreign Exchange Differences		(13.905)	(87.786)	(1.380)	(7.391)
Adjustments for Fair Value (Gains) Losses		(13.812)	(84.150)	(2.203)	(11.816)
Adjustments for Fair Value (Gains) Losses on Financial Assets		-	-	(302)	(1.629)
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments	15	(13.812)	(84.150)	(1.901)	(10.187)
Adjustments for Undistributed Profits of Investments Accounted for Using Equity Method	5	664	4.044	(356)	(1.905)
Adjustments for Tax (Income) Expenses	11	90.781	579.219	119.303	663.837
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		1.995	12.152	(633)	(3.394)
Adjustments for Losses (Gains) on Disposal of Property, Plant and Equipment		1.995	12.152	(633)	(3.394)
Changes in Working Capital		197.036	1.283.885	123.740	701.281
Adjustments for Decrease (Increase) in Trade Receivables		65.486	426.707	88.839	500.022
Decrease (Increase) in Trade Receivables from Related Parties		1.220	7.949	767	4.317
Decrease (Increase) in Trade Receivables from Third Parties		64.266	418.758	88.072	495.705
Adjustments for Decrease (Increase) in Other Receivables Related from Operations		(2.483)	(16.179)	426	2.399
Decrease (Increase) in Other Receivables from Operations from Third Parties		(2.483)	(16.179)	426	2.399
Decrease (Increase) in Derivative Financial Instruments		(18.016)	(117.393)	2.282	12.844
Adjustments for Decrease (Increase) in Inventories		137.120	893.474	89.636	504.508
Decrease (Increase) in Prepaid Expenses		(1.339)	(8.727)	(8.942)	(45.184)
Adjustments for Increase (Decrease) in Trade Payables		(53.194)	(346.612)	(11.893)	(66.705)
Increase (Decrease) in Trade Payable to Related Parties		(1.940)	(12.641)	(7.539)	(42.432)
Increase (Decrease) in Trade Payable to Third Parties		(51.254)	(333.971)	(4.354)	(24.273)
Adjustments for Increase (Decrease) in Other Payables Related from Operations		3.814	24.852	(21.568)	(121.394)
Increase (Decrease) in Other Payables to Third Parties Related from Operations		3.814	24.852	(21.568)	(121.394)
Increase (Decrease) in Derivative Liabilities		19.838	129.265	5.354	30.134
Adjustments for Other Increase (Decrease) in Working Capital		45.810	298.498	(20.394)	(115.343)
Decrease (Increase) in Other Assets Related from Operations		4.683	30.513	(14.269)	(80.869)
Increase (Decrease) in Other Payables Related from Operations		41.127	267.985	(6.125)	(34.474)
Cash Flows Provided by Operating Activities		381.164	2.430.690	472.531	2.595.261
Payments Related to Provisions for Employee Termination Benefits	9	(2.749)	(16.750)	(2.694)	(14.432)
Payments Related to Other Provisions	8	(1.914)	(11.660)	(1.156)	(6.192)
Income Taxes Refund (Paid)	11	(35.787)	(213.255)	(52.092)	(257.931)
CASH FLOWS FROM INVESTING ACTIVITIES		(53.805)	(385.226)	(63.343)	(348.282)
Cash Inflows Arising From Purchase of Third Parties' Debt Instruments or Funds		14.912	90.850	-	-
Cash Outflows Arising From Purchase of Third Parties' Debt Instruments or Funds		(4.060)	(24.735)	(27.885)	(150.362)
Cash Inflow from Sales of Property, Plant, Equipment and Intangible Assets		16	102	2.961	15.866
Cash Inflow from Sales of Property, Plant and Equipment		16	102	2.961	15.866
Cash Outflow from Purchase of Property, Plant, Equipment and Intangible Assets		(46.209)	(281.521)	(43.083)	(230.829)
Cash Outflow from Purchase of Property, Plant and Equipment	6	(46.085)	(280.767)	(42.993)	(230.349)
Cash Outflow from Purchase of Intangible Assets	6	(124)	(754)	(90)	(480)
Cash Advances and Debts Given		(18.464)	(169.922)	4.060	13.838
Other Cash Advances and Debts Given to Related Parties		-	-	2.890	11.497
Other Cash Advances and Debts Given		(18.464)	(169.922)	1.170	2.341
Dividends Received	5	-	-	603	3.205
CASH FLOWS FROM FINANCING ACTIVITIES		(72.175)	252.128	(149.080)	(413.810)
Cash Inflow from Borrowings		353.142	2.171.448	161.899	860.516
Cash Inflow from Loans		353.142	2.171.448	161.899	860.516
Cash Outflow from Repayments of Borrowings		(389.331)	(1.689.801)	(329.375)	(1.375.091)
Cash Outflow from Loan Repayments		(389.331)	(1.689.801)	(329.375)	(1.375.091)
Cash Outflow from Debt Payments for Leasing Contracts		(477)	(3.108)	-	-
Dividends Paid		(1.381)	(9.000)	-	-
Interest Paid		(17.359)	(105.759)	(8.145)	(43.640)
Interest Received		3.616	21.174	26.541	144.405
Other Cash Inflow (Outflow)		(20.385)	(132.826)	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		214.734	2.055.927	204.166	1.554.614
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(27.148)	191.734	(14.471)	119.603
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		187.586	2.247.661	189.695	1.674.217
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		1.780.737	10.577.931	1.650.455	8.682.881
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		1.968.323	12.825.592	1.840.150	10.357.098

- As of 31 March 2020, the Group's total amount of time deposit interest accrual is TRY 10.575 thousand (USD 1.623 thousand) (31 March 2019: TRY 15.958 thousand (USD 2.835 thousand)).
- Change of bank deposits in financial investments amounting to TRY 156.222 thousand (USD 23.975 thousand) with maturities of more than 3 months are reported in condensed consolidated cash flow under "Other Cash (Inflow) Outflows".

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 18)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 1 – GROUP’S ORGANIZATION AND NATURE OF OPERATIONS

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

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

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

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

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

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

Name of the Company	Country of		2020	2019
	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

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 18)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

(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	31 March 2020 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.024	1.724	5.748
İskenderun Demir ve Çelik A.Ş.	2.854	1.726	4.580
Erdemir Madencilik San. ve Tic. A.Ş.	157	142	299
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	222	75	297
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	231	231
Erdemir Romania S.R.L.	198	40	238
Erdemir Asia Pacific Private Limited	-	1	1
	<u>7.455</u>	<u>3.939</u>	<u>11.394</u>
	Paid Hourly Personnel	Paid Monthly Personnel	31 December 2019 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.055	1.699	5.754
İskenderun Demir ve Çelik A.Ş.	2.886	1.725	4.611
Erdemir Madencilik San. ve Tic. A.Ş.	158	138	296
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	217	77	294
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	228	228
Erdemir Romania S.R.L.	205	39	244
Erdemir Asia Pacific Private Limited	-	1	1
	<u>7.521</u>	<u>3.907</u>	<u>11.428</u>

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

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

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

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

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and derivative financial instruments that are measured at revalued amounts or fair values. (Derivative financial instruments and iron ore and silicon steel used in the production of fixed assets). Historical cost is generally based on the fair value of the consideration given in exchange for assets.

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 18)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

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

2.1 Basis of Presentation (cont’d)

In accordance with the Turkish Accounting Standard No: 34 “Interim Financial Reporting”, entities are allowed to prepare a complete or condensed set of interim financial statements. In this respect, the Group has preferred to prepare condensed interim consolidated financial statements in the interim period. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2019.

Functional and reporting currency

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

The financial statements of each entity of the Group are presented in the currency (functional currency) valid in the basic economic environment in which they operate. The functional currency of the Company and its subsidiaries’ İskenderun Demir ve Çelik A.Ş. “İsdemir” and Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş “Ersem” are US Dollars while the functional currency of Erdemir Madencilik San. ve Tic. A.Ş. “Ermaden” and Erdemir Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş. are Turkish Lira.

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

Functional currency for the subsidiaries abroad

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

Functional currency of the joint venture

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

Presentation currency translation

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

- a) The assets and liabilities on condensed financial position as of 31 March 2020 are translated from US Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 6,5160= US \$ 1 and TRY 7,2150= EUR 1 on the balance sheet date (31 December 2019: TRY 5,9402= US \$ 1, TRY 6,6506= EUR 1).
- b) For the three months period ended 31 March 2020, condensed consolidated income statements are translated from the average TRY 6,0924 = US \$ 1 and TRY 6,7192=EUR 1 rates of 2020 January - March period (31 March 2019: TRY 5,3578 = US \$ 1 TRY 6,0885 = 1 EUR).

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 18)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

(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)

- c) Exchange differences are shown in other comprehensive income as of foreign currency translation reserve.
- d) The differences between presentation of statutory and historical figures are recognised as translation differences under equity. All capital, capital measures and other measures are represented with their statutory figures, other equity accounts are represented with their historic cost figures in the accompanying financial statements.

USD amounts presented in the condensed interim financial statements

The figures in USD amounts presented in the accompanying condensed interim consolidated financial statements comprising the condensed consolidated statements of financial position as of 31 March 2020 and 31 December 2019, condensed consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows for the interim period ended 31 March 2020 and 2019 represent the condensed consolidated financial statements prepared according to USD reporting currency within the frame of functional currency change that the Company has made, which is effective as of July 1, 2013, prepared in accordance with the TAS 21- Effects of Changes in Foreign Exchange Rates.

Going concern

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

Approval of the consolidated financial statements

The condensed interim consolidated financial statements have been approved and authorized to be published on 29 April 2020 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 and guidance that has been effective.

Reclassification on condensed consolidated financial statement is as follows:

	(Previously Reported) 31 March 2019	(Restated) 31 March 2019	(Change) 31 March 2019
Right of Use Assets ⁽¹⁾	-	206.598	206.598
Tangible Assets ⁽¹⁾	19.466.099	19.259.501	(206.598)

- (1) As of 31 March 2019, assets related to TFRS 16 Leases standard amounting to TRY 206.598 thousand reported in “Tangible Assets” was reclassified to “Right of Use Assets”.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

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

2.3 Adoption of New and Revised Financial Reporting Standards

The accounting policies adopted in preparation of the interim condensed consolidated financial statements as at 31 March 2020 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 2020 summarized below.

Amendments that are mandatorily effective from 2020

Amendments to TFRS 3	<i>Definition of a Business</i>
Amendments to TAS 1 and TAS 8	<i>Definition of Material</i>
Amendments to TFRS 9, TAS 39 and TFRS 7	<i>Interest Rate Benchmark Reform</i>

Amendments to TFRS 3 Definition of a Business

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

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

Amendments to TAS 1 and TAS 8 Definition of Material

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

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

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

The effects of these standards amendments and improvements are evaluated on the condensed consolidated financial position and performance of the Group.

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	<i>Insurance Contracts</i>
Amendments to TAS 1	<i>Classification of Liabilities as Current or Non-Current</i>

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 18)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

(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.

2.4 Summary of Significant Accounting Policies

The condensed interim consolidated financial statements for the three months period ended 31 March 2020 have been prepared in accordance with TAS 34. The accounting policies used in the preparation of these condensed interim consolidated financial statements for the three months period ended 31 March 2020, are consistent with those used in the preparation of annual consolidated financial statements for the year ended 31 December 2019. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2019.

As explained in Note 1 there has been no change in total ownership interests and effective interests of the subsidiaries, included in the scope of consolidation as of 31 March 2020, from the interests reported as of 31 December 2019.

2.5 Restatement and Errors in the Accounting Policies and Estimates

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

2.6 Segment Reporting

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 3 –RELATED PARTY DISCLOSURES

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

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

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

	31 March 2020	31 December 2019
<u>Due from related parties (short term)</u>		
OYAK Renault Otomobil Fab. A.Ş. ⁽²⁾	62.120	69.773
Bolu Çimento Sanayi A.Ş. ⁽¹⁾	4.074	4.756
Adana Çimento Sanayi T.A.Ş. ⁽¹⁾	9.139	6.034
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽³⁾	4.018	-
Miilux Yüksek Mukavemetli Çelik Üretim A.Ş. ⁽¹⁾	102.273	92.064
Other	519	669
	<u>182.143</u>	<u>173.296</u>

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

	31 March 2020	31 December 2019
<u>Other receivables from related parties (short term)</u>		
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽³⁾	23.307	-
OYAK NYK RO-RO Liman İşletmeleri A.Ş. ⁽¹⁾	3.854	3.817
	<u>27.161</u>	<u>3.817</u>

	31 March 2020	31 December 2019
<u>Other receivables from related parties (long term)</u>		
OYAK NYK RO-RO Liman İşletmeleri A.Ş. ⁽¹⁾	25.367	25.136
	<u>25.367</u>	<u>25.136</u>

Short term and long term other receivables from related parties, consists of monetary receivables from rented out lease agreements within the scope of sub-leases in accordance with TFRS 16 and dividends and regarding capital reduction from the joint venture of subsidiary of Isdemir of the Company’s subsidiary.

	31 March 2020	31 December 2019
<u>Prepaid expenses to related parties(short term)</u>		
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽¹⁾	6.871	6.264
Omsan Lojistik A.Ş. ⁽¹⁾	48	44
	<u>6.919</u>	<u>6.308</u>

(1) Subsidiaries of the parent company

(2) Joint venture of the parent company

(3) Joint venture of the subsidiary

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020**

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

NOTE 3 –RELATED PARTY DISCLOSURES (cont’d)

	31 March 2020	31 December 2019
<u>Prepaid expenses to related parties (long term)</u>		
OYAK Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	-	8
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	28.095	25.612
	<u>28.095</u>	<u>25.620</u>

Prepaid expenses to related parties arise from port services and advances given for tangible assets.

	31 March 2020	31 December 2019
<u>Due to related parties (short term)</u>		
Omsan Lojistik A.Ş. ⁽¹⁾	19.477	29.535
Omsan Denizcilik A.Ş. ⁽¹⁾	-	3.141
OYAK Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	16.950	16.891
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	6.722	10.849
Omsan Logistica SRL ⁽¹⁾	1.501	-
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽¹⁾	13.334	11.404
OYAK Elektrik Enerjisi Toptan Satış A.Ş. ⁽¹⁾	11.158	-
Other	12.254	13.911
	<u>81.396</u>	<u>85.731</u>

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

	1 January - 31 March 2020	1 January - 31 March 2019
<u>Major sales to related parties</u>		
OYAK Renault Otomobil Fab. A.Ş. ⁽²⁾	63.620	77.135
Adana Çimento Sanayi T.A.Ş. ⁽¹⁾	6.579	4.402
Bolu Çimento Sanayi A.Ş. ⁽¹⁾	1.576	1.451
İskenderun Enerji Üretim ve Ticaret A.Ş. ⁽¹⁾	48.355	-
Miilux Yüksek Mukavemetli Çelik Üretim A.Ş. ⁽¹⁾	3.406	-
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽³⁾	10.623	12.215
Other	1.289	2.130
	<u>135.448</u>	<u>97.333</u>

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

(1) Subsidiaries of the parent company

(2) Joint venture of the parent company

(3) Joint venture of the subsidiary

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020**

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

NOTE 3 –RELATED PARTY DISCLOSURES (cont’d)

<u>Major purchases from related parties</u>	1 January - 31 March 2020	1 January - 31 March 2019
Omsan Denizcilik A.Ş. ⁽¹⁾	26.653	33.260
OYAK Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	41.423	30.715
Omsan Lojistik A.Ş. ⁽¹⁾	72.343	61.209
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	20.859	31.473
Omsan Logistica SRL ⁽¹⁾	3.309	4.435
OYAK Denizcilik ve Liman İşletmeleri A.Ş. ⁽¹⁾	29.084	26.391
İsdemir Linde Gaz Ortaklığı A.Ş. ⁽³⁾	20.863	20.739
OYAK Elektrik Enerjisi Toptan Satış A.Ş. ⁽¹⁾	18.561	14.564
Other	4.471	3.779
	<u>237.566</u>	<u>226.565</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

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

The period end balances are un-secured and their collections will be in cash. For the three months period ended 31 March 2020, the Group provides no provision for the receivables from related parties (31 December 2019: 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 three months period ended 31 March 2020, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 3.304 thousand (31 March 2019: TRY 3.632 thousand).

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 18)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 4 – INVENTORIES

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

	31 March 2020	31 December 2019
Raw materials	1.896.678	2.287.962
Work in progress	2.168.377	1.877.323
Finished goods	2.697.785	2.635.693
Spare parts	1.430.746	1.281.245
Goods in transit	998.733	1.106.346
Other inventories	626.014	556.855
Allowance for impairment on inventories (-)	(464.469)	(416.261)
	<u>9.353.864</u>	<u>9.329.163</u>

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

	1 January - 31 March 2020	1 January - 31 March 2019
Opening balance	416.261	347.745
Provision for the period	7.423	8.874
Provision released (-)	(51)	(8)
Translation difference	40.836	24.697
Closing balance	<u>464.469</u>	<u>381.308</u>

The Group has provided an allowance for the impairment on the inventories of finished goods, work in progress and raw materials within the scope of aging reports in the cases when their net realizable values are lower than their costs or for slow moving inventories. The provision released has been recognized under cost of sales (Note 13).

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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 %	31 March 2020	Right to vote ratio %	31 December 2019	Business segment
<i>Joint Venture</i>					
İsdemir Linde Gaz Ortaklığı A.Ş.	50	192.654	50	200.820	Industrial Gas Production and Sale

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

	31 March 2020	31 December 2019
Total assets	444.797	408.249
Total liabilities	59.489	6.609
Net assets	385.308	401.640
Group's share on net assets	192.654	200.820

	31 March 2020	31 December 2019
Share capital	175.000	201.667

At the Ordinary General Assembly Meeting of İsdemir Linde Gaz Ortaklığı A.Ş., dated 27 February 2020, more cash than needed and payment of this cash to partners through capital reduction with the aim of reducing capital by 26.667 thousand TRY and decisions regarding the distribution of cash dividend of TRY 17.302 thousand from the net profit of 2019 have been unanimously approved. As of the reporting date, the General Assembly registration procedures are ongoing and no payment the shareholders.

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

	1 January – 31 March 2020	1 January – 31 March 2019
Revenue	26.280	22.316
Operating profit	4.743	3.671
Net (loss) profit for the period	(8.088)	3.810
Group's share on net (loss) profit	(4.044)	1.905

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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:

	31 March 2020	31 March 2019
<u>Opening balance as of 1 January</u>		
Cost	53.620.152	46.803.093
Accumulated depreciation	(32.966.171)	(28.742.882)
Net book value	<u>20.653.981</u>	<u>18.060.211</u>
Net book value at the beginning of the period	20.653.981	18.060.211
Additions (*)	277.108	235.424
Disposals (-)	(12.254)	(12.472)
<i>Cost of disposals</i>	(83.730)	(71.071)
<i>Accumulated depreciation of disposals</i>	71.476	58.599
Transfers to intangible assets	-	(8.705)
Currency translation difference	1.980.983	1.248.848
<i>Cost currency translation difference</i>	5.138.175	3.226.422
<i>Accumulated depreciation currency translation difference</i>	(3.157.192)	(1.977.574)
Current period depreciation (-)	(309.551)	(263.805)
Net book value at the end of the period	<u>22.590.267</u>	<u>19.259.501</u>
<u>Closing balance end of period</u>		
Cost	58.951.705	50.185.163
Accumulated depreciation	(36.361.438)	(30.925.662)
Net book value	<u>22.590.267</u>	<u>19.259.501</u>

(*) The amount of capitalized borrowing cost is TRY (3.659) thousand for the current period (31 March 2019: TRY 5.075 thousand).

As of 31 March 2020, the Group has no collaterals or pledges upon its tangible assets (31 March 2019: 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:

	31 March 2020	31 March 2019
<u>Opening balance as of 1 January</u>		
Cost	821.867	702.679
Accumulated amortisation	(509.333)	(419.163)
Net book value	<u>312.534</u>	<u>283.516</u>
Net book value at the beginning of the period	312.534	283.516
Additions	754	480
Transfers from tangible assets	-	8.705
Currency translation difference	29.486	19.664
<i>Cost currency translation difference</i>	78.750	48.858
<i>Accumulated depreciation currency translation difference</i>	(49.264)	(29.194)
Current period amortisation (-)	(8.307)	(8.541)
Net book value at the end of the period	<u>334.467</u>	<u>303.824</u>
<u>Closing balance end of period</u>		
Cost	901.371	760.722
Accumulated amortisation	(566.904)	(456.898)
Net book value	<u>334.467</u>	<u>303.824</u>

As of 31 March 2020, the Group has no collaterals or pledges upon its intangible assets (31 March 2019: None).

The distribution of investment properties’ total depreciation and amortization expenses related to tangible, intangible assets and right of use assets amounting to TRY 1.354 thousand (31 March 2019: TRY 1.037 thousand) are as follows:

	1 January – 31 March 2020	1 January – 31 March 2019
Associated with cost of production	295.787	251.773
General administrative expenses	13.310	9.842
Marketing expenses	10.250	10.040
Research and development expenses	1.868	1.728
Other operating expenses	2.080	7.398
	<u>323.295</u>	<u>280.781</u>

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NOTE 7 – BORROWINGS

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

	31 March 2020	31 December 2019
Short term bank borrowings	3.902.488	4.179.522
Current portion of long term bank borrowings	1.947.357	1.332.364
Long term bank borrowings	1.450.742	1.380.494
Total bank borrowings	<u>7.300.587</u>	<u>6.892.380</u>
Current portion of long term corporate bonds issued	11.931	11.947
Long term corporate bonds issued	550.000	550.000
Total corporate bonds issued	<u>561.931</u>	<u>561.947</u>
Current portion of long term lease payables	44.411	42.656
Cost of current portion of long term lease payables (-)	(9.929)	(7.145)
Long term lease payables	917.986	909.906
Cost of long term lease payables (-)	(695.652)	(698.767)
Total lease payables	<u>256.816</u>	<u>246.650</u>
Total borrowings	<u><u>8.119.334</u></u>	<u><u>7.700.977</u></u>

As of 31 March 2020, 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	31 March 2020
No interest	TRY	-	5.373	-	5.373
Fixed	TRY	12,65	467.484	-	467.484
Fixed	US Dollars	2,41	3.317.453	54.341	3.371.794
Fixed	EURO	2,70	12.177	27.694	39.871
Floating	TRY	TRLibor+0,5	11.931	550.000	561.931
Floating	US Dollars	Libor+1,85	1.928.553	994.967	2.923.520
Floating	EURO	Euribor+1,62	118.805	373.740	492.545
			<u>5.861.776</u>	<u>2.000.742</u>	<u>7.862.518</u>

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NOTE 7– BORROWINGS (cont’d)

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

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

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

	31 March 2020				31 December 2019			
	Bank Borrowings	Corporate Bonds Issued	Lease Payables	Total Borrowings	Bank Borrowings	Corporate Bonds Issued	Lease Payables	Total Borrowings
Within 1 year	5.849.845	11.931	34.482	5.896.258	5.511.886	11.947	35.511	5.559.344
Between 1-2 years	324.255	550.000	29.798	904.053	295.397	550.000	29.986	875.383
Between 2-3 years	781.172	-	22.839	804.011	710.738	-	22.349	733.087
Between 3-4 years	93.317	-	18.672	111.989	143.974	-	18.724	162.698
Between 4-5 years	48.260	-	15.866	64.126	53.637	-	15.575	69.212
Five years or more	203.738	-	135.159	338.897	176.748	-	124.505	301.253
	<u>7.300.587</u>	<u>561.931</u>	<u>256.816</u>	<u>8.119.334</u>	<u>6.892.380</u>	<u>561.947</u>	<u>246.650</u>	<u>7.700.977</u>

NOTE 8 - PROVISIONS

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

	31 March 2020	31 December 2019
Provision for lawsuits	208.065	196.700
Penalty provision for employment shortage of disabled	13.993	12.836
Provision for state right on mining activities	22.410	19.158
Provision for land occupation	9.647	13.215
	<u>254.115</u>	<u>241.909</u>

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NOTE 8 – PROVISIONS (cont’d)

The movement of the provisions is as follows:

	1 January 2020	Change for the period	Payments	Provision released	Translation difference	31 March 2020
Provision for lawsuits	196.700	13.365	(3.420)	(10.650)	12.070	208.065
Penalty provision for employment shortage of disabled personnel	12.836	1.132	-	-	25	13.993
Provision for state right on mining activities	19.158	3.252	-	-	-	22.410
Provision for land occupation	13.215	4.312	(8.240)	-	360	9.647
	<u>241.909</u>	<u>22.061</u>	<u>(11.660)</u>	<u>(10.650)</u>	<u>12.455</u>	<u>254.115</u>

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

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NOTE 8 – PROVISIONS (cont’d)

Provision for lawsuits

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

	31 March 2020	31 December 2019
Lawsuits filed by the Group	973.604	880.306
Provision for lawsuits filed by the Group	227.598	218.121

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

	31 March 2020	31 December 2019
Lawsuits filed against the Group	159.940	153.052
Provision for lawsuits filed against the Group	208.065	196.700

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

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

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

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NOTE 8 – 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 December 31, 2005, it would also have to present the comparative consolidated financial statements in accordance with TFRS based on “TFRS 1: First-time adoption of International Financial Reporting Standards” and the previously recognized negative goodwill would be transferred directly to retained earnings on 1 January 2005 instead of recognizing in the consolidated statement of profit or loss in accordance with “TFRS 3: Business Combinations”. Therefore, the net profit for the periods ended 31 March 2020 and 31 December 2019 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 our Company on 28 August 2019, it was notified that our Company’s request for revision of the decision has been rejected. The case is still pending in the file No. 2019/418 E. of the 3rd Commercial Court of First Instance of Ankara. Next hearing will be held on 18 June 2020.

The Company, based on the above mentioned reasons, does not expect for the possible effects of changes in the net profit for the year ended 31 December 2005 due to the lawsuits mentioned above to have any impact in the accompanying consolidated financial statements as of 31 March 2020 and 31 December 2019.

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NOTE 8 – 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 our company but thereafter alleged that they directed claim to some compensation and that these claims must be covered by Erdemir. Parties could not reach an exact agreement about this matter and then Corus International Trading Ltd. Co filed an action for compensation at amount of USD 4.800 thousand together with accessory against the Company in Illinois State District Court of USA. It is learnt through a notification made to the Company on 21 July 2010. After the subject case is dismissed by the court from jurisdiction aspect; this time a lawsuit is re-filed by Tata Steel International (North America) Ltd.) in Texas State District Court. This case is also dismissed by the court from jurisdiction aspect.

It is learnt through a notification made to the Company on 31 October 2012 that Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.) filed an action for compensation at amount of USD 4.800 thousand together with accessory against the Company before Ankara 14. Commercial Court of First Instance. As a result of adjudication made; the court adjudged to dismiss the case on procedural grounds because of non-competence and to send the file to commissioned and competent Karadeniz Ereğli Commercial Court of First Instance in Duty when the judgement becomes definite and in case of request. The case continued on file no. 2013/63 in Karadeniz Ereğli 2nd Civil Court of First Instance. At the hearing of the ongoing case dated 28 November 2017, Kdz. Ereğli 2. Civil Court of First Instance has decided to partially accept the case against our Company. Our company has applied for the appeal against the decision. A provision amounting to TRY 56.207 thousand recognised on financial statements for the related lawsuit.

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

A real estate tax review was carried out by the Municipality of Kdz Ereğli under the name of "Real Estate Tax Determination Field Study" at Company’s Ereğli facilities in August 2019. As a result of this tax inspection, 1924 tax penalty notifications were notified to our company on 23 December 2019. With the 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 25.586 thousand TRY and 23.888 thousand TRY tax loss penalty has been imposed.

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

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

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NOTE 8 – PROVISIONS (cont’d)

Resolution of Constitutional Court on Electric and Coal Gas Tax

The claims filed every month for refunding of taxes paid and deduction thereof from Electric and Coal Gas Tax collected by the Municipality on the Electric and Coal Gas consumption quantity produced by the Company in the facilities and used for industrial production of the Company were concluded in the court of first instance and the Council of State against the company. Thereafter, on 16 March 2015, the Company used its right to apply the Constitutional Court individually. In the General Assembly Resolution adopted by the Constitutional Court notified to the Company on 27 December 2018, it is stated that the property rights of the Company were violated, and retrial was decided for the applicable claims to eliminate the consequences of the violation of the property rights regarding to consolidated 15 cases.

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

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

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

Provision for state right on mining activities

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

Land occupation

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

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

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NOTE 9 – EMPLOYEE BENEFITS

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

	31 March 2020	31 December 2019
Due to personnel	131.868	109.689
Social security premiums payable	48.780	43.669
	<u>180.648</u>	<u>153.358</u>

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

	31 March 2020	31 December 2019
Provisions for employee termination benefits	669.283	651.998
Provisions for seniority incentive premium	75.080	71.234
Provision for unpaid vacations	79.741	84.092
	<u>824.104</u>	<u>807.324</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 31 March 2020, the employee termination benefit has been updated to a maximum of TRY 6.730,15 (31 December 2019: TRY 6.379,86).

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

The employee termination benefit has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. TAS 19 (“Employee Benefits”) requires actuarial valuation methods to be developed to estimate the Group’s obligation under defined benefit plans. The obligation as of 31 March 2020 has been calculated by an independent actuary. The actuarial assumptions used in the calculation of the present value of the future probable obligation are as follows:

	31 March 2020	31 December 2019
Discount rate	%12,50	%12,50
Inflation rate	%8,20	%8,20
Salary increase	real 1,5%	real 1,5%
Maximum liability increase	%8,20	%8,20

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NOTE 9 – EMPLOYEE BENEFITS (cont’d)

Discount rates are determined considering the expected duration of the retirement obligations and the currency in which the obligations will be paid. In calculations as of 31 March 2020 fixed discount rate is used. Long term inflation estimates are made using an approach consistent with discount rate estimates and long term inflation rate fixed over years is used.

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

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

	1 January - 31 March 2020	1 January - 31 March 2019
Opening balance	651.998	530.083
Service cost	13.453	12.375
Interest cost	18.637	19.536
Termination benefits paid	(15.092)	(13.388)
Translation difference	287	332
Closing balance	<u>669.283</u>	<u>548.938</u>

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

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

	1 January - 31 March 2020	1 January - 31 March 2019
Opening balance	71.234	55.351
Service cost	1.691	1.362
Interest cost	2.066	2.059
Translation difference	89	21
Closing balance	<u>75.080</u>	<u>58.793</u>

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NOTE 9 – EMPLOYEE BENEFITS (cont’d)

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

	1 January - 31 March 2020	1 January - 31 March 2019
Opening balance	84.092	83.957
Provision for the period	13.599	11.709
Vacation paid during the period (-)	(1.658)	(1.044)
Provisions released (-)	(16.399)	(14.375)
Translation difference	107	190
Closing balance	<u>79.741</u>	<u>80.437</u>

NOTE 10 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	31 March 2020	31 December 2019
Letters of guarantees received	<u>3.096.482</u>	<u>2.853.670</u>
	<u>3.096.482</u>	<u>2.853.670</u>

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

	31 March 2020	31 December 2019
A. Total CPM given for the Company's own legal entity	89.204	77.498
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	217.213	182.133
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>306.417</u>	<u>259.631</u>

Total CPM given by the Group in favor of subsidiaries consolidated on line-by-line basis amounting to TRY 217.213 thousand has been given as collateral for financial liabilities explained in Note 7 and for raw material procurements. As of 31 March 2020, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2019: 0%).

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NOTE 10 – COMMITMENTS AND CONTINGENCIES (cont’d)

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

	31 March 2020	31 December 2019
US Dollars	182.985	167.519
TRY	74.188	64.844
EURO	49.244	27.268
	<u>306.417</u>	<u>259.631</u>

NOTE 11 – TAX ASSETS AND LIABILITIES

Group’s income tax payable as follows:

	31 March 2020	31 December 2019
<u>Corporate tax payable:</u>		
Corporation tax for the year of 2019	1.491.142	-
Current corporate tax provision	402.125	1.491.142
Prepaid taxes and funds (-)	<u>(1.498.828)</u>	<u>(1.285.573)</u>
	<u>394.439</u>	<u>205.569</u>
	1 January - 31 March 2020	1 January - 31 March 2019
<u>Taxation:</u>		
Current corporate tax expense	402.125	512.401
Deferred tax (income) / expense	<u>177.094</u>	<u>151.436</u>
	<u>579.219</u>	<u>663.837</u>

Corporate tax

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

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

The effective corporate tax rate in Turkey is 22%, 16% in Romania and 17% in Singapore as of 31 March 2020 (31 December 2019: in Turkey 22%, in Romania 16%, in Singapore 17%).

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NOTE 11 – TAX ASSETS AND LIABILITIES (cont’d)

Corporate tax (cont’d)

The total amount of the corporate tax paid by the Group in three months of 2020 is TRY 213.255 thousand (31 March 2019: TRY 257.931 thousand).

In Turkey, advance tax returns are filed on a quarterly basis. The temporary tax for the three months period ended 2020 has been calculated over the corporate earnings using the rate 22%, during the temporary taxation period. (31 December 2019: 22%).

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

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

Deferred tax

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

Deferred tax assets and liabilities (excluding land) tax rate used for calculating corporate tax for the subsidiaries in Turkey in accordance with the additional provisional Article 10 of Corporate Tax Law; corporate tax rate will be 22% for the corporate earnings to be obtained in the taxation periods of 2018, 2019, 2020 and 20% for the following years. The effective corporate tax rate is 17% in Singapore and 16% in Romania (31 December 2019: in Turkey 22%, in Romania 16%, in Singapore 17). The deferred tax on the temporary timing differences arising from land is calculated with the 10% tax rate (31 December 2019: 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 11 – TAX ASSETS AND LIABILITIES (cont’d)

Deferred tax (cont’d)

	31 March 2020	31 December 2019
<u>Deferred tax assets:</u>		
Provisions for employee benefits	167.182	164.160
Provision for lawsuits	38.447	36.056
Fair values of the derivative financial instruments	-	11.581
Inventories	26.563	21.881
Provision for other doubtful receivables	18.258	17.869
Tangible and intangible assets	19.804	19.782
Financial lease payables	50.632	42.409
Other	64.787	65.063
	<u>385.673</u>	<u>378.801</u>
<u>Deferred tax liabilities:</u>		
Tangible and intangible assets	(3.415.614)	(3.059.711)
Fair values of the derivative financial instruments	(6.972)	-
Amortized cost adjustment on loans	(18.092)	(19.085)
Right of use assets	(53.120)	(48.433)
Inventories	(252.687)	(132.676)
Other	(20.355)	(21.322)
	<u>(3.766.840)</u>	<u>(3.281.227)</u>
	<u>(3.381.167)</u>	<u>(2.902.426)</u>

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

Presentation of deferred tax assets/(liabilities):

	31 March 2020	31 December 2019
Deferred tax assets	47.079	41.911
Deferred tax (liabilities)	(3.428.246)	(2.944.337)
	<u>(3.381.167)</u>	<u>(2.902.426)</u>

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NOTE 11 – TAX ASSETS AND LIABILITIES (cont’d)

Deferred tax (cont’d)

Movements of deferred tax asset/(liability)

	1 January - 31 March 2020	1 January - 31 March 2019
Opening balance	(2.902.426)	(2.498.644)
Deferred tax (expense)/income	(177.094)	(151.436)
The amount in comprehensive income	(3.820)	(1.492)
Translation difference	(297.827)	(185.330)
Closing balance	(3.381.167)	(2.836.902)

Reconciliation of tax provision is as follows:

	1 January - 31 March 2020	1 January - 31 March 2019
Profit before tax	901.997	1.702.566
Statutory tax rate	22%	22%
Calculated tax expense acc. to effective tax rate	(198.439)	(374.565)
<u>Reconciliation between the tax provision and calculated tax:</u>		
- Non-deductible expenses	(9.730)	(8.083)
- Adjustment effect of rates subjected to corporate tax and deferred tax	4.193	19.772
- Effect of currency translation to non taxable assets	(374.668)	(301.006)
- Effect of the different tax rates due to foreign subsidiaries	(575)	45
Total tax exp. in reported in the stat. of income	(579.219)	(663.837)

NOTE 12 – EQUITY

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

<u>Shareholders</u>	(%)	31 March 2020	(%)	31 December 2019
Ataer Holding A.Ş.	49,29	1.724.982	49,29	1.724.982
Quoted in Stock Exchange	47,63	1.667.181	47,63	1.667.181
Erdemir's own shares	3,08	107.837	3,08	107.837
Historical capital	100,00	3.500.000	100,00	3.500.000
Effect of inflation		156.613		156.613
Restated capital		3.656.613		3.656.613
Treasury shares		(116.232)		(116.232)
		3.540.381		3.540.381

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NOTE 13 – 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 369.859 thousand. The Company plans to recognize related revenue amount as a revenue in a year.

	1 January - 31 March 2020	1 January - 31 March 2019
<u>Sales Revenue</u>		
Domestic sales	5.448.761	5.140.869
Export sales	702.608	1.795.538
Other revenues (*)	210.544	193.137
Interest income from sales with maturities	28.433	47.893
Sales returns (-)	(2.733)	(21.445)
Sales discounts (-)	(8.686)	(11.853)
	<u>6.378.927</u>	<u>7.144.139</u>
<u>Cost of sales (-)</u>	<u>(5.501.248)</u>	<u>(5.512.573)</u>
Gross profit	<u>877.679</u>	<u>1.631.566</u>

(*) The total amount of by product exports in other revenues is TRY 106.209 thousand (31 March 2019: TRY 90.034 thousand). Total interest income from export sales with maturities is TRY 326 thousand.

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

	1 January - 31 March 2020	1 January - 31 March 2019
Raw material usage	(4.042.132)	(4.184.766)
Personnel costs	(421.629)	(372.443)
Energy costs	(343.102)	(312.339)
Depreciation and amortization expenses	(275.456)	(250.439)
Manufacturing overheads	(178.154)	(140.063)
Other cost of goods sold	(117.381)	(122.082)
Non-operating costs (*)	(21.843)	-
Freight costs for sales delivered to customers	(56.993)	(96.716)
Allowance expenses for impairment on inventories (Note 4)	(7.423)	(8.874)
Inventory provision released (Note 4)	51	8
Other	(37.186)	(24.859)
	<u>(5.501.248)</u>	<u>(5.512.573)</u>

(*) Due to the planned/ unplanned halt production of plant of the Group’s, operations were suspended temporarily in the current period. As a result of this, unallocated overheads, TRY (21.843) thousand, has been accounted directly under cost of sales (31 March 2019: None).

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**NOTE 14 –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 - 31 March 2020	1 January - 31 March 2019
Personnel expenses (-)	(22.898)	(22.591)
Depreciation and amortization (-)	(10.250)	(10.040)
Service expenses (-)	(24.389)	(24.283)
	<u>(57.537)</u>	<u>(56.914)</u>

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

	1 January - 31 March 2020	1 January - 31 March 2019
Personnel expenses (-)	(47.020)	(44.191)
Depreciation and amortization (-)	(11.307)	(9.842)
Benefits and services from third parties (-)	(45.119)	(40.218)
Tax, duty and charges (-)	(5.379)	(3.627)
Provision/ Provision released for doubtful receivables (net)	331	(3.715)
Amortization of right of use assets (-)	(2.003)	-
	<u>(110.497)</u>	<u>(101.593)</u>

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

	1 January - 31 March 2020	1 January - 31 March 2019
<u>Other operating income</u>		
Foreign exchange gain from trade receivables and payables (net)	54.495	-
Forfeit advances from customers	1.095	5.242
Discount income	48	62
Provisions released	10.650	6.580
Service income	4.753	2.464
Maintenance repair and rent income	4.169	3.949
Warehouse income	1.429	3.115
Indemnity and penalty detention income	754	697
Insurance indemnity income	89	1.646
Lawsuit income	398	53
Overdue interest income	1.182	3.325
Other income and gains	20.287	11.720
	<u>99.349</u>	<u>38.853</u>

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NOTE 14 –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 - 31 March 2020	1 January - 31 March 2019
<u>Other operating expenses (-)</u>		
Provision expenses	(14.497)	(17.082)
Interest expenses from purchases with maturities	(6.416)	(4.585)
Foreign exchange expenses from trade receivables and payables (net)	-	(2.583)
Lawsuit compensation expenses	(1.484)	(1.651)
Right of use assets amortization	(2.080)	(7.398)
Donation expenses	(2.703)	(713)
Service expenses	(3.989)	(1.736)
Stock exchange registration expenses	(1.085)	(3.083)
Penalty expenses	(211)	(482)
Other expenses and losses	(6.188)	(7.684)
	<u>(38.653)</u>	<u>(46.997)</u>

NOTE 15 – FINANCE INCOME AND EXPENSES

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

	1 January - 31 March 2020	1 January - 31 March 2019
<u>Finance income</u>		
Interest income on bank deposits	41.756	141.258
Foreign exchange gains (net)	154.534	163.546
Interest income from financial investments	937	3.581
Fair value differences of derivative financial instruments (net)	84.150	10.187
Other financial income	512	-
	<u>281.889</u>	<u>318.572</u>

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

	1 January - 31 March 2020	1 January - 31 March 2019
<u>Finance expenses (-)</u>		
Interest expenses on borrowings	(99.671)	(55.264)
Interest cost of employee benefits	(20.703)	(21.595)
Interest expenses on leasings	(9.049)	-
Other financial expenses	(1.423)	(4.502)
	<u>(130.846)</u>	<u>(81.361)</u>

During the period, the borrowing costs of TRY (3.659) thousand have been capitalized as part of the Group’s tangibles (31 March 2019: TRY 5.075 thousand).

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NOTE 16 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

Additional information about financial instruments

Foreign currency risk management

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). Foreign currency position table represents foreign currencies other than each entity’s functional currency. As of 31 March 2020, the foreign currency position of the Group in terms of original currency is calculated as it as follows:

31 March 2020

	TRY (Total in reporting currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	RON (Original currency)
1. Trade Receivables	462.946	30.867	56.383	-	17.023
2a. Monetary financial assets	13.051.522	2.670.096	1.435.784	46	14.981
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	47.656	33.138	1.923	-	436
4. CURRENT ASSETS (1+2+3)	13.562.124	2.734.101	1.494.090	46	32.440
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	212.318	212.318	-	-	-
6b. Non- monetary financial assets	-	-	-	-	-
7. Other	440.650	33.757	46.885	1.137.782	64
8. NON-CURRENT ASSETS (5+6+7)	652.968	246.075	46.885	1.137.782	64
9. TOTAL ASSETS (4+8)	14.215.092	2.980.176	1.540.975	1.137.828	32.504
10. Trade payables	1.236.415	858.978	35.575	1.915.810	3.623
11. Financial liabilities	650.252	519.269	18.154	-	-
12a. Other monetary financial liabilities	1.164.585	1.149.653	1.315	-	3.669
12b. Other non-monetary financial liabilities	-	-	-	-	-
13. CURRENT LIABILITIES (10+11+12)	3.051.252	2.527.900	55.044	1.915.810	7.292
14. Trade payables	-	-	-	-	-
15. Financial liabilities	1.173.768	772.334	55.639	-	-
16a. Other monetary financial liabilities	804.744	803.913	-	-	560
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. NON-CURRENT LIABILITIES (14+15+16)	1.978.512	1.576.247	55.639	-	560
18. TOTAL LIABILITIES (13+17)	5.029.764	4.104.147	110.683	1.915.810	7.852
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	(10.130.378)	220.000	(1.434.564)	-	-
19a. Off-balance sheet foreign currency derivative financial assets	220.000	220.000	-	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	10.350.378	-	1.434.564	-	-
20. Net foreign currency asset/liability position (9-18+19)	(945.050)	(903.971)	(4.272)	(777.982)	24.652
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	8.697.022	(1.190.866)	1.381.484	(1.915.764)	24.152
22. Fair value of derivative financial instruments used in foreign currency hedge	21.083	23.572	(345)	-	-
23. Hedged foreign currency assets	10.350.378	-	1.434.564	-	-
24. Hedged foreign currency liabilities	220.000	220.000	-	-	-
25. Exports	809.143				
26. Imports	3.080.612				

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**NOTE 16 – 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 2019, the foreign currency position of the Group in terms of original currency is calculated as it as follows:

31 December 2019

	TRY (Total in reporting currency)	TRY (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	RON (Original currency)
1. Trade Receivables	512.431	78.967	61.779	-	16.335
2a. Monetary financial assets	2.193.591	1.323.384	127.107	156	17.971
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	41.233	30.488	1.600	-	76
4. CURRENT ASSETS (1+2+3)	2.747.255	1.432.839	190.486	156	34.382
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	262.197	262.197	-	-	-
6b. Non- monetary financial assets	-	-	-	-	-
7. Other	336.825	16.430	39.212	1.094.943	121
8. NON-CURRENT ASSETS (5+6+7)	599.022	278.627	39.212	1.094.943	121
9. TOTAL ASSETS (4+8)	3.346.277	1.711.466	229.698	1.095.099	34.503
10. Trade payables	1.240.228	882.693	37.845	1.915.314	1.346
11. Financial liabilities	1.072.497	954.116	17.800	-	-
12a. Other monetary financial liabilities	703.990	698.992	314	-	2.103
12b. Other non-monetary financial liabilities	-	-	-	-	-
13. CURRENT LIABILITIES (10+11+12)	3.016.715	2.535.801	55.959	1.915.314	3.449
14. Trade payables	-	-	-	-	-
15. Financial liabilities	1.170.295	761.140	61.522	-	-
16a. Other monetary financial liabilities	788.877	787.967	-	-	658
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. Non-current liabilities (14+15+16)	1.959.172	1.549.107	61.522	-	658
18. TOTAL LIABILITIES (13+17)	4.975.887	4.084.908	117.481	1.915.314	4.107
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	(860.881)	-	(103.131)	-	-
19a. Off-balance sheet foreign currency derivative financial assets	-	-	26.313	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	860.881	-	129.444	-	-
20. Net foreign currency asset/liability position (9-18+19)	(2.490.491)	(2.373.442)	9.086	(820.215)	30.396
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(2.007.668)	(2.420.360)	71.405	(1.915.158)	30.199
22. Fair value of derivative financial instruments used in foreign currency hedge	21.078	23.572	(375)	-	-
23. Hedged foreign currency assets	860.881	-	129.444	-	-
24. Hedged foreign currency liabilities	257.101	-	26.313	-	-
25. Exports	5.842.476	-	-	-	-
26. Imports	15.103.243	-	-	-	-

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

Additional information about financial instruments (cont’d)

Foreign currency risk management (cont’d)

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

As of 31 March 2020 asset and liability balances are translated by using the following exchange rates: TRY 6,5160 = US \$ 1, TRY 7,2150 = EUR 1, TRY 0,0602 = JPY 1 and TRY 1,4847 = RON 1 (31 December 2019: TRY 5,9402 = US \$ 1, TRY 6,6506 = EUR 1, TRY 0,0543 = JPY 1 and TRY 1,3832 = RON 1).

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency	Depreciation of foreign currency
31 March 2020		
1- TRY net asset/liability	(112.397)	112.397
2- Hedged portion from TRY risk (-)	22.000	(22.000)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(90.397)	90.397
5- RON net asset/liability	3.660	(3.660)
6- Hedged portion from RON risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- RON net effect (5+6+7)	3.660	(3.660)
9- Euro net asset/liability	1.031.956	(1.031.956)
10- Hedged portion from Euro risk (-)	(1.035.038)	1.035.038
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	(3.082)	3.082
13- Jap. Yen net asset/liability	(4.686)	4.686
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(4.686)	4.686
TOTAL (4+8+12+16)	(94.505)	94.505

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**NOTE 16 – 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 2019	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	(237.344)	237.344
2- Hedged portion from TRY risk (-)	8.210	(8.210)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(229.134)	229.134
5- RON net asset/liability	4.204	(4.204)
6- Hedged portion from RON risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- RON Dollars net effect (5+6+7)	4.204	(4.204)
9- Euro net asset/liability	74.631	(74.631)
10- Hedged portion from Euro risk (-)	(68.588)	68.588
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	6.043	(6.043)
13- Jap. Yen net asset/liability	(4.453)	4.453
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(4.453)	4.453
TOTAL (4+8+12+16)	(223.340)	223.340

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

**NOTE 16 – 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 comprehensi ve income	Derivative financial instruments through profit/loss	Carrying value
31 March 2020				
<u>Financial Assets</u>				
Cash and cash equivalents	12.836.167	-	-	12.836.167
Trade receivables	3.294.601	-	-	3.294.601
Financial investments	171.036	-	177	171.213
Other financial assets	66.892	-	-	66.892
Derivative financial instruments	-	33.289	139.040	172.329
<u>Financial Liabilities</u>				
Financial liabilities	8.119.334	-	-	8.119.334
Trade payables	2.874.665	-	-	2.874.665
Other liabilities	537.178	-	-	537.178
Derivative financial instruments	-	3.266	132.113	135.379
31 December 2019				
<u>Financial Assets</u>				
Cash and cash equivalents	10.590.024	-	-	10.590.024
Trade receivables	3.344.177	-	-	3.344.177
Financial investments	101.304	-	161	101.465
Other financial assets	42.968	-	-	42.968
Derivative financial instruments	-	14.584	35.500	50.084
<u>Financial Liabilities</u>				
Financial liabilities	7.700.977	-	-	7.700.977
Trade payables	2.936.622	-	-	2.936.622
Other liabilities	374.155	-	-	374.155
Derivative financial instruments	-	7.053	95.670	102.723

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 18)

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

Additional information about financial instruments (cont’d)

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

Financial asset and liabilities at fair value	31 March 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	139.040	-	139.040	-
Derivative financial liabilities	(132.113)	-	(132.113)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	33.289	-	33.289	-
Derivative financial liabilities	(3.266)	-	(3.266)	-
Total	36.950	-	36.950	-

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 18)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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

NOTE 16 – 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 17 – SUBSEQUENT EVENTS

As of December 2019, Corona virus ("Covid-19") which is described as the pandemic by the World Health Organization ("WHO") has been detected in Wuhan, city of China. Starting from March 2020, various cases regarding the epidemic has been detected also in Turkey. In order to prevent the Covid-19 outbreak and the spread of the epidemic, the government has started to take various measures related to social and economic life. The potential effects of these measures and possible future decisions on the Group's activities remain uncertain as of the reporting date.

NOTE 18 – OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION

Convenience translation to English:

As of 31 March 2020, 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.