

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

Condensed Consolidated Interim Financial Statements
As at and for the Three-month Period Ended
31 March 2020
With Independent Auditor's Report on Review of
Consensed Consolidated Interim
Financial Statements

12 August 2020

This report includes 2 pages of review report and 49 pages of interim financial statements together with their explanatory notes.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

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Independent Auditors' Report on Review of Condensed Interim Consolidated Financial Statements

To the Board of Directors of Zorlu Elektrik Üretim Anonim Şirketi

Introduction

We have reviewed the accompanying condensed statement of financial position of Zorlu Elektrik Üretim Anonim Şirketi ("the Company") and its subsidiaries (the "Group") as at 31 March 2020, the condensed consolidated statement of profit or loss, the condensed consolidated statement of other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the three month period then ended, and notes to the condensed consolidated interim financial statements ("the condensed interim financial statements"). Management is responsible for the preparation and presentation of this condensed interim consolidated financial statements in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements as at 31 March 2020 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2019 and the Group's condensed interim financial information as at and for the three-month period ended 31 March 2019 were audited and reviewed by another auditor who expressed an unmodified opinion on 8 May 2020 and unmodified conclusion on 19 June 2019, respectively.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
A member firm of KPMG International Cooperative

Şirin Soysal, SMMM
Partner
12 August 2020
İstanbul, Türkiye

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

	Notes	31 March 2020	31 December 2019
ASSETS			
Current assets:			
Cash and cash equivalents	4	577,056	832,715
Financial assets		-	10,008
Trade receivables		1,025,137	903,943
- Other trade receivables		1,008,043	891,066
- Due from related parties	19	17,094	12,877
Other receivables		1,262,488	1,307,725
- Other receivables		51,562	58,737
- Due from related parties	19	1,210,926	1,248,988
Derivative financial instruments	13	1,924	-
Receivables from service concession arrangements	5	263,917	258,074
Inventories		69,725	62,975
Other current assets	8	248,657	257,109
Total		3,448,904	3,632,549
Assets held for sale	9	-	625,282
Total current assets		3,448,904	4,257,831
Non-current assets:			
Other receivables		1,271,909	1,164,796
- Other receivables		127	127
- Due from related parties	19	1,271,782	1,164,669
Financial assets		246	246
Receivables from service concession arrangements	5	2,037,945	2,050,771
Equity accounted investees		540,181	532,402
Property, plant and equipment	10	10,128,117	8,460,616
Intangible assets		2,777,806	2,812,381
Right of use assets	11	45,375	48,534
Deferred tax assets	15	399,181	375,127
Other non-current assets	8	38,606	117,862
Total non-current assets		17,239,366	15,562,735
Total assets		20,688,270	19,820,566

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

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

	Notes	31 March 2020	31 December 2019
LIABILITIES			
Current liabilities:			
Financial liabilities	6	4,515,582	4,738,103
Trade payables		1,827,168	2,122,545
- Other trade payables		1,736,293	2,049,603
- Due to related parties	19	90,875	72,942
Other payables		876,821	853,000
- Other payables	7	845,223	822,921
- Due to related parties	7, 19	31,598	30,079
Derivative financial instruments	13	65,675	33,170
Taxes on income		17,051	31,006
Other provisions		12,981	11,141
Other current liabilities	8	187,820	188,409
Total		7,503,098	7,977,374
Liabilities related to the asset held for sale	9	-	404,963
Total current liabilities		7,503,098	8,382,337
Non-current liabilities:			
Financial liabilities	6	8,604,486	8,014,776
Derivative financial instruments	13	224,441	111,849
Other payables		18,554	17,012
- Other payables	7	18,554	17,012
Deferred tax liabilities	15	867,075	662,013
Provisions for employment benefits		34,926	32,584
Other non-current liabilities		890	868
Total non-current liabilities		9,750,372	8,839,102
Total liabilities		17,253,470	17,221,439
EQUITY			
Share capital	14	2,110,948	2,110,948
Revaluation fund	10	4,327,242	3,211,890
Share premium		916	916
Hedge reserves		(3,208,913)	(2,635,595)
Actuarial losses		(11,074)	(10,574)
Currency translation adjustment		403,515	372,298
Accumulated losses		(158,241)	(427,608)
Equity attributable to owners of the Company		3,464,393	2,622,275
Non-controlling interests		(29,593)	(23,148)
Total equity		3,434,800	2,599,127
Total liabilities and equity		20,688,270	19,820,566

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

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE PERIOD 1 JANUARY - 31 MARCH 2020

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

	Notes	1 January- 31 March 2020	1 January- 31 March 2019
Revenue		2,311,418	1,870,843
Cost of sales (-)	16	(1,883,934)	(1,482,172)
GROSS PROFIT		427,484	388,671
General administrative expenses (-)	16	(64,901)	(40,072)
Marketing and selling expenses (-)	16	(15,766)	(13,049)
Other operating income	17	158,002	93,020
Other operating expense (-)	17	(80,114)	(65,414)
OPERATING INCOME		424,705	363,156
Share of profit of equity-accounted investees, net of tax		28,927	22,222
Financial income	18	333,457	263,531
Financial expenses (-)	18	(749,122)	(606,571)
INCOME BEFORE TAXATION		37,967	42,338
Current income tax expense	15	(23,640)	(16,656)
Deferred tax income/ (expense)	15	464	(7,420)
NET INCOME FOR THE PERIOD		14,791	18,262
Income attributable to:			
Owners of the Company		21,236	23,035
Non-controlling interests		(6,445)	(4,773)
		14,791	18,262
Income per share (TL)		0.011	0.012

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

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY - 31 MARCH 2020

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

	Notes	1 January- 31 March 2020	1 January- 31 March 2019
Net Income for the period		14,791	18,262
Items that will not be classified to profit or loss:			
Revaluation of property, plant and equipment	10	1,705,533	-
Reameasurements of the defined benefit liabilities		(634)	(348)
Tax on items that will not be reclassified to profit or loss		(341,916)	77
- <i>Deferred tax</i>		(341,916)	77
Items that will be classified to profit or loss:			
Cash flow hedges – effective portion of changes in FV		(716,648)	(528,783)
Foreign operations-foreign currency translation differences		31,217	56,779
Tax on items that are or may be reclassified to profit or loss		143,330	105,757
- <i>Deferred tax</i>		143,330	105,757
Other comprehensive income/ (loss)		820,882	(366,518)
Total comprehensive income/ (loss)		835,673	(348,256)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		842,118	(343,483)
Non-controlling interests		(6,445)	(4,773)
Total comprehensive income/ (loss)		835,673	(348,256)

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

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD 1 JANUARY - 31 MARCH 2020

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated.)

	<u>Attributable to equity holders of the parent</u>								
	Share capital	Share premium	Items that will not be reclassified to profit or loss		Items that are or may be reclassified to profit or loss		Accumulated losses	Non controlling interests	Total equity
			Revaluation fund	Actuarial losses	Foreign currency translation differences	Hedge reserves			
1 January 2019	2,110,948	916	3,415,981	(6,627)	281,388	(1,984,100)	(434,657)	(4,039)	3,379,810
Transfer	-	-	(47,749)	-	-	-	47,749	-	-
Total comprehensive income	-	-	-	(271)	56,779	(423,026)	23,035	(4,773)	(348,256)
31 March 2019	2,110,948	916	3,368,232	(6,898)	338,167	(2,407,126)	(363,873)	(8,812)	3,031,554
1 January 2020	2,110,948	916	3,211,890	(10,574)	372,298	(2,635,595)	(427,608)	(23,148)	2,599,127
Disposal of subsidiary	-	-	(201,378)	(5)	-	-	201,383	-	-
Transfer	-	-	(46,748)	-	-	-	46,748	-	-
Total comprehensive loss	-	-	1,363,478	(495)	31,217	(573,318)	21,236	(6,445)	835,673
31 March 2020	2,110,948	916	4,327,242	(11,074)	403,515	(3,208,913)	(158,241)	(29,593)	3,434,800

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

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW FOR THE PERIOD 1 JANUARY - 31 MARCH 2020

(Amounts expressed in thousands Turkish Lira ("TL"), unless otherwise indicated.)

	Notes	1 January- 31 March 2020	1 January- 31 March 2019
Cash flows from operating activities:			
Net income for the period		14,791	18,262
Depreciation and amortisation	16, 17	146,973	142,654
Interest income	17, 18	(54,022)	(83,215)
Interest expense	17, 18	379,746	431,829
Unrealized foreign exchange losses and currency translation differences		69,346	6,067
Loss from financial derivative instruments	18	2,700	13,498
Change in provision for employment termination benefits		1,975	3,279
Provisions		1,840	(2,488)
Loss from sale of property, plant and equipment	17	(9,987)	(13)
Gain on disposal of subsidiary	9, 17	(40,160)	-
Share of profit of equity-accounted investees		(28,927)	(22,222)
Indexation differences of receivables from service concession agreements	5	(52,833)	(30,062)
Indexation difference on deposits	7	10,614	(7,932)
Amortization of commission expenses		16,868	13,420
Tax income	15	23,176	24,076
Other adjustments related to non-cash items		-	5,479
Net cash generated from operating activities before changes in operating assets and liabilities		482,100	512,632
Changes in trade receivables		(109,382)	(139,907)
Changes in other receivables		190,605	155,753
Changes in other current and non-current assets		70,113	109,175
Changes in trade payables		(303,832)	(179,629)
Changes in other payables		13,230	10,685
Changes in other liabilities		(567)	74,998
Changes in inventories		(6,750)	1,677
Collections from service concession arrangements		66,066	37,630
Subscriber connection fee	5	6,298	4,542
Termination benefits paid		(272)	(1,628)
Taxes paid		(20,000)	(10,089)
Net cash generated from operating activities		387,609	575,839
Cash flows from investing activities:			
Acquisition of property plant and equipment and intangible assets		(51,550)	(45,333)
Investment on service concessions		(12,548)	(18,547)
Proceeds from sale of property, plant and equipment		26,690	2,676
Proceeds from sale of assets held for sale		17,574	-
Disposal of subsidiary		249,157	-
Dividend received		51,227	-
Net cash used in investing activities		280,550	(61,204)
Cash flows from financing activities:			
Proceeds from issued debt instruments	6	189,518	123,913
Proceeds from bank borrowings	6	42,932	28,329
Repayment of bank borrowings	6	(494,323)	(349,765)
Repayment of issued debt instruments	6	(149,310)	(110,520)
Changes in related party balances		6,425	(45,272)
Interest received		8,547	11,844
Interest paid		(467,690)	(459,364)
Payment of lease liabilities	6	(7,758)	(5,121)
Transaction costs related to bank borrowings	6	(18,156)	(27,340)
Cash outflows from other financial liabilities		(1,264)	-
Net cash used in financing activities		(891,079)	(833,296)
Net increase in cash and cash equivalents		(222,920)	(318,661)
Effect of foreign currency conversion differences on cash and cash equivalents		(42,747)	(47,373)
Change in restricted cash		(64,938)	(30,931)
Cash and cash equivalents at the beginning of the period	4	823,024	582,683
Cash and cash equivalents at the end of the period	4	492,419	185,718

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

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD BETWEEN 1 JANUARY - 31 MARCH 2020

(Amounts expressed in thousands Turkish Lira (“TL”), unless otherwise indicated.)

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ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD BETWEEN 1 JANUARY - 31 MARCH 2020

(Amounts expressed in thousands Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Zorlu Enerji Elektrik Üretim AŞ (“The Group” or “Zorlu Enerji”) and its subsidiaries (collectively referred to as (“the Group”)) is engaged in electricity, steam production and selling, distribution and retailing of electricity, trading electricity, distribution of gas and distribution and selling and distribution of solar panel. The Group was established by Zorlu Holding AŞ (“Zorlu Holding”) and Korteks Mensucat Sanayi ve Ticaret AŞ (“Korteks”) in 1993. Ultimate controlling party of the Group is Zorlu Holding. The Group is registered in Turkey and its registered address is as follows: Bursa Organize Sanayi Bölgesi, Pembe Cadde, No:13 Bursa, Türkiye.

The Group is registered to the Capital Markets Board (“CMB”), and its shares are publicly traded in Borsa İstanbul AŞ (“BIST”) since 2000. As at 31 March 2020, 32% of its shares are open for trading (31 December 2019: 32%).

The subsidiaries and associates of the Group are presented as below:

Subsidiaries	Nature of business	Country
Rotor Elektrik Üretim AŞ (“Rotor”)	Electricity production	Turkey
Zorlu Jeotermal Enerji Elektrik Üretimi AŞ (“Zorlu Jeotermal”)	Electricity production	Turkey
Zorlu Enerji Pakistan Ltd. (“Zorlu Enerji Pakistan”)	Electricity production	Pakistan
Zorlu Wind Pakistan (Private) Ltd. (“Zorlu Wind Pakistan”)	Electricity production	Pakistan
Zorlu Solar Pakistan (Private) Ltd. (“Zorlu Solar Pakistan”)	Electricity production	Pakistan
Zorlu Doğal Elektrik Üretimi AŞ (“Zorlu Doğal”)	Electricity production	Turkey
Nemrut Jeotermal Elektrik Üretimi AŞ (“Nemrut”)	Electricity production	Turkey
Zorlu Solar Enerji Tedarik ve Ticaret AŞ (“Zorlu Solar”)	Electricity production and solar panel trading	Turkey
Zorlu Elektrik Enerjisi İthalat İhracat ve Toptan Ticaret AŞ (“Zorlu Elektrik”)	Electricity trading	Turkey
Zorlu Osmangazi Enerji Sanayi ve Ticaret AŞ (“Zorlu Osmangazi”) (*)	Electricity distribution and trading	Turkey
Zorlu Enerji İsrail Ltd. (“Zorlu Enerji İsrail”)	Electricity production	Israel
Zorlu Renewable Pakistan (Private) Ltd. (“Zorlu Renewable Pakistan”)	Electricity production	Pakistan
Zorlu Sun Power (Private) Ltd. (“Zorlu Sunpower”)	Electricity production	Pakistan
Zorlu Enerji Dağıtım AŞ (“Zorlu Enerji Dağıtım”) (**)	Natural gas distribution	Turkey
Zorlu Enerji Asia Holding Ltd. (“Zorlu Enerji Asia”)	Energy investment	Dubai
ZES Dijital Ticaret AŞ (“ZES Dijital”)	Electricity sale, renting of electric vehicle and other	Turkey
ZJ Strong Energy for Renewable Energy Ltd Co. (“ZJ Strong”)	Electricity production	Palestine
Zorlu Trade Elektrik Toptan Satış AŞ (“Zorlu Trade”)	Electricity trading, wholesale and purchase of electricity	Turkey
Associates	Nature of business	Country
Dorad Energy Ltd. (“Dorad”)	Electricity production	Israel
Ezotech Electric Ltd. (“Ezotech”) (***)	Electricity trading	Israel
Solad Energy Ltd. (“Solad”)	Electricity production	Israel
Adnit Real Estate Ltd (“Adnit”)	Electricity production	Israel

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD BETWEEN 1 JANUARY - 31 MARCH 2020

(Amounts expressed in thousands Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

- (*) Zorlu Osmangazi has 100% shares of Osmangazi Elektrik Dağıtım AŞ (“OEDAŞ”) and Osmangazi Elektrik Satış Perakende AŞ (“OEPSAŞ”).
- (**) Zorlu Enerji Dağıtım, which is 100% owned by Zorlu Enerji, has 90% of the shares of Trakya Bölgesi Doğal Gaz Dağıtım AŞ (“Trakya”) and Gazdaş Gaziantep Doğal Gaz Dağıtım AŞ (“Gazdaş”).
- (***) Ezotech has 100% shares of Ashdod Energy Ltd. (“Ashdod”) and Ramat Negev Energy Ltd. (“Ramat Negev”).

As at 31 March 2020, the number of personnel employed is 2,265 (31 December 2019: 2,254).

The power plants of the Group located in Turkey and abroad are presented below together with their existing installed capacities:

Installed capacity in Turkey:

Power Plant	Company	Location	Type	Electricity Production Capacity (MW)	Steam Production Capacity (Ton/Hour)
Geothermal				305.0	-
Kızıldere I	Zorlu Doğal	Denizli	Geothermal	15.0	-
Kızıldere II	Zorlu Doğal	Denizli	Geothermal	80.0	-
Kızıldere III	Zorlu Doğal	Denizli-Aydın	Geothermal	165.0	-
Alaşehir I	Zorlu Jeotermal	Manisa	Geothermal	45.0	-
Wind				135.0	-
Gökçedağ	Rotor	Osmaniye	Wind	135.0	-
Hydroelectric				118.9	-
Tercan	Zorlu Doğal	Erzincan	Hydroelectric	15.0	-
Kuzgun	Zorlu Doğal	Erzurum	Hydroelectric	20.9	-
Ataköy	Zorlu Doğal	Tokat	Hydroelectric	5.5	-
Mercan	Zorlu Doğal	Tunceli	Hydroelectric	20.4	-
Çıldır	Zorlu Doğal	Kars	Hydroelectric	15.4	-
İkizdere	Zorlu Doğal	Rize	Hydroelectric	24.9	-
Beyköy	Zorlu Doğal	Eskişehir	Hydroelectric	16.8	-
Natural Gas				99.7	239.5
Lüleburgaz	Zorlu Enerji	Lüleburgaz, Kırklareli	Cogeneration Natural Gas	49.5	209.5
Bursa	Zorlu Enerji	Bursa Organized Industrial Zone	Combined-Cycle Natural Gas	34.3	-
Yalova	Zorlu Enerji	Altınova, Yalova	Cogeneration Natural Gas	15.9	30.0
TOTAL				658.6	239.5

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD BETWEEN 1 JANUARY - 31 MARCH 2020

(Amounts expressed in thousands Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

Installed capacity in abroad:

Power Plant	Location	Type	Electricity Production Capacity (MW)	Steam Production Capacity (Ton/Hour)
Wind			56.4	-
Jhimpir	Pakistan	Wind	56.4	-
Natural Gas (*)			290.5	46.4
Dorad	Israel	Combined-Cycle Natural Gas (840 MW)	210.0	-
Ashdod	Israel	Cogeneration Natural Gas (64.54 MW, 40 ton/hour)	27.2	16.9
Ramat Negev	Israel	Cogeneration Natural Gas (126.4 MW, 70 ton/hour)	53.3	29.5
TOTAL			346.9	46.4

(*) Stake of Zorlu Enerji in Israel companies has been taken into consideration in the calculation of total production capacity.

NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2.1 Financial reporting standards

The condensed consolidated interim financial statements of the Group has been prepared in accordance with International Accounting Standard 34 (“IAS 34”). The Group maintains its books of account and prepares its statutory financial information in Turkish Lira (“TL”) in accordance with the requirements of the Turkish Commercial Code (the “TCC”), related regulations and tax legislation. This condensed consolidated interim financial statements is based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with IAS 34.

This condensed consolidated interim financial information is prepared under the historical cost convention, adjusted, where required by IAS 34 to measure certain items at fair value.

The preparation of condensed consolidated interim financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the condensed consolidated interim financial information are disclosed in Note 2.6.

This condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year then ended 31 December 2019.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD BETWEEN 1 JANUARY - 31 MARCH 2020

(Amounts expressed in thousands Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.2 Basis of consolidation

The condensed consolidated interim financial statements include the accounts of the parent company, Zorlu Enerji and its subsidiaries on the basis set out in sections below. The condensed interim financial information of the companies included in the scope of consolidation have been prepared as at the date of the condensed consolidated interim financial information and have been prepared in accordance with IAS 34. The results of subsidiaries are included or excluded from their effective dates of acquisition or disposal, respectively.

Subsidiaries

Zorlu Enerji controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Zorlu Enerji has power over a subsidiary when Zorlu Enerji has existing rights that give it the current ability to direct the relevant activities that significantly affect the subsidiary’s returns. Power arises from rights and the existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Zorlu Enerji controls another entity.

Subsidiaries including the structured entities are the companies controlled by the Group. The Group’s control is provided by the ability to affect the variable returns through its power over the subsidiaries. Subsidiaries are consolidated from the date on which the control is transferred to the Group and are no longer consolidated from the date that control ceases.

The balance sheets and statements of profit or loss the subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by Zorlu Enerji and its subsidiaries are eliminated against the related equity. Intercompany transactions and balances between Zorlu Enerji and its subsidiaries are eliminated with the scope of consolidation accounting.

Loss of control

If the Group loses control of a subsidiary, it recognizes any investment retained in the former subsidiary at its fair value when control is lost and any difference between the fair value and net book value of investment is accounted for as gain or loss. That fair value shall be regarded as the fair value on initial recognition of a financial asset, when appropriate, the cost on initial recognition of an investment in an associate or joint venture. Additionally, assets and liabilities that were previously recognized as other comprehensive income attributable to that subsidiary are accounted for as if those were disposed the Group. This may result in a fact that these amounts previously recognized as other comprehensive income may be classified to profit or loss.

Non-controlling interests

The minority shares in the net assets and operating results of subsidiaries are separately classified in the consolidated balance sheets and consolidated statements of loss as “non-controlling interests”.

The Group applies a policy of treating transactions with non-controlling interests as transactions with owners of the parent. Regarding the purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to non-controlling interests are also accounted for in equity. For disposals to non-controlling interests, differences between any proceeds received and the relevant share of non-controlling interests are also accounted for in equity.

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.2 Basis of consolidation (Continued)

The table below sets out all subsidiaries and demonstrates the proportion of ownership interest as at 31 March 2020 and 31 December 2019. Financial statements of subsidiaries are consolidated using the full consolidation method.

Subsidiaries	Direct ownership interest by the Companies (%)	
	31 March 2020	31 December 2019
Rotor	100.00	100.00
Zorlu Jeotermal	100.00	100.00
Zorlu Enerji Pakistan	100.00	100.00
Zorlu Wind Pakistan	99.70	99.70
Zorlu Solar Pakistan	99.70	99.70
Zorlu Rüzgar (*)	-	100.00
Zorlu Doğal	100.00	100.00
Nemrut	75.00	75.00
Zorlu Solar	100.00	100.00
Zorlu Elektrik	100.00	100.00
Zorlu Osmangazi	100.00	100.00
Zorlu Enerji İsrail	100.00	100.00
Zorlu Renewable Pakistan	99.70	99.70
Zorlu Sun Power	99.70	99.70
Zorlu Enerji Dağıtım	100.00	100.00
Zorlu Enerji Asia	100.00	100.00
ZES Dijital	100.00	100.00
ZJ Strong Energy	75.00	75.00
Zorlu Trade	100.00	100.00

(*) Based on the material disclosure dated 5 February 2020, the sale of all of shares in Zorlu Rüzgar, the 100% subsidiary of the Group, to Imbat Energy AŞ, a 100% subsidiary of Akfen Yenilenebilir Enerji Üretim AŞ, has been completed.

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.2 Basis of consolidation (Continued)

Interests in equity-accounted investees

The Group’s equity-accounted investees are accounted under the equity method of accounting. Equity-accounted investees are undertakings over which the Group generally has between 20% and 50% of the voting rights and the Group has significant influence and which are not subsidiaries or joint ventures of the Group. The investments in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group’s share of net assets of the associates, less any impairment in value. The consolidated statement of income/loss reflects the Group’s share of the results of operations of the associates.

The equity method is abandoned if the carrying value of the investment in the associate is zero or the significant effect of the Group has ended, as long as the Group does not incur an obligation or commitment in relation to the associate. After the Group's share in the associate has decreased to zero, additional provision and recognition of the liability has been incurred if the Group is exposed to legal or constructive obligation or has made payments on behalf of the associate.

The table below sets out all associates and demonstrates the proportion of ownership interest as at 31 March 2020 and 31 December 2019:

Subsidiary	Direct ownership by the Group (%)	
	31 March 2020	31 December 2019
Dorad	25.00	25.00
Ezotech	42.15	42.15
Solad	42.15	42.15
Adnit	42.15	42.15

2.3 Amendments in International Financial Reporting Standards

a) *Standards, amendments and interpretations that are issued but not effective as at 31 March 2020*

- Amendment to IAS 1, Presentation of financial statements. Classification of Liabilities as Current or Non-current,

The Group will evaluate the effects of these amendments and will apply them starting from their effective dates.

b) *Standards, amendments and interpretations applicable as at 31 March 2020*

- The revised Conceptual Framework (Version 2018),
- Amendments to IFRS 3 - Definition of a Business,
- Amendments to IAS 1 and IAS 8 - Definition of Material,
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

The applications of amendments are not expected to have a significant effect on the financial statements of the Group.

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.3 Amendments in International Financial Reporting Standards (Continued)

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On 23 January 2020, IASB issued Classification of Liabilities as Current or Non-Current which amends IAS 1 Presentation of Financial Statements to clarify its requirements for the presentation of liabilities in the statement of financial position.

The amendments clarify one of the criteria in IAS 1 for classifying a liability as non-current—that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.

The amendments include:

- a) Specifying that an entity’s right to defer settlement must exist at the end of the reporting period;
- b) Clarifying that classification is unaffected by management’s intentions or expectations about whether the entity will exercise its right to defer settlement;
- c) Clarifying how lending conditions affect classification; and
- d) Clarifying requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.

The Group shall apply retrospectively these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted. However, with the announcement published by the IASB in April 2020, it stated that this change included the postponement of the effective date for one year to 1 January 2023. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 1.

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.4 Going concern assumption

The Group has prepared its condensed consolidated interim financial information on a going concern basis in a foreseeable future. The Group is at investment stage and some portion of its investments are financed through borrowings and some portion through capital injection. As at 31 March 2020, the gross profit and EBITDA of the Group are TL427,484 thousand and TL549,924 thousand, respectively. The Group has TL158,241 thousand of accumulated loss and TL14,791 thousand of net profit as at and for the period ending 31 March 2020. Besides, the Group's current liabilities exceeds its current assets by TL4,054,194 thousand.

Since major portion of the Group's electricity sales is at pre-determined prices in USD within the scope of Renewable Energy Sources Mechanism ("YEKDEM"), it affects the gross profit as positively. In addition, foreign exchange losses arising from borrowings of the Companies which sell electricity in scope of YEKDEM have been hedged by the foreign exchange gains arising from the sales indexed to USD mainly.

The Group's ultimate parent company, Zorlu Holding AŞ has declared its intend to provide necessary support to the Group to continue on a going concern basis, in the support letter dated 13 January 2020.

The Covid-19 outbreak that is declared by the World Health Organisation to be pandemic on 11 March 2020 spread across the globe and our country and preventive actions that have been taken into place to respond the outbreak and causes disruptions to business activities in all countries and affect the economic conditions adversely both locally and globally. Group Management assessed the future potential impact on the operations and financial statements of the Group resulting from the aforementioned situation. The Group does not expect in medium or long term that the economic effect of this outbreak will have significant impact on the financial position or performance of the Group.

2.5 Comparatives and restatement of prior year financial statements

The condensed consolidated interim financial statements of the Group for the current year is prepared in comparison with the prior year in order to be able to determine the financial position and performance trends. For the purposes of effective comparison, comparative condensed consolidated interim financial statements can be reclassified when deemed necessary, where descriptions on significant differences are disclosed.

The Group has performed the following reclassifications:

- Financial income amounts to TL34,910 thousand which are shown in the consolidated statement of profit or loss for the period 1 January-31 March 2019, are netted off with financial expense. This reclassification has not any effect on accumulated losses and period income or loss.
- The foreign currency conversion differences on cash and cash equivalents amounting to TL47,373 thousands which are shown in the "unrealized foreign exchange losses and currency translation differences" in the cash flow statement dated 31 March 2019, is presented in the "effect of foreign currency conversion differences on cash and cash equivalents". This reclassification has not any effect on accumulated losses and period income or loss.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD BETWEEN 1 JANUARY - 31 MARCH 2020

(Amounts expressed in thousands Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.5 Comparatives and restatement of prior year financial statements (Continued)

- The inventories amounts to TL1,672 thousand which are shown under cash flow from investing activities in the cash flow statement as of 31 March 2019, are reclassified to "change in inventories". This reclassification has not any effect on accumulated losses and period loss.
- The investment inventories amounts to TL37,487 thousand which are shown under cash flow from "changes in other current and non-current assets" in the cash flow statement as of 31 March 2019, are reclassified to investing activities. This reclassification has not any effect on accumulated losses and period loss.

2.6 Critical accounting estimates, assumptions and judgments

The preparation of condensed consolidated interim financial information in conformity with IAS 34 requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the periods in which they become known. The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date and the significant judgments are set out below:

a) Deferred tax asset on cumulative tax losses

Deferred tax assets are accounted for only where it is likely that related temporary differences and accumulated losses will be recovered through expected future profits. When accounting for deferred tax assets it is necessary to make critical estimations and evaluations with regard to taxable profits in the future periods. According to the future projections, deferred tax assets are recognized on the carryforward tax losses amounts to TL3,136,869 thousand (31 December 2019: TL2,754,617 thousand). Deferred tax asset is not recognized carryforward tax losses for the remaining TL469,726 thousand (31 December 2019: TL 471,693 thousand).

b) Cash flow hedge

As explained in Note 13, the Group uses investment loans amounting USD 1,280,942 thousand and as a hedging instrument against the USD spot exchange rate risk the Group is exposed to due to highly probable YEKDEM sales income, and applies cash flow hedge accounting as a result of the effectiveness tests performed.

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.6 Critical accounting estimates, assumptions and judgments (Continued)

The estimations in budgets for YEKDEM sales income used for effectiveness test include estimations such as sales quantities.

c) Explanations for revaluation method and fair value measurement

Group has chosen revaluation method among application methods mentioned under IAS 16 with respect to measurement and disclosure of the Group’s power plants at fair value commencing from 31 December 2013. On 31 March 2020, A A Baig & Co. Chartered Accountants was given the authority to determine the market value of the power plant belonging to Zorlu Enerji Pakistan, Aden Gayrimenkul Değerleme ve Danışmanlık AŞ (“Aden Gayrimenkul”) was given the authority to determine the Zorlu Doğal, Zorlu Jeotermal and Rotor’s power plants installed in Turkey. On 31 December 2018, Avrupa Gayrimenkul Değerleme ve Danışmanlık AŞ was given the authority to determine Zorlu Enerji’s power plants installed in Turkey. The cost method was used for the valuation of plants that belong to Zorlu Enerji, and the income method (Discounted cash flows-DCF) was used for the valuation of other plants. USD denominated amounts identified in the valuation studies of geothermal, hydroelectric and wind power plants, which was carried out as at 31 March 2020, were reflected in the financial statements considering the period end USD exchange rate as at 31 March 2020. The revaluation of the power plants was carried out by Aden Gayrimenkul, accredited by the CMB.

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.6 Critical accounting estimates, assumptions and judgments (Continued)

Within the frame of these valuations, the following basic assumptions has been used:

Companies	Valuated power plant type	Valuation period	Valuation company	Valuation method	Valuation assumptions		
					Weighted capital cost rate (%) (USD)	Electricity Sales Price (cent/kWh)(*)	Electricity Sales Volume (kWh/year)
Zorlu Doğal	Kızıldere I Geothermal Energy Power Plant	31.03.2020	Aden Gayrimenkul	DCF	9.25	4.4-6.5 cent	38,828,700
Zorlu Doğal	Kızıldere II Geothermal Energy Power Plant	31.03.2020	Aden Gayrimenkul	DCF	9.25	5.5-10.5 cent	472,847,280
Zorlu Doğal	Kızıldere III Geothermal Energy Power Plant	31.03.2020	Aden Gayrimenkul	DCF	9.25	6-11.2 cent	1,167,449,580
Zorlu Doğal	Tokat/Ataköy Hydroelectric Energy Power Plant	31.03.2020	Aden Gayrimenkul	DCF	9.25	4.4-6.5 cent	10,020,393
Zorlu Doğal	Eskişehir/Beyköy Hydroelectric Energy Power plant	31.03.2020	Aden Gayrimenkul	DCF	9.25	4.4-6.5 cent	60,158,599
Zorlu Doğal	Kars/Çıldır Hydroelectric Energy Power Plant	31.03.2020	Aden Gayrimenkul	DCF	9.25	4.4-6.5 cent	17,229,588
Zorlu Doğal	Rize/İkizdere Hydroelectric Energy Power Plant	31.03.2020	Aden Gayrimenkul	DCF	9.25	4.4-6.5 cent	120,510,479
Zorlu Doğal	Erzurum/Kuzgun Hydroelectric Energy Power Plant	31.03.2020	Aden Gayrimenkul	DCF	9.25	4.4-6.5 cent	23,443,906
Zorlu Doğal	Tunceli/Mercan Hydroelectric Energy Power Plant	31.03.2020	Aden Gayrimenkul	DCF	9.25	4.4-6.5 cent	83,611,134
Zorlu Doğal	Erzincan/Tercan Hydroelectric Energy Power Plant	31.03.2020	Aden Gayrimenkul	DCF	9.25	4.4-6.5 cent	43,358,715
Rotor	Gökçedağ Wind Energy Power Plant	31.03.2020	Aden Gayrimenkul	DCF	9.25	4.9-6.7 cent	372,755,520
Zorlu Jeotermal	Alaşehir I Geothermal Energy Power Plant	31.03.2020	Aden Gayrimenkul	DCF	9.25	5.5-11 cent	271,800,900
Zorlu Enerji Pakistan	Jhimpir Wind Energy Power Plant	31.03.2020	A A Baig & Co. Chartered Accountants	DCF	9.54	7-15 cent	159,010,000

(*) Represents the minimum and maximum sales volume which was used in DCF calculation.

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.7 Seasonality of Operations

Business volume shows seasonal changes according to the structure of the industry in which the Group operates. In the gas distribution segment, business volume is higher in the first and fourth quarters corresponding to winter months and for the wind and hydroelectric power plants, which are under production and trading segment, business volumes are higher in second and third quarters and in the fourth quarter of the year, respectively. Seasonality does not have a significant impact on the volume of business in the remaining segments of the Group.

2.8 Financial risk management

Foreign exchange risk

The sources used by the Group in financing its investments are predominantly foreign currency denominated. The Group is exposed to foreign exchange risk arising from the translation of the amounts denominated in USD and EUR. In order to eliminate these risks, protection policies are applied in order to use various derivative instruments. In addition, foreign exchange losses arising from borrowings of the Companies which sell electricity in scope of YEKDEM have been hedged by the foreign exchange gains arising from the sales indexed to USD mainly (Note 13).

Foreign currency denominated assets and liabilities held by the Group as at 31 March 2020 and 31 December 2019 are as follows:

	31 March 2020	31 December 2019
Assets	2,553,758	2,467,776
Liabilities	(10,177,006)	(9,818,924)
Foreign currency position, (net)	(7,623,248)	(7,351,148)

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.8 Financial risk management (Continued)

TL equivalent of assets and liabilities denominated in foreign currency held by the Group at 31 March 2020 and 31 December 2019 are as follows:

	31 March 2020					31 December 2019				
	TL equivalent	USD	Euro	NIS	JPY	TL equivalent	USD	Euro	NIS	JPY
Cash and cash equivalents	134,870	16,191	4,066	20	1	115,212	14,822	4,079	20	1
Trade receivables	6,032	836	81	-	-	13,635	1,794	447	-	-
Due from related parties - short-term	1,132,611	151,209	20,420	-	-	1,157,805	172,518	20,000	-	-
Due from related parties - long-term	1,271,784	155,022	9,189	107,377	-	1,164,669	154,585	9,340	107,377	-
Other	8,461	209	984	-	-	16,455	1,137	1,459	-	-
Total assets	2,553,758	323,467	34,740	107,397	1	2,467,776	344,856	35,325	107,397	1
Trade payables	358,069	39,756	13,724	-	-	366,464	45,887	14,117	-	-
Short-term financial liabilities	2,317,255	299,857	50,365	-	-	2,474,134	371,223	40,447	-	-
Due to related parties - short-term	3,460	531	-	-	-	2,887	486	-	-	-
Due to related parties - long-term	4,753	147	526	-	-	-	-	-	-	-
Long-term financial liabilities	7,493,469	1,110,150	35,999	-	-	6,975,439	1,114,972	52,970	-	-
Total liabilities	10,177,006	1,450,441	100,614	-	-	9,818,924	1,532,568	107,534	-	-
Net foreign currency position	(7,623,248)	(1,126,974)	(65,874)	107,397	1	(7,351,148)	(1,187,712)	(72,209)	107,397	1

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.8 Financial risk management (Continued)

The Group is mainly exposed to foreign exchange risk through the impact of rate changes in the translation of USD, EUR and NIS currencies denominated assets and liabilities to local currency. As at 31 March 2020 and 31 March 2019, had the TL appreciated or depreciated by 10% against USD, EUR and NIS with all other variables held constant, the effect over current period consolidated net income/ (loss) and equity would be as follows:

	31 March 2020 Profit/(Loss)		31 March 2020 Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
In case of 10% appreciation / depreciation USD against TL:				
USD net asset/(liability)	(734,336)	734,336	(734,336)	734,336
Amount hedged for USD risk (-)	834,662	(834,662)	-	-
USD net effect	100,326	(100,326)	(734,336)	734,336
In case of 10% appreciation / depreciation of EUR against TL:				
EUR net asset/(liability)	(47,528)	47,528	(47,528)	47,528
Amount hedged for EUR risk (-)	-	-	-	-
EUR net effect	(47,528)	47,528	(47,528)	47,528
In case of 10% appreciation / depreciation of NIS against TL:				
NIS net asset/(liability)	19,540	(19,540)	19,540	(19,540)
Amount hedged for NIS risk (-)	-	-	-	-
NIS net effect	19,540	(19,540)	19,540	(19,540)
Total net effect	72,338	(72,338)	(762,324)	762,324

The Group uses investment loans amounting to USD 1,280,942 thousand (31 December 2019: USD 1,318,064 thousand and EUR 16,714 thousand) as a hedging instrument against the USD spot exchange rate risk the Group is exposed to due to highly probable YEKDEM sales income, and applies cash flow hedge accounting as a result of the effectiveness tests performed.

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.8 Financial risk management (Continued)

	31 December 2019 Gain/Profit/(Loss)		31 December 2019 Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
In case of 10% appreciation /depreciation of USD against TL:				
USD net asset/(liability)	(705,525)	705,525	(705,525)	705,525
Amount hedged for USD risk (-)	782,956	(782,956)	-	-
USD net effect	77,431	(77,431)	(705,525)	705,525
In case of 10% appreciation /depreciation of EUR against TL:				
EUR net asset/(liability)	(48,023)	48,023	(48,023)	48,023
Amount hedged for EUR risk (-)	-	-	-	-
EUR net effect	(48,023)	48,023	(48,023)	48,023
In case of 10% appreciation /depreciation of NIS against TL:				
NIS net asset/(liability)	18,433	(18,433)	18,433	(18,433)
Amount hedged for NIS risk (-)	-	-	-	-
NIS net effect	18,433	(18,433)	18,433	(18,433)
Total net effect	47,841	(47,841)	(735,115)	735,115

As of 31 December 2019, the sensitivity analysis of the foreign currency hedged loans amounting to EUR16,714 thousand belonging to Zorlu Rüzgar is not included in the table above, since all assets and liabilities of Zorlu Rüzgar are classified as non-current assets / liabilities classified as held for sale.

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 fair values of financial instruments that are not traded in an active market have been determined by the Group using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate fair value. Accordingly, the estimates presented herein may differ from the amounts the Group could realise in a current market exchange.

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

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.8 Financial risk management (Continued)

Monetary assets

Foreign currency denominated balances are translated into Turkish Lira with the rates at the balance sheet date. The fair values of balances denominated in foreign currencies, which are translated at period-end exchange rates, are considered to approximate their carrying values.

The fair values of certain financial assets carried at cost, including cash and cash equivalents are considered to approximate to their respective carrying values due to their short-term nature.

The carrying values of trade receivables along with the related allowances for uncollectibility are estimated to approximate to their fair values.

Monetary liabilities

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

Since long term foreign currency loans generally have floating interest rate fair value is close to their book value. Fair value of long term bank loans are discounted amounts of contractual cash flows with the market interest rate.

Fair value estimation:

Disclosure of fair value measurements by level of the following fair value measurement hierarchy is as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted market prices included within level 1 that are observable for the asset or
- Level 3: Inputs for the asset or liability that are not based on observable market data.

Fair values of translated foreign currency balances with year-end foreign exchange rates are considered to approximate their carrying values.

Cash and cash equivalents as at the carrying value of certain financial assets carried at cost, are considered to approximate their fair values due to their short-term.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to estimate the fair value an instrument are observable, the instrument is included in Level 2.

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.8 Financial risk management (Continued)

The fair values of assets and liabilities as of 31 March 2020 and 31 December 2019 are as follows:

Derivative financial instruments	31 March 2020	31 December 2019
Level 1	-	-
Level 2	(288,192)	(145,019)
Level 3	-	-
	(288,192)	(145,019)

The fair value of powerplants belonging to Zorlu Enerji is determined by using “market approach and cost method” (Level 2) and fair values of all other power plants are determined by using “income approach - discounted cash flow analysis” (Level 3).

Property, plant and equipment	31 March 2020	31 December 2019
Level 1	-	-
Level 2	169,192	191,203
Level 3	9,258,062	7,644,581
	9,427,254	7,835,784

NOTE 3 - SEGMENT REPORTING

Group management has determined the reportable parts of the Group as distribution of electricity and distribution of gas, retail and wholesale of electricity and producing and trading according to the activity groups.

Decision making authority of the Group considers Earnings before interest, taxes, depreciation and amortization (“EBITDA”) as the most appropriate method for comparability with other companies within the same industry. The segment information in industrial basis is presented below:

1 January - 31 March 2020	Electricity distribution	Gas distribution	Retail and wholesale	Production/trading and other	Consolidation adjustments	Consolidation total
Revenue	260,676	797,177	1,091,368	474,521	(312,324)	2,311,418
Cost of sales	(147,009)	(722,550)	(1,038,358)	(287,676)	311,659	(1,883,934)
Gross profit	113,667	74,627	53,010	186,845	(665)	427,484
Operating expenses	(17,934)	(11,595)	(22,461)	(24,860)	(3,817)	(80,667)
Amortisation and depreciation expenses (*)	4,036	2,202	918	107,314	4,439	118,909
Weighted average cost of capital (“WACC”) correction (**)	53,766	30,432	-	-	-	84,198
EBITDA	153,535	95,666	31,467	269,299	(43)	549,924
Financial income/(expenses), net	(53,265)	(107,128)	25,178	(280,450)	-	(415,665)
Tax income/(expense)	(22,911)	(5,856)	611	(2,171)	7,151	(23,176)

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NOTE 3 - SEGMENT REPORTING (Continued)

1 January - 31 March 2019	Electricity distribution	Gas distribution	Retail and wholesale	Production/trading and other	Consolidation adjustments	Consolidation total
Revenue	190,973	573,901	1,012,336	433,554	(339,921)	1,870,843
Cost of sales	(103,964)	(511,628)	(950,622)	(255,542)	339,584	(1,482,172)
Gross profit	87,009	62,273	61,714	178,012	(337)	388,671
Operating expenses	(15,516)	(5,259)	(14,553)	(13,984)	(3,809)	(53,121)
Amortisation and depreciation expenses (*)	2,201	2,568	634	104,431	4,885	114,719
Weighted average cost of capital (“WACC”) correction (**)	41,087	20,999	-	-	-	62,086
EBITDA	114,781	80,581	47,795	268,459	739	512,355
Financial income/(expenses), net	(49,575)	(57,284)	27,386	(263,567)	-	(343,040)
Tax income/(expense)	(11,254)	(19,293)	(17,370)	16,729	7,112	(24,076)
1 January - 31 March 2020	Electricity distribution	Gas distribution	Retail and wholesale	Production/trading and other	Consolidation adjustments	Consolidation total
Segment assets	2,249,776	1,573,614	1,230,002	20,124,981	(5,030,284)	20,148,089
Associates	-	-	-	540,181	-	540,181
Segment liabilities	1,653,698	2,670,359	1,046,292	14,670,301	(2,787,180)	17,253,470
1 January - 31 December 2019	Electricity distribution	Gas distribution	Retail and wholesale	Production/trading and other	Consolidation adjustments	Consolidation total
Segment assets	2,371,452	1,552,960	1,158,285	19,313,203	(5,107,736)	19,288,164
Associates	-	-	-	532,402	-	532,402
Segment liabilities	1,851,879	2,565,008	1,015,942	14,615,349	(2,826,739)	17,221,439

(*) An amortisation and depreciation amount of TL118,909 thousand (31 March 2019: TL114,719 thousand) has been presented in operating expenses, and amount of TL28,064 thousand (31 March 2019: TL27,935 thousand) has been presented in other operating expenses.

(**) WACC correction which is related to OEDAŞ, Gazdaş and Trakya, amounts to TL84,198 thousand which is presented in the other income is considered in EBITDA calculation (31 March 2019: TL62,086 thousand).

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NOTE 3 - SEGMENT REPORTING (Continued)

Reconciliation between EBITDA and income before tax from continued operations is as follows:

-	1 January - 31 March 2020	1 January - 31 March 2019
EBITDA (*)	549,924	512,355
Amortisation and depreciation expenses	(146,973)	(142,654)
Interest income related to distribution activities	(84,198)	(62,086)
Financial income/(expenses), net	(415,665)	(343,040)
Other operating income/(expenses), net	105,952	55,541
Share of profit of associates	28,927	22,222
Income before tax from continued operations	37,967	42,338

(*) The Group's Israel investments have been accounted using equity method and EBITDA related to these investments amounting TL67,130 thousand (31 March 2019: TL60,557 thousand) was not taken into consideration in Group's total EBITDA.

NOTE 4 - CASH AND CASH EQUIVALENTS

	31 March 2020	31 December 2019
Cash	142	70
Banks		
- Time deposits	404,047	655,500
- Demand deposits	172,867	177,145
	577,056	832,715

The maturities of time deposits are less than 3 months and the average effective annual interest rates for time deposits are as follows:

	31 March 2020 (%)	31 December 2019 (%)
USD	0.61	0.57
PKR	11.88	11.95
TL	9.23	9.25
EURO	0.53	0.04

The details of cash and cash equivalents include the following for the purpose of the interim consolidated statements of cash flows as at 31 March 2020 and 2019:

	31 March 2020	31 March 2019
Cash and cash equivalents	577,056	232,542
Less: Restricted cash	(84,637)	(46,824)
	492,419	185,718

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NOTE 5 - RECEIVABLES FROM SERVICE CONCESSION ARRANGEMENT

	31 March 2020	31 December 2019
Short-term receivables from service concession arrangement	263,917	258,074
Long-term receivables from service concession arrangement	2,037,945	2,050,771
	2,301,862	2,308,845

The receivables from service concession arrangement represent the amounts of the investments not yet recovered by the tariff.

As at 31 March 2020, TL1,638,060 thousand of the receivables from service concession arrangement is related to OEDAŞ (31 December 2019: TL1,658,544 thousand) and TL663,802 thousand is related to Gazdaş and Trakya (31 December 2019: TL650,301 thousand).

The maturity analysis of receivables from service concession arrangements has shown as below;

	31 March 2020	31 December 2019
Up to 1 years	263,917	258,074
Between 1 to 3 years	527,834	516,148
Between 3 to 5 years	527,834	516,148
More than 5 years	982,277	1,018,475
	2,301,862	2,308,845

The movements of the receivables from service concession arrangement for OEDAŞ are as follows:

	1 January - 31 March 2020	1 January - 31 March 2019
Opening balance	1,658,544	726,794
Collections (-)	(58,436)	(26,427)
Indexation differences	37,952	16,478
Closing balance	1,638,060	716,845

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NOTE 5 - RECEIVABLES FROM SERVICE CONCESSION ARRANGEMENT (Continued)

The movements of the receivables from service concession arrangement for gas distribution companies are as follows:

	1 January - 31 March 2020	1 January - 31 March 2019
Opening balance	650,301	599,138
Gross investments	12,548	3,086
Subscriber connection fee	(6,298)	(4,542)
Other corrections (*)	-	1,456
Net investment	6,250	-
Collections (-)	(7,630)	(11,203)
Indexation differences	14,881	13,584
Closing balance	663,802	601,519

(*) In the event that the gross investment amount remains below the subscriber connection fee collected during the period, the negative net investment amount is not taken into account the period end value of financial assets related to concession agreements.

NOTE 6 - FINANCIAL LIABILITIES

The detail of financial liabilities of the Group as at 31 March 2020 and 31 December 2019 is as follows:

	31 March 2020	31 December 2019
Short-term bank borrowings	1,266,777	1,149,529
Issued bonds	496,585	439,396
Lease liabilities	28,634	29,739
Total short-term financial liabilities	1,791,996	1,618,664
Short-term portion of long-term bank borrowings	2,487,459	2,776,792
Issued bonds	30,510	31,969
Other issued securities	205,617	310,678
Total short-term portion of long term financial liabilities	2,723,586	3,119,439
Long-term bank borrowings	8,544,651	7,925,219
Lease liabilities	45,796	50,035
Other issued marketable securities	14,039	39,522
Total long-term financial liabilities	8,604,486	8,014,776
Total financial liabilities	13,120,068	12,752,879

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NOTE 6 - FINANCIAL LIABILITIES (Continued)

The detail of short-term bank borrowings and lease liabilities of the Group as at 31 March 2020 and 31 December 2019 is as follows:

	<u>Original currency</u>		<u>Weighted average effective interest rate per annum (%)</u>		<u>TL equivalent</u>	
	<u>31 March 2020</u>	<u>31 December 2019</u>	<u>31 March 2020</u>	<u>31 December 2019</u>	<u>31 March 2020</u>	<u>31 December 2019</u>
USD	47,493	35,163	7.86	8.32	309,465	208,874
EUR	3,000	690	8.25	8.36	21,646	4,592
TL	1,460,796	1,405,110	17.03	21.38	1,460,796	1,405,110
Other	2,270	2,296	16.13	16.13	89	88
					1,791,996	1,618,664

The detail of short-term portion of long-term bank borrowings, issued bonds, other issued securities and lease liabilities of the Group as at 31 March 2020 and 31 December 2019 is as follows:

	<u>Original currency</u>		<u>Weighted average effective interest rate per annum (%)</u>		<u>TL equivalent</u>	
	<u>31 March 2020</u>	<u>31 December 2019</u>	<u>31 March 2020</u>	<u>31 December 2019</u>	<u>31 March 2020</u>	<u>31 December 2019</u>
USD	252,364	336,060	7.71	8.39	1,644,404	1,996,261
EUR	47,365	39,757	5.09	5.16	341,740	264,407
TL	730,129	850,616	19.09	22.10	730,129	850,616
Other	186,987	211,006	16.13	16.13	7,313	8,155
					2,723,586	3,119,439

The detail of long-term bank borrowings, issued bonds and other long-term borrowings of the Group as at 31 March 2020 and 31 December 2019 is as follows:

	<u>Original currency</u>		<u>Weighted average effective interest rate per annum (%)</u>		<u>TL equivalent</u>	
	<u>31 March 2020</u>	<u>31 December 2019</u>	<u>31 March 2020</u>	<u>31 December 2019</u>	<u>31 March 2020</u>	<u>31 December 2019</u>
USD	1,110,150	1,114,972	7.71	8.39	7,233,735	6,623,157
EUR	35,999	52,970	5.09	5.16	259,734	352,282
TL	1,085,934	1,012,054	19.09	22.10	1,085,934	1,012,054
Other	413,746	495,458	16.13	16.13	25,083	27,283
					8,604,486	8,014,776

The commission paid during the period amounting TL18,156 thousand (31 March 2019: TL27,340 thousand) related to the borrowings obtained by Zorlu Enerji and its subsidiaries from financial institutions are deducted from the total loan amount. Such commission amount is amortized during the term of loans.

Letters of guarantees given, pledges and mortgages related to financial liabilities are explained in Note 12.

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NOTE 6 - FINANCIAL LIABILITIES (Continued)

The redemption schedule of the borrowings as at 31 March 2020 and 31 December 2019 is as follows:

	31 March 2020	31 December 2019
Up to 1 year	4,515,582	4,738,103
Up to 1 to 2 years	1,619,891	1,532,293
Up to 2 to 3 years	2,794,721	1,355,826
Up to 3 to 4 years	896,306	1,949,324
Up to 4 to 5 years	558,201	724,049
More than 5 years	2,735,367	2,453,284
	13,120,068	12,752,879

The movements of financial liabilities for the period 1 January - 31 March 2020 and 2019 are as follow:

	2020	2019
As at 1 January	12,752,879	11,251,123
Cash inflows from borrowings	42,932	28,329
Cash inflows from issued debt instruments	189,518	123,913
Cash inflows from other financial liabilities	(1,264)	-
Cash outflows due to the repayment of bank borrowings	(494,323)	(349,765)
Cash outflows from debt repayments of issued debt instruments	(149,310)	(110,520)
Cash outflows related to debt payments due to lease agreements	(7,758)	(5,121)
The impact of transition to IFRS 16	-	33,676
Change in exchange differences and interest accruals	787,649	546,209
Other classifications	(255)	(12,464)
As at 31 March	13,120,068	11,505,380

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NOTE 7 - OTHER PAYABLES

a) **Short-term other payables:**

	31 March 2020	31 December 2019
Deposit received	825,273	799,378
Other payables to related parties (Note 19)	31,598	30,079
Other	19,950	23,543
	876,821	853,000

Movement for deposit received is as follows:

	2020	2019
1 January	799,378	688,969
Additions and payments, net (*)	15,281	12,310
Indexation on deposits (Note 17)	10,614	(7,932)
31 March	825,273	693,347

(*) The balance amounts to TL15,281 thousand consists of the indexation effect of paid deposits amounting TL10,380 thousand (31 March 2019: TL3,536 thousand).

b) **Long-term other payables:**

	31 March 2020	31 December 2019
Other long-term payables	18,554	17,102
	18,554	17,102

NOTE 8 - OTHER ASSETS AND LIABILITIES

a) **Other current assets:**

	31 March 2020	31 December 2019
VAT receivable	56,530	51,827
Income accruals regarding natural gas sale	50,493	83,091
Income accruals regarding unbilled electricity	38,792	29,782
Prepaid expenses	24,886	9,486
Income accruals from non-controlling expenses	18,936	-
Revenue difference correction component (*)	16,099	16,835
Quality indicator income accruals	7,886	9,013
Insurance income accruals	5,738	8,353
Advances given	5,026	17,154
Prepaid taxes and funds	4,007	9,123
Other	20,264	22,445
	248,657	257,109

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NOTE 8 - OTHER ASSETS AND LIABILITIES (Continued)

b) Other non-current assets:

	31 March 2020	31 December 2019
Income accruals from non-controlling expenses (*)	23,415	45,640
Revenue difference correction component (*)	14,943	15,496
VAT receivable	-	55,390
Other	248	1,336
	38,606	117,862

(*) EMRA regulates the distribution companies' revenues and expenses by setting ceiling amounts for distribution revenue and non-controlling expenses. Excess or shortage portions of revenues and expenses ceilings are charged to subsequent two years' tariffs which is set by EMRA. These portions of revenues and expenses are considered as an adjustment to the tariffs set by EMRA in the following second year from the origination.

c) Other current liabilities

	31 March 2020	31 December 2019
Taxes and funds payable (including VAT)	97,316	95,536
Revenue difference correction component (*)	42,841	57,320
Due to personnel	13,337	10,665
Deferred revenue from retail sales gross profit margin	5,138	6,135
Advances received	1,657	1,767
Other	27,531	16,986
	187,820	188,409

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NOTE 9 – ASSETS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS HELD FOR SALE

The sales of Zorlu Rüzgar which is evaluated within the scope of IFRS 5 “Assets Classified as Held For Sale and Discontinuing Operations” has been publicly announced in 30 October 2018 by indicating the commencement of the sales negotiations. Following the fulfillment of the requirements of IFRS 5 as of 31 December 2018, assets and liabilities related to this subsidiary are classified as "Assets held for sale" and "Liabilities directly associated with the assets held for sale". According to the special circumstances disclosure dated 5 February 2020 sales of Group’s all Zorlu Rüzgar shares to İmbat Energy which is %100 subsidiary of Akfen Yenilenebilir Enerji Üretim AŞ has been completed.

a) Assets held for sale

As at 31 December 2019, the Group’s asset held for sale regarding to the sales of Zorlu Rüzgar are as follows:

	31 December 2019
Cash and cash equivalents	37,399
Trade receivables	6,662
Inventories	220
Other current assets	2,755
Other receivables (*)	1,538
Property, plant and equipment and intangible assets	559,134
	607,708

At the reporting date, in addition to assets belonging to Zorlu Rüzgar, gas turbines of Lüleburgaz and Bursa power plants were also reclassified as asset held for sale.

(*) Other receivables of Zorlu Rüzgar from Zorlu Enerji amounting to TL 6,252 thousand and other payables of Zorlu Enerji to Zorlu Rüzgar amounting to same balance arising from intra-group transactions, are eliminated in the preparation of the consolidated financial statements. Before elimination of intra-group balances asset held for sale of Zorlu Ruzgar was amounting to TL 613,960 thousand (Note 9, c).

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NOTE 9 - ASSETS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS HELD FOR SALE (Continued)

Assets such as gas turbines of of Lüleburgaz and Bursa power plants that are reclassified as asset held for sale are as follows:

Tangible assets	Cost	Accumulated depreciation	Net Book Value
Property, plant and equipment	93,740	(66,479)	27,261
	93,740	(66,479)	27,261

According to the signed Turbine sale agreement with Proenergy Services LLC (“Proenergy”), the sales of machineries and equipment amounting to TL27,261 thousand and located in Lüleburgaz and Bursa Power plants has been concluded in February 2020. Since the transaction value of gas turbines at Lüleburgaz power plant is lower than carrying value, remaining balance of revaluation surplus fund recognised in equity amounting to TL 7,749 -after deduction of related deferred tax effect- has been written off. As a result of this transaction, remaining balance of the assets after deducting revaluation surplus amounting to TL 17,574 thousand is reclassified as asset held for sale in compliance with IFRS 5 “Assets Classified as Held For Sale and Discontinuing Operations”. As of 31 March 2020 aforementioned sales of machineries and equipment to Proenergy is completed.

b) Liabilities directly associated with the assets held for sale

Liabilities directly associated with asset held for sale of Zorlu Ruzgar are as follows:

	31 December 2019
Financial liabilities	363,182
Derivative financial instruments	11,925
Trade payables	2,553
Provisions for employment benefits	1
Other non-current liabilities	423
Deferred tax liabilities	26,879
	404,963

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NOTE 9 - ASSETS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS HELD FOR SALE (Continued)

c) Information related to sales of Zorlu Rüzgar:

According to the special circumstances disclosure dated 5 February 2020 The Group has sold all of its Zorlu Rüzgar shares in the amount of net-off debt Enterprise Value of USD 43,242 thousand to İmbat Enerji AŞ which is 100% subsidiary of Akfen Yenilenebilir Enerji AŞ.

	31 Mart 2020
Sales amount	258,214
Contingent considerations	(9,057)
Net sales amount	249,157

Although the sales transaction of Zorlu Rüzgar to İmbat Enerji AŞ which is %100 subsidiary of Akfen Yenilenebilir Enerji Üretim AŞ has been concluded on 5 February 2020, by considering its immaterial significant impact, the financial statements as of 31 December 2019 has been used to account the sales transaction. Fair values of identifiable assets and liabilities arose from the sales transactions as at 31 December 2019 are as follows:

	31 December 2019
Cash and cash equivalents	37,399
Trade receivables	6,662
Inventories	220
Prepaid expenses	931
Other current assets	1,824
Other receivables	7,790
Tangible and intangible assets	559,134
Asset held for sale	613,960
Financial liabilities	(363,182)
Derivative financial instruments	(11,925)
Trade payables	(2,553)
Provisions for employment termination benefits	(1)
Other current liabilities	(423)
Deferred tax liabilities	(26,879)
Liabilities subject to sale of subsidiary	(404,963)
Net assets disposed of held for sale	(208,997)
Consideration received, net	249,157
Gain on sales of the subsidiary	40,160

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NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2020	Additions	Disposal	Currency translation difference	Revaluation fund increase	31 March 2020
Cost:						
Land	137,971	-	-	-	16,308	154,279
Land improvements	261,150	-	-	-	32,268	293,418
Buildings	48,079	-	-	-	3,235	51,314
Plant and machinery	9,189,495	511	(55,821)	15,059	1,653,722	10,802,966
Motor vehicles	17,485	2	-	-	-	17,487
Furniture and fixtures	43,942	1,863	-	8	-	45,813
Construction work in progress (*)	658,494	71,355	(584)	1,727	-	730,992
Leasehold improvements	15,403	2	-	-	-	15,405
	10,372,019	73,733	(56,405)	16,794	1,705,533	12,111,674
Accumulated depreciation:						
Land improvements	52,145	3,072	-	-	-	55,217
Buildings	11,342	347	-	-	-	11,689
Plant and machinery	1,801,529	101,750	(39,714)	4,618	-	1,868,183
Motor vehicles	8,993	763	-	-	-	9,756
Furniture and fixtures	33,777	1,222	-	7	-	35,006
Leasehold improvements	3,617	89	-	-	-	3,706
	1,911,403	107,243	(39,714)	4,625	-	1,983,557
Net book value	8,460,616					10,128,117

(*) TL28,197 thousand of the total investment amount of the Group is related to Kızıldere IV and improvement of Kızıldere III project, TL18,138 thousand to OEDAŞ, TL3,781 thousand to Alaşehir II project, TL21,239 thousand to ZJ Strong project and the remaining amount is related to the other projects of the Group. The total amount of investments in the period includes capitalized borrowing cost on property, plant and equipment amounting to TL 22,673 thousand (Note 18).

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NOTE 10 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2019	Addition	Disposal	Currency translation difference	Transfer	31 March 2019
Cost:						
Land	134,777	440	-	-	-	135,217
Land improvements	247,319	-	-	-	-	247,319
Buildings	48,077	2	-	-	-	48,079
Plant and machinery	9,187,035	2,260	-	37,803	(5,687)	9,221,411
Motor vehicles	4,706	-	-	-	12,569	17,275
Furniture and fixtures	42,686	230	(106)	-	-	42,810
Construction work in progress (*)	727,930	57,425	-	5,493	-	790,848
Leasehold improvements	11,556	300	-	-	-	11,856
	10,404,086	60,657	(106)	43,296	6,882	10,514,815
Accumulated depreciation:						
Land improvements	42,590	2,456	-	-	-	45,046
Building	9,998	399	-	-	-	10,397
Plant and machinery	1,467,802	99,981	-	9,783	(208)	1,577,358
Motor vehicles	2,654	552	-	-	3,026	6,232
Furniture and fixtures	22,423	843	(35)	-	-	23,231
Leasehold improvements	2,796	911	-	-	-	3,707
	1,548,263	105,142	(35)	9,783	2,818	1,665,971
Net book value	8,855,823					8,848,844

(*) TL32,720 thousand of the total investment amount of the Group is related to OEDAŞ, TL10,065 thousand to Kızıldere III project, TL7,484 thousand to Alaşehir II project, TL879 thousand to Tekkehamam project and TL6,277 thousand is related to the other projects of the Group. The total amount of investments in the period includes capitalized borrowing cost on property, plant and equipment amounting to TL 9,729 thousand (Note 18).

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NOTE 10 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Group has chosen revaluation method among application methods mentioned under IAS 16 with respect to measurement and disclosure of the Group’s power plants at fair value commencing from 31 December 2013. On 31 March 2020, A A Baig & Co. Chartered Accountants was given the authority to determine the market value of the power plant belonging to Zorlu Enerji Pakistan, and on 30 September 2018 and 31 December 2018, Avrupa Gayrimenkul Değerleme ve Danışmanlık AŞ was given the authority to determine the same for power plants installed in Turkey. The cost method was used for the valuation of plants that belong to Zorlu Enerji, and the income method (income capitalisation-DCF) was used for the valuation of other plants. USD denominated amounts identified in the valuation studies of geothermal, hydroelectric and wind power plants, which was carried out as at 31 March 2020, were reflected in the financial statements considering the period end USD exchange rate as at 31 March 2020. The revaluation of the power plants was carried out by Aden Gayrimenkul Değerleme ve Danışmanlık AŞ (“Aden Gayrimenkul”), accredited by the CMB.

As at 31 March 2020 and 2019, the movements for revaluation fund are as follows:

1 January 2019	3,415,981
Depreciation transfer	(47,749)
31 March 2019	3,368,232
1 January 2020	3,211,890
Revaluation surplus of subsidiary sold (*)	(201,378)
Depreciation transfer	(46,748)
Revaluation surplus	1,363,478
31 March 2020	4,327,242

(*) Although the sales transaction of Zorlu Rüzgar has been concluded on 5 February 2020, by considering its insignificant impact, the financial statements as of 31 December 2019 has been used to account the sales transaction. As of 31 December 2019 appraisal surplus of power plant of Zorlu Rüzgar was amounting to TL 201,378 thousand. Aforementioned amount included in the revaluation surplus within equity resulting from the loss of control occurring the sales of subsidiary has been transferred to retained earnings.

In case the Group had not adopted revaluation model in accordance with IAS 16, the estimated net book value of tangible assets as at 31 March 2020 and 31 December 2019 would have been as follows:

	31 March 2020	31 December 2019
Land	82,255	82,255
Land improvements	114,177	116,380
Buildings	22,087	22,314
Plant and machinery	3,198,526	3,260,242

Collateral, pledges and mortgages on property, plant and equipment are presented in Note 12.

Breakdown of depreciation and amortisation expenses under cost of sales, operating expense and other operating expense have been presented in Note 16 and Note 17.

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NOTE 11 - RIGHT OF USE ASSETS

As of 31 March 2020, and 31 December 2020, the details of right of use assets accounted in the condensed consolidated interim financial information are as follows:

	31 March 2020	31 December 2019
Land	26,857	27,062
Buildings	6,812	7,188
Vehicles	11,706	14,284
Total right of use assets	45,375	48,534

The movements for the right of use assets are as follows:

	31 December 2019	Additions	31 March 2020
Cost			
Land	27,882	-	27,882
Buildings	8,077	50	8,127
Vehicles	29,064	1,461	30,525
	65,023	1,511	66,534
Accumulated depreciation			
Land	820	205	1,025
Buildings	889	426	1,315
Vehicles	14,780	4,039	18,819
	16,489	4,670	21,159
Net book value	48,534		45,375

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NOTE 12 - CONTINGENT ASSETS AND LIABILITIES

12.1 Contingent assets

	Currency	31 March 2020		31 December 2019	
		Original amount	TL equivalent	Original amount	TL equivalent
Letters of guarantees received	TL	401,582	401,582	388,536	388,536
Letters of guarantees received	USD	6,013	39,181	5,477	32,534
Letters of guarantees received	EUR	2,628	18,961	2,810	18,688
Cheques received	TL	12,200	12,200	11,720	11,720
Cheques received	USD	640	4,170	615	3,653
Cheques received	EUR	169	1,219	169	1,124
			477,313		456,255

Guarantee letters received consist of the letters, cheques and notes received from customers in relation to the Group’s operations.

The Group’s guarantees, pledges and mortgages (“GPM”) as at 31 March 2020 and 31 December 2019 are summarized as follows:

	Original currency	31 March 2020		31 December 2019	
		Original amount	TL equivalent	Original amount	TL equivalent
GPM’s given by the Group					
Total amount of GPM’s given for companies’ own legal entity	USD	261,555	1,704,292	135,804	806,703
	EUR	130,100	938,671	160,704	1,068,778
	TL	2,804,680	2,804,680	2,812,250	2,812,250
	PKR	1,875,000	73,331	1,875,000	71,494
Total amount of GPM given for the subsidiaries and associates in the full scope of consolidation	TL	30,522	30,522	26,535	26,535
	USD	550	3,584	550	3,267
	EUR	7,300	52,670	7,320	48,682
Total amount of GPM given for the purpose of maintaining operating activities	USD	19,949	129,986	19,950	118,507
	EUR	350	2,525	350	2,328
	NIS	7,298	13,278	7,298	12,526
Total amount of other GPMs given	-	-	-	-	-
			5,753,539		4,971,070

Letters of guarantees given generally consist of letters given to government agencies for the electricity and gas transmission and distribution (mainly to “EMRA” and government agencies providing electricity and gas transmission and distribution) and natural gas suppliers for the procurement of natural gas and banks for borrowings obtained.

The ratio of other guarantees, pledges and mortgages given by the Group to the total equity is 0% as at 31 March 2020 (31 December 2019: 0%).

As mentioned in Note 2.1 the condensed consolidated interim financial information for the period then ended 31 March 2020 should be read in conjunction with the annual consolidated financial statements for the year then ended 31 December 2019. For this purpose the details of commitments are not presented in the notes for the period then ended 31 March 2020.

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NOTE 13 - DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments

31 March 2020							
	Contract amount (USD)	Contract amount (EUR)	Total contract amount (TL)	Fair value asset	Fair value liability	Carried at fair value through profit or loss	Carried at fair value under hedge reserves (*)
Cross currency swap agreements held for hedging (*)	-	15,381	110,974	-	(10,263)	(1,271)	(5,783)
Cross currency swap agreements	69,420	-	452,341	1,924	-	4,466	-
Interest rate swap agreements held for hedging	575,235	-	3,748,231	-	(279,853)	(5,895)	(184,409)
	644,655	15,381	4,311,546	1,924	(290,116)	(2,700)	(190,192)
31 December 2019							
	Contract amount (USD)	Contract amount (EUR)	Total contract amount (TL)	Fair value asset	Fair value liability	Carried at fair value through profit or loss	Carried at fair value under hedge reserves (*)
Cross currency swap agreements held for hedging	-	32,381	215,353	-	(5,894)	84	(10,916)
Cross currency swap agreements	69,420	-	412,369	-	(2,541)	(350)	-
Interest rate swap agreements	-	-	-	-	-	(5,148)	-
Interest rate swap agreements held for hedging	575,235	-	3,417,011	-	(136,584)	(29,023)	(74,510)
	644,655	32,381	4,044,733	-	(145,019)	(34,437)	(85,426)

(*) The amount was presented as netted off deferred tax in “Hedge Reseves” account under equity.

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NOTE 13 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Derivative financial instruments are initially recognized in the consolidated balance sheet at cost and subsequently are re-measured at their fair value. The derivative instruments of the Group consist of interest rate swap and cross currency swaps.

On the date a derivative contract is entered into, the Group designates certain derivatives as either a hedge of the fair value of a recognized asset or liability (“fair value hedge”) or a hedge of a forecasted transaction or a firm commitment (“cash flow hedge”). Interest rate swap transactions provide effective economic hedges under the Group risk management position and qualify for hedge accounting under the specific rules and are therefore treated as derivatives held for hedging. Changes in the fair value of derivatives, designated as cash flow hedges and qualified as effective, are recognized in “Other comprehensive income/(expenses) to be reclassified to profit or loss” under “hedge reserves” whereas ineffective portion is recognized in the consolidated statement of profit or loss. Amounts recognized under equity are transferred to the consolidated statement of profit or loss in the period in which the hedged firm commitment or forecasted transaction affects the consolidated statement of profit or loss.

As at 31 March 2020, the Group has a forward purchase commitment amounts to USD69,420 against a sale commitment of TL452,341 thousand.

Non-derivative financial instruments

	<u>31 March 2020</u>			<u>31 December 2019</u>		
	Original amount		Carried at fair value through other comprehensive income (TL) (*)	Original amount		Carried at fair value through other comprehensive income (TL) (*)
	USD	EUR		USD	EUR	
Hedged amount for foreign currency risk	1,280,942	-	(3,018,721)	1,318,064	16,714	(2,550,169)
	1,280,942	-	(3,018,721)	1,318,064	16,714	(2,550,169)

(*) The Group uses investment loans amounting to USD1,280,942 thousand and as a hedging instrument against the USD exchange rate risk which the Group is exposed to due to highly probable YEKDEM sales income, and applies cash flow hedge accounting as a result of the effectiveness tests performed.

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NOTE 14 - EQUITY

Share capital

	31 March 2020	31 December 2019
Limit on registered share capital	3,000,000	3,000,000
Issued capital	2,000,000	2,000,000

The Group's shareholders and shareholding structure as at 31 March 2020 and 31 December 2019 are as follows:

	Share (%)	31 March 2020	Share (%)	31 December 2019
Zorlu Holding	48.7	974,478	48.7	974,478
Korteks	17.5	350,949	17.5	350,949
Publicly held (*)	32.0	639,623	32.0	639,623
Other	1.8	34,950	1.8	34,950
	100.0	2,000,000	100.0	2,000,000
Adjustment to share capital		110,948		110,948
Total		2,110,948		2,110,948

(*) TL329,207 thousand and the portion equivalent to 16.46% of the total capital represent the shares that belong to Zorlu Holding.

NOTE 15 - TAXES

Turkish tax legislation does not allow for the submission of tax returns over consolidated financial statements prepared by the parent company, which include its affiliates and associates. Accordingly tax considerations reflected in these consolidated financial statements have calculated separately for each of the companies in the scope of the consolidation.

In Turkey, corporation tax is payable at a rate of 22% for 2020, 2019 and 2018. Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their corporate income. Advance tax is declared by the 14th and paid by the 17th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. If, despite offsetting, there remains a paid advance tax amount, it may be refunded or offset against other liabilities to the government. Within the scope of the Law regarding Amendments to Certain Tax Laws and Other Laws No. 7061, which went into effect after promulgation in the Official Gazette dated 5 December 2017, the corporate income tax rate was raised from 20% to 22% for 2018, 2019 and 2020.

The taxation on income and expense for the Group for the period ended 31 March 2020 and 2019 is summarised as follows:

	31 March 2020	31 March 2019
Current period tax expense	(23,640)	(16,656)
Deferred tax income/ (expense)	464	(7,420)
Total tax expense	(23,176)	(24,076)

Deferred taxes

The Group recognizes deferred income tax based on all temporary differences arising between their financial statements as reported for IFRS and its statutory tax financial statements.

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NOTE 15 - TAXES (Continued)

Deferred taxes (Continued)

Within the scope of the Law regarding Amendments to Certain Tax Laws and Other Laws No. 7061, in the financial statements dated 31 March 2020, the deferred tax assets and liabilities were calculated using a tax rate of 22% for the portion of the temporary differences that will have a tax impact in 2019 and 2020, and using a tax rate of 20% for the portion of the temporary differences that will have a tax impact in 2021 and thereafter (31 December 2019: 22%).

	31 March 2020	31 December 2019
Deferred tax assets	399,181	375,127
Deferred tax liabilities	(867,075)	(662,013)
Deferred tax assets/(liabilities), net	(467,894)	(286,886)

	<u>Temporary differences</u>		<u>Deferred tax assets/(liabilities)</u>	
	31 March 2020	31 December 2019	31 March 2020	31 December 2019
Property, plant and equipment	3,651,329	2,197,689	(696,167)	(406,133)
Carry forward tax losses	(3,136,869)	(2,754,617)	635,024	568,043
Receivables from service concession arrangements	2,301,862	2,308,845	(494,325)	(495,996)
Credit commission and unearned credit finance expense	338,826	345,922	(68,921)	(70,438)
Indexation of deposits received	(305,652)	(295,038)	67,243	64,908
Derivative instruments	(288,192)	(145,019)	57,638	29,004
Investment incentive	(78,848)	(76,388)	15,770	15,278
Provision for employee termination benefits	(34,926)	(32,584)	7,684	7,169
Other	(37,091)	(5,809)	8,160	1,279
Deferred tax assets/(liabilities), net	(467,894)	(286,886)	(467,894)	(286,886)

As of 31 March 2020, the Group recognized deferred tax assets for the carry forward tax losses amounting to TL3,136,869 thousand (31 December 2019: TL2,754,617 thousand) for which the Group believes it will utilize in the future, For the remaining carry forward tax losses amounting to TL469,726 thousand (31 December 2019: TL471,693 thousand), the Group has not recognized deferred tax assets.

The Group's expiration dates of recognized carry forward tax losses are as follows:

Due date	Losses
2020	213,465
2021	311,670
2022	360,348
2023	1,135,698
2024	764,148
2025	351,540
	3,136,869

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NOTE 15 - TAXES (Continued)

The Group's expiration dates of unrecognized carry forward tax losses are as follows:

Due date	Losses
2020	9,601
2021	61,975
2022	185
2023	378
2024	371,931
2025	25,656
	469,726

NOTE 16 - EXPENSES BY NATURE

	1 January - 31 March 2020	1 January - 31 March 2019
Direct materials and merchandise expenses	1,602,950	1,244,429
Depreciation and amortisation (*)	118,909	114,719
Employee and personnel expenses (**)	63,648	47,724
System usage expenses	63,421	45,920
Other	115,673	82,501
	1,964,601	1,535,293

(*) The total amount of depreciation and amortization expense is TL146,973 thousand (31 March 2019: TL 142,654 thousand). TL118,909 thousand (31 March 2019: TL114,719 thousand) of the amount is presented expense by nature and TL28,064 thousand (31 March 2019: TL27,935 thousand) of the amount is presented in other operating expense (Note 17).

(**) The total amount of employee and personnel expenses is TL63,648 thousand and TL4,035 thousand of the amount accounted under selling and marketing expenses (31 March 2019: TL3,817 thousand), TL24,056 thousand of amount accounted under general and administrative expense (31 March 2019: TL16,913 thousand) and TL35,557 thousand of the amount is accounted under cost of sales (31 March 2019: TL26,994 thousand).

NOTE 17 - OTHER OPERATING INCOME AND EXPENSE

a) Other operating income:

	1 January - 31 March 2020	1 January - 31 March 2019
Interest income from distribution activities (*)	84,198	62,086
Gain on sales of subsidiary	40,160	-
Gain on sale of property, plant and equipment	9,987	-
Interest income from trading activities	6,682	3,966
Foreign exchange difference from trading activities	5,130	643
Insurance income	57	3,443
Provisions released	-	3,798
Indexation on deposits	-	7,932
Other	11,788	11,152
	158,002	93,020

(*) This amount represents the profit earned on investment performed by electricity distribution segment.

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NOTE 17 - OTHER OPERATING INCOME AND EXPENSE (Continued)

b) Other operating expense:

	1 January - 31 March 2020	1 January - 31 March 2019
Depreciation of service concession arrangements	28,064	27,935
Indexation of deposits received (Note 7)	20,994	3,536
Interest expense from trading activities	5,765	15,692
Foreign exchange difference from trading activities	2,690	11,990
Other	22,601	6,261
	80,114	65,414

NOTE 18 - FINANCIAL INCOME AND EXPENSES

a) Financial income:

	1 January - 31 March 2020	1 January - 31 March 2019
Foreign exchange gains	286,117	219,192
Interest income	47,340	44,339
	333,457	263,531

b) Financial expense:

	1 January - 31 March 2020	1 January - 31 March 2019
Interest expense (*)	373,981	381,227
Foreign exchange loss (*)	350,681	191,755
Bank commission and other financial expenses	21,760	20,091
Loss on derivative instruments	2,700	13,498
	749,122	606,571

(*) As at 31 March 2020, capitalized borrowing cost on property, plant and equipments is TL22,673 thousand (31 March 2019: TL9,729 thousand).

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NOTE 19 - RELATED PARTY TRANSACTIONS

i) Related party balances:

a) Short-term trade receivables from related parties

	31 March 2020	31 December 2019
Meta Nikel Kobalt Madencilik Sanayi ve Ticaret AŞ (“Meta Nikel”)	5,168	2,178
Korteks	3,709	3,890
Zorluteks Tekstil Ticaret ve Sanayi AŞ (“Zorluteks”)	2,062	2,619
Other	6,155	4,190
	17,094	12,877

b) Short-term other receivables from the related parties

	31 March 2020	31 December 2019
Zorlu Holding (*)	952,374	986,473
Zorlu Endüstriyel ve Enerji Tesisleri İnşaat Ticaret AŞ (“Zorlu Endüstriyel”) (**)	153,217	136,802
Zorlu O&M Enerji Tesisleri İşletme ve Bakım Hizmetleri AŞ (“Zorlu O&M”) (***)	18,427	48,940
Other	86,908	76,773
	1,210,926	1,248,988

(*) The maturity of TL952,374 thousand portion of the Group’s total receivables from Zorlu Holding amounts to TL1,917,694 thousand is less than one year. TL123 million of short term receivables is back-to-back loans and the applied interest rate is 24.7%. The applied interest rate is between 7.75% and 9.75% for USD21 million and EUR20,4 million of back-to-back loans of remaining

(**) The Group's receivable from Zorlu Endüstriyel is in USD and is provided for financing purpose. The interest rate of the USD receivable is 7% which is determined in the market conditions and is applied for USD (31 December 2019: 7%).

(***) The Group's receivable from Zorlu O&M is in USD and is in the nature of back-to-back loans and the interest rate is 11.75%. The interest rate of the financing receivable in USD is 7% which is determined in the market conditions and is applied for USD (31 December 2019: 7%).

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NOTE 19 - RELATED PARTY TRANSACTIONS (Continued)

i) Related party balances (Continued):

c) Long-term other receivables from related parties

	31 March 2020	31 December 2019
Zorlu Holding (*)	965,320	860,478
Ezotech (**)	195,362	184,291
Edeltech (**)	89,678	100,371
Solad (**)	21,422	19,529
	1,271,782	1,164,669

(*) TL965,320 thousand portion Zorlu Enerji’s total receivables amounting to TL1,917,694 thousand from Zorlu Holding is more than one year. The amounts to USD18,2 million and EUR9,2 million is the back-to-back loans and the applied interest rates are 11.75% and 8%, respectively. The remaining long term receivables amounts to USD119,7 million is provided for financing purpose and the applied interest rate that determined in market condition is 7% for USD (31 December 2019: 7%).

(**) The receivables from Dorad, Ezotech, Solad and Edeltech consist of the amounts provided for the power plant projects in Israel.

d) Short-term trade payables to related parties

	31 March 2020	31 December 2019
Zorlu Doğalgaz Tedarik Ticaret AŞ (“Zorlu Doğal Gaz Tedarik”)	53,097	38,363
Zorlu O&M	7,878	10,371
Zorlu Endüstriyel	5,787	6,807
Zorlu Doğal Gaz İthalat İhracat ve Toptan AŞ (“Zorlu Doğal Gaz”)	3,998	3,620
Other	20,115	13,781
	90,875	72,942

e) Short-term other payables to related parties

	31 March 2020	31 December 2019
Zorlu Endüstriyel	5,956	5,449
Other	25,642	24,630
	31,598	30,079

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NOTE 19 - RELATED PARTY TRANSACTIONS (Continued)

ii) Transactions carried out with related parties for the period 1 January - 31 March 2020 and 2019 are as follows:

	Sales	Purchases	Operating expenses and other income/ (expenses), net	Interest income/ (expenses), net	Foreign exchange income/(expenses), net
1 January - 31 March 2020					
Korteks	32,788	-	80	(531)	-
Zorluteks	19,722	(3)	(32)	(239)	-
Zorlu Tesis Yönetimi AŞ (“Zorlu Tesis Yönetimi”)	10,284	-	(275)	-	-
Meta Nikel Kobalt Madencilik Sanayi ve Ticaret AŞ (“Meta Nikel”)	5,999	-	(10)	-	-
Zorlu Holding	121	-	(5,325)	27,403	172,157
Zorlu O&M	3	(16,428)	-	(1,543)	7,198
Zorlu Endüstriyel	-	(33)	(16)	2,526	11,639
Edeltech	-	-	5	761	9,958
Zorlu Doğal Gaz Tedarik	-	(87,616)	-	(9)	-
Other	1,579	(2,844)	(3,050)	782	13,464
	70,496	(106,924)	(8,623)	29,150	214,416

	Sales	Purchases	Operating expenses and other income/ (expenses), net	Interest income/ (expenses), net	Foreign exchange income/(expenses), net
1 January - 31 Mart 2019					
Korteks	25,219	-	-	(186)	1,275
Zorluteks	15,845	(5)	24	(29)	35
Zorlu Tesis Yönetimi	9,475	-	(189)	-	-
Meta Nikel	5,888	-	(8)	-	-
Zorlu Holding	44	-	(3,999)	39,545	111,946
Zorlu O&M	89	(17,203)	(275)	4,523	11,038
Zorlu Endüstriyel	24	(5)	(26)	1,939	7,229
Edeltech	-	-	10	831	6,468
Zorlu Doğal Gaz Tedarik	26	(82,869)	-	(306)	(2,019)
Other	1,356	(2,170)	(1,768)	(1,720)	14,457
	57,966	(102,252)	(6,231)	44,597	150,429

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

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

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 19 - RELATED PARTY TRANSACTIONS (Continued)

iii) Key management compensations for the periods between 1 January - 31 March 2020 and 2019 are as follows:

For the purpose of this consolidated financial statements, key management compensation consists of the payments made to Group shareholders and top management (General Manager and Vice General Managers and directors).

	1 January - 31 March 2020	1 January - 31 March 2019
Salaries	4,488	2,273

NOTE 20 - SUBSEQUENT EVENTS

According to the notification dated April 3, 2020, in order to establish a structure more effective and focused in renewable energy activities and evaluate public offering regarding the shares of newly structured company; in compliance with the related legislation provisions, %100 shares of The Company has in Zorlu Jeotermal, Zorlu Dođal and Rotor, in a way that not disrupting business integrity, as a %100 subsidiary of the Group, it has been decided to transfer the firm to newly established company named Zorlu Yenilenebilir Enerji AŞ with the capital amounting to TL 1,045,000,000 through partial demerger. Application regarding the event was made to Capital Markets Board on April 10, 2020.

According to the notification dated April 16, 2020, application made to EPDK is accepted regarding extension until 24.03.2021 of the licence related to Alaşehir III Jeotermal Enerji Power plant which is planned to be established in Manisa, Alaşehir by Zorlu Jeotermal Enerji Elektrik Üretimi AŞ which is %100 subsidiary of the Group.

According to the notification dated May 8, 2020, The Group has obtained permissions and approvals relating to the transfer of its all shares valued to PKR 9,970 at nominal value in Zorlu Pakistan Limited where the Group has %99.7 of shares to Zorlu Enerji Asia Holding Limited which is %100 subsidiary of the Group and related transfer transactions have been initiated.

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