

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONSOLIDATED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

ÇELİK HALAT VE TEL SANAYİİ A.Ş.

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
1 JANUARY - 31 DECEMBER 2019**

ÇELİK HALAT VE TEL SANAYİİ A.Ş.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

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

		Audited Current Period 31 December 2019	Audited Prior Period 31 December 2018
	Notes		
ASSETS			
Current assets		165,895,448	141,724,499
Cash and cash equivalents	3	17,230,550	2,948,073
Trade receivables			
- Due from related parties	27	324,199	526,671
- Due from non-related parties	6	72,823,668	70,081,544
Other receivables			
- Due from non-related parties	7	4,658,862	999,599
Inventories	9	62,790,623	58,384,294
Prepaid expenses	16	2,047,540	1,208,793
Other current assets	17	6,020,006	7,575,525
Non-current assets		73,829,529	64,837,687
Right of use assets	10	83,781	-
Property, plant and equipment	11	61,218,226	62,419,577
Intangible assets	12	7,690,716	1,992,261
Financial investments	4	20,087	20,087
Deferred income tax	25	4,149,042	-
Other non-current assets	17	667,677	405,762
TOTAL ASSETS		239,724,977	206,562,186

The consolidated financial statements as of and for the period ended 31 December 2019 have been approved by the Board of Directors on 21 January 2019.

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

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

	Notes	Audited Current Period 31 December 2019	Audited Prior Period 31 December 2018
LIABILITIES			
Current Liabilities		195,547,886	143,435,863
Short-term borrowings			
Short-term borrowings from non-related parties			
- Bank loans	5	73,156,600	53,173,433
- Other short-term borrowings	5	-	14,670,048
Short-term portion of long-term borrowings			
Short-term portion of long term borrowings from related parties			
- Lease borrowings	5	96,712	-
Trade payables			
- Due to non-related parties	6	117,414,881	71,059,323
Payables related to employee benefits	8	992,424	2,131,897
Other payables			
- Due to related parties	7, 27	895,290	330,739
Short-term provisions			
- Short-term provisions for employment benefits	13	1,730,589	273,656
- Other short-term provisions	13	173,426	74,700
Deferred income (Except obligations arising from customer contracts)	16	907,472	1,629,177
Other short-term liabilities	7	180,492	92,890
Non-current liabilities		10,692,353	8,191,123
Long-term provisions			
- Long-term provisions for employment benefits	15	10,692,353	8,184,442
Deferred tax liabilities	25	-	6,681
Equity		33,484,738	54,935,200
Share capital	18	16,500,000	16,500,000
Adjustments to share capital	18	8,642,368	8,642,368
Other comprehensive income (losses) that will not be reclassified in profit or loss			
Actuarial gains (losses)			
- Actuarial gains (losses) on defined benefit plans	18	(5,504,130)	(4,538,909)
Other comprehensive income (losses) that will not be reclassified in profit or loss			
- Foreign exchange differences		(33,245)	4,382
Restricted reserves	18	3,906,090	2,175,592
Retained earnings		20,421,269	13,779,136
Net profit/(loss) for the period		(10,447,614)	18,372,631
TOTAL LIABILITIES AND EQUITY		239,724,977	206,562,186

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

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR END OF THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2019

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

	Notes	Audited Current Period 1 January - 31 December 2019	Audited Prior Period 1 January - 31 December 2019
Revenue	19	315,152,125	311,900,263
Cost of Sales (-)	19	(280,197,575)	(247,200,282)
Gross Profit		34,954,550	64,699,981
General Administrative Expenses (-)	20	(18,583,856)	(14,026,667)
Marketing Expenses (-)	20	(23,024,493)	(13,426,250)
Research and Development Expenses (-)	20	(1,000,307)	(1,260,701)
Other Income from Operating Activities	22	18,903,320	89,131,488
Other Expenses from Operating Activities (-)	22	(15,292,098)	(93,704,941)
Operating Profit		(4,042,884)	31,412,910
Income from investment activities	23	-	410,929
OPERATING PROFIT/(LOSS) BEFORE FINANCE EXPENSE/(INCOME)		(4,042,884)	31,823,839
Finance Expense (-)	24	(10,319,148)	(8,603,676)
PROFIT BEFORE TAXATION FROM CONTINUED OPERATIONS		(14,362,032)	23,220,163
Tax Expense/Income From Continued Operations	25	3,914,418	(4,847,532)
Tax Income/ (Expense) for the Period	25	-	(4,343,473)
Deferred Tax Income/ (Expense)	25	3,914,418	(504,059)
PROFIT/ (LOSS) FOR THE PERIOD		(10,447,614)	18,372,631
OTHER COMPREHENSIVE INCOME/ (LOSS)		(965,221)	(778,483)
That will be not be reclassified s as profit or loss			
Actuarial gains (losses) on defined benefit plans	15	(1,206,526)	(973,104)
Taxes related to other comprehensive income that will not be reclassified as profit or loss			
- Tax effect of actuarial gains (losses) on defined benefit plans	25	241,305	194,621
That will be classified s as profit or loss			
Foreign exchange differences		(37,627)	4,382
OTHER COMPREHENSIVE INCOME/ (LOSS)		(1,002,848)	(774,101)
TOTAL COMPREHENSIVE INCOME/(LOSS)		(11,450,462)	17,598,530
Gain/(Loss) Per Share	26	(0.63)	1.11

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

ÇELİK HALAT VE TEL SANAYİİ A.Ş.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 1 JANUARY- 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

	Notes	Paid-in Capital	Adjustments to share capital	Other comprehensive income or loss that will not be reclassified to profit or loss	Other comprehensive income or loss that will be reclassified to profit or loss	Retained earnings		Net profit/(Loss) for the period	Equity
				Actuarial gain/(losses) on defined benefit plans	Foreign exchange differences	Restricted reserves	Retained earnings		
Balances at 1 January 2018		16,500,000	8,642,368	(3,760,426)	-	1,227,307	9,242,351	10,765,070	42,616,670
Transfers		-	-	-	-	948,285	9,816,785	(10,765,070)	-
Dividends paid (*)		-	-	-	-	-	(5,280,000)	-	(5,280,000)
Total comprehensive income/(expense)		-	-	(778,483)	4,382	-	-	18,372,631	17,598,530
- <i>Net profit/(loss) for the period</i>		-	-	-	-	-	-	18,372,631	18,372,631
- <i>Other comprehensive income/(expense)</i>		-	-	(778,483)	4,382	-	-	-	(774,101)
Balances at 31 December 2018	18	16,500,000	8,642,368	(4,538,909)	4,382	2,175,592	13,779,136	18,372,631	54,935,200
Balances at 1 January 2019		16,500,000	8,642,368	(4,538,909)	4,382	2,175,592	13,779,136	18,372,631	54,935,200
Transfers		-	-	-	-	1,730,498	16,642,133	(18,372,631)	-
Dividends paid (*)		-	-	-	-	-	(10,000,000)	-	(10,000,000)
Total comprehensive income/(expense)		-	-	(965,221)	(37,627)	-	-	(10,447,614)	(11,450,462)
- <i>Net profit/(loss) for the period</i>		-	-	-	-	-	-	(10,447,614)	(10,447,614)
- <i>Other comprehensive income/(expense)</i>		-	-	(965,221)	(37,627)	-	-	-	(1,002,848)
Balances at 31 December 2019	18	16,500,000	8,642,368	(5,504,130)	(33,245)	3,906,090	20,421,269	(10,447,614)	33,484,738

(*) Dividend distribution amounting to gross TRY10,000,000 has been decided in the Ordinary General Assembly Meeting for the year-ended 2018 as at 19 March 2019, Dividend payment was completed on April 30, 2019.

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

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CONSOLIDATED STATEMENT OF CASH FLOW FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2019

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

	Notes	Audited Current Period 1 January - 31 December 2019	Audited Prior Period 1 January - 31 December 2018
A. NET CASH FROM OPERATING ACTIVITIES		46,788,712	(4,995,365)
Profit for the period/(loss)		(10,447,614)	18,372,631
Adjustments regarding reconciliation of net profit (loss) for the period		23,102,887	21,478,559
Adjustment related to depreciation and amortization	10, 11, 12	12,928,133	6,594,953
Adjustments related to provision (reversal) of impairment			
<i>Adjustments related to provision of impairment on inventories</i>	9	(75,344)	(11,496)
<i>Adjustments related to provision (reversal) of impairment of receivables</i>	6	807,079	-
Adjustments related to provisions			
<i>Adjustments related to provisions (reversal) for lawsuits and/or penalty</i>	13	(24,700)	(13,050)
<i>Adjustments related to provisions (reversals) for employee benefits</i>	13, 15	3,345,063	1,808,072
<i>Adjustments related to provisions (reversals) for the other provisions</i>	7, 13	123,426	-
Adjustments related to interest (income) and expenses			
<i>Adjustments related to interest income</i>	22	(207,919)	(330,270)
<i>Adjustments related to interest expense</i>	24	2,005,828	1,284,853
<i>Deferred financial income from purchase of time deposits</i>	22	133,752	465,736
<i>Deferred financial income from sales of time deposits</i>	22	(181,732)	(141,744)
Adjustments related to losses/(gains) resulting from the disposal of tangible fixed assets			
<i>Adjustments for losses (gains) arising from disposal of tangible assets</i>	23	-	(410,929)
Adjustments related to changes in unrealised foreign exchange differences		8,163,719	7,384,902
Adjustments related to tax expense/(income)	25	(3,914,418)	4,847,532
Changes in working capital		36,089,217	(38,172,427)
Adjustments for decrease (increase) in inventories		(3,923,192)	(20,324,758)
Adjustments for decrease (increase) in trade receivables		(3,164,999)	(12,494,925)
Adjustments regarding decrease (increase) in other receivables on operations		(3,204,406)	(6,098,751)
Adjustments for decrease (increase) in trade payables		46,221,806	946,205
Adjustments regarding decrease (increase) in other payables on operations		160,008	(200,198)
Net Cash from Operating Activities		48,744,490	1,678,763
Income tax payments		-	(4,531,476)
Payments for other provisions	13	-	-
Employee termination benefits paid	13, 15	(1,955,778)	(2,142,652)
B. NET CASH FROM INVESTING ACTIVITIES		(16,113,513)	(32,903,229)
Cash outflows from purchase of property, plant and equipment and intangible assets	11,12	(16,113,513)	(33,609,613)
Cash inflows due to sale of property, plant, equipment and intangible assets		-	706,384
C. NET CASH FROM FINANCING ACTIVITIES		(16,392,722)	29,631,616
Proceeds from borrowings			
<i>Cash inflows from borrowings</i>		268,931,614	124,190,064
<i>Cash inflows from factoring transactions</i>		20,163,205	27,137,207
Cash outflows on debt payments			
<i>Cash outflows from borrowings</i>		(255,732,891)	(101,980,410)
<i>Cash inflows from factoring transactions</i>		(36,229,464)	(13,417,334)
Interest paid		(1,837,916)	(1,359,052)
Interest received		207,919	341,141
Dividends paid		(10,000,000)	(5,280,000)
Cash outflows due to payments of lease agreements	5	(1,895,189)	-
D. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)		14,282,477	(8,266,978)
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	3	2,948,073	11,215,051
F. CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D)	3	17,230,550	2,948,073

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

ÇELİK HALAT VE TEL SANAYİİ A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AS AT 31 DECEMBER 2019

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

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

The operations of Çelik Halat ve Tel Sanayii Anonim Şirketi ("the Company" or "Çelik Halat"), is to manufacture products as single and multiple strand ropes, galvanized wire, bead wire, spring wire, concrete strand, concrete wire, to meet the investment and semi finished goods demands of mining, construction, tire, bead, energy, fishery and other various manufacturing industries. The Company was established in 1962 and is registered in Turkey. The Company is a subsidiary of Doğan Şirketler Grubu Holding A.Ş. ("Doğan Holding"). The Company's main shareholder is Aydın Doğan and Doğan Family (Işıl Doğan, Arzuhan Yalçındağ, Vuslat Sabancı, Hanzade V. Doğan Boyner ve Y.Begümhan Doğan Faralyalı).

The Company is registered with the Capital Markets Board ("CMB") and its shares have been quoted on the Istanbul Stock Exchange market (ISE) since 10 January 1986. Within the frame of Resolution No: 31/1059 dated 30 October 2014 and No: 21/655 dated 23 July 2010 of CMB, according to the records of Central Registry Agency ("CRA"), the 21.82% (31 December 2018: 21.82%) shares of Çelik Halat are to be considered in circulation as of 31 December 2019 (Note 18).

The Company established a subsidiary titled Celik Halat Netherlands B.V. (Celik Halat BV), headquartered in Amsterdam, Netherlands, to conduct sales and marketing activities for its products produced in 2018 in Europe, and the Company owns 100% of Celik Halat BV's shares.

The Company's subsidiaries (the "Subsidiaries"), their core business and the countries in which they operate are as follows:

Subsidiaries	Nature of business	Establishment and place of activity	Share capital ratio (%)	
			31 December 2019	31 December 2018
Celik Halat BV (*)	Sales and Marketing	Netherlands	100.00	100.00

(*) As of 27 September 2018, the establishment process has been completed.

The number of employees of the Company as of 31 December 2019 is 394 (31 December 2018: 406).

The registered address of the parent company is as follows:

Ertuğrul Gazi Mah. Şehitler Caddesi No: 2 Kartepe, P.K: 41180, Kocaeli

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

2.1.1 Preparation and Presentation of Consolidated Financial Statements

Adopted Financial Reporting Standards

The accompanying consolidated financial statements are prepared in accordance with 2019 TAS Taxonomy based on the requirements of Capital Markets Board ("CMB") Communiqué Serial II, No: 14.1 "Basis of Financial Reporting in Capital Markets" and Turkish Financial Reporting Standards ("TFRS") issued by the Public Oversight Accounting and Auditing Standards Authority ("POA"), which is developed by POA and announced to the public by the decision of the POA on 15 April 2019 in accordance with paragraph 9(b) of Decree Law No. 660.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AS AT 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

2.1.1 Preparation and Presentation of Consolidated Financial Statements

Adopted Financial Reporting Standards (Continued)

The Group maintains their legal books of accounts in Turkish Lira in accordance with the Tax Legislation, and the Uniform Chart of Accounts (General Communiqué on Accounting System Implementation) issued by the Ministry of Finance.

These consolidated financial statements, except for the financial assets and investment properties that are presented at fair value, are prepared on the basis of historical cost.

Adjustment to the financial statements in hyperinflationary periods

In accordance with the decision of CMB dated as 17 March 2005 and numbered 11/367, effective from 1 January 2005, the application of inflation accounting is no longer required for companies operating in Turkey and preparing their financial statements in accordance with TFRS. Accordingly, No: 29, “Financial Reporting in Hyperinflationary Economies” (“TAS 29”), has not been applied commencing from 1 January 2005.

Functional and presentation currency

Functional currency is defined as the currency in which the entity carries out a significant portion of its activities. The consolidated financial statements are presented in Turkish Lira, which is the functional and presentation currency of Çelik Halat.

2.1.2 Financial statements of subsidiaries and joint ventures operating in foreign countries

Financial statements of subsidiaries and joint ventures operating in foreign countries are prepared in accordance with the laws and regulations in force in the countries in which they are registered and required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with the Group’s accounting policies.

If the group entities’ functional currency is different from the presentation currency; it is translated into the presentation currency as below:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position
- Income and expenses for each statement of profit or loss are translated at average exchange rates in the accounting period; and all resulting exchange differences are recognised as a separate component of equity and statements of other comprehensive income (currency translation differences).

When a foreign operation is partially disposed of or sold, exchange differences recorded in equity are recognised in the consolidated statement of profit or loss as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.1.3 New and revised Turkish Financial Reporting Standards (“TFRS”)

There is no standard or opinion that affects the financial performance of the Company, statement of financial position, presentation or notes in the current period excluding TFRS 16, “Leases” were explained in Note 2.1.7. In addition, below, you can also find details about the standards, which apply in the current period and do not affect the consolidated financial statements of the Group, and standards, which have not yet been come into force and not applied by the Group in advance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AS AT 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation (Continued)

2.1.3 New and revised Turkish Financial Reporting Standards (“TFRS”) (Continued)

a) New standards applicable as of 31 December 2019 and amendments to existing previous standards and interpretations:

- Amendment to TFRS 9, “Financial instruments”; effective from periods beginning on or after 1 January 2019. This amendment confirmed two points: (1) that reasonable compensation for prepayments can be both negative or positive cash flows when considering whether a financial asset solely has cash flows that are principal and interest and (2) that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.
- Amendment to TAS 28, “Investments in associates and joint venture”; effective from periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using TFRS 9.
- TFRS 16, “Leases”; effective from periods beginning on or after 1 January 2019, this standard replaces the current guidance in TAS 17 and is a far-reaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a ‘right of use asset’ for virtually all lease contracts. For lessors, the accounting stays almost the same. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, updated guidance on the definition of a lease (as well as the updated guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.
- TFRS 23, “Uncertainty over income tax treatments”; effective from periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of TAS 12 “Income taxes”, are applied where there is uncertainty over income tax treatments. The TFRS IC had clarified previously that not TAS 12, however TAS 37 “Provisions, contingent liabilities and contingent assets”, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates

ÇELİK HALAT VE TEL SANAYİİ A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AS AT 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation (Continued)

2.1.3 New and revised Turkish Financial Reporting Standards (“TFRS”) (Continued)

a) New standards applicable as of 31 December 2019 and amendments to existing previous standards and interpretations (Continued):

- Annual improvements 2015 - 2017; effective from periods beginning on or after 1 January 2019. These amendments include minor changes to:
 - TFRS 3, “Business combinations”, - a company remeasures its previously held interest in a joint operation when it obtains control of the business.
 - TFRS 11, “Joint arrangements”, - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
 - TAS 12, “Income taxes” - a company accounts for all income tax consequences of dividend payments in the same way.
 - TAS 23, “Borrowing costs” - a company treats any borrowing originally made to develop an asset when the asset is ready for its intended use or sale, as part of the general borrowings.
- Amendments to TAS 19, “Employee benefits” on plan amendment, curtailment or settlement; effective from periods beginning on or after 1 January 2019. These amendments require an entity to:
 - Use updated assumptions to determine current service cost and net interest for the remaining period after a plan amendment, curtailment or settlement; and
 - Recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

b) Standards, amendments and interpretations that are issued but not effective as at 31 December 2019:

- Amendments to TAS 1 and TAS 8 on the definition of materiality; effective from periods beginning on or after 1 January 2020. These amendments to TAS 1, “Presentation of financial statements”, and TAS 8, “Accounting policies, changes in accounting estimates and errors”, and consequential amendments to other TFRSs are as follows:
 - i) Use a consistent definition of materiality throughout TFRSs and the Financial Reporting framework
 - ii) Clarify the explanation of the definition of materiality and
 - iii) Incorporate some of the guidance in TAS 1 about immaterial information

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AS AT 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation (Continued)

2.1.3 New and revised Turkish Financial Reporting Standards (“TFRS”) (Continued)

b) Standards, amendments and interpretations that are issued but not effective as at 31 December 2019 (Continued):

- Amendments to TFRS 3 - definition of a business; effective from periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.
- Amendments to TAS 39 and TFRS 7; Interest rate benchmark reform; effective from Annual periods beginning on or after 1 January 2020. These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.
- TFRS 17, “Insurance contracts”; effective from periods beginning on or after 1 January 2021. This standard replaces TFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. TFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

The Group has not determined the effects that may occur in the consolidated financial statements as a result of the application of the aforementioned standards, but has not anticipated that these differences will have a significant impact on the consolidated financial statements.

2.1.4 Consolidation and equity method accounting principles

The consolidated financial statements include the accounts of the parent company, Çelik Halat, its Subsidiaries and its Joint Ventures (collectively referred as the “Group”) on the basis set out in sections (a) to (c) below. The financial statements of the companies included in the consolidation are based on historical cost of the statutory records and for the purpose of fair presentation in accordance with the accounting policies described in Note 2.1.1 and Note 2.1.2 and application of uniform accounting policies and presentations; adjustments and reclassifications. Financial statements of consolidated entities are restated in accordance with the TAS considering the accounting policies and presentation requirements applied by the Group.

Subsidiaries

Subsidiaries comprise of the companies directly or indirectly controlled by Çelik Halat.

Control is achieved when the Group:

- Has power over the company/asset;
- Is exposed, or has rights, to variable returns from its involvement with the company/asset; and
- Has the ability to use its power to affect its returns.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation (Continued)

2.1.4 Consolidation and equity method accounting principles (Continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are indicators of a situation or an event that may cause any changes to at least one of the elements of control listed above.

When the Group considers all relevant facts and circumstances in assessing whether or not the Group’s voting rights in the relevant investee are sufficient to give it power, including:

- The size of the Group’s holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Group, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities (including voting patterns at previous shareholders’ meetings).

Subsidiaries are consolidated by the date the Group takes the control and from the date the control is over, subsidiaries are excluded from the consolidation scope. The Group has no direct and/or indirect shareholding that affects the effective ownership rate.

Intercompany transactions and balances are eliminated on consolidation. The dividends arising from shares held by Çelik Halat in its subsidiaries are eliminated from equity and income for the period.

Subsidiaries acquired or disposed of during the accounting period are included in the consolidation from the date at which the control of operations are transferred to the Group and excluded from the consolidation when the control is lost. Even if non-controlling interests result in a deficit balance, total comprehensive income is attributed to the owners and to the non-controlling interests.

Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Changes in ownership interests

The group assesses transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their indirect interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity of Çelik Halat.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation (Continued)

2.1.4 Consolidation and equity method accounting principles (Continued)

Changes in ownership interests (Continued)

As of 31 December 2019 and 31 December 2018, the consolidated subsidiaries and their ownership percentages are as follows:

	Proportion of effective ownership interest (%) 31 December 2019	Proportion of effective ownership interest (%) 31 December 2018
Celik Halat BV	100.00	100,00

2.1.5 Comparative information and restatement of prior period financial statements

The consolidated financial statements of the Group are prepared comparatively with the previous period to identify the financial position and performance trends. The Group presents comparatively its consolidated statement of financial position as of 31 December 2019 with 31 December 2018. Consolidated statement of profit or loss and consolidated other comprehensive income, consolidated statement of cash flow and consolidated statement of changes in equity for the period ended 1 January - 31 December 2019, are presented comparatively with the consolidated financial statements as of the period 1 January- 31 December 2018.

In the current period, in case of a necessity, prior period financial statements are reclassified in order to comply with the presentation of its current period consolidated financial statements and significant changes are explained.

2.1.6 Offsetting

Financial assets and liabilities are offset and the net amount is reported when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.1.7 Significant accounting policies and changes in accounting estimates and errors and restatement of prior period financial statements

Changes of accounting policies resulting from the first time implementation of the TAS are implemented retrospectively or prospectively in accordance with the transition provisions. Major accounting mistakes detected are applied retrospectively and the financial statements of previous period are revised. If the changes in accounting estimates only apply to one period, then they are applied in the current period when the change occurs; if the changes apply also to the future periods, they are applied in both the period of change and in the future period.

The Group has applied accounting policy changes arising from the first time implementation of the “IFRS 16 Leases” standard one of the new standards, amendments and interpretations that are effective from 1 January 2019, in accordance with the transitional provisions of the relevant standard

The effects of this standard-led accounting policy change and the effects of the first time implementation of relevant standard are as follows:

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.1 Basis of Presentation (Continued)

2.1.7 Significant accounting policies and changes in accounting estimates and errors and restatement of prior period financial statements (Continued)

Group - as a lessee

If a contract regulates the right to control the use of an asset that is defined in the contract for a certain period and for a specific price, this contract is considered as a lease in its nature or includes a lease transaction. At the beginning of a contract, the Group assesses whether the contract is a lease or include a lease transaction. The Group considers the following conditions when assessing whether or not a contract transfers the right to control the use of a defined asset for a specified period of time:

- a) The existence of a clearly or implicitly identifiable asset that constitutes the subject of the lease,
- b) The lessee has the right to obtain almost all of the economic benefits from the use of the defined asset that constitutes the subject of the lease,
- c) The lessee has the right to manage the use of the defined asset that constitutes the subject of the lease. According to circumstances listed below, the tenant is deemed to have the right to manage the defined asset constituting the subject of the lease;
 - i. The lessee has the right to operate the property for the duration of its use (or to direct others to operate the property in its own way) and the lessor does not have the right to change these operating instructions or,
 - ii. Designing the asset (or certain features of the asset) in advance in a manner of how and for what purpose the asset will be used during its occupancy by the lessee.

The right of use asset

The right-of-use asset is initially recognized by the cost method and includes the followings:

- a) The first measurement amount of the lease liability to be recognized as the right of use asset,
- b) Deduction of all leasing incentives related to the lease, from the first measurement amount of the lease liability recorded as a right of use asset,
- c) All direct costs, that are related to the lease, incurred by the Group to be added to the first measurement amount of the lease liability, which will be recognized as a right of use asset, and
- d) Estimated costs to be incurred by the Group shall be added to the initial measurement amount in relation to the dismantling and transporting of the defined asset constituting the subject of the lease, the restoration of the area in which it is placed, or the restoration of the defined asset as required by the terms and conditions of the lease.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.1 Basis of Presentation (Continued)

2.1.7 Significant accounting policies and changes in accounting estimates and errors and restatement of prior period financial statements (Continued)

Group - as a lessee (Continued)

In applying the cost method, the Group measures the right of use asset by:

- a) Deducting the accumulated depreciation and accumulated impairment losses and,
- b) Measuring the cost of the lease in accordance with the re-measurement of the lease liability.

The Group applies depreciation provisions in “TAS 16 Property, Plant and Equipment” while depreciating the right of use asset. In order to determine whether the right of use asset has been impaired or not and to recognize any impairment losses the “TAS 36 Impairment of Assets” standard is implemented.

Lease liability

At the effective date of the lease, the Company measures its leasing liability at the present value of the lease payments not realized at that date. If the interest rate on the lease can be easily determined, this rate is used in discount; if the implied interest rate cannot be easily determined, the payments are discounted by using the alternative borrowing interest rate of the lessee.

Lease payments that are included in the measurement of the lease liability of the Group and the payments that have not occurred on the date when the lease is actually started consist of the following:

- a) Amount deducted from all types of rental incentive receivables from fixed payments,
- b) Lease payments based on an index or a rate, lease payments made using an index or a rate at the time the initial measurement was actually started,
- c) The penalty for termination of the lease in cases the lessee shows a sign of it will use an option to terminate the lease.

After the effective date of the lease, the Group measures its lease liability as follows:

- a) Increasing the book value by reflecting interest on lease liability,
- b) Reducing the book value by reflecting the lease payments made
- c) Re-measures the book value to reflect any re-evaluations and reconfigurations, if any. The Group reflects the remeasured amount of the lease obligation to the consolidated financial statements as adjustment in the use of right

Extension and early termination options

A lease obligation is determined by considering the extension of the contracts and early termination options. Most of the extension and early termination options included in the contracts consist of options that are jointly applicable by the Company and the lessor. However, if such extension and early termination options are at the Company's discretion in accordance with the contract and the use of the options is reasonably certain, the lease term shall be determined by taking this issue into account. If there is a significant change in the conditions, the evaluation is reviewed by the Company.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.1 Basis of Presentation (Continued)

2.1.7 Significant accounting policies and changes in accounting estimates and errors and restatement of prior period financial statements (Continued)

Group - as a lessee (Continued)

Facilitative applications

Contracts related to IT equipment leases (mainly printer, laptop, mobile phone, etc.), which are determined by the Company as low value, short-term lease agreements with a period of 12 months and less, have been assessed under the exemption granted by the TFRS 16 Leases Standard, and payments for these contracts are recognized as an expense in the period in which they are incurred.

First transition to TFRS 16 Leases Standard

The TFRS 16 “Leases” standard replaces the TAS 17 “Leasing Operations”, as of 1 January 2019, and the Group retrospectively (“cumulative effect method”) recognized the cumulative effect of applying the standard on its consolidated financial statements at once. Within the scope of the simplified transition application defined in the related standard, the comparative information of the consolidated financial statements and retained earnings have not been restated.

Under the first implementation of TFRS 16 “Leases”, before 1 January 2019, the lease commitments are accounted for as a “lease obligation” in accordance with TAS 17 in consolidated financial statements. This lease liability has been measured at the present value of the lease payments, which have not been realized as of the date of transition, discounted using the alternative borrowing interest rate at the date of initial application of the Group. The right of use assets are accounted for an amount equal to the lease obligations (adjusted for the amount of prepaid or accrued lease payments) within the scope of simplified transition application in the related standard.

As of 1 January 2019 and 31 December 2019, the details of right of use assets accounted for in the consolidated financial statements on the basis of asset groups are as follows:

	31 December 2019	1 January 2019
Machinery and equipment	-	1,604,516
Vehicles	83,781	198,782
Total right of use assets	83,781	1,803,298

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Summary of Significant Accounting Policies

A summary of significant accounting policies used in the preparation of the consolidated financial statements are as follows. Accounting policies are applied consistently, unless otherwise indicated:

Related parties

Related parties are people or entities that are related to the entity (reporting entity) that is preparing its financial statements.

- (a) A person or a close member of that person’s family is related to a reporting entity if that person;
 - (i) Has control or joint control over the reporting entity,
 - (ii) Has significant influence over the reporting entity; or,
 - (iii) Is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

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

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

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Summary of Significant Accounting Policies (Continued)

Related parties (Continued)

Under the guidance of the explanations mentioned above and also in compliance with TAS 24, Doğan Şirketler Grubu Holding A.Ş. directly or indirectly has participation, including any entities under common control; real persons and/or legal entities that have direct or indirect individual or joint control over the company and their close family members (relatives up to second-degree) and legal entities having direct or indirect individual or joint control by them and legal entities having significant effect over the Company or their key management personnel; Company’s subsidiaries and members of the Board of Directors, key management personnel and their close family members (relatives up to second-degree) and real persons and/or legal entities that are directly or indirectly controlled individually or jointly (Note 27).

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank deposits and highly liquid investments without a significant risk over the change in their value, whose maturity at the time of purchase is three months or less (Note 3).

Trade receivables and provision for doubtful receivables

The Group’s trade receivables from providing goods or services to customers are carried at net of unrealized finance income (“unearned financial income due to sales with maturity”). Trade receivables, net of unrealized finance income, are calculated by discounting future cash inflows of receivables carried at the original invoice amount using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Effective interest method is calculating the present value in accordance with the compound interest basis. The rate determined by compound interest basis and applied in this method is named “effective interest rate”. Short term receivables with indefinite interest rate are carried at cost unless the effect of imputing interest is significant (Note 6).

When calculating the impairment of trade receivables, which are recognised based on the cost amortised in financial statements and do not include an important financing component, Group preferred to adopt “simplified approach” in TFRS 9 standard.

According to “simplified approach” of TFRS 9 Standard, loss provisions concerning trade receivables are calculated equal to “lifetime expected credit loss” if trade receivables are not impaired due to valid reasons as stated in TFRS 9.

TAS 39, “Financial Instruments” valid before 1 January 2018: Instead of “realised credit losses model” in Accounting and Measurement Standard, “expected credit loss model” was defined in TFRS 9 “Financial Instruments” Standard. Expected credit loss is estimated by weighting credit losses, expected to occur throughout the expected life of financial instruments, based on previous statistics. When calculating the expected credit losses, credit losses in the previous years and forecasts of the Group are considered.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Summary of Significant Accounting Policies (Continued)

Trade receivables and provision for doubtful receivables (Continued)

The Group decides to allocate provision for doubtful receivables, whose payment was not made within the ordinary commercial activity cycle of the Group, considering whether the trade receivable is subject to administrative and/or legal proceeding, whether or not they have a guarantee and there is an objective finding. The amount of such provision is the difference between the book value of the receivable and the collectible amount. The collectible amount is the current value of the expected cash flow, including the amounts to be collected from guarantees and collaterals, which is discounted based on the original effective interest rate of the initial receivable.

When trade receivables are not impaired for certain reasons along with realised impairment losses, Group recognises expected credit loss provision equal to lifetime expected credit loss for trade receivables as per TFRS 9. Expected credit loss is calculated by expected credit loss rates determined based on previous credit loss experiences of the Group and prospective macroeconomic indicators. Changes in expected credit loss provisions are recognised under other income and expenses from operating activities (Note 22).

If there is a partial or whole collection over the doubtful receivable amount subsequent to the allocation of provision for doubtful receivables, the collected portion is recognized as other income from operating activities following the write-down of the total provision amount (Note 6, 22).

Inventories

Inventories are valued at the lower of cost or estimated selling price less estimated costs necessary to make a sale (net realizable value). Cost elements included in inventory are purchasing costs and other costs necessary to prepare the asset for its intended use. Cost elements included in inventories are materials, labor and production overheads. The unit cost of inventories is determined on the moving weighted average basis (Note 9).

When the net realizable value of inventory is less than cost, the inventory is written down to the net realizable value and the expense is included in the consolidated statement of profit or loss in the period the write-down or loss occurred. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of the changing economic circumstances, the amount of the write-down is reversed. The reversal amount is limited to the amount of the initial impairment.

Financial Assets

Group classified its financial assets in three categories; financial assets carried at amortized cost, financial assets carried at fair value through profit or loss, financial assets carried at fair value through other comprehensive income. Classification is performed in accordance with the business model determined based on the purpose of benefits from financial assets and expected cash flows. Management performs the classification of financial assets at the acquisition date.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Summary of Significant Accounting Policies (Continued)

Financial Assets (Continued)

(a) *Financial assets carried at amortized cost*

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, whose payments are fixed or predetermined, which are not actively traded and which are not derivative instruments are measured at amortized cost. They are included in current assets, except for maturities more than 12 months after the balance sheet date. Those with maturities more than 12 months are classified as non-current assets. The Group’s financial assets carried at amortized cost comprise “trade receivables”, “other receivables” and “cash and cash equivalents” in the statement of financial position. In addition, with recourse factoring receivables classified in trade receivables are classified as financial assets carried at amortized cost since collection risk for those receivables are not transferred to counterparty.

Impairment

Group has applied simplified approach and used impairment matrix for the calculation of impairment on its receivables carried at amortized cost, since they do not comprise of any significant finance component. In accordance with this method, if any provision is not provided to the trade receivables as a result of a specific event, Group measures expected credit loss from these receivables by the life-time expected credit loss. The calculation of expected credit loss is performed based on the past experience of the Group and its expectation based on the macroeconomic indications.

Property, plant and equipment

Property, plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses (Note 11). Depreciation is provided on property, plant and equipment on a straight-line basis (except land). Lands are not subject to depreciation due to their unlimited useful life. The depreciation periods for property, plant and equipment, which approximate the economic useful lives of such assets, are as follows:

Land improvements	5 - 50 years
Buildings	10 - 50 years
Machinery and equipment	5 - 20 years
Motor vehicles	5 - 10 years
Furniture and fixtures	4 - 15 years

Expected useful life, residual value and depreciation method are reviewed annually for possible effects of changes in estimates and are recognized prospectively if there is a change in estimates.

An item of property, plant and equipment is derecognized in the consolidated statement of financial position upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized as income or expenses from investing activities in consolidated profit or loss.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment (Continued)

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount provided to allocate provision. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Fair value less costs to sell is the amount obtainable from the sale of an asset less the costs of disposal. Value in use is the present value of the future cash flows expected to be derived from an asset plus the residual value of the related assets as of the consolidated statement of financial position date.

Repair and maintenance expenses are charged to the consolidated statement of profit or loss as they are incurred. Capital expenditures that increase the present value of the future cash flows expected to be derived from property, plant and equipment by increasing its capacity is added to the cost of tangible fixed asset.

Gain and losses regarding sale of property, plant and equipment are accounted as other income and expenses from investing activities.

Intangible assets and related amortization

Intangible assets comprise energy production license and information technology systems. Intangible assets are recorded at acquisition cost and amortized on a straight-line basis over their estimated useful lives for a period of 3 years from the date of acquisition. Where an indication of impairment exists, the carrying amount of any intangible assets is assessed and written down immediately to its recoverable amount (Note 12). Gains and losses arise from sales of intangible assets are included to other operating income and expense accounts.

Development costs

Development costs for the design and testing of detectable and unique products controlled by the Group are recognized as intangible assets when the following conditions are met:

- It is technically possible to complete the product to be ready for use,
- Management intends to complete and use or sell the product,
- Possibility to use and sell the product,
- Certainty on how the product is likely to provide future economic benefits,
- Availability of sufficient technical, financial and other resources to complete the development phase and to use or sell the product and
- Reliable measurement of expenses related to the product during the development process.

Capitalized development costs are recognized as intangible assets and are amortized beginning from the date the asset is ready for use.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Summary of Significant Accounting Policies (Continued)

Taxation

Taxation on income includes current period income taxes and deferred taxes. Current year tax liability consists of tax liability on period income calculated according to currently enacted tax rates and tax legislation in force as of statement of financial position date and includes adjustments related to the previous year’s tax liabilities.

Deferred income tax is provided, using the liability method, on temporary differences arising between the statutory tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date.

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities (Note 25).

Tax is included in the statement of profit or loss, unless it is related to an operation that is accounted directly under equity. Otherwise, tax is accounted under equity as well as the related transaction (Note 25).

Current and deferred tax

Tax is included in the statement of profit or loss, unless it is related to an operation that is accounted directly under equity. Otherwise, tax is accounted under equity as well as the related transaction (Note 25).

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Summary of Significant Accounting Policies (Continued)

Taxation (Continued)

Impairment regarding financial assets

At each statement of financial position date, the Group evaluates whether there are any indications that an asset other than goodwill or infinite life intangible assets may be impaired. When an indication of impairment exists, carrying value of the assets is compared with the net realizable value which is the higher of value in use and fair value less costs to sell. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment exists if the carrying value of an asset or a cash generating unit including that asset is greater than its recoverable amount which is the higher of value in use or fair value less costs to sell. Impairment losses are recognized in the statement of profit or loss.

Financial borrowings and borrowing costs

Borrowings are recognized initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective interest method. Any difference between proceeds, net of transaction costs, and the redemption value is recognized in the profit or loss as finance expense over the period of the borrowings (Note 5). The borrowing costs which are directly related with the acquisition, manufacturing or production of a specialty good (means that a long period of time is required to make available for sale and use as purposed) are capitalized as a part of the related asset.

Employment termination benefits

The provision for employment termination benefit represents the present value of the estimated total reserves of the future probable liability of the Group arising from the retirement of the employees measured in accordance with the Turkish Labour and Press Labour Laws (Note 15).

According to the amendment in TAS 19, the Group calculated employment benefit in accordance with the report prepared by the actuarial firm and recognised all actuarial loss and gains in the other comprehensive statement of profit or loss as of the statement of financial position date.

Provisions, contingent assets and liabilities

Provisions are recognized when the Group has a present legal or constructive obligation or a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Contingent liabilities are assessed continually to determine whether an outflow of resources comprising economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously treated as a contingent liability, a provision is recognized in the financial statements of the period in which the change in probability occurs except in the extremely rare circumstances where no reliable estimate can be made.

If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised by the Group in the financial statements of the period in which the change occurs.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in financial tables and are treated as contingent assets or liabilities. A contingent asset is disclosed where an inflow of economic benefit is probable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AS AT 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Summary of Significant Accounting Policies (Continued)

Provisions, contingent assets and liabilities (Continued)

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably (Note 13).

Share capital and dividends

Ordinary shares are classified as equity. Dividend income is recognized as income by the Group when right to obtain of dividend is generated in the consolidated financial statements. Dividend distribution to the Company’s shareholders is recognized as a liability in the Group’s consolidated financial statements in the period in which the dividends are approved by the General Assembly (Note 18)

Revenue recognition

In accordance with TFRS 15 “Revenue from Customer Contracts given effective from 1 January 2018, the Company transfers the revenue to the financial statements based on the following five principles:

- Determining client agreements
- Determining performance obligations in agreements
- Determining transaction price in agreements
- Distributing transaction price to performance obligations in agreements,
- Recognising the revenue (Note 19).

According to this model, the goods or services undertaken in each contract with the customers are evaluated and each commitment to transfer the goods or services is determined as a separate performance obligation.

Then, it is determined whether the performance obligations will be fulfilled in time or at a certain time. If the company transfers the control of a good or service over time and thus fulfills the performance obligations related to the sales in time, it measures the progress of the fulfillment of the performance obligations in full and takes the proceeds to the financial statements.

When the Group meets its performance obligation by transferring a product or service that is committed before, the revenue is recognised in consolidated financial statements. Revenue related to performance obligations, such as goods or service transfer commitments, is recognized when customers are in control of the goods or services.

If all the below-mentioned conditions are met, Group recognises an agreement made with the client as revenue:

- Parties to the agreement approved the agreement (in writing, orally or in other means in line with commercial practices) and committed to meet their respective obligations,
- Group can define the rights of each party concerning the goods or services to be transferred,
- Group can define payment conditions concerning the goods or services to be transferred,
- The agreement is commercial in essence.
- It is possible that the Group will collect money in return for goods and services to be transferred to the client.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AS AT 31 DECEMBER 2019

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Summary of Significant Accounting Policies (Continued)

Revenue recognition (Continued)

For each performance obligation, the Group will determine whether it has fulfilled its performance obligation at the beginning of the contract or whether the performance obligation fulfilled at a certain time of time. The Group records revenue from product sales in the financial statements following the transfer of control to the customer. In the event that the completed transaction is entitled to the collection of a price directly corresponding to the value of the customer (in the delivery of the products), the Group enters into the financial statements the amount to be invoiced. If the Group expects to refund some or all of the amount charged to a customer to this customer, the Group reflects a return obligation to the financial statements. The obligation of return is calculated over the part of the enterprise (or the cost) that is collected by the entity. The obligation to return is updated at the end of each reporting period, taking into account the changes in the conditions (Note 22).

TFRS 15; First pass to "revenue from customer contracts" standard

As of 1 January 2018, TFRS 15 "Revenue from Customer Contracts", which replaces TAS 18 "Revenue" standard, has been evaluated retrospectively in terms of the cumulative effect of applying the standard for the first time. In the context of this assessment, it concluded that there was no significant impact on the past.

Leases

If a contract regulates the right to control the use of an asset that is defined in the contract for a certain period and for a specific price, this contract is considered as a lease in its nature or includes a lease transaction. At the beginning of a contract, the Group assesses whether the contract is a lease or include a lease transaction. The Group considers the following conditions when assessing whether or not a contract transfers the right to control the use of a defined asset for a specified period of time:

- a) The existence of a clearly or implicitly identifiable asset that constitutes the subject of the lease,
- b) The lessee has the right to obtain almost all of the economic benefits from the use of the defined asset that constitutes the subject of the lease,
- c) The lessee has the right to manage the use of the defined asset that constitutes the subject of the lease. According to circumstances listed below, the tenant is deemed to have the right to manage the defined asset constituting the subject of the lease;
 - i. The lessee has the right to operate the property for the duration of its use (or to direct others to operate the property in its own way) and the lessor does not have the right to change these operating instructions or,
 - ii. Designing the asset (or certain features of the asset) in advance in a manner of how and for what purpose the asset will be used during its occupancy by the lessee.

In case that the contract fulfills these conditions, the Group reflects a right of use asset and a lease liability to the consolidated financial statements at the date of the lease's actual start.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AS AT 31 DECEMBER 2019

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Summary of Significant Accounting Policies (Continued)

Leases (Continued)

The right-of-use asset is initially recognized by the cost method and includes the followings:

- e) The first measurement amount of the lease liability to be recognized as the right of use asset,
- b) Deduction of all leasing incentives related to the lease, from the first measurement amount of the lease liability recorded as a right of use asset,
- c) All direct costs, that are related to the lease, incurred by the Group to be added to the first measurement amount of the lease liability, which will be recognized as a right of use asset, and
- d) Estimated costs to be incurred by the Group shall be added to the initial measurement amount in relation to the dismantling and transporting of the defined asset constituting the subject of the lease, the restoration of the area in which it is placed, or the restoration of the defined asset as required by the terms and conditions of the lease.

In applying the cost method, the Group measures the right of use asset by:

- a) Deducting the accumulated depreciation and accumulated impairment losses and,
- b) Measuring the cost of the lease in accordance with the re-measurement of the lease liability.

The Group applies depreciation provisions in "TAS 16 Property, Plant and Equipment" while depreciating the right of use asset. In order to determine whether the right of use asset has been impaired or not and to recognize any impairment losses the "TAS 36 Impairment of Assets" standard is implemented.

Lease liability

At the effective date of the lease, the Company measures its leasing liability at the present value of the lease payments not realized at that date. If the interest rate on the lease can be easily determined, this rate is used in discount; if the implied interest rate cannot be easily determined, the payments are discounted by using the alternative borrowing interest rate of the lessee.

Lease payments that are included in the measurement of the lease liability of the Group and the payments that have not occurred on the date when the lease is actually started consist of the following:

- a) Amount deducted from all types of rental incentive receivables from fixed payments,
- b) Lease payments based on an index or a rate, lease payments made using an index or a rate at the time the initial measurement was actually started,
- c) The penalty for termination of the lease in cases the lessee shows a sign of it will use an option to terminate the lease.

After the effective date of the lease, the Group measures its lease liability as follows:

- a) Increasing the book value by reflecting interest on lease liability,
- b) Reducing the book value by reflecting the lease payments made
- c) Re-measures the book value to reflect any re-evaluations and reconfigurations, if any. The Group reflects the remeasured amount of the lease obligation to the consolidated financial statements as adjustment in the use of right.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AS AT 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Summary of Significant Accounting Policies (Continued)

Leases (Continued)

Extension and early termination options

A lease obligation is determined by considering the extension of the contracts and early termination options. Most of the extension and early termination options included in the contracts consist of options that are jointly applicable by the Company and the lessor. However, if such extension and early termination options are at the Company's discretion in accordance with the contract and the use of the options is reasonably certain, the lease term shall be determined by taking this issue into account. If there is a significant change in the conditions, the evaluation is reviewed by the Company.

Facilitative applications

Contracts related to IT equipment leases (mainly printer, laptop, mobile phone, etc.), which are determined by the Company as low value, short-term lease agreements with a period of 12 months and less, have been assessed under the exemption granted by the TFRS 16 Leases Standard, and payments for these contracts are recognized as an expense in the period in which they are incurred.

Foreign currency transactions

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, under finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis under other income or other expenses.

The results and financial position of all the Group entities that have a functional currency different from the presentation currency (none of which has the currency of a hyperinflationary economy) are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- Income and expenses for each income statement are translated at average exchange rates unless this average is not reasonable approximate of the cumulative effect of the prevailing on the transaction dates in which case income and expenses are translated at the rate on the dates of the transactions and
- All resulting exchange differences are recognized in other comprehensive income.

A significant portion of the Group's foreign operations is performed in Europe zone. Foreign currencies and exchange rates at 31 December 2019 and 31 December 2018 are summarized below

<u>Country</u>	<u>Currency</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Europe (“Eurozone”)	EUR	6,6506	6,0280

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AS AT 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Summary of Significant Accounting Policies (Continued)

Segment reporting of financial information

The Group has the right to produce and sell energy with the autoproducer license it owns, as well as the main areas of operation described in Note 1. The Group produces as much energy as it needs for its production and does not sell energy to third parties. In this context, the management of the Group does not regard energy production made for internal purposes as a separate activity department. In this context, there is no reporting according to the departments since there is only one reportable department of the Group.

Earnings/(loss) per share

Earnings/(loss) per share is determined by dividing net income/(loss) by the weighted average number of shares that have been outstanding during the period concerned (Note 26).

In Turkey, companies can increase their issued capital by making a pro-rata distribution of shares (“bonus shares”) to existing shareholders from retained earnings. For the purpose of earnings per share computations, such bonus share issuances are regarded as issued shares for all of the periods presented in the financial statements. Therefore, the weighted average number of shares used in earnings per share computations are made with regards to the distribution of shares occurred in the prior years.

Subsequent events

In the case that events requiring a correction to be made occur subsequent, the Group makes the necessary corrections to the financial statements.

In the case that events not requiring a correction to be made occur subsequent, those events are disclosed in the notes of financial statements (Note 29).

Statement of cash flows

In the statement of cash flows, cash flows during the period are classified under operating, investing or financing activities.

The cash flows raised from operating activities indicate cash flows due to the Group’s activities.

The cash flows due to investing activities indicate the Group cash flows that are used for and obtained from investments (investments in property, plant and equipment and financial investments).

The cash flows due to financing activities indicate the cash obtained from financial arrangements and used in their repayment.

Cash and cash equivalents include cash and bank deposits and the investments that are readily convertible into cash and highly liquid with three months or less to maturity.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AS AT 31 DECEMBER 2019

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Critical Accounting Estimates, Assumptions and Decisions

The preparation of financial statements requires management to make estimates, assumptions and estimates that affect the reported amounts of assets and liabilities, their probable commitments and undertaking as of the balance sheet date, and the amounts of income and expenses in the reporting period. Actual results may differ from estimates. Estimates are regularly reviewed, necessary corrections are made and reflected in the profit or loss table in the period in which they are realized.

The following are the assumptions made by taking into consideration the actual sources of the estimates that may be realized or materialized at the balance sheet date, which could have a significant effect on the amounts reflected in the financial statements:

- a) Deferred tax assets and liabilities are recognized for the temporary timing differences arising from the differences between the Company's statutory tax financial statements and the financial statements prepared in accordance with the Turkish Accounting Standards ("TAS") issued by the Public Oversight Accounting and Auditing Standards Institution. The recoverable amount of deferred tax assets partially or fully is estimated under current conditions. During the assessment, future profit projections, losses incurred in the current period, unused losses and the date of last use of other tax assets and tax planning strategies that can be used when necessary are taken into account.
- b) The Company management has assumed the experience of the technical team in determining the useful economic lives of the tangible and intangible assets.
- c) The Company's management is responsible for actuarial calculations based on a number of assumptions including retirement pay liability, discount rates, future salary increases and employee retirement rates.
- d) The Company provides a provision for doubtful receivables in trade receivables, if the circumstances indicate that it will not be able to collect the amounts due. In other words, the amount of this difference is the difference between the recorded value of the receipt and the possible amount of the receivable.
- e) The Group is capitalising its ongoing development spendings and evaluates annually whether there is impairment regarding these capitalised assets. As of 31 December 2019 and 31 December 2018, we have not detected any impairment related to capital development expenses.

NOTE 3 - CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash	112	151
Banks		
- Demand deposits	17,230,438	2,947,922
	17,230,550	2,948,073

As of 31 December 2019, the Group has no time deposits. (31 December 2018: None.)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AS AT 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

The details of cash and cash equivalents included in cash flow statements as of 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
Cash and banks	17,230,550	2,948,073
Accrued interest (-)	-	-
	17,230,550	2,948,073

NOTE 4 - FINANCIAL INVESTMENTS

	Share (%)	31 December 2019	Share (%)	31 December 2018
Kocaeli Serbest Bölge	<1	20,087	<1	20,087
		20,087		20,087

NOTE 5 - SHORT TERM AND LONG TERM FINANCIAL BORROWINGS

The details of financial borrowings at 31 December 2019 and 31 December 2018 are as follows:

Short-term borrowings

	31 December 2019	31 December 2018
Bank borrowings	73,156,600	53,173,433
Factoring borrowings	-	14,670,048
	73,156,600	67,843,481

Short-term parts of long-term borrowings

	31 December 2019	31 December 2018
Borrowings from leasing transactions - related parties	96,712	-
	96,712	-

(1) As explained in Note 2.1.7, the amounts incurred as of 31 December 2019 consist of the balances resulting from the first application of the “IFRS 16 Leases” standard.

ÇELİK HALAT VE TEL SANAYİİ A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AS AT 31 DECEMBER 2019

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

NOTE 5 - SHORT TERM AND LONG TERM FINANCIAL BORROWINGS (Continued)

The movement table of the borrowings from the leasing transactions is as follows:

	2019
1 January	1,803,298
Increase in the period	-
Payments	(1,895,189)
Interest expenses (Note 24)	167,912
Exchange differences	20,691
31 December	96,712

a) Bank borrowings

	<u>Original currency</u>		<u>Interest rate per annum (%)</u>		<u>TRY equivalent</u>	
	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
EUR	11,000,000	6,200,000	0.85-2.00	1-3	73,156,600	37,373,600
TRY	-	15,799,833	-	25-30	-	15,799,833
					73,156,600	53,173,433

b) Factoring borrowings

	<u>Original currency</u>		<u>Interest rate per annum (%)</u>		<u>TRY equivalent</u>	
	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
EUR	-	1,347,723	-	2	-	8,124,077
USD	-	1,244,268	-	4	-	6,545,971
					-	14,670,048

c) Payables from related parties for short and long term leasing transactions

Payables from related parties for short-term leasing transactions:

Maturity	<u>Interest rate per annum (%)</u>		<u>Original currency</u>		<u>TRY equivalent</u>	
	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
EUR	2019	10	-	14,542	-	96,712
				14,542	-	96,712

As of 31 December 2019 and 31 December 2018, the Group does not have any floating rate borrowings.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AS AT 31 DECEMBER 2019

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NOTE 5 - SHORT TERM AND LONG TERM FINANCIAL BORROWINGS (Continued)

As of 31 December 2019 and 31 December 2018, net financial debt reconciliation is as follows:

	31 December 2019	31 December 2018	
Cash and cash equivalents (Note 3)	17,230,550	2,948,073	
Short-term borrowings	(73,253,312)	(67,843,481)	
	(56,022,762)	(64,895,408)	
	Borrowings up to 1 year	Cash and Cash equivalents	Net financial debt
As of 1 January 2018			
net financial debt	(24,603,251)	11,215,051	(13,388,200)
Cash flow effect	(35,929,527)	(10,668,851)	(46,598,378)
Foreign currency adjustments	(7,384,902)	2,401,873	(4,983,029)
Interest accrual, net	74,199	-	74,199
As of 31 December 2018			
net financial debt	(67,843,481)	2,948,073	(64,895,408)
	Borrowings up to 1 year	Cash and Cash equivalents	Net financial debt
As of 1 January 2019			
net financial debt	(67,843,481)	2,948,073	(64,895,408)
TFRS 16 transition effect	(96,712)	-	(96,712)
Cash flow effect	(2,268,063)	13,553,544	11,285,481
Foreign currency adjustments	(3,045,056)	728,933	(2,316,123)
Interest accrual, net	-	-	-
As of 31 December 2019			
net financial debt	(73,253,312)	17,230,550	(56,022,762)

NOTE 6 - TRADE RECEIVABLES AND PAYABLES

	31 December 2019	31 December 2018
Short-term trade receivables from related parties:		
Trade receivables (Note 27)	324,199	526,671
	324,199	526,671
Short-term trade receivables from non- related parties:		
	31 December 2019	31 December 2018
Trade receivables	59,023,349	64,698,289
Notes and cheques receivable	15,968,503	6,926,092
	74,991,852	71,624,381
Unearned financial income due to sales with maturity (-)	(647,096)	(828,828)
Provision for doubtful receivables (-)	(1,521,088)	(714,009)
Trade receivables, net	72,823,668	70,081,544

ÇELİK HALAT VE TEL SANAYİİ A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AS AT 31 DECEMBER 2019

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

NOTE 6 - TRADE RECEIVABLES AND PAYABLES (Continued)

As of 31 December 2019, the average maturity of not overdue trade receivables of the Group is 52 days as of the statement of financial position date (31 December 2018: 76 days). The Group's maturity of the trade receivables of TRY, EUR and USD varies and the effective interest rates applied for trade receivables are respectively TRY: 13.83%, EUR: 1.68% and USD: 3.69% (31 December 2018: TRY: 23.59% EUR: 2.92% and USD: 4.82%). The rate used in this method and determined based on compound interest is called "effective interest rate"; the aforementioned rate has been determined taking into consideration the data of the Central Bank of the Republic of Turkey.

The movement details of provision for doubtful receivables are as follows:

	2019	2018
1 January	(714,009)	(714,009)
Increase in the period (Note 22)	(807,079)	-
Collections and other provisions no longer required	-	-
Reversals	-	-
31 December	(1,521,088)	(714,009)

Short-term trade payables to non-related parties:	31 December 2019	31 December 2018
Trade payables	117,889,762	71,667,956
Deferred financial income from purchase of time deposits (-)	(474,881)	(608,633)
Trade payables, net	117,414,881	71,059,323

As of 31 December 2019, the average maturity of trade payables are 91 days (31 December 2018: 104 days). The maturity of the trade payables of the Group varies and the effective interest rate applied for trade payables is TRY: 13.38%, EUR: 1.68% and USD: 3.69% (31 December 2018: TRY: 23.59% EUR: 2.92% and USD: 4.82%). The rate used in this method and determined based on compound interest is called "effective interest rate"; the aforementioned rate has been determined taking into consideration the data of the Central Bank of the Republic of Turkey.

ÇELİK HALAT VE TEL SANAYİİ A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AS AT 31 DECEMBER 2019

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

NOTE 7 - OTHER RECEIVABLES, PAYABLES AND OTHE SHORT-TERM LIABILITIES

a) Other receivables to non-related parties	31 December 2019	31 December 2018
Receivables from tax office	4,236,283	598,837
Deposits and guarantees given	367,461	290,504
Due from personnel	55,118	54,798
Other	-	55,460
	4,658,862	999,599

b) Other short-term liabilities	31 December 2019	31 December 2018
Calculated VAT	89,398	-
Sendika aidatları ve diğer kesintiler	91,094	92,890
	180,492	92,890

c) Other short term payables	31 December 2019	31 December 2018
Other payables to related parties (Note 27)	895,290	330,739
	895,290	330,739

NOTE 8 - PAYABLES RELATED TO EMPLOYEE BENEFITS

	31 December 2019	31 December 2018
Employee salary accruals	992,424	1,375,360
Social security deductions to be paid	-	756,537
	992,424	2,131,897

NOTE 9 - INVENTORIES

	31 December 2019	31 December 2018
Finished goods	20,997,930	18,066,306
Raw materials and supplies	19,002,085	22,099,531
Goods in transit	17,268,947	9,365,194
Semi-finished goods	5,023,652	4,840,926
Trade goods	498,009	4,087,681
	62,790,623	58,459,638
Provision for impairment of inventory (-)	-	(75,344)
	62,790,623	58,384,294

The cost of raw materials and supplies consumed in current period are TRY211,785,819 (31 December 2018: TRY199,828,949) (Note 19).

ÇELİK HALAT VE TEL SANAYİİ A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AS AT 31 DECEMBER 2019

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

NOTE 9 - INVENTORIES (Continued)

The movement of the provision for impairment of inventories for the periods ended 31 December 2019 and 2018 are as follows:

	2019	2018
1 January	(75,344)	(86,840)
Increase in the period	-	(75,344)
Cancelled provisions during the period	75,344	86,840
31 December	-	(75,344)

NOTE 10 - RIGHT OF USE ASSETS

The movements of the rights of use assets during the periods are shown below

	1 January 2019	Additions	Disposals	Transfers	31 December 2019
Cost					
Machinery, plant and equipment	1,604,516	-	-	-	1,604,516
Vehicles	198,782	-	-	-	198,782
Total	1,803,298	-	-	-	1,803,298
	1 January 2019	Additions	Disposals	Transfers	31 December 2019
Accumulated amortisation					
Machinery, plant and equipment	-	(1,604,516)	-	-	(1,604,516)
Vehicles	-	(115,001)	-	-	(115,001)
Total	-	(1,719,517)	-	-	(1,719,517)
Net book value	1,803,298				83,781

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2019	Additions	Disposals	Transfers	31 December 2019
Cost					
Lands	992,168	-	-	-	992,168
Land and land improvements	3,682,012	-	-	441,073	4,123,085
Buildings	19,178,989	-	-	236,256	19,415,245
Machinery and equipment	119,941,046	6,057,231	-	2,040,834	128,039,111
Motor vehicles	1,309,196	-	-	-	1,309,196
Furniture and fixtures	13,484,835	819,990	-	296,348	14,601,173
Construction in progress	3,790,235	4,435,862	-	(5,965,653)	2,260,444
	162,378,481	11,313,083	-	(2,951,142)	170,740,422
Accumulated depreciation					
Land and land improvements	(1,185,834)	(347,147)	-	-	(1,532,981)
Buildings	(13,168,495)	(591,591)	-	-	(13,760,086)
Machinery and equipment	(77,848,327)	(7,051,835)	-	-	(84,900,162)
Motor vehicles	(180,910)	(257,163)	-	-	(438,073)
Furniture and fixtures	(7,575,338)	(1,315,556)	-	-	(8,890,894)
	(99,958,904)	(9,563,292)	-	-	(109,522,196)
Net book value	62,419,577				61,218,226

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AS AT 31 DECEMBER 2019

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

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2018	Additions	Disposals	Transfers	31 December 2018
Cost					
Lands	992,168	-	-	-	992,168
Land and land improvements	2,429,260	-	-	1,252,752	3,682,012
Buildings	17,159,393	192,000	(47,197)	1,874,793	19,178,989
Machinery and equipment	101,472,402	58,295	(4,643,901)	23,054,250	119,941,046
Motor vehicles	126,261	1,292,926	(109,991)	-	1,309,196
Furniture and fixtures	10,034,899	1,892,704	(111,594)	1,668,826	13,484,835
Construction in progress	3,053,073	30,039,718	-	(29,302,556)	3,790,235
	135,267,456	33,475,643	(4,912,683)	(1,451,935)	162,378,481
Accumulated depreciation					
Land and land improvements	(954,102)	(231,732)	-	-	(1,185,834)
Buildings	(12,775,021)	(416,462)	22,988	-	(13,168,495)
Machinery and equipment	(77,413,061)	(4,951,353)	4,516,087	-	(77,848,327)
Motor vehicles	(126,261)	(54,649)	-	-	(180,910)
Furniture and fixtures	(6,785,329)	(868,162)	78,153	-	(7,575,338)
	(98,053,774)	(6,522,358)	4,617,228	-	(99,958,904)
Net book value	37,213,682				62,419,577

As of 31 December 2019 and 31 December 2018, there is no pledge or mortgage on property, plant and equipment of Group.

There are no property, plant and equipment of Group due from financial leasing (31 December 2018: None)

NOTE 12 - INTANGIBLE ASSETS

	1 January 2019	Additions	Transfers	31 December 2019
Energy production expense ⁽¹⁾	5,549	-	-	5,549
Information system	3,421,842	1,755,935	2,951,142	8,128,919
Development costs	-	3,044,495	-	3,044,495
Accumulated amortization (-)	(1,435,130)	(2,053,117)	-	(3,488,247)
Net book value	1,992,261	2,747,313	2,951,142	7,690,716
	1 January 2018	Additions	Transfers	31 December 2018
Energy production expense ⁽¹⁾	5,549	-	-	5,549
Information system	1,835,937	133,970	1,451,935	3,421,842
Accumulated amortization (-)	(1,061,833)	(373,297)	-	(1,435,130)
Net book value	779,653	(239,327)	1,451,935	1,992,261

(1) Dated December 19, 2008, the Company acquired with auto producer license from electricity generation license for a period of 49 years. The company provides part of the electricity needs by converting natural gas into electricity in cogeneration system.

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

NOTE 13 - OTHER SHORT-TERM PROVISIONS

a) Short-term provisions related to employee benefits

	31 December 2019	31 December 2018
Provisions for collective labor agreements (1)	1,207,578	-
Provision for unused vacation	361,556	273,656
Bonus provisions	161,455	-
	1,730,589	273,656

(1) The provision amount related to the period between September-December, as per the negotiations between MESS and Türk Metal for the Group Collective Labour Agreement, effective between 1 September 2019 and 31 August 2021.

The movement of the provision for unused vacation for the periods ended are as follows:

	2019	2018
1 January	273,656	109,381
Provision for the period	1,149,555	214,546
Provision no longer required	(89,091)	(50,271)
Payments during the period	(972,564)	-
31 December	361,556	273,656

b) Other short term provisions

	31 December 2019	31 December 2018
Provision for lawsuits ⁽¹⁾	50,000	74,700
Provision for other expenses	123,426	-
	173,426	74,700

(1) There are various on-going lawsuits where the Company is defendant. All of these lawsuits are related to labor cases. The Company management evaluates the possible causes and financial impacts of these lawsuits at the end of each period and recognizes the necessary provisions as a result of this assessment. The amount of provision recognized as at 31 December 2019 is amounting to TRY50,000 (31 December 2018: TRY74,700). There are no lawsuits that the Company was not provided a provision (31 December 2018: None.).

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NOTE 13 - OTHER SHORT-TERM PROVISIONS (Continued)

b) Other short term provisions (Continued)

Movement of lawsuit provisions is as follows:

	2019	2018
1 January	74,700	87,750
Provision for the period	-	-
Payments during the period	-	-
Provision no longer required (Note 22)	(24,700)	(13,050)
31 December	50,000	74,700

Contingent assets

	31 December 2019	31 December 2018
Mortgage	10,785,000	7,860,000
Guarantee letters	3,061,368	4,100,000
Cheques	150,000	150,000
Notes	40,000	40,000
	14,036,368	12,150,000

As of 31 December 2019, the Group has credit agreement related to the purchase of raw materials amounting to TRY80,839,722 (31 December 2018: 58,975,368 As of 31 December 2019, the Group has no letters of credit (31 December 2018: None).

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NOTE 14 - COMMITMENTS

	31 December 2019				31 December 2018			
	TRY equivalent	TRY	EUR	USD	TRY equivalent	TRY	EUR	USD
A. CPM’s given in the name of its own legal personality (1)	26,646,392	13,240,876	-	2,256,745	12,967,535	730,368	1,567,500	530,000
B. CPM’s given on behalf of 3rd parties for ordinary course of business	-	-	-	-	-	-	-	-
C Total amount of other CPM’s given								
i) Total amount of other CPM’s given behalf of majority shareholders	-	-	-	-	-	-	-	-
ii) Total amount of CPM’s given on behalf of other group companies	-	-	-	-	-	-	-	-
iii) Total amount of CPM’s given on behalf of 3rd parties which are not in scope of B	-	-	-	-	-	-	-	-
Total	26,646,392	13,240,876	-	2,256,745	12,967,535	730,368	1,567,500	530,000

(1) Comprise of guarantees which the Group has given on behalf of its own legal entity as of 31 December 2019 and 31 December 2018 and there are no pledge and mortgages given.

As at 31 December 2019 and 31 December 2018 all CPMs of the Group were given on behalf of its own legal entity.

The rate of given CPMs to the Group’s total equity is 0%. (31 December 2018: 0%).

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NOTE 15 - EMPLOYEE BENEFITS

Long-term provisions related to employee benefits:

	31 December 2019	31 December 2018
Employee termination benefits	10,692,353	8,184,442

The Group has no pension plans and benefits.

Under the Turkish Labour Law, the Group is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who is called up for military service, dies and achieves the retirement age. As of 31 December 2019, the maximum amount payable equivalent to one month of salary is TRY6,379.86 (exact) (31 December 2018: TRY5,434.42 (exact)) for each year of service. The retirement pay provision ceiling TRY6,370.15, which is effective from 1 January 2020, is taken into consideration in the calculation of provision for employment termination benefits (1 January 2019: TRY6,017.60).

Provision for employment termination benefits is calculated by estimating the present value of the future probable obligation arising from the retirement of the employees of the Company.

The standard TAS 19 “Employee Benefits” envisages the development of actuarial valuation methods in order to estimate the provision of severance pay. According to this, following assumptions were used in the calculation of total liability based on the report prepared by the actuarial firm.

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2019, the provision has been calculated by estimating the present value of the future probable obligation arising from the retirement of the employees.

Discount rate applied as %11.86 ⁽¹⁾ (31 December 2018: %16.00), inflation rate applied as %7.77 ⁽²⁾ (31 December 2018: %11.30) and increase in wages applied as %7.77 (31 December 2018: %11.30) in the calculation.

Age of retirement is based on considering the Company’s historical operating data and taken as the average age of retirement from the Company.

⁽¹⁾ Discount rate used for calculating the severance payment liability is determined as the 10 years of Government Bond compound interest of 3.80% (31 December 2018: 4.22%).

⁽²⁾ The upper band inflation rate of the inflation report of Central Bank of the Republic of Turkey as of the year 2020 has been used in calculating the liability for severance payment.

The movement details of provision for employee termination benefits are as follows:

	2019	2018
1 January	8,184,442	6,799,059
Service cost	930,547	646,188
Interest cost	1,276,150	713,804
Loss due to reduced benefits	77,902	283,805
Actuarial loss	1,206,526	973,104
Payments	(983,214)	(1,231,518)
31 December	10,692,353	8,184,442

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NOTE 16 - PREPAID EXPENSES AND DEFERRED INCOME

a) Short-term prepaid expenses

	31 December 2019	31 December 2018
Advances given (*)	1,110,843	951,216
Prepaid expenses	936,697	257,577
	2,047,540	1,208,793

(*) Short-term advances given consist of advances given for purchase of product.

b) Short-term deferred income

	31 December 2019	31 December 2018
Advances given (*)	907,472	1,629,177
	907,472	1,629,177

(*) Consist of order advances received from customers.

NOTE 17 - OTHER CURRENT/NON-CURRENT ASSETS

Other current assets:

	31 December 2019	31 December 2018
Deffered VAT	6,020,006	7,417,698
Other	-	157,827
	6,020,006	7,575,525

Other non-current assets:

	31 December 2019	31 December 2018
Blocked account (*)	560,203	393,033
Deferred special consumption tax	107,474	12,729
	667,677	405,762

(*) As of 31 December 2019 the Company has restricted deposits amounting to TR560,203 (31 December 2018: TRY393,033). Annual effective interest rates applied to the restricted deposits are 11.13% and 12%. TRY138,719 (31 December 2018: TRY 64,681) of the restricted deposits is held by Takasbank regarding to the purchase of electricity at the daily market price as a result of the modification performed to the regulation of Energy Market Regularity Authority. TRY372,730 (31 December 2018: TRY312,133) is given to the customs as a Guarantee Letter. Remaining part amounting to TRY250 (31 December 2018: TRY253). There is an interest accrual of TRY10,104 on time deposits.. (31 December 2018: TRY15,966).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AS AT 31 DECEMBER 2019

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NOTE 18 - EQUITY

Issued capital

The Company adopted the registered paid-in capital system and set a limit on its registered paid-in capital representing registered type shares with a nominal value of TRY1. Company’s registered capital ceiling and issued capital at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
Registered authorized capital ceiling	25,000,000	25,000,000
Issued capital	16,500,000	16,500,000

The ultimate shareholders of the Company are Aydın Doğan and Doğan Family (Işıl Doğan, Arzuhan Yalçındağ, Vuslat Sabancı, Hanzade V. Doğan Boyner ve Y. Begümhan Doğan Faralyalı).

	(%)	31 December 2019	(%)	31 December 2018
Doğan Holding ⁽¹⁾	77.65	12,812,457	77.65	12,812,457
Publicly traded on Borsa İstanbul and other ⁽²⁾	22.35	3,687,543	22.35	3,687,543
Issued capital	100.00	16,500,000	100.00	16,500,000
Adjustment to issued capital		8,642,368		8,642,368
Total		25,142,368		25,142,368

(1) As of 31 December 2019, 77.65% of the shares of the Company owned by Doğan Holding, which corresponds to 15.20% of the publicly available shares of Çelik Halat in the Stock Exchange (31 December 2018: 15.20%).

(2) In accordance with the “CMB” Resolution No: 31/1059 issued on 30 October 2014 and 21/655 issued on 23 July 2010, it is regarded that 21.82 % of the shares are outstanding as of 31 December 2019 based on the Central Registry Agency’s (“CRA”) records. (31 December 2018: 21.82%)

There are no privileged shares of the Company.

Adjustment to share capital represents the difference between cash and cash equivalent contributions to the total amounts adjusted for inflation added to issue share capital and amounts before inflation adjustment.

Restricted reserves

Restricted reserves are reserved from the prior period profit due to legal or contractual obligations or for certain purposes other than the profit distribution (for example, to obtain the tax advantage of gain on sale of associates). Restricted reserves are in the scope of solo legal records in accordance with TCC and TPL.

General Statutory Legal Reserves are reserved according to the article 519 of Turkish Commercial Code and used in accordance with the principles set out in this article. The aforementioned amounts should be classified in “Restricted Reserves” in accordance with the TAS.

As of 31 December 2019, the Company’s restricted reserves amounting to TRY3,906,090 (31 December 2018: TRY2,175,592) comprise of general statutory legal reserves with respect to the Company records in accordance with Tax Legislation

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NOTE 18 - EQUITY (Continued)

Accumulated Other Comprehensive Income and Expenses that will not be Reclassified in Profit or Loss

The Group’s investment property revaluation reserves and actuarial losses of defined benefit plans that aren’t reclassified in accumulated other comprehensive income and expenses are summarized below:

i. Actuarial gains/(losses) on defined benefit plans)

Provision for employment termination benefits is calculated by estimating the present value of the future probable obligation arising from the retirement of the employees of the Group. The Group recognized all actuarial gains and losses in other comprehensive income. Actuarial loss recognized under equity in the financial position table amounts to TRY5,504,130 (31 December 2018: TRY4,538,909).

Capital Reserves and Retained Earnings

Subsequent to the first inflation adjusted financial statements, equity items such as; “Capital, Emission Premiums, General Statutory Legal Reserves, Statutory Reserves, Special Reserves and Extraordinary Reserves” are carried at carrying value in the statement of financial position and their adjusted values based on inflation are collectively presented in equity accounts group.

In accordance with the CMB regulations, “Issued capital”, “Restricted Reserves” and “Share Premiums” shall be carried at their statutory amounts. The valuation differences resulted due to the inflation adjustment shall be disclosed as follows:

- If the difference is due to the “Issued Capital” and not yet been transferred to capital, it should be classified under “Capital adjustment difference”;
- If the difference is due to “Restricted Reserves” and “Share Premium” and the amount has not been subject to dividend distribution or capital increase yet, it shall be classified under “Retained Earnings/(Losses)”.

Capital adjustment differences have no other use than to be included to the share capital.

In the financial records for the period 31 December 2019 under the tax legislation “Extraordinary Reserves” are TRY14,541,592 (31 December 2018: TRY6,811,716).

Dividend distribution

The Group decides to distribute profit and makes profit distribution in accordance with the Turkish Commercial Code (“TCC”), Capital Market Law (“CML”), Capital Market Board (“CMB”) Regulations and Laws; Tax Legislations; other related statutory legislation and Articles of Association and Resolutions of General Assembly. Profit distribution is determined by Profit Distribution Policy.

On the other hand,

- a) Retained earnings derived from the reparation of comparative financial statements based on the first time adoption of TAS,
- b) “Equity inflation adjustment differences” derived from resources that do not have any restriction regarding profit distribution,
- c) Retained earnings derived from the first time inflation adjustment of financial statements, can be distributed to shareholders as cash dividends.

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NOTE 18 - EQUITY (Continued)

Dividend distribution (Continued)

In addition, if the financial statements include the “Purchasing Impact on Equity” item under equity, the related item is not considered as a deductible or additional item when presenting net distributable profit for the period.

At the Ordinary General Assembly Meeting of the Group held on 19 March 2019

- As per the Communiqué on Financial Reporting in Capital Markets (Communiqué No. II-14.1), presentation principles prepared in accordance with Turkish Accounting Standards (TAS) and Turkish Financial Reporting Standard (TFRS) published by the Public Oversight, Accounting and Auditing Standards Board (KGK) were independently audited as required by the CMB. As a result of the “Tax Expense of the Period” and “Deferred Tax Expense” in the Company's Consolidated Financial Statements for the 01 January 2018-31 December 2018 accounting period, the “Net Period Profit” was TRY 18,372,631. After the “General Legal Reserve” amounting to TRY 812,997.46 was allocated from the said amount as per paragraph (1) of Article 519 of the TCC, and “Donations” amounting to TRY 675,000 made in 2018 were deducted, “Net Distributable Period Profit Including Donation” amounting to TRY18,234,633.54 was calculated for the 1 January 2018-31 December 2018 accounting period, as per CMB regulations on dividend distribution.
- In the Legal Statutory Records (“Statutory Records”) for the period 1 January 2018 - 31 December 2018, kept as per tax legislation and prepared as per the Uniform Chart of Accounts issued by the Republic of Turkey Ministry of Finance, a “Net Period Profit” of TRY16,259,949.12 (exact) was observed. The “General Legal Reserve” which was calculated as per paragraph (1) of Article 519 of the TCC” was deducted from the “Net Period Profit” and amounting to TRY 15,446,951.66 “Net Distributable Period Profit” was observed
- After an additional “General Legal Reserve” amounting to TRY 917,500.00 was allocated as per sub-paragraph (c) of paragraph 2 of Article 519 of the TCC, a “cash” dividend amounting to TRY 10,000,000.00 (gross) and TRY 8,500,000.00 (net), equal to 60.60% gross and 51.51% net of the unpaid capital, would be distributed in line with the rules of the Central Securities Depository A.Ş. on “fractions” applicable on the date the dividend distribution started, and the dividend distribution shall begin on 30 April 2019 at the latest.
- As per the CMB and POA regulations, after the above-mentioned legal and special reserves were allocated in the consolidated financial statements prepared in line with TAS and TFRS, non-distributed profit amounting to TRY7,559,633.54 (exact) was recognised under “Previous Years’ Profit or Loss”.
- It was decided unanimously that retained earnings amounting to TRY 4,529,451.66 which were not distributed after required legal reserves were allocated according to the legal accounting records of the Company, would be included in the “Extraordinary Reserves” account. The dividend distribution has been completed as of 3 May 2019.

The CMB’s requires the disclosure of total amount of net profit in the statutory records and other resources which may be subject to distribution. As of the statement of financial position date, the Group’s does not have any gross amount of resources that may be subject to the profit distribution (31 December 2018: TRY25,459,093).

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NOTE 19 - REVENUE AND COST OF SALES

a) Revenue:

	1 January - 31 December 2019			1 January - 31 December 2018		
	Domestic sales	Foreign sales	Total	Domestic sales	Foreign sales	Total
Multi-strand rope	26,467,145	113,169,425	139,636,570	35,918,760	80,549,823	116,468,583
Prestressed concrete	53,175,862	45,245,003	98,420,865	105,389,076	24,840,820	130,229,896
Spring wire	51,337,408	5,257,998	56,595,406	44,815,000	2,783,200	47,598,200
Galvanized wire	6,551,177	25,941,132	32,492,309	4,656,680	18,884,395	23,541,075
Scrap sales	3,951,948	-	3,951,948	3,710,439	54,541	3,764,980
Other	99,466	-	99,466	837,790	-	837,790
Gross profit	141,583,006	189,613,558	331,196,564	195,327,745	127,112,779	322,440,524
Sales return and discounts (-)	(9,882,702)	(6,161,737)	(16,044,439)	(10,485,720)	(54,541)	(10,540,261)
	131,700,304	183,451,821	315,152,125	184,842,025	127,058,238	311,900,263

The Group performs its foreign sales to Europe by 54% (2018: 60%), America by 27% (2018: 34%), Asia by 14% (2018: 4%) and to Africa by 5% (2018: 2%)

b) Cost of sales:

	1 January - 31 December 2019	1 January - 31 December 2018
Raw materials (Note 9)	211,785,819	199,828,949
Labor cost ⁽¹⁾ (Note 21)	29,456,653	24,208,519
General production cost	29,530,147	17,207,101
Amortization and depreciation expenses (Notes 11.12 and 21)	9,424,956	5,955,713
	280,197,575	247,200,282

(1) The provision amounting TRY1,207,578 related to the period between September-December 2019 as per the negotiations between MESS and Türk Metal for the Group Collective Labour Agreement effective between 1 September 2019 and 31 August 2021, is included in the labour costs

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NOTE 20 - MARKETING, GENERAL ADMINISTRATIVE AND RESEARCH AND DEVELOPMENT EXPENSES

	1 January - 31 December 2019				1 January - 31 December 2018			
	Marketing expenses	General administrative expenses	Research and development expenses	Total	Marketing expenses	General administrative expenses	Research and development expenses	Total
Transportation and shipping expenses	15,615,846	-	-	15,615,846	9,183,932	-	-	9,183,932
Service expenses	1,323,912	6,702,586	-	8,026,498	516,001	3,891,151	225,282	4,632,434
Personnel expenses (Note 21.b)	1,519,824	5,148,993	973,075	7,641,892	1,414,022	3,794,953	973,197	6,182,172
Advertising and marketing expenses	3,146,401	-	-	3,146,401	1,606,732	-	-	1,606,732
Amortization and depreciation expense (Note 10, 11 and 21)	48,719	2,822,817	27,232	2,898,768	23,774	583,442	32,024	639,240
Benefits provided to key management personnel (Note 27.ii.c.21.b)	-	1,784,862	-	1,784,862	-	2,607,930	-	2,607,930
Litigation, notary, tax, duties and charge expenses	-	849,588	-	849,588	18,020	1,241,081	-	1,259,101
Travel and transportation expenses	335,233	331,589	-	666,822	285,523	190,528	30,151	506,202
Donations and aids	-	3,000	-	3,000	-	675,000	-	675,000
Other	1,034,558	940,421	-	1,974,979	378,246	1,042,582	47	1,420,875
Total	23,024,493	18,583,856	1,000,307	42,608,656	13,426,250	14,026,667	1,260,701	28,713,618

NOTE 21 - EXPENSES BY NATURE

a) Amortization and depreciation expenses:

	1 January - 31 December 2019	1 January - 31 December 2018
Cost of sales (Note 19)	9,424,956	5,955,713
General administrative expenses (Note 20)	2,822,817	583,442
Research and development expenses	604,409	-
Inventories	407,793	300,702
Research and development expenses (Note 20)	27,232	32,024
Marketing expenses (Note 20)	48,719	23,774
Total	13,335,926	6,895,655

b) Personnel expenses:

	1 January - 31 December 2019	1 January - 31 December 2018
General production cost (Note 19)	29,456,653	24,208,519
General administrative expenses (Note 20)	6,933,855	6,402,883
Research and development expenses (Note 20)	973,075	973,197
Marketing expenses (Note 20)	1,519,824	1,414,022
Total	38,883,407	32,998,621

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NOTE 22 - OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

Other income from operating activities

	1 January - 31 December 2019	1 January - 31 December 2018
Foreign exchange gains	15,005,435	88,310,953
SGK incentives	1,396,155	265,266
Management service income	366,601	-
Insurance income	208,800	-
Interest income	207,919	330,270
Deferred financial expense due from purchase with maturity (1)	181,732	141,744
Provisions no longer required (Note 6 and 13)	24,700	13,050
Other	1,511,978	70,205
Total	18,903,320	89,131,488

(1) Prior period "Finance income from sales with maturity" reversals are included.

Other expenses from operating activities

	1 January - 31 December 2019	1 January - 31 December 2018
Foreign exchange gains	(14,139,197)	(92,754,176)
Provision expenses (Note 6 and 13)	(807,079)	-
Deferred financial expense due from purchase with maturity (1)	(133,752)	(465,736)
Other	(212,070)	(485,029)
Total	(15,292,098)	(93,704,941)

(1) Prior period "Finance expense from purchases with maturity" reversals are included.

NOTE 23 - INCOME FROM INVESTMENT ACTIVITIES

	1 January - 31 December 2019	1 January - 31 December 2018
Fixed asset sales profit	-	410,929
Total	-	410,929

NOTE 24 - FINANCIAL EXPENSE

	1 January - 31 December 2019	1 January - 31 December 2018
Foreign exchange loss	(7,561,909)	(7,139,783)
Borrowing and factoring interest expense	(1,837,916)	(1,284,853)
Leasing interest expenses	(167,912)	-
Other	(751,411)	(179,040)
Total	(10,319,148)	(8,603,676)

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NOTE 25 - INCOME TAX (DEFERRED TAX ASSETS AND LIABILITIES INCLUDED)

	31 December 2019	31 December 2018
Current period tax expense	-	(4,343,473)
Prepaid corporate taxes	-	4,343,473
Current period tax (liability)/asset	-	-

The Corporate Tax Law has been amended as of 13 June 2006 by Law No: 5520. The majority of the clauses of Law No: 5520 are effective as of 1 January 2006. Corporate tax rate for the fiscal year 2019 is 22% (2018: 22%) for Turkey. Corporate tax is payable at a rate of 22% on the total income of the Group after adjusting for certain disallowable expenses, corporate income tax exemptions (exemption for participation in subsidiaries, etc.) and corporate income tax deductions (such as research and development expenditures deduction). No further tax is payable unless there is dividend distribution.

Companies calculate corporate tax quarterly at the rate of 22% over their corporate income and these amounts are disclosed by the end of 14th day and paid by the end of the 17th day of the second month following each calendar quarter-end. Advance taxes paid in the period are offset against the following period's corporate tax liability. If there is an outstanding advance tax balance as a result of offsetting, the related amount may either be refunded in cash or used to offset against for other payables to the government.

Within the scope of the "Law on the Amendment of Certain Tax Laws and Some Other Laws" numbered 7061, which was published in the Turkish Trade Registry Gazette dated 5 December 2017, the corporate tax rate for the years 2018, 2019 and 2020 was increased from 20% to 22%. As per this law, deferred tax assets and obligations were calculated in the financial statements dated 31 December 2019, applying a tax rate of 22% for temporary differences' portion to lead to tax effects in 2018, 2019 and 2020, and at 20% for the portion to lead to tax effects in 2021 and subsequent periods.

According to, Amendments in Tax Procedural Law, Income Tax Law and Corporate Tax Law (“Law No. 5024”) published in the Official Gazette on 30 December 2003 and the income or corporations taxpayers whose determine their profits on the basis of the statement of financial position, the financial statements are subject to inflation adjustment starting from 1 January 2004. The merger premiums which occurred as a result of the related subsidiary mergers, were classified as an equalizing account, which is neither an asset nor a liability, by the Group, in its financial statements and applied an inflation adjustment for the calculation of the corporate tax in 2005, due to the related regulations and Tax Procedural Law, titled “Inflation Adjustment Application” with number 17 and dated 24 March 2005.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns by the 25th of the fourth month following the close of the financial year to which they relate. Tax authorities can review accounting records within five years and if they determine any errors on the accounting records, tax payable can be reassessed as a result of another tax assessment.

Under the Turkish tax legislation, tax losses can be carried forward to offset against future taxable income for up to 5 years.

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NOTE 25 - INCOME TAX (DEFERRED TAX ASSETS AND LIABILITIES INCLUDED) (Continued)

Deferred tax

The Group calculates deferred income tax assets and liabilities considering the effects of temporary differences arising from different valuations between balance sheet items and KGK Financial Reporting Standards and tax financial statements. Such temporary differences arise from the recognition of revenue and expenses in different reporting periods for the financial reporting standards and tax legislation of the Group, as well as for financial losses transferred.

The rates to be applied for the deferred tax assets and liabilities calculated according to the liability method over the future long-term temporary differences are valid tax rates at the balance sheet date and these rates are included in the table above and explanations.

Movements for net deferred taxes for the periods ended at 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Current period tax expense	-	(4,343,473)
Deferred tax income/(expense)	3,914,418	(504,059)
Total tax income/(expense)	3,914,418	(4,847,532)

Tax reconciliations for the periods ended 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Profit/(loss) before tax	(14,362,032)	23,220,163
Tax rate 22%	3,159,647	(5,108,436)
Tax effect:		
Non-deductible expenses	(110,776)	(243,283)
The effects of current year losses that is not recognized as the deferred tax asset	(127,966)	-
R&D incentives	767,073	-
Effect of change in statutory tax rate on deferred tax	77,934	73,937
Discounts and exceptions	-	430,780
Other, net	148,506	(530)
Tax income/(expense) for the period	3,914,418	(4,847,532)

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NOTE 25 - INCOME TAX (DEFERRED TAX ASSETS AND LIABILITIES INCLUDED) (Continued)

Deferred tax (Continued)

The composition of cumulative temporary differences and the related deferred tax assets and liabilities in respect of items for which deferred tax has been provided at 31 December 2019 and 31 December 2018 using the enacted tax rates are as follows:

	Cumulative temporary differences		Deferred tax assets/ (liabilities)	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Provision for employment termination (Note 15)	(10,692,353)	(8,184,442)	2,138,471	1,636,888
Effect of financial losses	(15,644,191)	-	3,441,722	-
Research and development discounts	(3,486,695)	-	767,073	-
Sales cut-off and its effect on inventory - net	(1,382,264)	(637,516)	304,099	140,254
Research and development expenses	(1,510,761)	(1,288,090)	332,368	283,380
Provision for unused vacation benefits (Note 13)	(361,556)	(273,656)	79,542	60,204
Provision for continued lawsuits (Note 13)	(50,000)	(74,700)	11,000	16,434
Deferred income and expenses related to the trade receivables and payables, net	(172,215)	(220,195)	37,887	48,443
Provisions for collective labor agreement and bonus (Note 13)	(1,369,033)	-	301,188	-
Other	(198,929)	(358,189)	43,764	76,175
Deferred tax assets	(34,867,997)	(11,036,788)	7,457,114	2,261,778
Tangible and intangible assets useful lives differences	16,540,363	11,342,297	(3,308,072)	(2,268,459)
Deferred tax liabilities	16,540,363	11,342,297	(3,308,072)	(2,268,459)
Deferred tax assets, net	(18,327,634)	305,509	4,149,042	(6,681)

The movement details of deferred tax assets is as follows:

	2019	2018
1 January	(6,681)	302,757
Deferred tax income during the period	3,914,418	(504,059)
Deferred tax income recognized in other comprehensive income statement	241,305	194,621
31 December	4,149,042	(6,681)

NOTE 26 - EARNING PER SHARE

	31 December 2019	31 December 2018
Net profit for the period attributable to equity holders of the Parent Company	(10,447,614)	18,372,631
Weighted average number of shares	16,500,000	16,500,000
Earnings per share (exact TRY)	(0.63)	1.11

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NOTE 27 - RELATED PARTY DISCLOSURES

i) Balances of related parties:

a) Trade Receivables:

	31 December 2019	31 December 2018
Ditaş Doğan Yedek Parça İmalat ve Teknik A.Ş. ⁽¹⁾	324,199	526,671
	324,199	526,671

(1) Comprises services given to Ditaş

b) Other payables:

	31 December 2019	31 December 2018
Değer Merkezi Hizmetleri ve Yönetim Danışmanlığı A.Ş. (“Değer Merkezi”) ⁽¹⁾	874,586	260,639
Aytemiz Akaryakıt Dağıtım A.Ş. (“Aytemiz Akaryakıt”) ⁽²⁾	20,704	5,197
Doğan Holding ⁽³⁾	-	64,903
	895,290	330,739

(1) Comprises of advisory, consultancy and technical support services purchased from Değer Merkezi.

(2) Comprises of vehicle identification service purchases from Aytemiz Akaryakıt.

(3) Comprises of advisory, consultancy and technical support services purchased from Doğan Holding.

c) Liabilities from leasing transactions:

	31 December 2019	31 December 2018
Değer Merkezi Hizmetleri ve Yönetim Danışmanlığı A.Ş. (“Değer Merkezi”) ⁽¹⁾	96,712	-
	96,712	-

(1) Comprises of the vehicle leasing services obtained from Değer Merkezi.

ii) Transactions with related parties

a) Product and service sales to related parties:

	31 December 2019	31 December 2018
DOEL Elektrik Enerjisi Toptan Satış A.Ş. (“Doel Elektrik”) ⁽¹⁾	580,350	222,032
Ditaş Doğan Yedek Parça İmalat ve Teknik A.Ş. (“Ditaş”) ⁽²⁾	366,814	564,769
Total	947,164	786,801

(1) Comprises of consultancy services given to Doel Elektrik.

(2) Comprises of consultancy services given to Ditaş.

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NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

b) Product and service purchases from related parties:

Operating expenses:

	31 December 2019	31 December 2018
Değer Merkezi ⁽¹⁾	4,588,766	2,368,625
Doel Elektrik Enerjisi Toptan Satış A.Ş. (“Doel Elektrik”) ⁽²⁾	1,163,965	808,224
Ditaş ⁽⁴⁾	102,461	28,536
Aytemiz Akaryakıt ⁽³⁾	90,167	69,625
Diğer	-	102,198
Total	5,945,359	3,377,208

- (1) Comprises of advisory, consultancy and technical support services and rent a car, travel services purchased from Değer Merkezi Hizmetler ve Yönetim Danışmanlığı A.Ş..
- (2) Comprises of electric services purchased from Doel Elektrik.
- (3) Comprises of vehicle identification service purchases from Aytemiz Akaryakıt.
- (4) Comprises of consultancy services purchased from Ditaş.

c) Benefits provided to key management personnel of Group:

The Group has designated its key management personnel as members of the board of directors, general manager and assistant general manager.

	31 December 2019	31 December 2018
Salaries and other short-term provisions (Note 20)	1,784,862	2,607,930
Total	1,784,862	2,607,930

NOTE 28 - NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS

Financial instruments and financial risk management

The Group’s activities expose it to a variety of financial risks; these risks are credit risk, market risk including the effects of changes in debt and equity market prices, foreign currency exchange rates, fair value interest rate risk and cash flow interest rate risk, and liquidity risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group.

a) Market risk

Foreign currency risk

The Group operates internationally. The Group is exposed to foreign exchange risk through the impact of rate changes on the translation of foreign currency liabilities to local currency. These risks are monitored and limited by analyzing foreign currency position. These risks are monitored and limited by analyzing foreign currency position.

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NOTE 28 - NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

a) Market risk

Foreign currency risk (Continued)

As of 31 December 2019 and 31 December 2018, net foreign currency position of Group is as follows;

	31 December 2019	31 December 2018
Total assets	63,483,597	58,611,723
Total liabilities	(162,946,608)	(105,166,864)
Net foreign currency position	(99,463,011)	(46,555,141)

As of 31 December 2019 and 31 December 2018, sensitivity analysis for currency risk and foreign currency denominated asset and liability balances are summarized below:

	31 December 2019		
	TRY Equivalent	USD	EUR
1. Trade Receivables	53,577,912	3,248,222	5,154,847
2. Monetary Financial Assets (Cash, banks included)	9,905,685	338,584	1,187,025
3. Current Assets (1+2)	63,483,597	3,586,806	6,341,872
4. Total Assets (3)	63,483,597	3,586,806	6,341,872
5. Trade Payables	(89,693,295)	(969,037)	(12,620,970)
6. Financial Liabilities (Note 5)	(73,156,600)	-	(11,000,000)
7. Liabilities from leasing transactions (Note 5)	(96,712)	-	(14,542)
8. Short Term Liabilities (5+6+7)	(162,946,608)	(969,037)	(23,635,512)
9. Total liabilities (9)	(162,946,608)	(969,037)	(23,635,512)
10. Total asset related to the cash flow hedges	-	-	-
11. Total liabilities related to the cash flow hedges	-	-	-
12. Net Asset / Liability Position of Off Statement of Financial Position	-	-	-
13. Net Foreign Currency Asset/(Liability)/ Position	(99,463,011)	2,617,769	(17,293,640)
14. Net Foreign Currency Asset/(Liability) Position Of Monetary Items	(99,463,011)	2,617,769	(17,293,640)

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NOTE 28 - NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

a) Market risk (Continued)

Foreign currency risk (Continued)

	31 December 2018		
	TRY Equivalent	USD	EUR
1. Trade Receivables	55,490,912	3,620,256	6,045,970
2. Monetary Financial Assets (Cash, banks included)	3,120,811	118,813	414,026
3. Current Assets (1+2)	58,611,723	3,739,069	6,459,996
4. Total Assets (3)	58,611,723	3,739,069	6,459,996
5. Trade Payables	(53,123,216)	(370,111)	(8,489,731)
6. Financial Liabilities (Note 5)	(52,043,648)	(1,244,268)	(7,547,723)
7. Short Term Liabilities (5+6)	(105,166,864)	(1,614,379)	(16,037,454)
8. Total liabilities (7)	(105,166,864)	(1,614,379)	(16,037,454)
9. Total asset related to the cash flow hedges	-	-	-
10. Total liabilities related to the cash flow hedges	-	-	-
11. Net Asset / Liability Position of Off Statement of Financial Position	-	-	-
12. Net Foreign Currency Asset/(Liability)/ Position	(46,555,141)	2,124,690	(9,577,458)
13. Net Foreign Currency Asset/(Liability) Position of Monetary Items	(46,555,141)	2,124,690	(9,577,458)

As of 31 December 2019, foreign currency denominated asset and liability balances were converted by the following exchange rates TRY5,9402 = 1USD, TRY6,6506 = 1EUR (31 December 2018: TRY5,2609 = 1USD, TRY6,0280 = 1EUR).

The Group is exposed to foreign exchange risk primarily with respect to EUR and USD. The effect of the Group’s EUR and USD foreign currency position as of 31 December 2019 and 31 December 2018 under the assumption of the appreciation and depreciation of TRY against other currencies by 20% with all other variables held constant, is as follows:

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NOTE 28 - NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

a) Market risk (Continued)

	31 December 2019	
	Appreciation of foreign currency	Depreciation of foreign currency
	Profit/(Loss)	
If the USD had changed by 20% against the TRY		
USD net (liabilities)/assets	3,110,014	(3,110,014)
Hedging amount of USD (-)	-	-
USD net effect	3,110,014	(3,110,014)
If the EUR had changed by 20% against the TRY		
EUR net (liabilities)/assets	(23,002,617)	23,002,617
Hedging amount of EUR (-)	-	-
EUR Net Effect	(23,002,617)	23,002,617
Total Net Effect	(19,892,603)	19,892,603
	31 December 2018	
	Appreciation of foreign currency	Depreciation of foreign currency
	Profit/(Loss)	
If the USD had changed by 20% against the TRY		
USD net (liabilities)/assets	2,235,556	(2,235,556)
Hedging amount of USD (-)	-	-
USD net effect	2,235,556	(2,235,556)
If the EUR had changed by 20% against the TRY		
EUR net (liabilities)/assets	(11,546,583)	11,546,583
Hedging amount of EUR (-)	-	-
EUR Net Effect	(11,546,583)	11,546,583
Total Net Effect	(9,311,027)	9,311,027

Price risk

As the equity investments classified under financial assets of the Group are not quoted in an active market, the Group is not exposed to price risk.

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NOTE 28 - NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

a) Market risk (Continued)

Interest rate risk

The Group has interest-bearing debt with variable and fixed interest rate. The Group is exposed to cash flow interest rate risk due to variable interest rate loans. In addition, fixed interest rate loans are subject to fair value interest rate risk. As of 31 December 2019 there are no effect of 100 basis point estimated change due to Group not having any loans with variable credit (31 December 2018: None).

The analysis of average annual interest rate (%) of financial instruments of Group is as follows:

	31 December 2019			31 December 2018		
Financial instruments with fixed rate						
Financial liabilities (Note 5)	73,253,312			67,843,481		
	31 December 2019			31 December 2018		
	USD	EUR	TRY	USD	EUR	TRY
Liabilities						
Financial liabilities	-	0.85-2.00	-	4.68-4.81	1-3	25-30

b) Credit risk

Credit risk involves the risk that counterparties may be unable to meet the terms of their agreements. These risks are monitored by credit ratings and by setting credit limits to individual counterparties. The credit risk is generally highly diversified due to the large number of entities comprising the customer bases and their dispersion across many different industries.

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NOTE 28 - NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

b) Credit risk (Continued)

The table representing the Group’s credit risk of financial instruments as of 31 December 2019 is as follows:

	Trade Receivables		Other Receivables		Bank deposits
	Related parties	Non-related parties	Related parties	Non-related parties	
Exposure to maximum credit risk as at balance sheet date	324,199	72,823,668	-	4,658,862	17,230,438
- The part of maximum risk under guarantee with collateral etc. ⁽¹⁾	-	53,229,921	-	-	-
Net book value of neither past due nor impaired financial assets	11,628	56,777,191	-	4,658,862	17,230,438
- The part under guarantee with collateral etc ⁽¹⁾	-	42,755,031	-	-	-
Net book value of past due but not impaired assets	312,571	16,046,477	-	-	-
- The part under guarantee with collateral etc ⁽¹⁾	-	10,474,890	-	-	-
Impaired asset net book value					
- Past due (gross amount)	-	1,521,088	-	-	-
- Impairment (-) (Note 6)	-	(1,521,088)	-	-	-
- The part under guarantee with collateral etc.	-	-	-	-	-
- Not past due (gross amount)	-	-	-	-	-
- Impairment (-)	-	-	-	-	-
- The part under guarantee with collateral etc.	-	-	-	-	-

(1) The factors, increasing the credit reliability and the guarantees received, receivables insurance are taken into consideration during the calculation of the amount.

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NOTE 28 - NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

b) Credit risk (Continued)

The table representing the Group’s credit risk of financial instruments as of 31 December 2018 is as follows:

	Trade Receivables		Other Receivables		Bank deposits
	Related parties	Other	Related parties	Other	
Exposure to maximum credit risk as at balance sheet date	526,671	70,081,544	-	999,599	2,947,922
- The part of maximum risk under guarantee with collateral etc ⁽¹⁾	-	46,854,228	-	-	-
Net book value of neither past due nor impaired financial assets	-	56,579,727	-	999,599	2,947,922
- The part under guarantee with collateral etc ⁽¹⁾	-	37,593,982	-	-	-
Net book value of past due but not impaired assets	526,671	13,501,817	-	-	-
- The part under guarantee with collateral etc ⁽¹⁾	-	9,260,246	-	-	-
Impaired asset net book value					
- Past due (gross amount)	-	714,009	-	-	-
- Impairment (-) (Note 6)	-	(714,009)	-	-	-
- The part under guarantee with collateral etc.	-	-	-	-	-
- Not past due (gross amount)	-	-	-	-	-
- Impairment (-)	-	-	-	-	-
- The part under guarantee with collateral etc.	-	-	-	-	-

(1) The factors, increasing the credit reliability and the guarantees received, receivables insurance are taken into consideration during the calculation of the amount.

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NOTE 28 - NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

b) Credit risk (Continued)

The aging of the receivables of the Group, which are past due but not impaired including related party balances by taking into consideration past due dates are as follows:

	31 December 2019				
	Trade Receivables		Other receivables		Bank deposits
	Related parties	Other	Related parties	Other	
1-30 days overdue	-	9,107,129	-	-	-
1-3 months overdue	-	6,381,093	-	-	-
3-12 months overdue	312,571	558,255	-	-	-
Total	312,571	16,046,477	-	-	-
The part under guarantee with collateral ⁽¹⁾	-	10,474,890	-	-	-

	31 December 2018				
	Trade Receivables		Other receivables		Bank deposits
	Related parties	Other	Related parties	Other	
1-30 days overdue	526,671	9,498,940	-	-	-
1-3 months overdue	-	1,514,700	-	-	-
3-12 months overdue	-	2,488,177	-	-	-
Total	526,671	13,501,817	-	-	-
The part under guarantee with collateral ⁽¹⁾	-	9,260,246	-	-	-

(1) Guarantees consist of guarantee letters received, collaterals, credit risk insurance and mortgages from customers.

c) Liquidity risk

Conservative liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

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NOTE 28 - NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

c) Liquidity risk (Continued)

As of 31 December 2019 and 31 December 2018, undiscounted cash flows of financial liabilities based on the agreement maturities are as follows:

	31 December 2019					
	Book value	Less than 3 months	3-12 months	1-5 years	On demand	Contractual undiscounted cash flow
Short- term borrowings (Note 5)	73,156,600	46,812,576	26,602,400	-	-	73,414,976
Payables due to leasing transactions (Note5)	96,712	34,237	65,575	-	-	99,812
Trade payables due to non-related parties (Note 6)	117,414,881	71,982,045	45,907,717	-	-	117,889,762
Other payables due to related parties (Note 27)	895,290	895,290	-	-	-	895,290
Payables related to employee benefits (Note 8)	992,424	-	992,424	-	-	992,424
Deferred income (Note 16)	907,472	907,472	-	-	-	907,472
Other short term provisions (Note 13)	173,426	173,426	-	-	-	173,426
Non-derivative financial liabilities	193,636,805	120,805,046	73,568,116	-	-	194,373,162
	31 December 2018					
	Book value	Less than 3 months	3-12 months	1-5 years	On demand	Contractual undiscounted cash flow
Short- term borrowings (Note 5)	67,843,481	47,368,706	25,854,092	-	-	73,222,798
Trade payables due to non-related parties (Note 6)	71,059,323	41,547,408	30,120,548	-	-	71,667,956
Other payables due to related parties (Note 27)	330,739	330,739	-	-	-	330,739
Payables related to employee benefits (Note 8)	2,131,897	-	2,131,897	-	-	2,131,897
Deferred income (Note 16)	1,629,177	1,629,177	-	-	-	1,629,177
Other short term provisions (Note 13)	74,700	74,700	-	-	-	74,700
Non-derivative financial liabilities	143,069,317	90,950,730	58,106,537	-	-	149,057,267

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AS AT 31 DECEMBER 2019

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NOTE 28 - NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the net liability/total equity ratio. Net liability is calculated as the total liability less cash and cash equivalents, derivative instruments and tax liabilities. Total equity is calculated as the total of net liability and the equity as shown in the statement of financial position.

The net liability/total equity ratio is summarized below:

	31 December 2019	31 December 2018
Total liability ⁽¹⁾	206,240,239	151,620,305
Less: Cash and cash equivalents (Note 3)	(17,230,550)	(2,948,073)
Net liability	189,009,689	148,672,232
Total equity	33,484,738	54,935,200
Total capital	222,494,427	203,607,432
Net Liability/total capital	0.85	0.73

(1) The amounts are calculated by deducting profit for the period, income tax payable, and deferred tax liability accounts from total liability.

e) Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The estimated fair values of financial instruments are determined by the Group, using available market information and appropriate valuation methodologies for each segment of the Group. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange.

The following methods and assumptions are used in the estimation of the fair value of the financial instruments for which it is practicable to estimate fair value:

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NOTE 28 - NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

e) Fair value of financial instruments (Continued)

Monetary assets

The fair values of balances denominated in foreign currencies, which are translated at the period end exchange rates, are considered to approximate carrying value.

The fair values of certain financial assets carried at cost, including fair values of cash and due from banks are considered to approximate their respective carrying values due to their short-term nature and immateriality of losses on collectability. The fair value of investment securities has been estimated based on the market prices at the statement of financial position dates.

Trade receivables are disclosed at their amortized cost using the effective interest rate method and the carrying values of trade receivables along with the related allowances for collectability are estimated to be at their fair values.

Monetary liabilities

The fair value of bank borrowings and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

Long-term borrowings, which are principally at variable rates, and denominated in foreign currencies, are translated at the period-end exchange rates and accordingly, their fair values approximate their carrying values.

Trade payables are disclosed at their amortized cost using the effective interest rate method and accordingly their carrying amounts approximate their fair values.

The fair values of financial assets and financial liabilities are determined as follows:

- First Level: The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- Second Level: The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on prices from observable current market transactions.
- Third Level: The fair value of the financial assets and financial liabilities is determined in accordance with the unobservable current market data.

ÇELİK HALAT VE TEL SANAYİİ A.Ş. AND ITS SUBSIDIARIES

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NOTE 29 - SUBSEQUENT EVENTS

Concerning the conclusion of collective labour agreement negotiations

According to the Group Collective Labour Agreement effective between 1 September 2019 and 31 August 2021, signed on 29 January 2020 (today), between MESS (Turkish Employers' Association of Metal Industries), of which our company is a member, and the Turkish Metal Union

- For employees with salaries under TRY12/hour for the first 6 months, an increase of TRY0.30 will be made in such a way that the hourly fee does not exceed TRY12. A 17% salary increase will be given on top of this improvement.
- For the next 6 months, salaries will be increased by 6%. If the inflation of the period is higher than this percentage, the difference will be added to this salary increase.
- For the third and fourth 6-month periods, salaries will be increased at a rate equal to the inflation rate.
- The social benefit increase is 20% for the first year, and for the second year the increase rate will be equal to the inflation rate.
- It was agreed that complementary health insurance (CHI) shall also be offered with the 2019-2021 Group Collective Labour Agreement. According to this agreement, CHI expenses will be paid by MESS.

Approval of Financial Statements

The financial statements for the period ended on 31 December 2019 were approved by the Board of Directors on 21 February 2020. Persons who are not members of the Board of Directors are not authorized to amend financial statements.

NOTE 30 - OTHER MATTERS THAT REQUIRED TO BE DISCLOSED WHICH MAY HAVE SIGNIFICANT EFFECT ON THE FINANCIAL STATEMENTS OR REQUIRED TO BE DISCLOSED IN ORDER TO MAKE FINANCIAL STATEMENTS INTERPRETABLE AND UNDERSTANDABLE

None (31 December 2018: None).

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