ERDEMİR GROUP
2012 ANNUAL REPORT

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Group Profile

Industrial Giant of Turkey: ERDEMİR Group

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Group Profile

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. has become a conglomerate since 2001 through operations such as the founding of new companies as well as acquiring firms both in Turkey and abroad within the framework of its expansion strategies. Engaging in flat steel and long steel production, steel center services, mining, engineering and project management, ERDEMİR Group is the parent company of six subsidiaries.

Besides production plants equipped with world class cutting-edge technological equipment and exploiting resources effectively, ERDEMİR Group enjoys a leading position in real economy, thanks to the exemplary projects it has undertaken in fields of occupational health and safety, as well as environmental and social responsibility. ERDEMİR Group has adopted “continuous change” as its core principle. Accordingly, the Group maintains its operations to be able to raise the level of value-added concept it has been creating for Turkey through the employment opportunities it has, thus far, offered and the incurred taxes it has remunerated.

As one of the leading private sector entities in terms of generating the highest levels of employment opportunities, ERDEMİR has always supported the Working Life of our nation as can be witnessed from the following statistics: As of 2012, the number of blue-collar, white-collar and out-sourced staff members are 9,771, 3,198 and 76, respectively, with a total headcount of 13,045 employees.

Ereğli Demir ve Çelik Fabrikaları T.A.Ş.

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (ERDEMİR) the largest integrated flat-steel producer of Turkey, is the parent company of the group. ERDEMİR is one of the most significant industrial entities in Turkey with its shares being traded as one of the major investment instruments since the establishment of İstanbul Stock Exchange (ISE).

ATAER Holding acquired the controlling shares of ERDEMİR through privatization on February 27, 2006. The current breakdown of the shares is as follows:

- ATAER Holding A.Ş.: 49.29%
- ERDEMİR Portfolio: 3.08 %
- Other: 47.63 % (Public shares)

ERDEMİR, the only integrated flat-steel producer of Turkey, commenced production in 1965. ERDEMİR has an annual liquid steel and finished-product production capacity of 4 Mt and 5 Mt, respectively. The firm produces hot & cold rolled, plates, as well as tin plate and galvanized steel products fully complying with the international quality standards.

Constituting the basic inputs of relevant sectors, ERDEMİR products are utilized in numerous sectors and industries such as automotive, white goods, pipe and profiles, rolling, general manufacturing, electrical and electronics, energy and heating instruments, ship-building, heavy industry, defense industry and packaging. Thus, ERDEMİR assumes a leading role in the development of domestic industry of the nation.

İskenderun Demir ve Çelik A.Ş.

Established in 1975 for the purpose of producing long steel, İskenderun Demir ve Çelik A.Ş. was incorporated into ERDEMİR Group on February 1, 2002. Production of flat steel began in 2008 at İskenderun plant with the implementation of Modernization and Transformation Investments, so as to balance the long and flat steel production levels in Turkey.

Producing flat steel products is crucial for the development of Turkish steel industry, and İSDEMİR plays a significant role in enhancing the capacity of flat steel production while carrying on its activities to manufacture long products such as billet and wired rod. İSDEMİR currently enjoys annual liquid steel production capacity of 5.3 Mt. In addition, it has reached 6 Mt of finished-product capacity, 3.5 Mt of flat and 2.5 Mt of long steel products.

ERDEMİR Madencilik San. ve Tic. A.Ş.

Owing one manganese and 9 iron sites, the mining company of ERDEMİR Group, ERMADEN, also possesses the sole pellet plant in Turkey. ERMADEN accounts for 50% of iron ore production in Turkey while meeting 20% of ERDEMİR Group's iron ore requirements.

ERDEMİR Romania S.R.L.

Located in Targoviste, Romania, ERDEMİR Romania, the overseas investment of ERDEMİR Group, engages in the production of silicon flat steel, utilized as one of the main materials for industries producing electric motors, transformers, generators and power distribution units.

ERDEMİR Çelik Servis Merkezi San. ve Tic. A.Ş. (ERSEM)

ERSEM meets the sized flat steel requirements of the sector with its operations of hot and cold slitting/cutting and supply chain management undertaken in plants located in Gebze, İskenderun, Ereğli and Manisa.

The first steel service center of the Group, ERSEM Gebze, was established in 2002. ERSEM Gebze plant performs the first stage of the processed flat steel material and services required by automotive, white goods and general manufacturing industries.

ERSEM commenced the operation of cut-to-length lines at İSDEMİR in 2011. Moreover, efforts for setting up the Steel Service Center at Ereğli reached its final stage as of December 2012. ERSEM offers slitting services for hot & cold rolled, galvanized and tin-coated product categories as well as cold oblique cutting, cold multiple cutting, hot slitting and hot cut-to-length services to its customers. As of December 27, 2012, the first stocking and sales operations were undertaken by ERSEM Manisa, located in Manisa Organized Industrial Zone.

ERDEMİR Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş.

ERDEMİR Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş. offers Group subsidiaries a wide range of engineering and project management services from planning to application.

Milestones

ERDEMİR Group has been pursuing sustainable growth strategy for creating added-value for Turkey since 1960.

1960

- A special law was enacted for the establishment of ERDEMİR.
- Ereğli Demir ve Çelik Fabrikaları T.A.Ş. was commissioned.

1965

- ERDEMİR began its operations with an annual production capacity of 0.5 Mt crude steel.

1972

- The Intermediary extension stage was completed. (Capacity: 0.8 Mt crude steel)

1978

- Upon the completion of Stage I extension, ERDEMİR reached an annual crude steel capacity of 1.5 Mt.

1983

- ERDEMİR reached an annual crude steel production capacity of 1.7 Mt upon the investment in relation to the Stage II extension.

1986

- ERDEMİR shares were listed and traded subsequent to the establishment of Istanbul Stock Exchange (ISE).

2002

- İskenderun Demir ve Çelik A.Ş. was incorporated into ERDEMİR in line with its expansion strategy.
- As its first overseas investment, ERDEMİR acquired LBE Steel Plant head-quartered in Romania, which had an annual capacity of 108 thousand tons.

2003

- ERDEMİR obtained TS ISO 9001 Quality Management System Certification.

2004

- Divriği-Hekimhan Madenleri San. ve Tic. A.Ş. (DIVHAN) was acquired and re-titled as ERDEMİR Madencilik San. ve Tic. A.Ş.
- TS ISO 14001 Environment Management System Certification was obtained.
- TS 18001 Occupational Health and Safety Management System Certification was obtained.
- ERDEMİR was awarded with European Quality Award for Competency in Excellence.
- ERDEMİR gained National Quality Achievement Award among Large Scale Corporations.

2006

- Upon the transferring of ERDEMİR is controlling shares to OYAK Group, privatization process of ERDEMİR was completed on February 27, 2006.
- The first slab was produced within the scope of the investments regarding Modernization and Transformation at İSDEMİR. The Produced slabs were consigned to ERDEMİR.

1996

- ERDEMİR reached an annual crude steel production capacity of 3 Mt. following the investments of Capacity Increase and Modernization I & II.

1997

- The second cold rolling plant was commissioned. The plant eminently contributed to the diversification of ERDEMİR product portfolio.
- TS ISO 9002 Quality Management System Certification was obtained.

1998

- The largest port of Turkey in the Black Sea, ERDEMİR Port, was commissioned.

1999

- The Tin and Chrome Coating Plant, with an annual capacity of 250 thousand tones, was commissioned.

2000

- Flat steel production exceeded 3 Mt.

2001

- ERDEMİR Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş. was founded.
- ERDEMİR Çelik Servis Merkezi San. ve Tic. A.Ş. was commissioned. Having an annual 200,000 tons capacity, the Steel Service Center assisted ERDEMİR to procure a new dimension in terms of the operational scope.
- ERDEMİR exceeded 1.1 Mt. of steel product exports.

2007

- ERDEMİR shares reached a peak on September 9, 2007, amounting to a market capitalization of 8.3 billion USD.
- ISO/TS 16949 Quality Management System Certificate for the Automotive Industry was obtained.

2008

- As a result of efforts contributed by ERDEMİR engineers and workers, commencing from the initial stages of project until the construction and commissioning, the new Blast Furnace Ayse No.1 was commissioned.
- Trial production, within the scope of Modernization and Transformation Investments, was initiated at the Hot Rolling Mill (possessing an annual capacity of 3.5 Mt) of İskenderun plants of ERDEMİR on August 2, 2008. The production of the first coil was, also, concluded.

2011

- İSDEMİR's fourth Blast Furnace was commissioned.
- Operations were initiated at Ekinbaşı, the underground mining unit of ERMADEN.
- ERDEMİR became the first firm in Turkish steel industry, to be awarded with ISO 50001 Energy Management System in Turkey.

The Process from the Raw Material to the Finished Product

1 Iron ore and coal are the main raw materials shipped to ERDEMİR and İSDEMİR plants by sea and rail. ERMADEN is one of the key source of raw material for the Group.

2 Shipped to the coke plant furnaces via conveyor belts, coal is converted into coke under high temperature and in an oxygen-free environment. This is the procedure of manufacturing coke, deemed necessary by blast furnaces.

3 Production process commences, as the raw material is brought to the plants. Coal is shipped to the coke plants to be subjected to the coking process whereas fine ore is shipped to the sinter plant for the sintering process.

4 Sinter is produced after fine ore, iron flue dust/fine and oxide are dimensioned to a correct size at the sinter plants so that they can be utilized by the high blast furnaces. Subsequently, they are transferred to the blast furnaces via the conveyor belt system.

5 The blast furnaces produce liquid crude iron of which its production requires the use of iron ore, sinter, pellet and coke as the components. Liquid crude iron produced is kept in torpedoes after being cleared from slag.

6 Liquid crude iron is transferred to the steel plant for the desulphurization treatment at the desulphurization plants. By making use of liquid crude iron, scrap and alloy elements varying in line with the desired quality, the carbon amount in the liquid crude iron is reduced by means of pure oxygen blowing method. Hence, liquid crude iron is converted into liquid steel.

7 Liquid steel is then, interminably, casted into molds at the continuous casting plants. Subsequently, it is solidified at a desired size and converted into slabs or billets, which are semi-finished products.

8 As for formed steel, the slabs are transferred to the hot rolling mills while the billets are transferred to the wired rod mill. The coils and sheets are flat steel products made from slabs, whereas, wired rods, a kind of long product, is derived from billets.

9 Coils produced at hot rolling mill are rolled in cold rolling mill at room temperature. In this fashion, they are made thinner and a cold product is obtained. Furthermore, depending on demand, the cold rolled products are made into galvanized or tin-chrome coated steel utilized for packaging.

10 The finished-products made at our plants are shipped to customers by road, rail or sea.

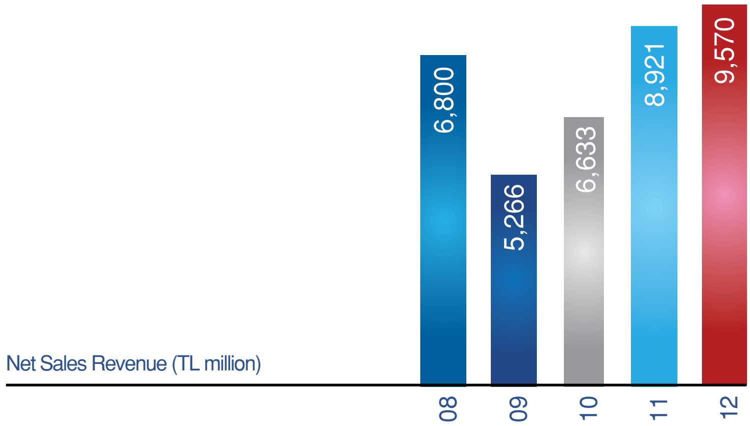
11 The sized flat steel products ordered by customers are shipped subsequent to being subjected to the slitting and cutting processes at the Steel Service Centers (i.e. ERSEM) located in Gebze, İskenderun and Ereğli.

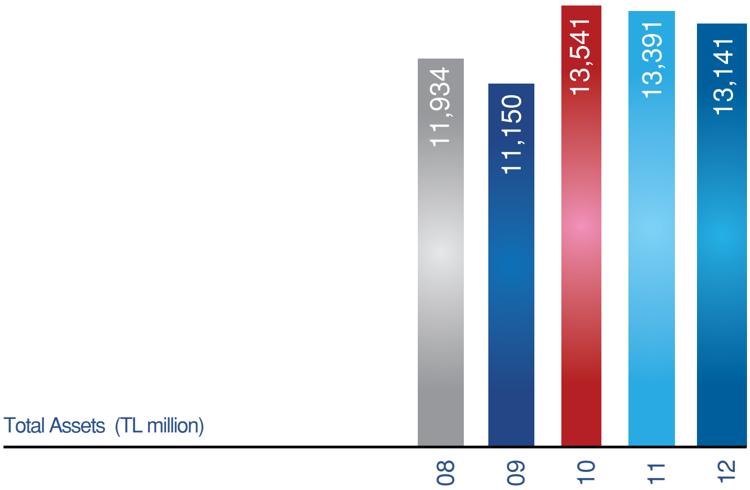
The Basic Consolidated Indicators

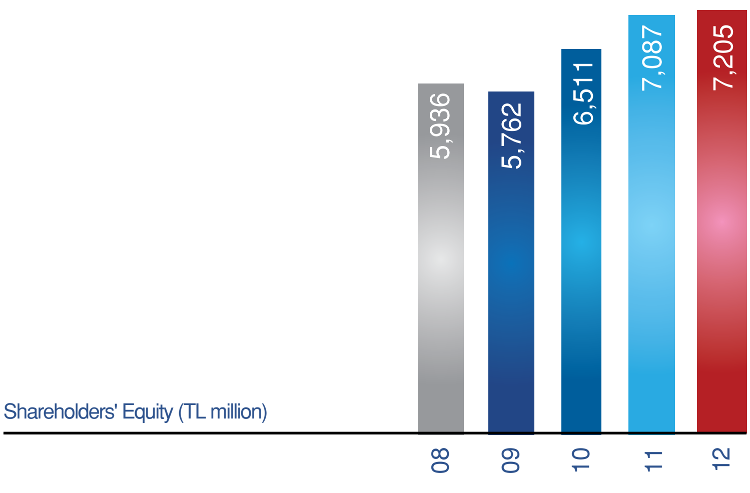
As can be observed from its equity structure, ERDEMİR Group is a most reliable corporation displaying steady performance

		2008	2009	2010	2011	2012
Net Sales Revenue	(TL million)	6,800	5,266	6,633	8,921	**9,570**
	(USD million)	5,240	3,404	4,427	5,338	**5,340**
Net Operating Profit	(TL million)	517	52	1,121	1,725	**683**
	(USD million)	398	33	748	1,032	**381**
EBITDA	(TL million)	775	382	1,420	2,039	**1,026**
	(USD million)	597	247	948	1,220	**573**
Net Profit for the Period	(TL million)	211	-169	766	1,006	**424**
	(USD million)	163	-109	511	602	**237**
Current Assets	(TL million)	4,649	3,730	6,325	6,025	**5,854**
	(USD million)	3,074	2,477	4,091	3,190	**3,284**
Fixed Assets	(TL million)	7,285	7,421	7,216	7,366	**7,287**
	(USD million)	4,817	4,929	4,668	3,900	**4,088**
Total Assets	(TL million)	11,934	11,150	13,541	13,391	**13,141**
	(USD million)	7,892	7,405	8,759	7,089	**7,372**
Short Term / Current Liabilities	(TL million)	3,356	1,621	3,764	2,470	**2,880**
	(USD million)	2,219	1,077	2,434	1,308	**1,616**
Long Term Liabilities	(TL million)	2,475	3,611	3,086	3,633	**2,845**
	(USD million)	1,636	2,398	1,996	1,923	**1,596**
Shareholders' Equity	(TL million)	5,936	5,762	6,511	7,087	**7,205**
	(USD million)	3,925	3,827	4,212	3,752	**4,042**
Market Capitalization (annual average)	(TL million)	7,829	5,468	7,418	8,040	**7,120**
	(USD million)	6,032	3,535	4,950	4,812	**3,972**

ERDEMİR Group offers sustainable future which is reinforced by its sound financial structure.



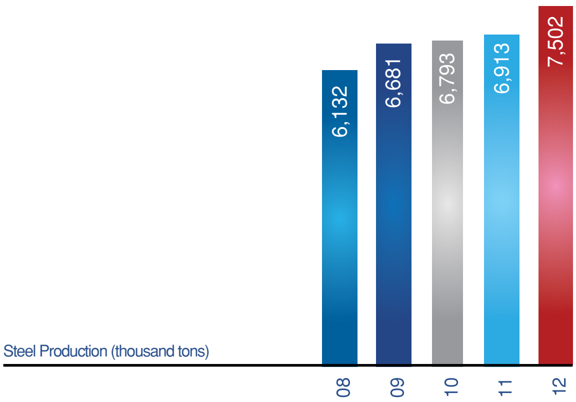


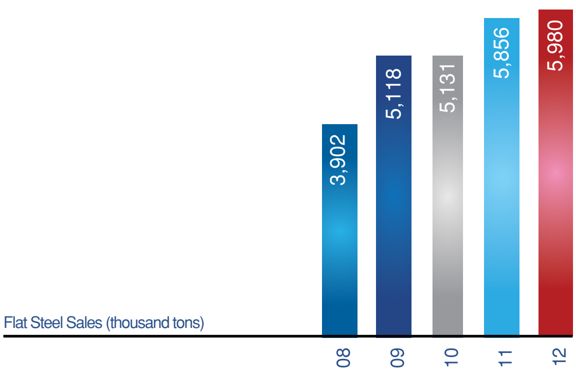


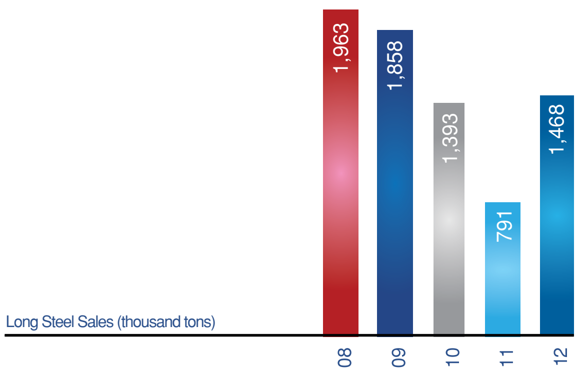
The Basic Consolidated Indicators

ERDEMİR continues augmenting its production levels.

(in thousands of tones)	2008	2009	2010	2011	2012
Steel Production	6,132	6,681	6,793	6,913	**7,502**
Flat Steel Production	4,182	4,812	5,373	6,119	**5,983**
Flat Steel Sales	3,902	5,118	5,131	5,856	**5,980**
Domestic	3,121	3,786	4,385	4,800	**5,386**
Export	781	1,332	746	1,056	**594**
Long Steel Production	1,950	1,869	1,420	794	**1,519**
Long Steel Sales	1,963	1,858	1,393	791	**1,468**
Domestic	1,404	1,236	1,240	643	**987**
Export	559	622	153	148	**481**

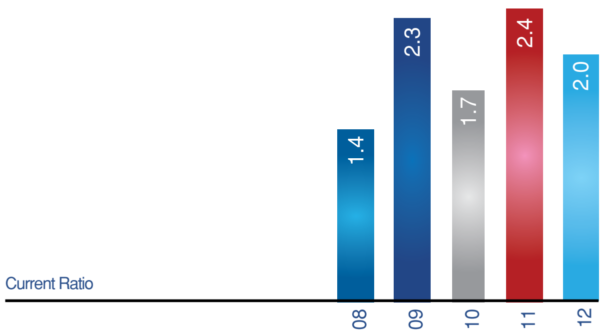


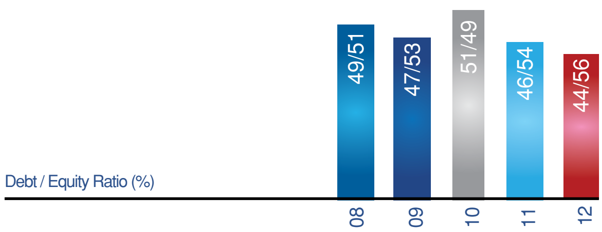




ERDEMİR Group inspires confidence through its performance.

		2008	2009	2010	2011	2012
Gross Profit Margin	(%)	12.3	4.5	19.8	23.2	**10.2**
Net Profit Margin	(%)	3.1	-3.2	11.5	11.3	**4.4**
Current Ratio		1.4	2.3	1.7	2.4	**2.0**
Debt / Equity Ratio	(%)	49/51	47/53	51/49	46/54	**44/56**
Funds from Operations (FFO)/ Total Adjusted Debt		46.3	-22.1	22.2	43.8	**17.9**
Financial Liabilities / EBITDA		5.8	10.9	4.1	2.4	**4.3**





The Message from the Board of Directors

We are ranked among the few steel producers in the world who managed to make profit despite the downward global trend in steel markets.

Dear Shareholders,

The ongoing economic stagnation and regional turmoil in 2012 posed an adverse impact on the global steel consumption. The global steel production, which rose by 6.8% in 2011 could only advance by 1.2% in 2012, reaching to 1.55 billion tons. A further noteworthy development was the fact that the steel production and consumption volumes displayed significant regional differences.

Notwithstanding the above facts, despite their slowing rate, the developing nations managed to increase their share in the world steel production. Developed countries, on the other hand, experienced difficulties in increasing their production due to the shrinking demand.

Consequently, majority of the global steel producers failed to sustain their profitability in 2012 principally due to the global economic uncertainties, global surplus and fluctuations in raw materials and steel-product prices. Therefore, plants at certain regions, particularly those located in Europe, reached the decision of halting production.

A number of countries decided to act towards taking measures to safeguard and support their domestic iron and steel industry, bearing in mind the invaluable contribution of iron and steel production to the development of both, economy and industry.

Turkey managed to increase its crude steel production by 5.2% and eventually became the eighth largest steel producer in the world with its annual production capacity of 35.9 Mt. in 2012.

Turkey had ranked 10th in the previous year in terms of steel production - climbing two tiers and thus, making the greatest leap among the top-ranking ten countries. Additionally, Turkey became the second nation in Europe producing the highest volume of steel.

Though favorable regional developments are predicted for the year 2013, price fluctuations and uncertainties are expected to pursue throughout the year. Under such global conditions, market oriented firms who are well able to take prompt decisions and to make effective use of common sense – will stay one step ahead of the competition.

Managing price fluctuations is of great significance for our Group. The price of iron ore fluctuated between 90 and 160 USD in 2012. Moreover, similar unstable trends were also observed in the other raw materials, leading to the market reality that purchasing the correct raw material at the opportune time and consuming them effectively remains to be one of the most compelling factors influencing our Group's performance.

Apart from the factors mentioned above, additional major factors determining our success are:
- closely monitoring the market,
- increasing the share of value-added products in our product mix,
- and the high quality of our service offered to our customers.

As one of the firms providing the utmost contribution to the steel production in Turkey, we undertook investments to enhance our competitive advantage within our strategic objectives in 2012 - reaching a total investment level amounting to 133 million USD. We also set up Production (CPO) and Technology (CTO) Coordination Offices as the major components of our central structuring. Moreover, we managed to accelerate our projects to increase productivity and curtail costs, through creating group synergy.

Notwithstanding the above, we restructured our R&D operations and set up a new R&D center so that we are duly able, both, to effectively respond to the market developments in a prompt manner and to produce steel grades which Turkish industry requires. We incorporated our projects under one entity for developing new products, qualities and sizes (i.e. creating ideas, developing products and systems) to accelerate our competitive advantage.

In order to enhance our skill of offering our customers the entire steel grades they require in the desired sizes and from locations closest to them, we continued our efforts to set up new service centers in Ereğli and Manisa other than those situated in Gebze and İskenderun.

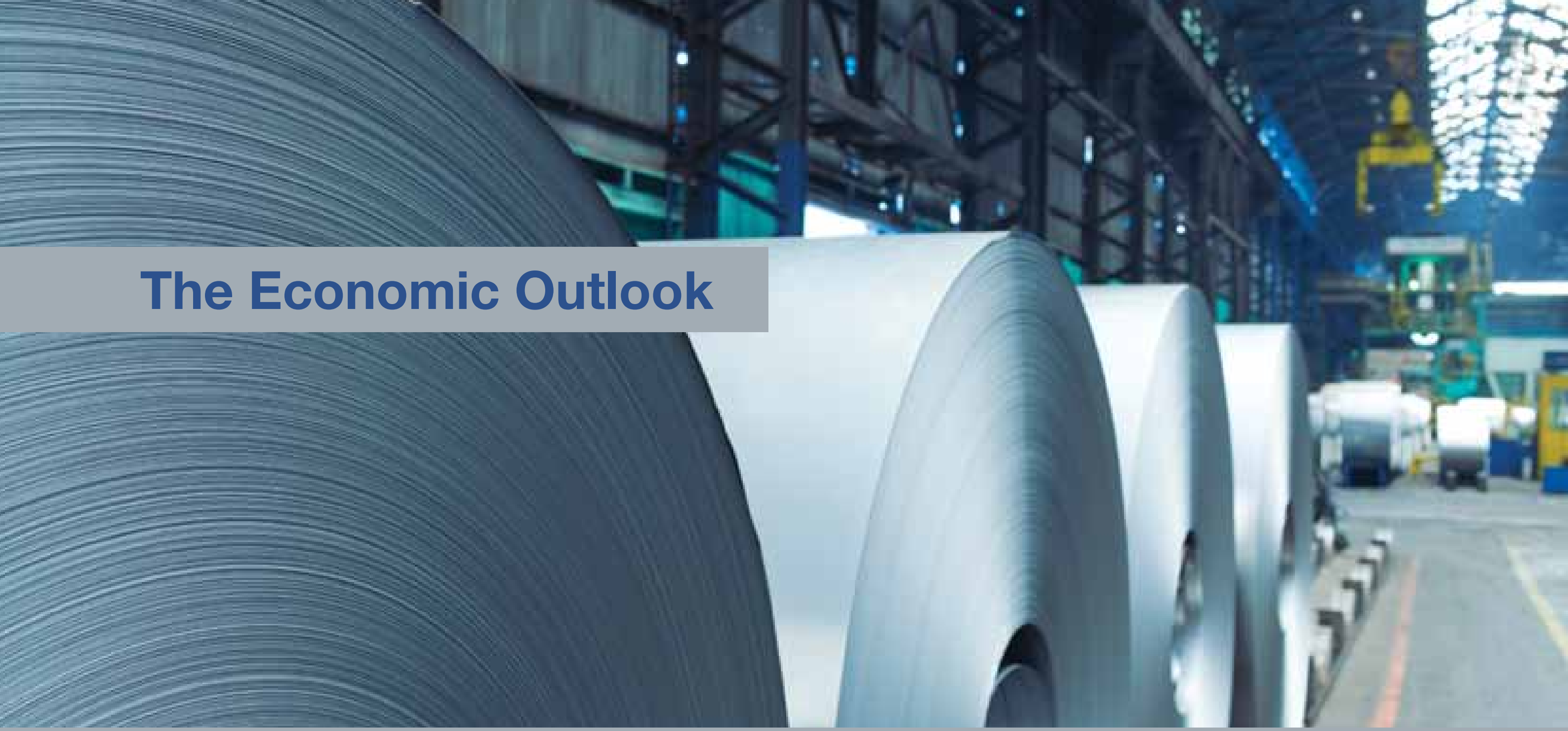
We maintained our operations and investments in 2012, towards offering high quality products and excellent services to our customers, thanks to our mastery in production as well as our customer and market-oriented structure.

As ERDEMİR Group, we increased our crude steel production by 5.3%, reaching 7.9 Mt. in 2012 while our finished-product sales increased by 12.1%, amounting to a total of 7.4 Mt. in the same year. Our profit aggregated to 424 million TL despite the tough conditions in the local and global markets. Eventually, we ranked among few steel companies who managed to achieve profitability during such tough times marked by rapid changes, uncertainties and risks in the global markets and economies.

As ERDEMİR Group, we are committed to add value to all of our stakeholders through our effective, economical business efforts based on discipline and dedication. In the meantime, we shall go on shaping our strategies proactively, evaluating opportunities of investment and monitoring markets closely so that we are duly able to take action to create opportunities under all conditions. We would like to thank our esteemed shareholders whose constant support we have always felt, and our employees and customers as well as our suppliers who have always contributed to our growth and progress.

Best Regards,

Fatih TAR
Ereğli Demir ve Çelik Fabrikaları T.A.Ş.
The Chairman of the Board and Managing Director



The Economic Outlook

Developing economies maintained their progress.

Turkish economy seized scrutiny through the performance it displayed in 2012, which proved to be an arduous year.

Depending on the effects noticed as a result of the economic recession whose onset exhibited as the economic downturn of 2008, stagnation continued in the economies of the developed countries. Consequently, the growth rate of developing countries declined for the very same reason. As for economic expectations, disparities in different regions were striking.

China displayed signs of recession in its production operations at the onset of 2012. However, the country reversed this adverse situation subsequent to the election of the new government and the implementation of new policies in order to boost economic recovery. China reached a growth rate of 7.8% in 2012.

Despite fears of the fiscal cliff in the final quarter of 2012, the US economy achieved a growth of 2.2% as production operations began to scale up and positive developments were observed in terms of new energy resources.

In Europe, the credit ratings of certain countries such as Greece and Spain were upgraded in the final quarter of 2012. Although this development brought about optimism in Europe, financial crisis remained to exert pressure on economic operations and European economies experienced a contraction.

Political upheavals continued in the Middle East and the North African countries. This prevented Turkey from achieving the expected potential in terms of export operations to the countries of the related regions.

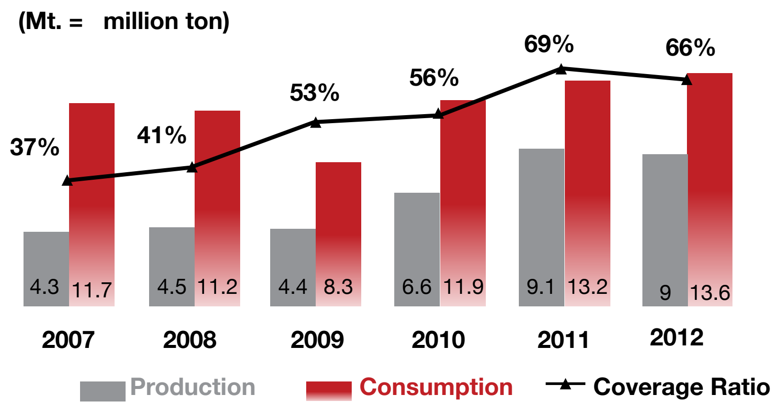
It is estimated that in spite of all the related risks, a moderate growth will be observed in the USA and, also, the economic growth will rise in China in 2013. However, growth is not forecasted in Europe until the second half of 2013.

In 2012, despite the contraction in the European Union, Turkey managed to, effectively, implement its soft landing strategy in its biggest export market, namely, Europe. Turkey's performance in 2012 was also noticed by the credit rating agencies and accordingly, Turkey's credit rating was raised to investable. This development particularly lent a helping hand to the stock exchange in reaching the historic peak in the final months of 2012. Additionally, the industrial production growth was observed to be at 2.3% in 2012.

In addition, Turkey managed to raise its exports by 13.1%, compared to the previous year, and achieved 152 billion USD. When the exports volume of 2012 is examined, the most significant exported items seem to be iron & steel products, automotive, white goods, energy & heating instruments as well as steel pipes which all encompass intensive steel production.

Turkey managed to exceed slightly the 2011 levels of flat steel consumption mainly thanks to the export performances of industries that need and utilize steel. Consequently, the consumption level amounted to 13.6 Mt. Both the production and consumption of flat steel are expected to increase in 2013.

The Production and Consumption of Flat Steel in Turkey



Source: Iron and Steel Producers Association (DCUD)

An optimistic economic atmosphere is expected in Turkey for the year 2013 owing to the ongoing infrastructure projects and an anticipation of the rise in the industrial production. The strategy documents recently announced by the Ministries of Economy and Industry particularly propose positive action plans to upscale domestic production and eliminate obstacles that hinder export. Furthermore, updated projections for growth indicate that Turkey will achieve a growth of 3-5% in 2013. It is anticipated that such growth in economy will also assist the demand in steel to increase.

2012
Turkish industry production increase
2.3%

2012
Export in Turkey
152 billion USD

The Global Steel Industry

Crude steel production capacity reached 2.07 billion tones in 2012 at the global scale. As the demand increased at the same rate, there was a fall in the capacity utilization ratio.

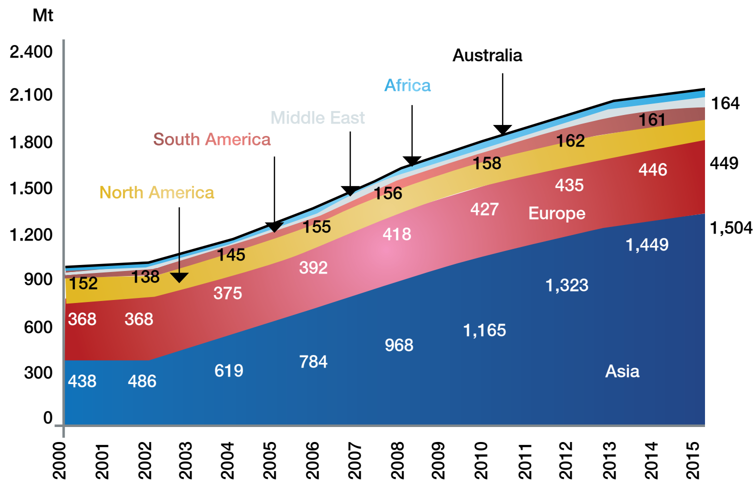
The high growth trend in the global steel industry commenced in 2000 and continued until 2008. Consequently, new investments were undertaken, and the global crude steel production capacity rose from 1.05 billion tones in 2000 to 2.07 billion in 2012.

The breakdown of the global crude steel production capacity has altered significantly in the past 12 years. Asia became a major player in this share. The global crude steel production increased from 849 Mt. (in 2000) to 1.55 billion tones (in 2012). Apparent global steel demand rose from 762 Mt. to 1.41 billion tones within the same period. Despite a rise of 1 billion ton in capacity, the steel demand could only advance to 650 Mt. Thus, this triggered a fall in the capacity utilization rates at a global scale.

Excluding China, which enjoys half of the world steel production capacity, crude steel production rise is anticipated to be at 2.1%.

While 58.5% of apparent steel consumption was observed in the developed economies in 2000, this rate dropped to 28% in 2012. Among developing countries, the Asian region continues to be the driving force in growth.

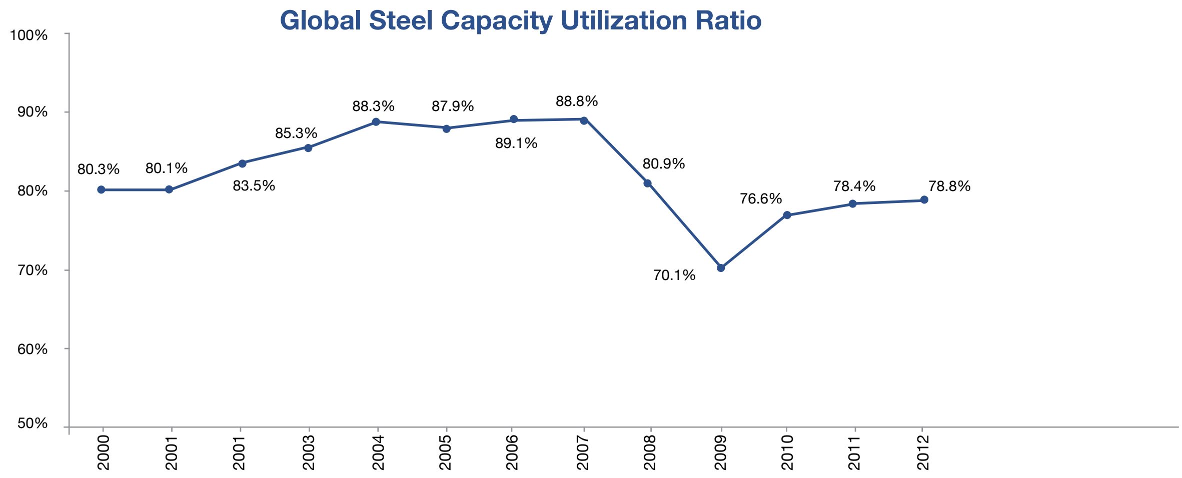
The Crude Steel Capacity Breakdown by Regions



Source: World Steel Association

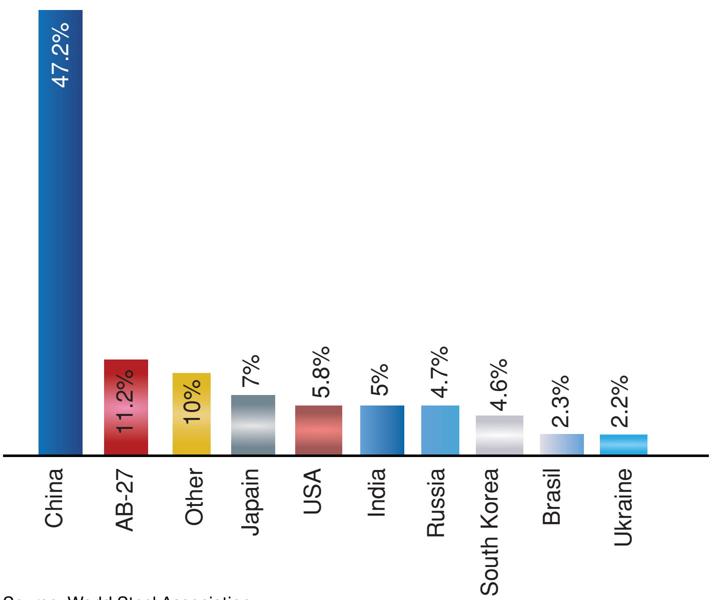
Regional World Crude Steel Production Breakdown:

Asia	65.4%
Europe	20.7%
North America	7.9%
South America	3%
Middle East	1.6%
Africa	1%
Australia	0.4%



Source: World Steel Association

Breakdown of World Crude Steel Production by Countries

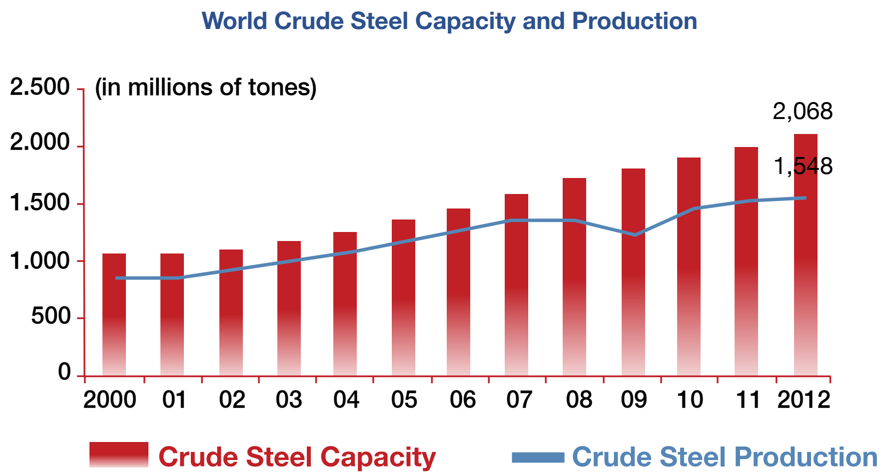


Source: World Steel Association

It is estimated that global crude steel capacity will reach 2.2 billion tones in 2014 - driven by the ongoing investments. The large portion of this capacity growth is anticipated to take place, once again, in the Asian countries.

The capacity utilization rate is expected to regress to 73% due to the commissioning of the new crude steel production capacities and the apparent steel demand which appears to display a relatively slight increase. (Source: World Steel Association)

As for the breakdown of the world steel production capacity, the share of production realized in the high blast furnaces making use of iron ore suggests to be higher and it is estimated that plants carrying out production by means of high furnace blast process account for 57% of the global capacity.



Source: World Steel Association

The Turkish Steel Industry

The Turkish steel industry doubled her growth based on the Gross National Product (GNP) in 2012, contributing to the economic growth significantly.

In spite of the ongoing contraction due to the global crisis, Turkey reinforced its position in the global ranking of the steel producers, exhibiting a superlative performance in terms of capacity, production and consumption.

Relying on the ongoing investments in our country, crude steel capacity reached 50 Mt in 2012. In 2005, however, the capacity had remained at 25.1 Mt. This indicator shows that the crude steel production capacity has doubled in the past seven years.

Steel industry enjoyed a successful performance following the crisis. 29.1 Mt of crude steel production in 2010 rose to 34.1 Mt in 2011. Despite the contraction in the world, our production achieved 35.9 Mt in 2012.

Turkey was the 10th largest steel producer in the world in 2011. With an increase in crude steel production corresponding to 5.2%, Turkey proved to be the nation that achieved the greatest advance in its production among the ten nations. Thus, Turkey ranked 8^{th} followed by Germany.

While being the second largest steel producer in Europe through its performance in 2012, Turkey managed to close the gap with Germany significantly. Long products come to the fore when details of production increase in Turkey are analyzed. Long products and flat products account for 74% and 26% of the production realized in 2012, respectively.

While production of long products increased by 10.4% compared to 2011, that of flat finished-products decreased by 0.4% compared to the same year in question. Production of slabs, raw material of flat finished- products, also decreased by 9% in 2012 compared to the previous year. Furthermore, approximately, a total of 1 million slabs were imported in 2012.

World Crude Steel Production

(in millions of tons)

COUNTRY	2012		2011		Change in Rank	12/11%
	Production	Rank	Production	Rank		
China	716.5	1	694.8	1	→	3.1
Japan	107.2	2	107.6	2	→	-0.3
USA	88.6	3	86.4	3	→	2.5
India	76.7	4	73.6	4	→	4.3
Russia	70.6	5	68.9	5	→	2.5
South Korea	69.3	6	68.5	6	→	1.2
Germany	42.7	7	44.3	7	→	-3.7
Turkey	**35.9**	**8**	**34.1**	**10**	↑	**5.2**
Brazil	34.7	9	35.2	9	→	-1.5
Ukraine	32.9	10	35.3	8	↓	-6.9
WORLD	**1.547.8**		**1.529.2**			**1.2**

Source: World Steel Association

The Expectations for 2013

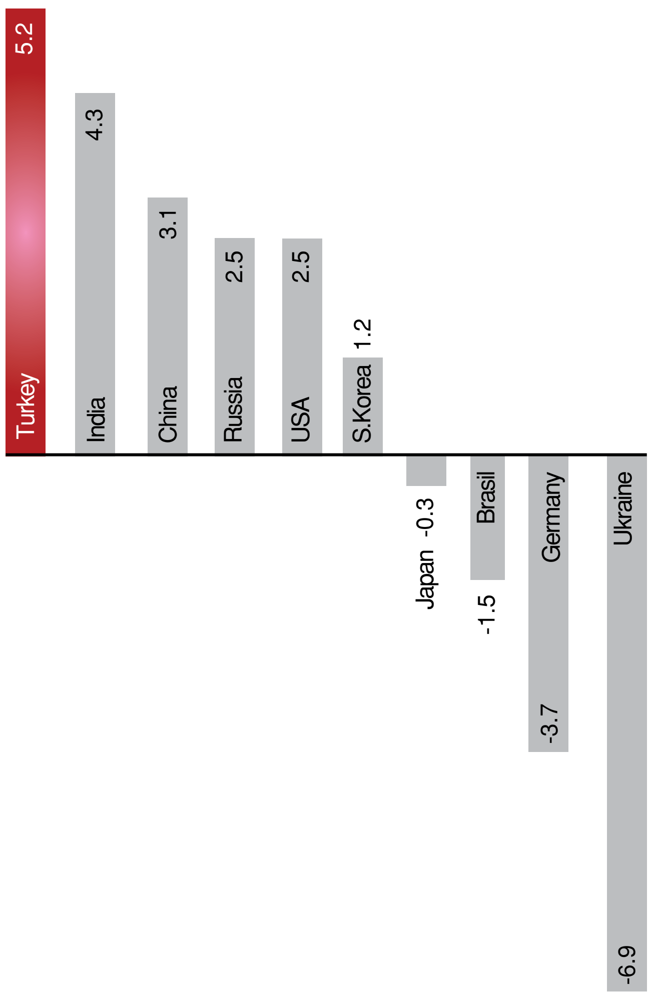
Flat steel import corresponded to 6.5 Mt in 2012. ERDEMİR Group preserved its superlative standing in the market through its domestic flat product shipments amounting to 5.4 Mt.

Foreign trade figures of flat and long steel products divulge the fact that Turkey exported 14.6 Mt. of long products and 1.9 Mt. of flat products. Despite 6.5 Mt. of flat steel import in 2012, ERDEMİR Group maintained its weight in the market through its domestic flat product shipment - corresponding to 5.4 Mt.

An elevated level of young population, the ongoing rise in the urbanization rate, the proximity to the emerging markets and the implementation of the policies promoting export are factors which create an impact on the steel consumption in Turkey. These factors support the growth expectations for the upcoming years. Increase in steel production also renders development in industrial production sustainability and contributes to the development of industries that engage in steel-intensive production.

Therefore, high domestic added-value created by ERDEMİR Group supports both the development of the national industry and of the domestic economy. Moreover, an increase in the Turkish steel production is expected to be maintained for the next two years and the crude steel production is estimated at 40 Mt. in 2014. (Source: World Steel Association) The Turkish steel industry enjoys an advantageous position among its competitors as the domestic steel demand maintains its robust course and the capacity investments are enhanced.

The Rate of Increase in the Crude Steel Production for the Top 10 Countries (%)



Source: World Steel Association

World Steel Association has forecasted that crude steel production of Turkey will reach 37.2 Mt in 2013 with an increase of 3.6%.

The global growth in 2012 is estimated to have stood at 3.2% whilst some time elapsed following the global crisis. This is due to the fact that the sluggish trend continued in the economic activities. The global growth estimation conducted by the IMF for 2013 is that the growth will be 3.5% - being above the level of 2012.

Another striking fact regarding the IMF 2013 estimations is that the forecasted growth for the developed countries will be 1.4% with an increase of 0.1% compared to 2012 while that of the developing economies will be 5.5% with an increase of 0.4% compared to 2012. No economic recovery is expected for the EU economies while the US economy is forecasted to expand by roughly 2% in 2013. That is the reason for the fact that the averages of the developed countries have slid.
On the other hand, as for the developing countries, Asian countries are expected to maintain their position as the driving force.

It is observed that the steel consumption at the global scale rises directly proportional to the economic growth. Apparent steel consumption is expected to jump to 1.45 billion tons with a 2.7% increase in 2013 directly in line with the economic growth estimations. The major source of this increase is considered to be the developing countries.

The details of steel consumption reveal significant disparities among the regions. While the growth rate is estimated to be very low or negative particularly in the developing countries as Japan, Germany and France, steel consumption is forecasted to be far above the average in developing countries such as Russia, Turkey and India.

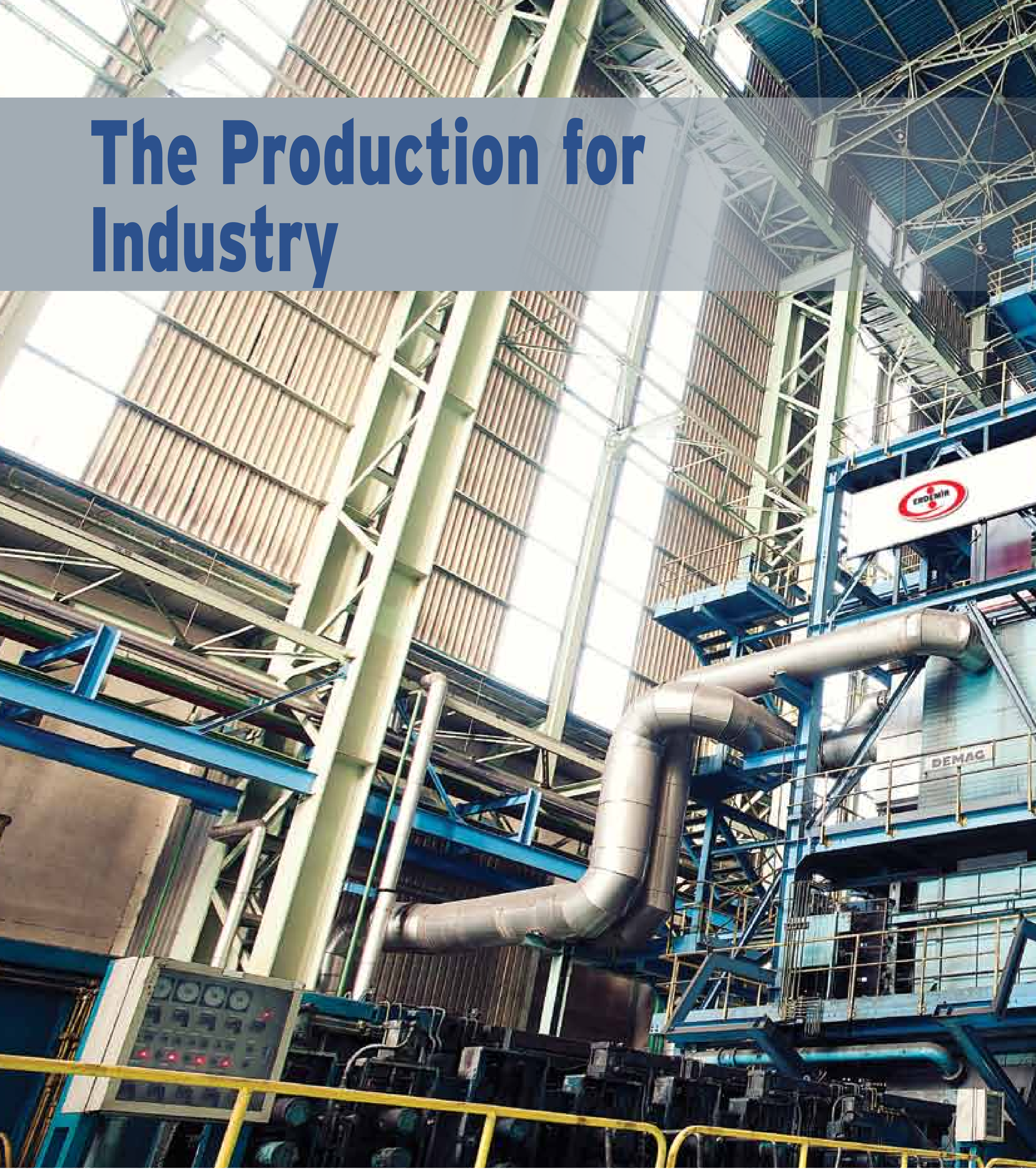
World Steel Association also forecasts that the share of developing countries in the apparent global steel production will rise to 72.4% in 2013. The following is estimated when apparent regional steel consumption forecasts are compared:

- Apparent steel demand will advance by 2.9% in the NAFTA region,
- Apparent steel demand rise across Asia will be roughly 2.9%,
- Apparent steel demand will slide by 0.5% in Europe, which is a region struggling against the economic downturn,
- Apparent steel demand will move above the world average in Turkey and the MENA region by 7.5% and 3.2%, respectively.

Based on the forecasts indicated above, the steel demand is expected to move above the world average in the developing markets such as Turkey, the Middle East and Russia. Proximity to the markets where steel demand is expected to increase appears to be a crucial factor for the success of the steel producers. The steel companies who enjoy a strong regional positioning will be the entities who will, eventually, harness the utmost advantage from the demand increase in the nearby markets.

The economic growth rate for Turkey in the OECD “Global Outlook Report” is expected to reach 4.1% for 2013. This rate is more elevated than that of 2012. In line with the economic growth forecasts, World Steel Association estimates that the crude steel production of Turkey, which amounted to 35.9 Mt. in 2012, will advance by 3.6%, and arrive at 37.2 Mt.

The Production for Industry



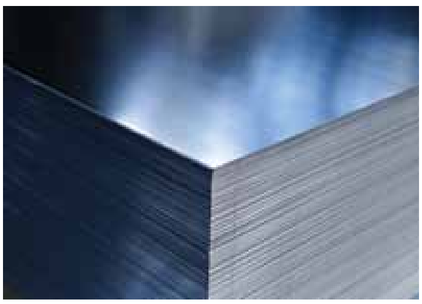
ERDEMİR Group engages in maintaining its production for Turkey with the maximum yield and creating added-value through operation, maintenance and modernization projects and undertakings realized in all of its plants.

Total crude steel production

7.9 Mt

Total finished-product shipment

7.5 Mt



The Production for Industry

The increase in efficiency and the cost advantage boost competiveness of the ERDEMİR Group in attaining very high levels of success.

Directing its production operations through maximum productivity and high quality production, ERDEMİR Group has held training programs on “cost, efficiency and energy saving” so that employees are able to maintain their contribution towards cost-effective and efficiency-oriented production approach.

ERDEMİR Group seeks, first, to hold and, then, to elevate its competitive edge thanks to the increase in productivity and the cost advantages obtained as a result of the training programs it has conducted.

The synergy Committees, working within the Group, have exerted successful efforts to re-organize a firm standard regarding business conduct and to bring very fine examples of the best practices into action within all the subsidiaries of the Group. This motion has, also, solidified a much-esteemed influence on the increase in the competitive advantage of the Group.

PRODUCTION (in thousands of tons)	2008	2009	2010	2011	2012
Hot Metal	**5,637**	**5,933**	**6,551**	**6,812**	**7,172**
Ereğli	2,791	3,339	3,196	3,039	2,934
İskenderun	2,846	2,594	3,355	3,773	4,238
Liquid Steel	**6,122**	**6,619**	**7,311**	**7,656**	**8,042**
Ereğli	3,201	3,798	3,634	3,480	3,328
İskenderun	2,921	2,821	3,677	4,176	4,714
Crude Steel	**5,976**	**6,465**	**7,116**	**7,473**	**7,867**
Ereğli (Slabs)	3,124	3,715	3,539	3,372	3,236
İskenderun (Slabs)	871	854	2,135	3,288	3,093
İskenderun (Billets)	1,981	1,896	1,442	813	1,538
Flat Finished-Products	**4,182**	**4,812**	**5,373**	**6,119**	**5,983**
Ereğli Tin Plates	247	166	238	227	237
Ereğli Galvanized	318	285	263	321	305
Ereğli Cold Rolled	921	1,139	999	1,104	1,056
Ereğli Hot Rolled	2,343	2,356	1,840	1,872	1,785
Ereğli Plates	212	48	66	247	248
İskenderun Hot Rolled	141	818	1,967	2,348	2,352
Long Finished-Products	**1,950**	**1,869**	**1,420**	**794**	**1,519**
Billets	1,378	954	715	344	945
Wired Rods	502	517	445	446	574
Other	70	398	260	4	-
Silicon Flat Steel	**73**	**47**	**62**	**64**	**61**
Iron Ore	**1,740**	**2,334**	**2,705**	**2,862**	**2,832**
Pellets	1,118	1,371	1,493	1,495	1,543
Other	622	963	1,212	1,367	1,288

High Productivity at Low Costs (Cost-Effectiveness)

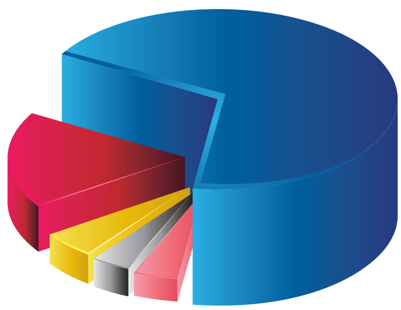
The capacity utilization rate was 85.8% at Ereğli and 72% at İskenderun plants in 2012. Used to evaluate how effectively a manufacturing operation is utilized, the value of the Overall Equipment Effectiveness (OEE) at Ereğli plants corresponded to 86.8%. The annual labor hours expended for the production of finished-products corresponded to 3.9 person-hour/tons at Ereğli and to 2.7 person-hour/tons at İskenderun plants. ERDEMİR Group, also, produced pig iron in 2012 in addition to its flat and long finished products to meet the demands required by the Turkish industry. A total of 41.4 thousand tons of pig iron was produced by ERDEMİR Group.

The Labor Effectiveness in the Production of the Finished Products: (person hour/tons)

ERDEMİR		İSDEMİR	
2012	**3.9**	**2012**	**2.8**
2011	3.9	2011	3.2
2010	4.1	2010	3.3
2009	3.6	2009	4.1
2008	4.0	2008	4.5

The Flat Steel Production

The Group produced a total amount of 6 Mt. of flat finished steel, 2.4 Mt. of which is hot-rolled (produced at Ereğli plants) and 1.6 Mt. of which is cold-rolled products (produced at İskenderun plants). Additionally, 61 thousand tons of silicon sheets were produced at the plants in Romania.

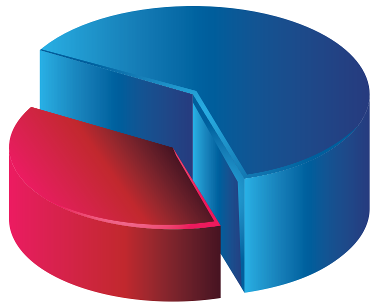


The Breakdown of the Flat Finished Products by the Product Group

Hot Rolled	**69%**
Cold Rolled	**18%**
Galvanized	**5%**
Plates	**4%**
Tin Plates	**4%**

The Long Steel Production

In 2012, the total production of long finished steel corresponded to 1,519 thousand tons. That is to say billets and wired rod production accounted for 945 thousand and 574 thousand tons, respectively.



The Breakdown of the Long Finished Products by the Product Group:

Billets	**62%**
Wired rods	**38%**

The Iron Ore Production

1,543 tons of pellets were produced in 2012. Moreover, the total production of products such as lump ore, byproducts and pellet cakes amounted to 1,288 thousand tons.

The Steel Service Center

In 2012, 258 thousand tons of output was realized at the steel service centers headquartered in Gebze and İskenderun plants. That is to denote that 125 thousand tons of output was produced in the Gebze center and 133 thousand tons of the said was manufactured in the steel service center in İSDEMİR.

Engineering and Project Management Services

In 2012, engaging in the management of the investments of ERDEMİR Group, ERENCO conducted 5 projects at the Ereğli plants and 7 at the İskenderun. The fourth Coke Battery commenced production at the İskenderun plants within the same year. Projects regarding the upgrading of Product Stocking Sites and Desulphurization were, also, actualized.

In addition, by supporting feasibility projects for the investments at ERDEMİR Group, ERENCO, also, successfully performed technical projects, commercial specifications and preparation for tenders.

The Port Operations

In 2012, the total volume of the loading and the unloading operations at the ERDEMİR (i.e. 8.9 Mt.) and the İSDEMİR ports (i.e. 12.6 Mt.) amounted to 21.5 Mt.

0.9 Mt. of the operations at the ERDEMİR and 1.6 Mt. of operations at the İSDEMİR ports comprised of third party services (out-sourced/subcontracted).

In 2012, the total revenue gained from the operations conducted at these two ports totaled 14,923,682 USD. The revenue attained by the ERDEMİR port accounted for 6,558,957 USD and that of the İSDEMİR ports amounted to 8,364,725 USD.

A Strong Network of Marketing and Sales

The finished-product sales of ERDEMİR Group amounted to 7.4 Mt. in 2012.

Owing, principally, to its market-oriented and customer-focused management approach, dynamic structure and flexible product mix, ERDEMİR Group managed to boost its sales in 2012, which was marked by sluggish global economy.

In the second half of 2011, stagnation in the economy had its onset, both, in Europe and the USA and the ongoing uncertainties in the Middle East inflicted their impact on the developing countries. Consequently, the said stagnation led to the revision of lower forecasts in relation to the global economic growth.

Despite adverse developments in the global economy, The Turkish economy performed very well and continued its growth owing to the domestic consumption and exports.

Thanks to the significant investments we have engaged in, Turkey has reached 8th in the global ranking with 16 Mt. of hot flat finished-product capacity. Such growth can solely be actualized with the assistance and the demand created by the Turkish iron and steel industry and sectors involved in intensive steel production.

SALES (in thousands of tons)	2008	2009	2010	2011	2012
Flat Finished-products	**3,902**	**5,118**	**5,131**	**5,856**	**5,980**
Ereğli Tin Plates	236	177	222	214	253
Ereğli Galvanized	233	268	190	213	155
Ereğli Cold Rolled	796	1,108	899	883	948
Ereğli Hot Rolled	2,085	2,467	1,672	1,583	1,623
Ereğli Plates	200	56	53	219	234
İskenderun Cold Rolled	30	835	1,839	2,317	2,309
Silicon Steel	80	97	61	63	61
ERSEM Sales	242	110	195	364	397
Long Finished-Products	**1,963**	**1,858**	**1,393**	**791**	**1,468**
Billets	1,379	964	722	331	913
Wired rods	517	522	439	450	555
Other	67	372	232	10	-
Iron Ore	**1,615**	**2,100**	**2,774**	**2,904**	**2,895**
Pellets	1,114	1,324	1,468	1,477	1,556
Other	501	776	1,306	1,427	1,339

Data obtained from Turkey Iron & Steel Producers' Association reveal that flat steel consumption increased by 3% compared to 2011, and reached 13.6 Mt. whilst long product consumption amounted to 14.8 Mt. - with an increase of 8%.

Through its ability to address promptly and effectively the market dynamics, customer-focused sales policies as well as wide product range, ERDEMİR Group sustained and cultivated its progress, and boosted both its sales and market share in 2012. As the only integrated finished flat steel producer headquartered in Turkey, ERDEMİR Group developed its marketing and sales organization structured in line with the sector groups so as to acknowledge and meet customer needs more promptly. Accordingly, the Group was able to enhance its power in the market through its qualified and experienced employees. By virtue of its superior product quality and sound financial structure, ERDEMİR has reinforced its already acquired competitive advantage through enhancing its sales and distribution operations in the Turkish flat steel industry - having been penetrated by newcomers.

Carrying forward its steel service center investments, ERDEMİR Group focuses on fulfilling the service requests of its customers such as sized flat steel and just in time delivery in the best and safest fashion possible. The said has been achieved in addition to acknowledging the issues in relation to fully meeting the product requirements. A steel service center plays a significant role in meeting the needs of its customers - particularly those who run small or medium sized enterprises. Having already commenced the production operations at the steel service centers situated in Gebze and İskenderun, ERDEMİR Group also initiated its trial production runs at the Ereğli Steel Service Center at the end of 2012.

The plant will possess a 1 Mt. of steel processing capacity upon its completion. The plant will also contribute to the competitive edge of ERDEMİR Group through its lines equipped with the latest technology which enables cold-slitting for hot & cold rolled, galvanized and tin-coated product categories as well as cold oblique cutting, cold multiple cutting, hot slitting, and hot cut to length services. Moreover, 75 hectares of land was acquired in Manisa in order to be able to meet the sized steel and just-in-time demands of the customers who have located their businesses at the vicinity of the Aegean region of Turkey. The distribution services from this point were initiated in December 2012.

ERDEMİR Group aims at offering services to its customers through the steel service centers from the nearest point of sale regardless of the tonnage utilized.

The Flat Products

The sales regarding the flat finished-products of ERDEMİR Group jumped by 2% in 2012 compared to the previous year, amounting to 6 Mt. In addition, domestic flat product sales rose by 12% and reached 5.4 Mt.

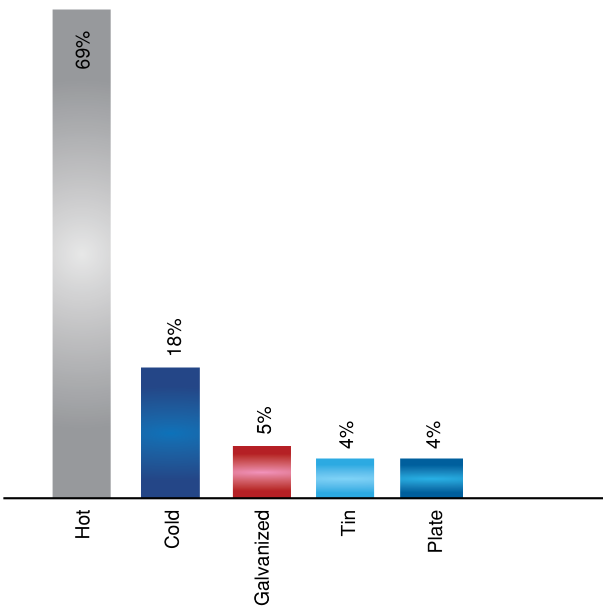
As domestic sales are analyzed in depth, it is observed that industries focused on exports became prominent in their own right. The focused products are as follows: products related to pipe-profile, white goods, general manufacturing, energy and heating instruments. ERDEMİR Group managed to boost its sales by 22% in 2012 with the assistance of industries which are export-driven and enjoy a significant share in the total European production. The Group also implemented policies which promoted the customers to engage in export-oriented production.

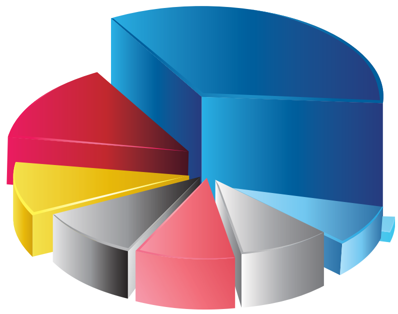
ERDEMİR has been preserving its leading position through its marketing and sales team structured in line with the industry and the segment.

Thanks to its marketing and sales team structured in line with the industry and the segment, ERDEMİR Group was duly able to expand its market share in the Turkish automotive industry, which experienced a 10% fall in automobile production in 2012.

In addition, ERDEMİR Group broke a record in tin shipment with the following figures achieved: A total of 2 Mt. flat product shipment in pipe and profile industry, and a total of 253,000 tons of tin shipment in packaging industry.

The breakdown of the sales of Flat Finished-Products by Product Group is as follows:





The Breakdown of the Sales of Flat Finished-Products by Industry is as follows:

Pipe & Profile	34%
General Construction	15%
Rolling	10%
Service Centers	10%
Automotive & White Goods	10%
International Trade	10%
Wholesale Trade	8%
Shipbuilding, Heavy Industry & Byproducts	3%

The Breakdown of the Export Volume of Flat Finished-Products to the Countries is follows:

EU	60%
The Middle East and North Africa	16%
North America	12%
Asia	2%
Other	10%

The Long Products

The sales of long products rose by 86% in 2012 in line with the demands and expectations of the customers. Consequently, the sales reached 1.47 Mt. The income generated by the total long product sales advanced by 62% and totaled 909,000,000 USD.

Whilst billet sales expanded by 176% in 2012, wired rod sales reached the highest level ever achieved, amounting to 555,000 tons. Moreover, the volume of high quality products is, constantly, rising identical to the sales attained in wired rods.

Subsequent to taking into consideration the high volume of demands for long products in the MENA region, the Group managed to triple the volume of its export to the region in comparison to the volume realized in 2011. The export revenues rose by 197% in 2012. Additionally, a record volume of flat products was exported to the kingdom of Saudi Arabia.

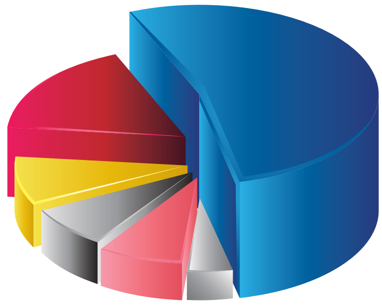
The Steel Service Center

The Steel Service Center sales amounted to 397,000 tons in 2012. The products shipped after being processed at ERSEM accounted for 38% of the sales and the remaining 62% corresponded to the products shipped to the customers without being processed.

95% of sales were attained within Turkey and 5% overseas. The breakdown of the sales in the domestic market by industry is as follows: 60% in automotive, 24% in white goods, 6% in heating and 10% in other areas such as general machinery, electrical machines and electronics, etc.

The Mining

In 2012, ERDEMİR Group achieved a total of 2.9 Mt. of iron ore sales, 1.56 Mt. of which belonged to pellets, and the remaining 1.34 Mt. to the other related products such as lump ore, fine ore, byproducts and pellet cakes.

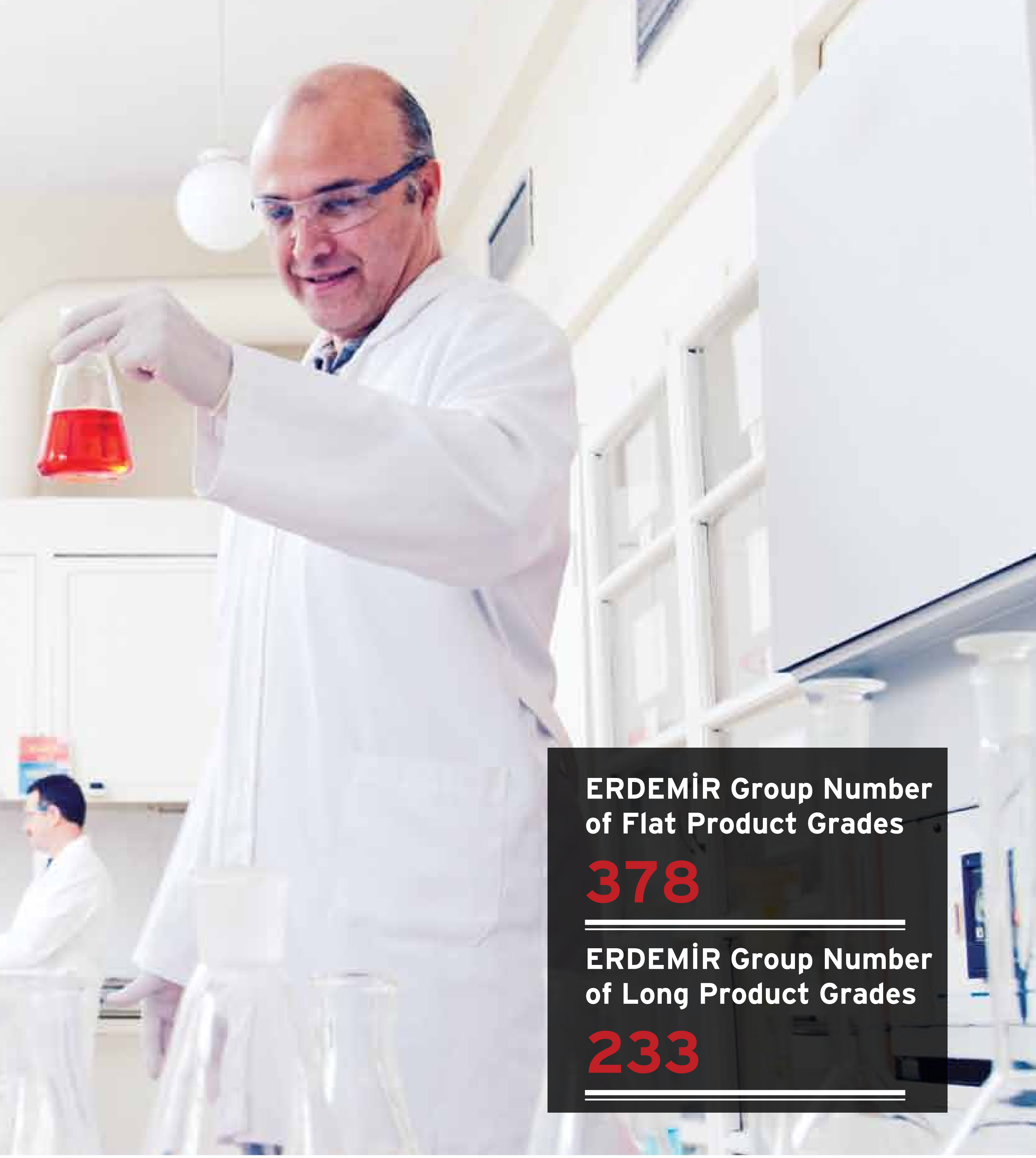


The Breakdown of the Domestic Sales Through the Steel Service Center by Industry is as follows:

Automotive	60%
White Goods	24%
Heating Industry	6%
Electrical and Electronic	2%
General Manufacturing Industry	1%
Other	7%

High Quality and the State-of-the-Art Technology

Having set up the Research and Development Center in 2012 subsequent to the restructuring of the Research and Development Unit, ERDEMİR Group enjoys its sustainable competitive advantage through its R&D projects.



ERDEMİR Group Number of Flat Product Grades

378

ERDEMİR Group Number of Long Product Grades

233

High Quality and the State-of-the-Art Technology

ERDEMİR Group allocated a significant amount for R&D and the projects regarding enhancement of quality besides its investments in innovation and capacity upgrading. Thus, through this the above steps the Group renders its superior position sustainable. The R&D Center was decided to be established in 2012 for the purpose of conducting R&D projects more extensively and thoroughly. The R&D Unit was set up only after its organization had been re-structured.

The production limits of the Ereğli and İskenderun plants are utilized at the optimum level. In this sense, ERDEMİR Group handles the production capabilities in an integrative manner by, firstly, considering the quality and, then, the size of the products. Hence, the Group is able to come up with the most advantageous solutions to acknowledge and meet the customer demands.

In 2012, 8 galvanized product, 3 cold rolled product and 1 hot rolled product grades were developed for use in the automotive and white goods industries within the scope of the R&D and the quality projects. In addition, 3 hot rolled product grades to be used in construction steel and 12 hot rolled product products to be utilized in pipe and profile production were developed and launched for sale. Therefore, a total of 27 new grades were included into the product range of ERDEMİR Group. The number of total flat products amounted to 378. Additionally, 4 new long product grades were also developed, and, thus, in total, the number of the long product grades has reached 233.

ERDEMİR Group carried on working with the leading automotive companies of Turkey on the homologation and the quality approval projects.

Accordingly, projects spanning outer panel sheets were conducted with Tofaş and Renault. The number of grades approved by FIAT CRF/Italy for homologation reached 10 while that of grades approved by DIMAT/France reached 18.

ERDEMİR Group continued collaborating with companies such as Oyak Renault and Ford Otosan in order to boost its share for vehicles whose production processes are ongoing and be the supplier for the projects regarding new vehicles. The Group also carried on its projects concerning the industrial trial runs and projects related to providing samples in various qualities and sizes, in co-operation with the local and international white goods producers.

Within the framework of the scope of the expansion projects carried out with the American Lloyd (ABS), the certificate validity of the medium and high strength shipbuilding sheets was extended to 2017. Moreover, the projects in relation to the Z test performed on shipbuilding sheets were finalized effectively, and the products were deemed, duly, applicable for Z35. The projects regarding certification performed in cooperation with the Norwegian Lloyd (DNV) were also complemented. The outcome of tests is still under evaluation.

Supporting The Domestic Production

2012 was marked by fluctuations in which high price volatilities in raw material markets, as well as upward and downward fluctuations in prices were observed. Furthermore, such circumstances are marked by uncertainty and volatility. Thus, the said conditions have made the close monitoring of the main regions producing raw material from their natural resources even more crucial. The main regions are the following: Brazil, Australia, the USA, Canada, and particularly of China, which plays a determining role in this scope.

A great volume of raw material, which entails a very large share in the total costs, is procured from abroad at ERDEMİR Group. Under this light, establishing a close contact and an intensive cooperation with the raw material suppliers is of a great strategic significance for ERDEMİR Group. ERDEMİR Group also supports the use of domestically mined resources for raw materials in view of the close proximity of the resources to our production sites and the added-value created by the domestic suppliers in favor of the local industries.

The Purchasing Division monitors raw material markets in line with two objectives, firstly, to search for alternative raw material resources and, secondly, to augment access to economical raw material suppliers.

For ERDEMİR Group, supply safety is a significant element in terms of ensuring sustainability in production. It is also essential that production be realized through the most cost-effective raw material resources and inventory be maintained at optimum levels in respect to cost and quantity. The Purchasing, marketing and sales divisions of the Group endeavor to maintain access to an array of closer raw material resources and suppliers in terms of their locations thereof, and coordinate all and every action through low stock/day level in line with the targets jointly-adhered to. Only through this method, ensuring supply safety and minimizing price risk can be rendered possible.

Getting Stronger Through Investments

ERDEMİR Group, in a highly consistent fashion, carries on its activities regarding the updating of the technology and modernizing and enhancing capacity so as to improve its competitive edge and innovation capacity.

ERDEMİR Group continues developing its basic investment strategies towards increasing its competitive advantage and the share in the domestic market in addition to achieving a more effective position in the international markets

ERDEMİR Group incurred a total investment cost of 133 million USD in 2012. The Group's investments accounting for 96 million USD relied on shareholders' equities while the portion amounting to 37 million USD drew on loans.

The Finalized Investments

The investment regarding the Relining of No.2 Blast Furnace, initiated at Ereğli plant on April 17, 2012, was finalized on July 2, 2012. The production operation was realized on July 3, 2012. A number of required upgrading projects were performed at the iron production plants in line with this very investment.

The projects concerning the improvement of the Combined Mill Main Motors & Drives of the Hot Strip Mill No.1, No.2 Slab Furnace Modernization and the upgrading of the Cooling System and the Investment Projects regarding Material Warehouses were also finalized and put into practice in 2012.

At İskenderun plant, the projects regarding Development of Existing Coil Stock Yards and Improvements of Desulphurization and Modernization of No.4 Coke Oven Battery were completed within the scope of the investments regarding Modernization and Transformation.

8 projects comprising 10 plants were finalized within the new environmental investment package which had been formed in 2010. In addition, environmental investments were completed within the scope of Modernization and Transformation to improve air quality. The relevant fieldwork, ongoing for the other projects, is expected to be completed by 2013.

A class of surface control system, capable of measuring the surface thickness of the product without any human intervention and ensuring even spread onto the product, was commissioned at the plants in Romania. The upgrading realized on the annealing line contributed to the boost in product quality.

ERDEMİR Group also finalized its investments regarding the automation inspection. This is required for the commissioning of the second annealing line, which is designed to ensure flexibility throughout the production processes while meeting the particular demands of our customers.

The Ongoing Major Projects in 2012

Investment Projects	Estimated date of Commercial Operation 2013 1. Q	2013 2. Q	2013 3. Q	2013 4. Q	2014 1. H	2014 2. H	2015 1. H	2015 2. H	2016 1. H	2016 2. H	2017 1. H	2017 2. H
I – The Ereğli Plants												
1) A Circular Sinter Cooler Waste Heat Recovery Boiler,	■											
2) A New Turbo Blower for Blast Furnaces,		■										
3) The investments to be realized at the BOF (Basic Oxygen Furnace) Plant and the other Plants based on the relining stop,		■										
4) Modernization of the BOF (Basic Oxygen Furnace) Plant and Continuous Casting 3 & 4 Plants Level 1 and Level 2 Systems,			■									
5) The Modernization Project Concerning the Galvanizing Line Air Knife and Pot Equipment			■									
6) The Installation of an External Combustion System at the Co-generation Power Plants,			■									
7) The Integration of the No.3 Coal Grinding Plant into the Coal Injection Plant(PCI),				■								
8) No.7 Air Separation Plant				■								
9) An Array of Environmental Investments,				■								
10) Ereğli Steel Service Center,						■						
11) Modernization of Electrolytic Tinning Line Automation Systems,						■						
12) Top Pressure Recovery Turbines for Blast Furnaces (TRT).						■						
II – The İskenderun Plants												
1) Environmental Investments,			■									
2) Alternative Reladling Pit and Changing Crane Ginders,			■									
3) Hot-slitting Line.						■						
III – The Mining Plant												
1) An Iron Ore Enrichment and Pelletizing Plant												■

Q: Quarter
B: Biannual

The Ongoing Investments

Considering infrastructure investments towards technological innovation an integral part of any corporate development, ERDEMİR Group has been carrying on the following investments at the Ereğli plants:

- Ereğli Steel Service Center,
- A project regarding the Circular Sinter Cooler Waste Heat Recovery Boiler,
- The investments to be realized at the BOF (Basic Oxygen Furnace) Plant and the other Plants based on the relining stop,
- Modernization of the BOF (Basic Oxygen Furnace) Plant, and Continuous Casting 3 & 4 Plants, Level 1 and Level 2 Systems,
- A New Turbo Blower, for Blast Furnaces,
- No. 7 Air Separation Plant
- An Array of Environmental Investments,
- The Installation of an External Combustion System at the Co-generation Power Plants,
- The Integration of the No.3 Coal Grinding Plant into the Coal Injection Plant (PCI),
- Top Pressure Recovery Turbines for Blast Furnaces (TRT),
- Modernization of Electrolytic Tinning Line (ETL) Automation Systems,
- The Modernization Project Concerning the Galvanizing Line Air Knife and Pot Equipment

In order to meet the target of improving distribution channels, firstly, four production lines and, later, one additional line will commence operation at the ERDEMİR Steel Service in 2013 and 2014, respectively.

Within this framework, ERDEMİR Group intends to render more superlative service to the industries, demanding a higher level of quality, and to enhance product diversity. Such lines are under construction under the body of ERDEMİR and gradual commissioning is planned for these five lines.

Major ongoing investments at İskenderun Plants are listed as follows:

- Environmental investment,
- Alternative Reladling Pit and Changing Crane Ginders,
- Hot slitting line.

Within the confines of the mining company and under the scope of the project entitled “Iron Ore Enrichment and Pelletizing Plant”, the land, owned by the third parties, and where the plant will be situated, is expected to be held under a tender by the second half of 2013. This is to follow the completion of its privatization process. Consequently, it is intended that an annual production of 3 Mt of pellets will be attained through the implementation of this very project whose legal permissions have, already, been settled to a greater extent. It is estimated that the plant will have reached operational status by 2017. The Environmental Impact Assessment (EIA) Approval Certificate was attained subsequent to the arrangement of the required implementation projects for the “Derindere Waste Storing Dam Capacity Increase Project” to store wastes released from the current plants.

The Employees Creating Added-Value

The employees are regarded as the most important competitive edge in ERDEMİR Group companies.

Therefore, creating an effective and harmonious team with highly motivated and qualified professionals possessing the following qualities is deemed the outmost necessity in order to succeed.

Our employees fully adhere to our principles as follows: Adopting ERDEMİR Group corporate culture, focusing on Group targets and lastly, being able to carry the Group to the future heights through innovation and improvement. This approach constitutes the foundation of human resources policies and practice of the Group.

Number of Employees	Number	%
White-Collar	3.198	24
Blue-Collar	9.771	75
Contracted Personnel	76	1
	13.045	**100**

Educational Level of Employees	Number	%
Primary School	2.806	22
High School	6.664	51
Vocational School (Associate Degree)	1.360	10
Graduate	2.215	17
	13.045	**100**

Number of Employees	Number	%
Ereğli	6.630	51
İskenderun	5.543	42
Other	872	7
	13.045	**100**

Duration Of Employment	Number	%
0-10 Years	9.192	70
11-21 Years	2.721	21
22-24 Years	790	6
25-over	342	3
	13.045	**100**

Age Of Employees	Number	%
Between 19-30 years of age	1.450	11
Between 31-40 years of age	6.748	52
Between 41-50 years of age	4.457	34
Between 51-54 years of age	255	2
55-over years of age	135	1
	13.045	**100**

The Profile of The Employees

The number of employees at ERDEMİR Group is, as of December 31, 2012, as follows: blue-collar (9,771), white-collar (3,198) and contracted personnel (76), totaling 13,045.

The Performance Management System

The Performance Management System is applied for all employees, both for white-collar and blue-collar staff members, in order to be able to identify the employees' targets in line with the company targets, to assess the contributions employees make to their respective firms, to plan developmental needs of the employees and, finally, to enhance our business productivity. The outcome of this system serves as a path for the employees' educational and professional development plans.

Collective (Labor) Negotiations

Hourly wages were raised at Ereğli plants for the past eight months of the 23rd Collective Negotiations, covering the period from January 1, 2012 to August 31, 2012. On the other hand, the negotiations and talks for the 24th Collective Negotiation Period began on February 25, 2013. The negotiations are still ongoing and being carried out by MESS (Turkey Metal Industrialists Union) on behalf of the company with the participation of the officials from ERDEMİR and the Turkish Metal Union.

Pursuant to the 24th Collective Negotiation Agreement, contracted with the Steel-Work Union (authorized at İskenderun plants) and valid between January 1, 2011 and December 31, 2012, the implementation of the wage hikes was undertaken for the period covering 2012, in the third and fourth semi-annual periods. Negotiations for the 25th Collective Negotiation commenced on January 25, 2013 with the participation of the İSDEMİR and Steel-Work Union officials. The negotiations and talks are in progress for the time being.

For ERDEMİR Steel Service Center, the wages were increased from July 1, 2011 to August 31, 2012, pursuant to the terms of the 5th Collective Negotiation Agreement, covering the period between July 1, 2011 and August 31, 2012. Upon the transition to MESS, the 6th Collective Negotiation talks will be carried out through MESS.

As the Turkey Miners Union was not able to obtain the permission for a Collective Negotiation Agreement at ERMADEN, Collective Negotiation talks for the new period have not, yet, begun. The following wage hikes for the hourly-paid personnel were ensured to be appropriated upon the signing of the new period of the Collective Negotiation Agreement: 5% valid as of January 1, 2010; 5% valid as of July 1, 2010; 5% valid as of January 1, 2011; 5.5% valid as of July 1, 2011; 7% valid as of January 1, 2012; and 2% valid as of July 1, 2012.
Based on the agreement valid at ERDEMİR Romania from January 1, 2012 to February 8, 2013, a wage hike of 5.45% was ensured for the period between January 1, 2012 and June 30, 2012.

Additionally, a wage hike amounting to 30 RON/person was agreed on for the period covering July 1, 2012 and February 8, 2013.

The Health Services

Offering a healthy and safe work environment is one of the paramount priorities of ERDEMİR Group. Accordingly, the following services are performed at the fully-equipped medical centers of Ereğli and İskenderun plants: preventative medicine, medical examinations at the first stage of the recruitment, intermittent porter examinations, periodic check-ups, intern check-ups, practices to prevent occupational accidents and occupational diseases, conducting follow-up for employees on sick leave, first aid and emergency treatment services. Moreover, the Group regularly runs first aid trainings for its employees.

The Educational and Training Activities

ERDEMİR Group attaches great importance to offering and providing its employees opportunities for professional and individual growth at all stages of their employment. The rationale for this principle is to enhance employees' professional knowledge and experience, in turn, while broadening its competent, active and innovative labor force.

On the other hand, in line with the principles of benefiting from within the company and for the sole purpose of an effective and optimal use of resources, in-house training activities were performed as internal resources (in-sourcing). Consequently, 17,075 participants received 187,939 hours of training at the Ereğli plants. Furthermore, at the İskenderun plants, 21,760 participants were provided with 275,825 hours of training. The figure for ERMADEN and ERENCO amounted to 6,056 hours and 8,963 hours, with the participation of 285 and 179 employees, respectively.

The following figures display the breakdown of the training activities based on person and hours: 28 person/hour at the Ereğli plants, 47.5 person/hour at the İskenderun plants, 21.3 person/hour at ERMADEN, and 50 person/hour at ERENCO.

In total, a volume of 32,068 participant/hour of training activities were administered at the İskenderun plants under the scope of Occupational Health and Safety trainings, including 6,656 participants both employed by the company and non-employees. The Occupational Health and Safety training programs account for 10.4% of all the other training packages. Average OHS training per employee is 5.5.

407 employees from the Ereğli plants and 205 employees from the İskenderun plants took part in the events such as conferences, seminars and congresses. For the Ereğli plants, E-learning projects were initiated under the name of ERDEMİR Group Akademi on May 15, 2012. On November 16, 2012, the very same project was administered for the employees at ERDEMİR Akademi and for those employed at the headquarters.

In total, 2,067 employees took part in this project. Within this framework, 2,301 training programs have already been completed while 2,138 training programs are still in progress.

By assisting the writing process of 36 new books under the scope of Inner Unit Training System at the Ereğli plants in 2012, the total number of Inner Unit Training System publications has risen to 2,237 while the number of active Inner Unit Training System Trainers increased to 1,111.

At the İskenderun plants, 161 new books were composed within the same scope in 2012 and the number of Inner Unit Training System books expanded to 422. Notwithstanding the above facts, the number of active Inner Unit Training System Trainers rose to 541. 2,712 employees were allowed to receive training in 2012 within the scope of Inner Unit Training System.

As a result of the ERDEMİR Distance Education Project carried out at the Ereğli plants, 13 employees completed their primary education while 8 employees accomplished their high school degrees. There are currently 494 employees with primary school degree (159 employees) and high school degree (335 employees).

4,481 employees attended the cost and energy training programs administered at the Ereğli and İskenderun plants in 2012. In addition to this, 20 engineers were awarded with the Industrial Energy Manager Certification.

Moreover, 12 employees from ERDEMİR and 3 employees from ERENCO participated in the Energy Manager Training delivered by ERENCO. They were also awarded with the relevant certification.

A Strong and Reliable Network of Information

Throughout 2012, ERDEMİR Group continued performing operations required for offering information systems to the users in an uninterrupted, effective and safe method, twenty-four hours a day and seven days a week. Such operations involved the setting up of a network, upgrading, operating, maintenance, support and technological transformation. Within this scope, all of the e-mail users of ERDEMİR were included in the Active Directory, subsequent to having the system converted from Lotus Domino to the MS Exchange. The installation and customization of Microsoft System Center Configuration Manager (SCCM) software were, also, finalized. Working in an integrative method with an Active Directory, this system will be used for the purpose of change and configuration management.

Symantec Enterprise Vault archive product was procured in order to be utilized as the archiving tool for e-mails and files. The required setup tasks were completed, and eventually put in operation. Apart from the Back-up copy unit with high capacity and advanced technology, new storage systems had previously been acquired prior to finalizing their setup process. The ERDEMİR Engineering Document Management System was updated and put in operation. Requirements regarding the hardware, the software and the license of the Production Management System and the Raw material Optimization System (SCOOP) were fulfilled and their setup was duly completed.

Furthermore, the help desk support, improved via the information system services and its recent applications, was performed uninterruptedly in 2012.

The archiving of the operations was, also, undertaken to ensure the safety in view of the accumulation of information. The rate of service offering regarding the Information systems reached 99.93% in 2012.

All additional requests were completed for the modules in the SAP system. Thus, the third party entry, the cost certificates automation, the purchase request and the Cost Responsibility Center (masomer) and the cost inquiry applications were all put in operation.

Applications regarding graphical display screen to enable comparative analysis for APASS Production List in the Stage 3 Iron Steel Production Plants and Continuous Cast required for APASS model, calculating casting speed on the basis of Grade-Plant-Size as well as sending relevant data to APASS were completed.

The activities under the scope of the SCOOP project (i.e. the raw material purchasing and utilization optimization software) were embarked on. Moreover, the MAM project (i.e. the Material Analysis Management) was also initiated so that the data could be compiled and forwarded to the SCOOP system.

The project that enables the offering of long products on sale over “ERDEMİROnline” was, also, completed. The detailed functional design of the ERSEM Sales Process was finalized within the framework of “ERDEMİROnline”. In addition, the coding tasks were also embarked on for this project. The projects as to the forming of the ERDEMİR price lists were finalized via, both, the “ERDEMİROnline” and the Production Control System.

Moreover, a set of new arrangements were put in operation for the order delivery process. Similarly, the system changes for the Container Shipment, which was recently implemented, were put into practice.

The analysis, design and software operations for the production Management system were initiated through a set of new technologies at the Ereğli plants. The new technology was utilized for the software of the system. On the other hand, the tests under phase-1 were also completed. In addition, applications for the printing of test reports on A4 paper with hologram were finalized. (Test reports include product quality/grade date offered to customers.) In conclusion, the software for the following items was completed and put into practice and operation: the stock Report regarding ERDEMİR Group, the Production Detail Report for the Ereğli plants, the Label Detail Report and the external system quality defect cost report.

The reports concerning the CCR1 Stock Sites of the 2nd Hot-rolling mill and the Java Conversion Projects of the Steelmaking plant were finalized and put into operation. The Java Conversion Projects for the Rolling cylinder Performance Tracking System and the Modernization efforts for the Stage 2 of the Steelmaking plant are also other undertakings in progress.

Enabling the planning of the production centers towards maximum profitability at the İskenderun plants, the APASS Project (i.e. Advanced Planning and Scheduling System) was initiated in order to be utilized in 2012.

In view of the raw material stock and the impurity limitations on the Iron Production System, the optimization software required for the preparation of sinter blend at the lowest cost possible was completed and put into operation. Moreover, the required integration of the blast furnaces Stage-3 System with the Stage 2 System of 4th blast furnace was established.

The conceptual design efforts were initiated so that the ERP software can be installed at the mining plant. The purchasing of the servers and the backing up systems were completed for the purpose of operating the automation systems with back-up copies.

Sustainable Future

The Group aims at forming an effective sustainability model based on transparency, accountability and integrity as well as compliance with legal and ethical codes under the principles of environmental sensitivity and sensitivity towards the societal aspects of life in line with all areas of its operation and business processes.

Recovery rate at the Ereğli plants

74.6%

Recovery rate at the İskenderun plants

57.5%

Sustainable Future

The world has become such a place where population is constantly rising, urban living spaces are expanding and spreading, and natural resources are limited. The key for being able to maintain life both for human beings and all other living creatures is the understanding of "Sustainable Development". All operations at OYAK Group are carried out in line with the understanding that all components such as quality of life, the level of welfare, economic competitiveness, employment and safety rely on shared natural capital. OYAK Group has adopted a management approach that internalizes social, environmental and economic factors in all of its operations and decision-making processes.

Generally speaking, sustainability can be defined as "meeting the needs of the current generations without jeopardizing the future generations' capability to meet their needs". Sustainability is a journey which would be impossible to be realized if the contribution of industrial and business life did not exist.

Only with close adherence to the principle of channeling all active efforts towards business life, it would be possible for one to increase productivity, to improve the mode of conducting business or to come up with brand new solutions for ever-evolving needs for the sole purpose of reducing consumption of the resources.

Having assumed the responsibility for being the leading entity in its field, ERDEMİR Group has shaped its efforts to incorporate its approach to sustainability into all of its business processes. The Group aims at forming an effective sustainability model based on transparency, accountability and integrity as well as in compliance with legal and ethical codes under the principles of environmental and sensitivity towards the societal aspects of life.

ERDEMİR Group carries out its operations by pursuing sustainability in each performance scope relating to the economy, the environment and the society, which are all regarded as the foundation of sustainable development. Thus, the Group ensures its individual and corporate sustainability through safeguarding the expectations and liabilities with regard to all of its stakeholders.

While maintaining its profitability on the economic sphere, ERDEMİR Group continues supporting the industry through its high quality goods and services diversified in line with the customer expectations. It also forges ahead with growth while upgrading its technology constantly thanks to the investment projects. On the other hand, by paying taxes on regular basis, the Group fulfills its legal liabilities, thus, adding value to the Turkish industry in turn.

ERDEMİR Group renders efforts for minimum waste disposal towards the goal of boosting its environmental performance. The Group prefers to utilize cleaner technologies for this purpose, and accordingly continues recycling at the utmost level. The Group realizes relevant environmental investments to reduce impact on the environment and to increase energy efficiency constantly.

Above all other factors, ERDEMİR Group prioritizes health and safety of its employees on the social scope. The Group also applies Occupational Health and Safety principles based upon the viewpoint that accident-free production is achievable. Meanwhile, it attaches importance to creating a safety culture. ERDEMİR meets all material and social benefits of its employees at the highest level. It gears human resources efforts towards offering a work environment based upon open communication while allowing the employees to actualize their potentials and participate in the management process actively.

Events, intended to enrich social life and contribution to the society, are organized particularly in the regions where group companies operate. The Group is involved in cooperation with the local authorities and non-governmental organizations which are regarded as significant business solution partners. The Group encourages its employees to participate in activities that contribute favorably to the society.

All of the Group subsidiaries act in line with corporate sustainability and work for the purpose of protecting corporate reputation, increasing profitability and fulfilling the expectations of stakeholders, bearing in mind that ensuring the tasks mentioned above will certainly provide the Company with a competitive advantage. The Group selects its business associates in line with its understanding of sustainability and the relevant principles.

Occupational Health and Safety is a Top Priority

Occupational Health and Safety is regarded as an integral part of the corporate culture of ERDEMİR Group. The developments in this area were closely monitored in 2012 and the activities for heightening awareness were carried out constantly. By continuously improving its implementations with the incorporation of international standards concerning occupational health and safety into its business processes, ERDEMİR Group acts in line with the understanding that it is possible to prevent all types of work-related accidents.

By minimizing the risks, all Group subsidiaries endeavor towards the target of achieving an atmosphere of accident-free production. Exemplary behaviors are rewarded in this respect. Protective materials at international standards are provided and practice regarding occupational health and safety is, then, geared towards increasing motivation at the workplace.

A number of cases in point for the activities carried out at Group companies in compliance with OHSAS 18001 Occupational Health and Safety Management System are as follows: board meetings on Occupational Health and Safety, Occupational Health and Safety committee and subcommittee meetings, scheduled and spot visits (checks/audits) to supervise safety, the use of “yellow card” and “close to an accident” practices, emergency drills, and delegating engineers directly in the centers and issuing OHS bulletin.

ERDEMİR Group subsidiaries hold a leading position in the relevant industry through their practices concerning occupational health and safety. Moreover, the subsidiaries either host congresses, conferences and workshops, or take part in such events.

For the very same purpose, training programs on Occupational Health and Safety were performed in 2012 – the breakdown of which is as follows: 92,973 hours of training at the Ereğli plants, 47,253 hours at the İskenderun plants, 2,520 hours at ERMADEN, and 4,790 hours at ERENCO.

Since 2004 ERDEMİR Group has been effectively carrying on its projects for the “identification and elimination of risks”, which was foreseen pursuant to Occupational Health and Safety Law, No. 6331, enacted on June 30, 2012.

ERDEMİR carries out its operations in such a mode that the hazards regarding all types of operations are defined and risk/hazard stages are identified. ERDEMİR practice was awarded the “Best practice example” across Turkey by the Ministry of Labor and Social Security in 2008. “ERDEMİR Risk Assessment System” was selected to be “exemplary” at the 9th European Good Practice Competition in 2009. This is the system by which risks are managed in the Group. Overall, 11,260 operations have been identified by the system since the system was set up, and the number of risk assessments has reached 32,419 cases.

Saving in Energy, Reliable Future

ERDEMİR Group adopts principles which favor effective and efficient use of energy. The Group postulates on the fact that the approaches to handling the energy and energy performances of companies engaging in industries where intensive energy use is essential plays a key role in sustainability of the production and the environment.

Energy costs make up a major part of expenses in integrated plants. Consequently, economical and efficient use of energy and reduction in consumption will also bring about competitive advantage. Accordingly, all byproduct fuels released as a result of the production processes are utilized at the utmost level in place of the primary energy resources at ERDEMİR Group.

ERDEMİR Group finds methods for the economical use of the energy resources with the following practices: the Ereğli and the İskenderun plants have the capacity of generating electricity utilized. Moreover, the market conditions are, closely, monitored interactively in terms of cost advantages and electricity is purchased from external resources at times of the day when it is more economical.

Specific Energy Consumption is a major indicator of performance in iron and steel industry. ERDEMİR Group subsidiaries exhibit a successful performance in iron and steel industry through their specific consumption of energy. The primary energy resources used at the Ereğli plants in 2012 were comprised of coal and coal derivatives (80.4%), natural gas (17%) and electricity purchased from external resources (2.6%). The figures for the İskenderun plants are 89.5% of coal and coal derivatives, 3% of natural gas and 7.5% of purchased electricity.

Under the scope of energy saving investments, within the framework of projects concerning energy recovery intended towards making use of the waste heat, investments regarding the Continuous Annealing Line Waste Heat Boiler and No. 2 Slab Furnace Evaporative Cooling System were effectively put into practice at the Ereğli plants in 2012.

Moreover, ERDEMİR Group aims at achieving to save a substantial amount of energy upon the completion of projects such as the Renewal of Sinter Main Fan and Motor Systems, the Descalepompa AC Driver, the Cogeneration Plants, the additional Combustion System for the Waste Heat Boilers, the Sinter Circular Cooler Waste Heat Boiler and the Blast Furnace Gas TRT System.

ERDEMİR Group carried on offering training programs on energy saving, efficiency and cost to its employees in 2012. The training programs regarding “Efficiency in Applied Steam Energy” were maintained at ERDEMİR and İSDEMİR so that the technical competencies of hourly-paid employees could be improved. Apart from the said training programs, an additional program on “Applied Combustion Systems” has also commenced.

The Ereğli and the İskenderun plants hold “ISO 50001 Energy Management System Certification”. ERDEMİR has been exerting constant efforts on energy management for quite a long period of time, and it places great importance on this particular issue.

As a result, ERDEMİR Group’s production plants achieved superior quality standards, and this was duly verified through the presentation of “The Most Efficient Thermal Plant” award to the Group at the event of ICCI, namely, the 2011 International Energy and Environment Exhibition and Conference, being organized and held for the first time in Turkey. The conference was an extension of activities within the framework of the energy awards.

The Environment is not an Inherited Property; but a Heritage to be Safeguarded!

Activities are performed to minimize environmental impact that result from the production processes in all geographical areas where the subsidiaries of ERDEMİR Group operate in. This fact forms the basis of the Group's environmental management activities. The activities under this scope are geared towards "ISO 14001 Environment Management System" which is an internationally acknowledged system.

By carrying on its environmental investments constantly, ERDEMİR Group utilizes cleaner production technologies for the improvement of its environmental performance. The Group continues implementing activities for upgrading so that higher levels of recovery and minimum waste disposal can be ensured. Being considered an exemplary model for other business entities in terms of its environmental practices, the Group's relevant environmental approach is developed through a level which is beyond harmonization with legal legislations. Thus, its environmental performance is appreciated on the national and international arenas.

ERDEMİR's "Environment Management Process, Environmental Performance Index and Sustainability Operations" were selected among one of the best implementations, and deemed worthy of an award within the scope of "Project to Support Turkey's Preparations for the 2012 United Nations Sustainable Development Conference (Rio+20)". The preparations were carried out with the coordination of the Ministry of Development for the purpose of sharing the experience of our nation with regard to sustainable development in the international arena.

ERDEMİR's "Environment Management Process, Environmental Performance Index and Sustainability Operations" were presented and shared on an international platform during the Rio+20 United Nations Sustainable Development Conference, held in Rio de Janeiro, Brazil, between 20-22 June,2012.

The following qualities of ERDEMİR Group were once again appreciated both nationally and internationally: effective resource management, capability of producing new products, technologies and services that can fulfill the needs of the future, environmentally-friendly production performance, the ability to ensure the safety and the growth of its employees, and the achievements towards the goal of maintaining a sustainable company position relying on the principle of corporate social reasonability approach.

Pursuant to the legislations, all the emission measurements at ERDEMİR Group plants are being carried out by authorized firms and, subsequently, reported to the authorities in charge. Projects for setting up "Security Management System" were initiated at the Ereğli plants in 2012 within the scope of "Regulations on the Control of Major Industrial Accidents" (SEVESO/COMAH). In addition, ERDEMİR employees are offered training programs on climate change, natural disasters caused by global warming, major industrial accidents, waste recycling through ERDEMİR Environment Management System as well as water and energy saving principles so that the environment protection can be adopted as a principle and internalized accordingly.

The Ereğli Plants Recovery Rate (%)

2012	**74.6**
2011	71.3
2010	63.6
2009	59.5
2008	68.5
2007	72

The rate of Recirculation Water Use at the Ereğli Plants (%)

2012	**91**
2011	89
2010	89.8
2009	91
2008	90.9
2007	91.2

The İskenderun Plants Recovery Rate (%)

2012	**57.5**
2011	71.3
2010	63.6
2009	59.5
2008	68.5
2007	72

Rate of Recirculation Water Use at the İskenderun Plants (%)

2012	**94.9**
2011	89
2010	89.8
2009	91
2008	90.9
2007	91.2

Hand-in-Hand with the Society

ERDEMİR Group has adopted the view of contributing to the society, particularly in the areas it operates in. Correspondingly, the Group gears its activities for this goal, cooperating voluntarily with both the public intuitions and the non-governmental organizations.

ERDEMİR Recommendation System – The Number of Total Recommendations

74,000

İSDEMİR Recommendation System – The Number of Total Recommendations

89,651

Hand-in-Hand With The Society

ERDEMİR Group support growth in the society.

ERDEMİR Group voluntarily blended its contribution towards the needs and demands of the society with its business processes. The Group subsidiaries support growth in the society, particularly in the areas they operate in while encouraging their employees to participate in activities that contribute favorably to the society. Moreover, the group subsidiaries reinforce cooperation with the public institutions and the non-governmental organizations for their activities geared towards growth of the society. Among all of its contributions, ERDEMİR Group places particular value on education. Accordingly, the Group enjoys assuming a leading role in improving the physical conditions and technical equipment of educational institutions while offering high school and university students opportunities for internship apart from supporting scientific studies conducted by schools.

The Group organizes events such as training events for primary and high schools as well as art contests so as to raise awareness in issues such as occupational health and safety. ERMADEN, one of the Group subsidiaries, undertook the construction of a dormitory, with 250 beds for Divriği Vocational School students, accompanied by the help of a philanthropist.

Apart from its contributions to education, ERDEMİR Group values making progress in sports activities. ERDEMİR and İSDEMİR continued playing an active role in this regard. In 2012, the Group carried on supporting ERDEMİRSPOR and İskenderun Demir Çelik Sport Clubs, along with their professional athletes and teams competing in different fields of sports.

Moreover, the Group subsidiaries continued engaging in campaigns in 2012 to donate blood and offer food packet aids to families in need.

The Journey in Ongoing Quality

ERDEMİR Group presses on developing its business processes through enabling the quality standards and active participation systems. For ERDEMİR Group, enhancing quality is an indispensable issue within all aspects of its business. In this sense, the total quality journey is carried along through an approach that can be expressed through this motto: “Together with our stakeholders, and for the benefit of our stakeholders”.

Adopted for the sole purpose of enhancing effectiveness of business processes and developing an integrative way of thinking, Process Development and Improvement Methods have had positive implications and impacts on the business outcomes.

Individuals Will Make the Difference

Institutions which are able to maintain their competitive edge under tough and adverse market conditions are firms which can ensure the participation of their employees based on the understanding that “individuals will make the difference”. Relying on this very same understanding, ERDEMİR Recommendations System was established in 1993 to increase human productivity, discovering and making use of employees’ potentials and their creative aspects, encouraging interrogative business styles, and promoting individual and group activities. As of today, the total number of recommendations has reached 74,000. The calculable financial advantage amounted to 200 million USD in many aspects including the environment, quality, Occupational Health and Safety and increase in productivity. Employees’ participation in the Recommendations System at the İskenderun plants reached 92% at the end of 2012. The total number of recommendations submitted to the system amounted to 89,651, covering a period between 2004 (the date of the inception of the recommendations system) and 2012.

The below are the quality certifications ERDEMİR Group holds:

ERDEMİR

- ISO 9001 Quality Management System Certification
- ISO 14001 Environment Management System Certification
- ISO/TS 16949 Automotive Sector Quality Management System Certification
- OHSAS 18001 Occupational Health and Safety Management System Certification
- ISO 50001 Energy Management System Certification
- Calibration Laboratories TS EN ISI/IEC 17025 laboratory Accreditation Certificate *

İSDEMİR

- ISO 9001 Quality Management System Certification
- ISO 14001 Environment Management System Certification
- OHSAS 18001 Occupational Health and Safety Management System Certification
- ISO 17025 Laboratory Management System Certification
- ISO 50001 Energy Management System Certification
- ISO / TS 16949 Automotive Sector Quality Management System Certification *

ERENCO

- ISO 9001 Quality Management System Certification

ERMADEN

- OHSAS 18001 Occupational Health and Safety Management System Certification

ERDEMİR Romania S.R.L.

- ISO 9001 Quality Management System Certification
- ISO 14001 Environment Management System Certification
- OHSAS 18001 Occupational Health and Safety Management System Certification

ERDEMİR Steel Service Center

- ISO 9002 Quality Management System Certification
- ISO / TS 16949 Automotive Sector Quality Management System Certification
- ISO 14001 Environment Management System Certification *
- OHSAS 18001 Occupational Health and Safety Management System Certification

** Certification projects are ongoing.*

Ereğli Demir ve Çelik Fabrikaları T.A.Ş.
The Board of Directors

Standing row, from left to right are:

- Member of the Board: The Representative of the Turkish Republic Prime Ministry for the Administration of Privatization, Mr. Mehmet SARITAŞ
- The Auditor: Mr. Ahmet Türker ANAYURT
- The Deputy Chairman of the Board of Directors and The Managing Director: The Representative of OYAK Girişim Danışmanlığı A.Ş., Mr. Nihat KARADAĞ

The sitting row, from left to right are:

- The Independent Board Member: Mr. Ali Aydın PANDIR
- The Member of the Board: The Representative of OYAK Pazarlama Hizmet ve Turizm A.Ş., Ms. Fatma CANLI
- The Independent Board Member: Mr. Nazmi DEMİR

* As of March 13, 2012, The Board Member, Mr. Mehmet SARITAŞ, has been acting as the real person representative of the Turkish Republic Prime Ministry for the Administration of Privatization at ERDEMİR. He was appointed to the position as a result of Mr. Ahmet Aksu's resignation from the same position (real person representative of the Turkish Republic Prime Ministry for the Administration of Privatization). Mr. Aksu was appointed a Board Member as of March 13, 2012. He was re-elected as a Board Member following the Ordinary General Assembly Meeting on March 30, 2012 and the one held on June 29, 2012. Mr. Aksu resigned from the Board Member position on September 20, 2012. He acted as the real person representative of the Turkish Republic Prime Ministry for the Administration of Privatization at ERDEMİR, then, resigned on January 3, 2013. Mr. Mehmet SARITAŞ was, then, appointed in place of Mr. Ahmet AKSU.

* Mr. Ahmet Türker ANAYURT was appointed the Auditor at ERDEMİR on March 9, 2010. He was elected once again as the Auditor following the Ordinary General Assembly Meeting held on March 30, 2012. He has been in same position since then.

* Having been appointed a Board Member at ERDEMİR, following the Ordinary General Assembly Meeting on September 30, 2009, Mr. Nihat KARADAĞ was re-elected as a Board Member on June 29, 2012, following the Ordinary General Assembly Meeting. Following the assignment of duties performed subsequent to the two assembly meetings, Mr. KARADAĞ was appointed the Deputy Chairman-Managing Director. He resigned from the Board Member position on September 12, 2012. Since then, he has been acting as the real person representative of OYAK Girişim Danışmanlığı A.Ş.

* Mr. Ali Aydın PANDIR has been serving as the Independent Board Member. He was elected for this position on September 20, 2012, following Mr. Ali Husrev BOZER's resignation on July 5, 2012. Mr. BOZER was appointed an Independent Board Member on June 29, 2012.

* Having been appointed a Board Member at ERDEMİR on March 9, 2010, Ms. Fatma CANLI was re-elected for the same position at two Ordinary General Assembly Meetings dated March 30, 2012 and June 29, 2012. Ms. Fatma CANLI resigned from the post of Board Member on September 13, 2012. Since then, she has been performing as the real person representative of OYAK Pazarlama Hizmet ve Turizm A.Ş.

* Mr. Nazmi DEMİR was appointed Independent Board Member following the Ordinary General Assembly Meeting dated June 29, 2012. He has been performing under the same title since then.

Standing row, from left to right are:

- The Member of the Board and The Managing Director: The Representative of OMSAN Lojistik A.Ş., Mr. Dinç KIZILDEMİR
- The Member of the Board and Managing Director: The Representative of ATAER Holding A.Ş., Mr. Fatih Osman TAR
- Auditor: The Representative of Ministry of Finance, Mr. Ünal TAYYAN

Sitting row, from left to right are:

- The Member of the Board: The Representative of OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş., Mr. Ertuğrul AYDIN
- The Independent Board Member: Mr. Atilla Tamer ALPTEKİN

*Having been appointed a Board Member at ERDEMİR on February 27, 2006, Mr. Dinç KIZILDEMİR was re-elected for the same position at two Ordinary General Assembly Meetings dated March 30, 2012 and June 29, 2012. Following the assignment of duties performed after the two assembly meetings, Mr. KIZILDEMİR was appointed a Member of the Board and the Managing Director. He resigned from the Board Member position on September 11, 2012. Since then, he has been acting as the real person representative of OMSAN Lojistik A.Ş.

* Having been elected as a Board Member at ERDEMİR on February 22, 2010, Mr. Fatih Osman TAR was re-elected for the same position at two Ordinary General Assembly Meetings dated March 30, 2012 and June 29, 2012. Following the assignment of duties performed subsequent to the two assembly meetings, Mr. TAR was appointed a Member of the Board and the Managing Director. He resigned from the Board Member position on September 11, 2012. Since then, he has been acting as the real person representative of ATAER Holding A.Ş.

* Having been elected as Auditor at ERDEMİR on March 31, 2011, Mr. Ünal TAYYAN was re-elected for the same position at the Ordinary General Assembly Meeting held on March 30, 2012. He has been performing under the same title since then.

* Having been appointed a Board Member at ERDEMİR on March 31, 2008, Mr. Ertuğrul AYDIN was re-elected for the same position at two Ordinary General Assembly Meetings dated March 30, 2012 and June 29, 2012. Mr. AYDIN resigned from the Board Member position on September 12, 2012. Since then, he has been acting as the real person representative of OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş.

* Mr. Atilla Tamer ALPTEKİN was appointed an Independent Board Member following the Ordinary General Assembly Meeting dated June 29, 2012. He has been performing under the same title since then.

The General Managers

From left to right are:

- The General Manager of ERDEMİR MADENCİLİK SANAYİ VE TİCARET A.Ş.: Mr. Sedat ORHAN
- The Deputy General Manager: EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş.: Mr. Fatih Osman TAR
- The General Manager of ERDEMİR MÜHENDİSLİK, YÖNETİM VE DANIŞMANLIK HİZMETLERİ A.Ş.: Mr. Fikret BAŞBUĞ
- The General Manager of İSKENDERUN DEMİR VE ÇELİK A.Ş.: Mr. Recep ÖZHAN
- The General Manager of ERDEMİR-ROMANIA S.R.L.: Mr. Cemal Erdoğan GÜNAY
- The General Manager of ERDEMİR ÇELİK SERVİS MERKEZİ SANAYİ VE TİCARET A.Ş.: Mr. Burak BÜYÜKFIRAT

* Mr. Sedat ORHAN has been performing as the General Manager at ERDEMİR MADENCİLİK SANAYİ VE TİCARET A.Ş. since October 12, 2006.

* Due to the resignation of Mr. Oğuz Nuri ÖZGEN, who had been acting as the General Manager of EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. since July 13, 2006, and who resigned from his position on July 2, 2012, Mr. Fatih Osman TAR was appointed in his place by proxy as of the same date.

* Mr. Fikret BAŞBUĞ has been performing as the General Manager at ERDEMİR MÜHENDİSLİK, YÖNETİM VE DANIŞMANLIK HİZMETLERİ A.Ş. since October 1, 2011.

* Due to the resignation of Mr. İsmail AKÇAKMAK, who had been acting as the General Manager of İSKENDERUN DEMİR VE ÇELİK A.S since May 5, 2006, and who resigned from his position on July 2, 2012, Mr. Recep ÖZHAN was appointed in his place by proxy as of the same date. Mr. ÖZHAN's definitive appointment to this position was approved as of November 21, 2012.

* Mr. Cemal Erdoğan GÜNAY has been performing as the General Manager at ERDEMİR-ROMANIA S.R.L. since September 27, 2010.

* Mr. Burak BÜYÜKFIRAT used to perform as the proxy General Manager of ERDEMİR ÇELİK SERVİS MERKEZİ SANAYİ VE TİCARET A.Ş. as of April 21, 2010. His definitive appointment to this position was approved on June 1, 2010. His term of office expired as of February 1, 2013. Mr. Mustafa Ayhan KALMUKOĞLU was appointed by proxy in his place on the same date.

The Coordinators

From left to right are:

- The ERDEMİR Group Financial Affairs Coordinator: Mr. Bülent BEYDÜZ
- The ERDEMİR Group Marketing and Sales Coordinator (Acting): Mr. Mustafa Ayhan KALMUKOĞLU
- The EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. Member of the Board and The Managing Director: Mr. Fatih Osman TAR
- The ERDEMİR Group Information Technologies Coordinator: Mr. Öner SONGÜL
- The ERDEMİR Group Production Coordinator: Mr. Oğuz Nuri ÖZGEN
- The ERDEMİR Group Purchasing Coordinator (Acting): Mr. Ahmet Samim ŞAYLAN
- The ERDEMİR Group Technology Coordinator: Mr. Mesut Uğur YILMAZ

* Mr. Bülent BEYDÜZ has been performing as the Financial Affairs Coordinator of ERDEMİR Group since April 11, 2011.

* Mr. Ayhan KALMUKOĞLU, who had been acting as the ERDEMİR Group Marketing and Sales Deputy Coordinator since July 12, 2010, resigned from this position as of February 2, 2013. Ms. Başak TAV was appointed by proxy in his place as of the same date.

* Mr. Öner SONGÜL used to perform as the Information Technologies Deputy Coordinator of ERDEMİR Group as of August 12, 2010. His definitive appointment to this position was approved on December 19, 2011 and he has been performing under the same title since then.

* Mr. Oğuz Nuri ÖZGEN has been performing as the ERDEMİR Group Production Coordinator since July 2, 2012.

* Mr. Ahmet Samim ŞAYLAN was appointed by proxy to the same position due to the resignation of Mr. Şafak ÇAPAR on July 12, 2012. Mr. Şafak ÇAPAR had been performing this position by proxy as of March 3, 2011. He gained definitive appointment on August 5, 2011. And once again, he began acting by proxy for the same position as of July 2, 2012.

* Mr. Mesut Uğur YILMAZ has been performing as the ERDEMİR Group Technology Coordinator since July 2, 2012.

Ereğli Demir ve Çelik FABRİKALARI T.A.Ş. The Management

From left to right are:

- The Human Resources and Administrative Affairs Assistant General Manager: Mr. Kaan BÖKE
- The Technical Services and Investments Assistant General Manager: Mr. Mehmet Mücteba BEKCAN
- The Assistant General Manager Operations: Mr. Esat GÜNDAY
- The Deputy General Manager: Mr. Fatih Osman TAR
- The Financial Affairs Assistant General Manager: Mr. Sami Nezih TUNALITOSUNOĞLU
- The Deputy Purchasing Director: Mr. Berk ONAY

* Due to the resignation of Mr. Ahmet Samim ŞAYLAN, who had been acting as the Human Resources and Administrative Affairs Assistant General Manager since July 13, 2006, and who resigned from his position on April 2, 2012, Mr. Kaan BÖKE was appointed definitively as of the same date.

* Mr. Mehmet Mücteba BEKCAN commenced serving as the proxy (acting) Deputy General Manager Technical Services and Investments as of July 14, 2010. He gained definitive appointment for the same position on March 14, 2011.

* Mr. Esat GÜNDAY began serving as the proxy (acting) Assistant General Manager Operations as of July 13, 2006. He gained definitive appointment for the same position on January 1, 2007.

* Mr. Oğuz Nuri ÖZGEN, who had been acting as the General Manager since July 13, 2006, resigned from this position on July 2, 2012, and Mr. Fatih Osman TAR was appointed by proxy as of the same date.

* Mr. Sami Nezih TUNALITOSUNOĞLU has been performing as the Deputy General Manager Financial Affairs since April 11, 2011.

* Mr. Berk ONAY has been serving as the proxy (acting) Purchasing Director since August 1, 2012.

İskenderun Demir ve Çelik A.Ş.
The Management

From left to right:

- The Assistant General Manager Human Resources: Mr. Yener Bürtay KORALTAN
- The General Manager: Mr. Recep ÖZHAN
- The Technical Services and Investments Assistant General Manager: Mr. Erkan ESER
- The Assistant General Manager Operations: Mr. Şafak ÇAPAR
- The Deputy Purchasing General Manager: Mr. Coşkun OKUTAN

* Due to the resignation of Mr. Coşkun OKUTAN, who had been acting as the Assistant General Manager in İSKENDERUN DEMİR VE ÇELİK A.Ş. since March 1, 2006, and who resigned from this position on April 2, 2012, Mr. Yener Bürtay KORALTAN was appointed definitively to Mr. OKUTAN's position as of the same date.

* Due to the resignation of Mr. İsmail AKÇAKMAK, who had been acting as the Assistant General Manager in İSKENDERUN DEMİR VE ÇELİK A.Ş. since May 5, 2006, and who resigned from this position on July 2, 2012, Mr. Yener Recep ÖZHAN was appointed by proxy to Mr. AKÇAKMAK's position as of the same date. He gained definitive appointment to the same position on November 21, 2012.

* Mr. Erkan ESER began serving as the proxy (acting) Technical Services Assistant General at İSKENDERUN DEMİR VE ÇELİK A.Ş. as of November 17, 2011. He gained definitive appointment to the same position on June 19, 2012.

* Due to the resignation of Mr. Mesut Uğur YILMAZ, who had been acting as the Assistant General Manager Operations at İSKENDERUN DEMİR VE ÇELİK A.Ş. since February 6, 2002, and who resigned from this position on July 2, 2012, Mr. Şafak ÇAPAR was appointed definitively to Mr. YILMAZ's position as of the same date.

* Mr. Coşkun OKUTAN commenced serving as the proxy (acting) Deputy Purchasing General Manager at İSKENDERUN DEMİR VE ÇELİK A.Ş. as of August 10, 2011. He gained definitive appointment for the same position on April 2, 2012.

The Principles of The Corporate Governance Compliance Report

1. The Principles of the Corporate Governance Compliance Statement

Ereğli Demir ve Çelik Fabrikaları T.A.Ş., one of the public companies in Turkey with the broadest base, enjoys a leading position in its field in the Turkish industry, and is well aware of its responsibilities towards its stakeholders. Transparency, accountable management approach, compliance with ethical and legal codes are integral components of the corporate management. ERDEMİR has always fulfilled its responsibilities, arising from legislations, in an accurate and prompt manner.

In order to fulfill liabilities arising from the Capital Market Legislation and ensure coordination for compliance with "The Principles of Corporate Governance", published by the Board and raising the level of harmonization, our Company has assigned qualified personnel awarded with 'Advanced License for Capital Market Activities' and 'Corporate Management Ranking Specialist License', duly deemed mandatory pursuant to the Capital Markets Board Communiqué Serial: IV, No: 41.

Within the year 2012, our Company remitted due diligence for compliance with the mandatory or optional regulations for the Principles of the Corporate Governance, which had been revised in 2011 - the details of which are presented below. In addition, in the very same period, our Company initiated the preliminary preparations for the harmonization process under the scope of the Communiqué Serial: IV, No: 56 on Principles Regarding Determination and Application of Corporate Governance Principles, published by the Capital Markets Board, in the Official Gazette dated December 30, 2011, numbered 28158, and enacted accordingly. The Extraordinary General Assembly Meeting of the Company was held on June 29, 2012 to settle the amendments to be made in the Articles of Association and in the structure of the board of directors as to the election of the independent members, which are issues expected to be realized pursuant to the above-mentioned Communiqué. Apart from the committee in charge of the auditing, other committees such as the corporate governance committee and the early detection of risks committee were set up by the Company.

The policies formed under the scope of the Principles of the Corporate Governance and the working directives of the committees are published on our website.

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. believes in the importance of ensuring full compliance with the Principles of the Corporate Governance. However, a number of obstacles stand in the way of compliance. There are a number of difficulties in the national and international arena concerning compliance, failure to ensure an overlap with the market and the current structure of the Firm. These are the difficulties which have caused possible delays in practice for the operations within the firm and a number of arguments in Turkey. Thus, full compliance has not yet been achieved as to a number of non- mandatory principles. An array of efforts and undertakings towards the goal of ensuring full compliance promptly are in progress. This goal will have been achieved upon the completion of administrative, legal and technical infrastructure projects. The said goal also includes the monitoring of the recent developments including the Capital Markets Board, which are to be issued, concerning the limited number of principles that have not been put into practice. The Principles of the Corporate governance in practice and those which have not yet been harmonized are presented below.

PART I – THE SHAREHOLDERS

2. Shareholders Relations Department

The relationships with our partners, corporate investors and analysts are carried out systematically in a fashion that supports Company value. In line with this very purpose, the Company organizes meetings with the domestic and the foreign investors and announces material disclosures to the public immediately. Additionally, the Company fulfills its responsibilities towards regulatory bodies such as the Istanbul Stock Exchange and the Capital Markets Board, and provides prompt replies to the queries of the partners, the analysts and the portfolio managers.

Inquiries made by our shareholders by telephone and e-mail within the year are responded to. Such inquiries are concerned with the stock updates, entry into the registration system, the general assembly and the dividend distribution.
Depending on the nature and the content of the requested information in case of necesity, the query is shared with

the independent auditors of the Company and the relevant responses are submitted to the enquirer.

The remarks concerning the Financial Statements and the Footnotes as well as the material disclosures are announced to the investors of the Istanbul Stock Exchange and to the public via Public Disclosure Platform. The Financial statements, The Footnotes and the material disclosures are also published on the Company website.

The relationships with the shareholders are carried out by the Investor Relations Department. The relevant contact information is available in the annual report and on the Company website.

The Investor Relations Department

Name-Surname	Title	Telephone
Avni Sönmezyıldız	Manager (Acting)	(0216) 578-8061
İdil Önay	Supervisor	(0216) 578-8149
Beren Erdem	Specialist	(0216) 578-8097

The table below presents activities performed within 2012 so that investors could be informed in-depth concerning the operations of the Company:

The number of the investor meetings attended in Turkey and abroad	35
The number of investors and analysts who have been contacted	403
The number of tele-conferences held regarding financials	4
The number of analyst meetings held	3

3. The Use of Shareholders' Rights to Obtain Information

Pursuant to the inquiry policy of our Company, all shareholders, potential investors and analysts shall be treated equally and fairly with regard to their right of the use of request and enquiry of information. It is also essential that our disclosures be passed onto everyone simultaneously with the same content. All information sharing is to be made in line with the content announced to the public earlier. Within the framework of the sharing of information, the shareholders and the market players are informed regarding all types of information along with material disclosures. The retrospective material disclosures are published on the Company website.

Loads of written and verbal requests for information from the shareholders are responded to promptly under the supervision of the Investor Relations Department and in line with the provisions of the Capital Markets Board Legislation. For the purpose of extending the shareholders' right to enquiry, any information that might harbor an impact on the shareholders' right of use under the principles of the Corporate Governance is updated and published on the website. The information on our website is published in Turkish and English, and duly allows fair use for both domestic and foreign shareholders. The company's activities are audited by an Independent Auditor(s) and statutory auditor, appointed by the General Assembly/Board, regularly and periodically. The independent auditing procedures for the year 2012 were carried out by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (i.e. A Member Firm of Ernst & Young Global Limited)

The request of shareholders allowing the appointment of a special auditor has not been drawn out as an individual right as per our Articles of Association. Accordingly, no request concerning the appointment of a special auditor has, yet, been received by our Company.

4. The General Assembly Meetings

The General Assembly Meeting of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. is held at least once a year following the Company's fiscal year end. When the Board of Directors sets the date of the General Assembly Meeting, a relevant declaration is made to the Capital Markets Board and the Istanbul Stock Exchange by the Board. All of our shareholders are invited to participate in the General Assembly via the company website and by means of the media. They are also informed regarding the items on the agenda.

The Principles of The Corporate Governance Compliance Report

The ordinary General Assembly meeting for the year 2011 was held on March 30, 2012. 50.28% of the shares were represented in the General Assembly. The balance sheet, the profit and loss account, the Board of Directors' and Auditor's Reports for 2011 were made available for the inquiry and the review of our shareholders at the Company Headquarters and the regional directorates/divisions as of March 15, 2013, and a copy of the above documents has been provided upon request.

A number of shareholders intended to raise their concerns outside of the agenda during the speeches they delivered at the General Assembly Meeting. They addressed queries relating to the Company's performance and strategies. Such questions were replied by the Assembly Chairman and the relevant executives under the guidance of the Chairman. The minutes of the Meeting and the List of Attendants were released on our Company website.

The Extraordinary General Assembly of the Company was held on June 29, 2012 to settle the amendments to be made in the Articles of Association and in the structure of the board of directors as to the election of the independent members, which are issues expected to be realized pursuant to the Communiqué Serial: IV, No: 56 on the Principles regarding Determination and Application of Corporate Governance Principles, published by the Capital Markets Board, in the Official Gazette dated December 30, 2011.

A separate item on the General Assembly agenda regarding the donations and the aids offered in the period is included. Within the framework of the Company's policy, the Shareholders were kept informed of the donations and aids realized in 2010 and 2011, which amounted to 420,310 TRY and 366,519 TRY, respectively.

5. Voting Rights and the Minority Rights

Each shareholder or the representative of the shareholder attending an Ordinary or an Extraordinary General Assembly Meetings shall have one voting right for each share. The shareholders may be represented by other shareholders or by proxy in the General Assembly Meetings.

The representatives who are the shareholders of the company are entitled to use the votes of the shareholders whom they represent apart from their own votes.

Capital Markets Board has its regulations regarding proxy voting reserved.

In 2012, as of the Article 1527 of the Turkish Commercial Code, beneficiaries who have the right to attend the general assembly meetings of the Company are entitled to take part in the Ordinary General Assembly Meetings, through Electronic General Assembly Meeting. As per the provisions of the Regulations on the Joint Stock Companies' General Assemblies to be Realized in the Electronic Media, the Company can, through its own means, set up a general assembly system that will allow the beneficiaries to attend the general assembly meetings equipped with the Electronic Media and to express their comments or to make recommendations and to vote. Alternatively, the Company can purchase or hire the relevant required services.

For all the general assembly meetings to be held, the exercise of rights of the beneficiaries and their representatives through the system established shall be ensured pursuant to the relevant regulation as per this Article of the articles of association of the Company.

The capital is divided into A and B group shares. The Group A shares consist of 1 bearer share with a share value of 1 Kr and the Group B shares consist of 308,999,999,999 shares representing 3,089,999,999.99 TRY of the issued capital.

The decisions regarding the conditions stated below can be made provided that the beneficiary owner, representing the Group A shares, casts an affirmative vote. Otherwise, decisions shall be deemed invalid.

-Decisions regarding the change in the Articles of Association of the Company which will result in an effect on the Board of Directors' meeting, the decision quorum and the rights pertaining to the A Group shares as well as the decision to make any type of amendments in the Articles of Association regarding the investment and the employment, and the liabilities included in the Share Sales Agreement that will have a direct or an indirect effect on the rights of the A Group shares,

-Decisions regarding the closure, limitation upon restriction, or capacity curtailing of any of the integrated steel production plants or the mining plants owned by the Company and/or by the affiliates,

-Decisions regarding the selling, splitting, merging (with another company or business entity) or liquidation of the company and/or the affiliates which own an integrated steel production plant or a mining plant.

No cross-shareholding relations exists for the capital of the Company. The minority shareholders are not represented on the Board of Directors.

6. The Dividend Right

No privilege exists in the Articles of Association as to the participation in the company profit. Each share has an equal dividend right. The Profit Distribution Policy is included in the annual report and also submitted to the shareholders at the General Assembly Meeting. Moreover, the history of dividend payments and the information regarding capital increases are disclosed to the public on the Company website.

The distribution of the company profit is stated, in compliance with the arrangements of the Capital Markets Board, following the Article 37 of the Articles of Association, titled "Determination and Allocation of Profit".

As for the estimation of the rate to be allocated to our shareholders in cash and/or in the form of bonus shares from the Net Distributable Profit for the Period estimated by not ignoring the minimum distribution level of Capital Markets Legislation and according to the procedure described in the related clause of the Articles of Association, our Company aims at achieving the maximum distribution of the profit to the extent allowed by the financial leverage rates in accordance with the principles of corporate management, exerting efforts to establish a balance between the financial burden resulting from the investment expenditures and the Corporate Management expectations of the partners.

As mentioned above, the regulations of the Capital Markets Board are abided by while calculating and distributing the profit.

The dividend distribution is performed within the legal period and the Shareholders are informed of all matters concerning the dividend distribution at the General Assembly Meeting.

7. The Transfer of Shares

There is no restriction regarding the transfer of our Company's shares in the Articles of Association, and the provisions of the Turkish Commercial Code shall be applicable on this matter.

PART II – THE PUBLIC DISCLOSURE AND TRANSPARENCY

8. The Public Disclosure Policy

The disclosure activities are carried out in compliance with our Company's "Disclosure Policy", the Capital Markets Legislation, the Capital Markets Board decisions and the other related legislations. The issues which require explanation or announcement are disclosed to the public explicitly, accurately and promptly.

In line with this objective, it is essential that the necessary information and explanations, barring commercial secrets, be forwarded to all beneficiaries including the shareholders, the investors, the employees and the customers in an accurate, complete, correct, prompt, comprehensible and plain fashion, at the lowest cost under equal and fair conditions.

The Board of Directors is authorized in the construction of our Company's disclosure policy and changes to be made in this policy. After the Disclosure policy and the alterations to be made in the policy are approved by the Board of Directors, they are published on the Company website and submitted to the shareholders in the succeeding General Assembly Meeting. The Investors Relations Department is in charge of carrying out the requirements of the disclosure policy.

Considering the fact that the Company is publicly-held and is expected to act accordingly in view of this arising responsibility, the necessary announcements in relation to all the developments under the scope of a Communiqué regarding Material Disclosures are undertaken promptly both to the investors and to the public. All changes and developments that may arise are constantly updated and shared with the public. A total of 48 material disclosures were made by the Company in 2012.

The Principles of The Corporate Governance Compliance Report

All employees of the Company who are able to have access to any type of information that might affect the value of our Company's capital market instruments are to disclose publicly any purchase or sales transactions they have performed through the capital market instruments issued by the Company.

In addition, the investors are provided with an email account with which they can address all sorts of queries and requests. The Investors Relations Department is in charge of responding to the questions addressed by the shareholders in compliance with our Company's disclosure policy whose principles of integrity require accurate, complete and fair responses.

9. The Company Website and its Content

The Company website (i.e. www.erdemir.com.tr) is actively in use both in Turkish and English. The website includes the following issues under the Investor Relations heading:

- The Annual Message from Management
- The Corporate Governance
- The Principles of the Corporate Governance Compliance Report
- The Board of Directors,
- The Management
- The Capital Structure
- The Trade Registry Information
- The Articles of Association
- The Minutes of General Assembly
- The Information regarding Golden Share
- The General Assembly List of Attendants
- Safe Harbour Statement
- Code of Business Ethics
- The Credit Rating
- The Annual Reports
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- Summary Information for Investors
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10. The Annual Report

Complying with the Principles of the Corporate Governance and the provisions stipulated in the legislation, the annual report of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. is prepared in a detailed fashion which allows the public to have accurate and prompt information concerning the Company activities.

PART III – STAKEHOLDERS

11. Informing The Stakeholders

Stakeholders such as the company employees, the customers, the suppliers, the trade unions, the non-governmental organizations, the state and the prospective investors are provided, upon request, with written or verbal information on the issues concerning them besides the information included in the financial statements and the reports disclosed to the public as per the legislations of the Capital Markets Board.

The Company employees are informed regarding the company practices on the intranet through monthly released news bulletins and announcements.

The development of the new product qualities and sizes, as well as any changes made on the sales terms are immediately disclosed to all customers along with the Customer Information Notes.

In addition, the demands and expectations of our customers are received through customer visits, and activities for developing new qualities are carried out depending on the changing demands that may emerge in the market. The customer complaints are delved into in the field and the required corrective actions are taken accordingly.

The tender system is practiced for all procurement of the domestic goods and services. The tenders are disclosed through facsimiles and e-mail messages. The specifications are also published on the Company website. On the other hand, cooperative actions are carried out to assist the manufacturer suppliers in our region to expand their business in turn.

Additionally, our Company exchanges ideas with the potential customers and suppliers during the exhibitions and fairs.

The recommendations and ideas of our employees are received, jointly, through the ERDEMİR Recommendation System (ERÖS) and the Performance Management System. The required upgrading and improvement actions are practiced accordingly.

The Company has set up a mechanism which allows the stakeholders to convey transactions against the company legislation and non-ethical behaviours to the Ethical Committee and/or the Ethical Consultant. For this purpose, contact addresses are provided on the Company website under the heading of the Code of Business Ethics.

12. The Stakeholders' Participation in The Management

No particular regulation exists for the stakeholders' participation in the management. However, our affiliates, employees and the other stakeholders are informed through meetings which are held regularly.

13. The Human Resources Policy

Operating in an industry where competitive market conditions prevail, ERDEMİR Group has established its human resources policies and practices on forming, improving and retaining qualified labor force equipped with skills of producing knowledge, identifying solutions to problems, taking initiative by assuming responsibility, being open to improvement and suitable for teamwork.

For this main objective, the Group is attentive to employing staff members who are appropriate for the Group's strategies and objectives. The Group also pays due notice to offering training opportunities to the current employees so that they can have the means of enriching their professional experience.

ERDEMİR Group effectively identifies the needs of its white and blue collar employees for training and improvement as well as the added-value they create through the Performance Management System. Moreover, the Group carries out processes of assignments and appointments in a manner that would maximize business productivity in line with objective criteria.

Relations with unionized workforce are carried out through the representatives of the trade union. For white-collar employees, there are no extra trade union representative. However, the required divisions such as the Human Resources, the Training, the Administrative Affairs, the Occupational Health and Safety have been established within the Group in order to carry out relations with our employees. The Group did not receive any complaints from the employees in relation to any cases concerning discrimination in 2012 or the previous years.

The following issues regarding the employees of our company have been laid out in the Personnel Regulations: working order, relations between subordinates and supervisors, responsibility, safeguarding the benefits of the company, relations with customers and business owners, attendance requirement, handover and delegation, keeping secrets, commercial operation, employment prohibition (for other companies and business entities), family relationship, promulgation regarding the business, occupational safety, requests and complaints.

14. The Ethical Codes and Social Responsibility

The fundamental principles of the business conduct have been determined by the business ethical codes, which are disclosed to the public through the Company's website.

These ethical codes of business constitute the common values and creeds of our company along with the changes occurring in legal, societal and economic conditions. Our Company fulfills its responsibilities towards the society. While creating value for the economy of the region and the country, the Group operates through its goods and services. Furthermore, ERDEMİR Group subsidiaries maintain their contributory activities for the societal development in a broad range, which is considered an integral part of the business processes.

For the Group, contributing to social issues voluntarily and effectively by coming up with solutions is a significant principle. Accordingly, the Group maintained its activities regarding social responsibility in cooperation with the local authorities and the non-governmental organizations in 2012. In order to provide a number of activities: improving the physical conditions and technical equipment of the health and education institutions, philanthropic undertakings, supporting arts and sports activities, supporting scientific studies of universities, offering opportunities of internship to the university and vocational school students can be listed all pursuant to the Group's adherence to the principle of social responsibility.

The Principles of The Corporate Governance Compliance Report

PART IV – THE BOARD OF DIRECTORS

15. The Structure and Incorporation of the Board of Directors

The Board of Directors consists of at least 5 and a maximum of 9 members to be elected by the General Assembly among shareholders in accordance with the provisions of the Turkish Commercial Code. The Members of the Board of Directors are elected for a period of one year. 9 members, 3 of whom would be independent members, were elected at the Extraordinary General Assembly Meeting dated June 29, 2012. Our Chairman and Vice/Deputy Chairman of the Board and one Board Member were appointed as the Managing Directors. ERDEMİR Chairman, Mr. Fatih Osman TAR, has, also, been serving as ERDEMİR General Manager (in proxy) as of July 2, 2012. There is no executive board in our Firm. Within this structure, Mr. Fatih Osman TAR, Mr. Dinç KIZILDEMİR and Mr. Nihat KARADAĞ serve as the Managing Directors while there is no additional executive board.

The procedure applied for assembling the Board of Directors, the quorum for the meeting, the resolution and the voting are subject to the provisions of the Turkish Commercial Code. Moreover, our Company is audited by at least 1 and a maximum of 3 auditors, among shareholders or outsiders, to be elected by the General Board for a period of one year. 2 auditors were elected at the General Assembly Meeting dated March 30, 2012.

Three applications to our Company were evaluated in 2012. The Committee reports, prepared by the Committee, which assumed the task of Nominating the Committee and is in charge of Auditing, on April 20, 2012 and May 15, 2012, pertaining to the candidacy of Mr. Ali Husrev BOZER, Mr. Atilla Tamer ALPTEKİN and Mr. Nazmi DEMİR as the independent board members were submitted to the Board of Directors on April 24, 2012. Due to being members of the Group 1 within the scope of our Company's Principles regarding Corporate Governance, the application was submitted to the Capital Markets Board in line with the required process pertaining to the independent board members. No opposing or dissenting view was received for this. Due to the resignation of Mr. Ali Hüsrev BOZER on July 5, 2012, Mr. Ali Aydın PANDIR was appointed the Independent Board Member in accordance with the report and decision of the Board dated July 16, 2012. The declarations on the independent membership of the Independent Board Members are included in the Appendix of the Board of Directors Annual Report.

Board of Directors	Assignment at the Board of Directors	Start Date of Term of Office
ATAER Holding A.Ş. (Representative: Mr. Fatih Osman TAR)	The Chairman and the Managing Director (until the next General Assembly Meeting)	11.09.2012
OYAK Girişim Danışmanlığı A.Ş. (Representative: Mr. Nihat KARADAĞ)	The Vice Chairman- the Managing Director (until the next General Assembly Meeting)	12.09.2012
The Representative of the Turkish Republic Prime Ministry for the Administration of Privatization (Representative: Mr. Mehmet SARITAŞ)	The Member of the Board (until the next General Assembly Meeting)	04.01.2013
OMSAN Lojistik A.Ş. (Representative: Mr. Dinç KIZILDEMİR)	The Member of the Board and the Managing Director (until the next General Assembly Meeting)	11.09.2012
OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş. (Representative: Mr. Ertuğrul AYDIN)	The Member of the Board (until the next General Assembly Meeting)	12.09.2012
OYAK Pazarlama Hizmet ve Turizm A.Ş. (Representative: Ms. Fatma CANLI)	The Member of the Board (until the next General Assembly Meeting)	13.09.2012
Mr. Nazmi DEMİR	The Independent Board Member (1 year)	29.06.2012
Mr. Atilla Tamer ALPTEKİN	The Independent Board Member (1 year)	29.06.2012
Mr. Ali Aydın PANDIR	The Independent Board Member (until the next General Assembly Meeting)	20.09.2012

The résumés of the Company's general manager and board members are published on the Company website, under the scope of the Principles of Corporate Governance No: 1.3.2.

There is no restriction pertaining to the Board Members' performing their duty/duties outside the scope of the Company.

16. The Operating Principles Of The Board of Directors

The Board of Directors meets at the Company headquarters or at a different location, determined by the Board, at least six times a year or as often as business requires.

Decisions can be made by attaining the written consent of the members without holding a meeting unless a negotiation is requested on the particular matter. The Board of Directors elects a chairman among its members during the first meeting of the year. In the absence of the chairman, a deputy chairman is also elected by the Board of Directors to act on behalf of the chairman. The procedure applied for assembling the Board of Directors, the quorum for the meeting, the resolution and voting as well as the task, rights and powers of the Board of Directors are subject to the Turkish Commercial Code and the provisions of relevant legislation.

The Board of Directors meets with the attendance of 3 persons when the number of members is 5. The Board of Directors meets with the attendance of 4 persons when the number of members is 7, and meets with the attendance of 5 persons when the number of members is 9. In other cases, the quorum requirement is one person more than the half of the total number of members. The decisions of the Board of Directors are written down on the decision book and signed by the Chairman and the members. Reserving the Article 22 of the Articles of Association, the rights and powers assigned to the Group A, the Board of Directors can delegate all or a number of the representative and administrative powers of the Company to one member of the Board of Directors or to several managing directors, other than the independent board members.

The Board of Directors is obliged to negotiate the detailed report, prepared by General Manager's office, which displays the progress of the investment projects every three months/ quarterly. The Board of Directors is also obliged to determine the recommendations made by the Board Member, the representative of the beneficiary owner, per procuration of the A Group shares.

The progress of the investment projects is delved into in the annual report of the Board of Directors in depth. In addition, concerning the issues stipulated in Article 22 and Article 41 of the Articles of Association, no decision can be reached without the affirmative vote of the Board member, who is the representative of the beneficiary owner, per procuration of the A Group shares.

The requests of the members of the Board and the managers are taken into consideration concerning the items on agenda, whereas the meeting agenda of the Board of Directors is formed by the Chairman of the Board. 8 meetings were held by the Board of Directors in 2012. The attendance rate was 99% for these meetings. The date for the following Board meeting is set based on the requirement of the company and on the requests arising from the members. The members are invited to the meeting via facsimiles and e-mail messages. The secretariat, set up in accordance with the Principles of Corporate Governance under the body of the Board of Directors, informs the Board members on the meeting agenda and forwards them the relevant documents on the agenda. Neither the Chairman nor the members of the Board have a weighted voting right. All members, including the Chairman, have equal voting rights. Dissenting opinions and votes, disclosed at Board of Directors' meetings, are written down in the minutes.

It is essential that the Company abides by the Principles of Corporate Governance that are deemed by the Capital Markets Board mandatory to be applied. The transactions performed and the decisions made by the board of directors without obeying the mandatory principles shall be deemed and rendered invalid and against the articles of association.

The regulations on the corporate governance of the Capital Markets Board are abided by in the following cases: in significant transactions in terms of applying the Principles of Corporate Governance, in all sorts of transactions of the company involving relevant parties, and in transactions pertaining the granting of collateral, pledge and mortgage in favor of the third parties.

The Principles of The Corporate Governance Compliance Report

17. The Number, The Structure and The Independence of The Committees set up Within the Board of Directors

The Audit Committee, The Early Detection of Risk Committee and The Corporate Governance Committee were set up so that the Board of Directors is able to perform their tasks and responsibilities more effectively. By considering the structure of the Board of Directors, the fulfilling of the power, the duty and the responsibility foreseen for The Candidate Nomination Committee and the Compensation Committee was delegated to and passed onto the Corporate Governance Committee upon the Board of Directors' decision Numbered 9148, dated June 29, 2012. The frequency of gathering for the committees, their activities and procedures to be followed while carrying out the activities are stated in the regulations published on our website. The decisions made as a result of work carried out independently by the committees are submitted to the Board of Directors as proposals and the ultimate decision is reached conclusively by the Board of Directors.

Our Company has ensured the structuring of the management within the framework of the Communiqué regarding the Principles of Corporate Governance. One member is assigned for more than one committee due to the condition that requires the Auditing Committee to be made up of completely independent board members and the chairmen of the other committees to be comprised of the independent board members.

18. The Risk Management and The Internal Audit Mechanism

Under the body of the Company Board of Directors, The Early Detection of Risk Committee was set up and the working directives of the Committee were published on the company website. The risks are monitored and managed in line with the directives regarding the market risk and the risk of receivables. In addition, the regulations for improving preventative measures are observed so that the anticipated risks can be kept within the risk tolerance ranges and the risks ERDEMİR Group is exposed to can be quantified.

In measuring the currency risk, Value at Risk (VaR) calculation is performed parametrically over the consolidated net foreign currency position that is formed by including the derivative transactions. This method assists to determine the effect of the fluctuating exchange rates on the current foreign position. As treasury securities yielding interest for investment purposes and share portfolio investments are not included in the assets section of the balance sheet, Value at Risk calculation is not performed for interest and share value.

Value at Risk calculations performed are based on the stress test and scenario analyses. Assessing the amount of possible loss arisen under possible unexpected market conditions aids the Group to identify its financial strategies.

Auditing Committee

Name-Surname	Duty	Relation with the Company	Details
Mr. Atilla Tamer ALPTEKİN	The Chairman	The Member of the Board	Independent/not authorized in the execution
Mr. Ali Aydın PANDIR	The Member	The Member of the Board	Independent/ not authorized in the execution

The Early Detection of Risks Committee

Name-Surname	Duty	Relation with the Company	Details
Mr. Ali Aydın PANDIR	The Chairman	The Member of the Board	Independent/ not authorized in the execution
Mr. Nazmi DEMİR	The Member	The Member of the Board	Independent / not authorized in the execution
Mr. Avni SÖNMEZYILDIZ	The Member	The Dependent Manager	Dependent / not authorized in the execution

The Corporate Governance Committee

Name-Surname	Duty	Relation with the Company	Details
Mr. Nazmi DEMİR	The Chairman Independent	The Member of the Board	Independent / not authorized in the execution
Mr. Atilla Tamer ALPTEKİN	The Member Independent	The Member of the Board	Independent / not authorized in the execution
Mr. Avni SÖNMEZYILDIZ	The Member Independent	The Dependent Manager	Dependent / not authorized in the execution

Almost all of our risks concerning the receivables are collateralized through Direct Debiting System and Direct Credit Collection System. Risk positions of our customers are monitored on daily basis and margin calls are made when their limit is exceeded.

For the purpose of managing interest risks ERDEMİR Group is exposed to, the duration is calculated based on the credit portfolio and the cash flow projections. Besides, the amount of profit/loss that could arise due to possible interest changes is calculated through sensitivity analyses.

In addition, by tracking credit with variable interest rates within the total credit portfolio group, practices to keep the credit within a certain limit are executed. Depending on the availability of the company and market conditions, some recommendations on derivative instruments are made, and the analysis of the incoming offers is carried out. Through this method, the eligibility of the proposal is checked.

The credit utilization and the repayments in addition to the cash flow projections are tracked and the required action plans and recourses are devised accordingly towards liquidity risk management.

A financial appraisal and a technical assessment report for the investments is submitted to "Consolidation and Group Risk Management Center", which assesses the financial appraisal outcomes based on the indicators such as the investment amount, the investment period, the amount of production and sales, the expected net cash flow of the project, the net current value, the internal rate of return and the payback period. The Center also informs the Financial Affairs Coordination Office regarding the relevant outcomes. The investment proposals deemed ineligible by the Consolidation and Group Risk Management Center are not submitted to the Board of Directors.

The degree and state of satisfaction and the procedure of our company's internal auditing systems are carried out by the Business Processes Analysis and the Supervision Directorate who reports to the Management Department Board.

19. The Strategic Targets of the Company

Our Company has been directed in line with the ERDEMİR Strategic Management Model since 1999. The ERDEMİR Group Strategies and Business Plan were determined and approved by the Board of Directors in 2005. In later years, the decision that required the business plan to be approved by the General Management was reached.

Accordingly, the business plans formed in line with the approved strategies are drawn up each year for the following year.

The objectives in the business plan containing strategic and operational targets, set in association with strategies approved by the Board of Directors, are safeguarded by all the units utilizing the target spread system and the result is spread towards individual targets. Moreover, our business plans are reviewed by preparing quarterly assessment reports. The condition of the company as to meeting the objectives, relevant remarks and explanations are submitted to the management appearing in the end-of-the-year assessment reports.

20. The Financial Rights

All types of rights, benefits and fees vested upon the board members and executives, and the criteria deemed to determine such rights, benefits and fees as well as the compensation basics are published under the Compensation heading of our Company website. The Board Members are paid in accordance with the decision of General Assembly based on the Articles of Association of the Company, which is also disclosed to the public through the general assembly minutes published on the Company website. The fees remitted to the executives are determined by the General Assembly. The payments effected to the executives are disclosed to the public and included in the footnotes of the financial statements.

According to the decisions made by the General Assembly Meeting held on June 29, 2012, the Board Members elected in representation of the B Group shares shall not be paid. The Board Members elected in representation of the A Group Shares shall be paid 2,000 TRY per month (at the beginning of the relevant month, paid in advance, net) and the Independent Board Members shall be paid 4,000 TRY per month (at the beginning of the relevant month, paid in advance, net).

No loans were offered to either a board member or an executive within the period. No loan utilization was granted directly or through a third party. Furthermore, no collaterals such as bails were offered in favor.

(CONVENIENCE TRANSLATION OF
CONSOLIDATED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH- SEE NOTE 32)

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2012

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(Convenience translation into English of a report originally issued in Turkish – see additional paragraph below for convenience translation)

Independent Auditor's report on for the period January 1 – December 31, 2012

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

We have audited the accompanying consolidated financial statements of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ("the Company") and its subsidiaries (collectively referred to as "the Group") which comprise the consolidated balance sheet as at December 31, 2012, and consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Financial Reporting Standards published by Capital Markets Board of Turkey (CMB). This responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud and/or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Independent Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with standards on auditing issued by CMB. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its subsidiaries as at December 31, 2012, and its financial performance and cash flows for the year then ended in accordance with Financial Reporting Standards published by CMB.

Other matter

We draw attention to the matter in note 15 to the accompanying consolidated financial statements: The court cases related to CMB's claim that the Company had prepared its December 31, 2005 financial statements in accordance with International Financial Reporting Standards instead of the Communiqué Serial XI, No:25 on "Accounting Standards in Capital Markets" without the permission of the CMB in prior years were concluded against the Company at Council of State and such conclusions declared to the Company via notifications received in July 2012. On August 1, 2012, the Company has applied to Administrative Court to remove the decision conflict of these courts; however there is no update regarding with this issue. The lawsuit, which was commenced by the Privatization Administration ("PA") of the Turkish Republic for the cancellation of the resolution of the Company's General Assembly dated March 30, 2006 regarding the dividend distribution, is still pending. Our opinion is not qualified for this matter.

Additional paragraph for convenience translation into English:

As also disclosed in Note 33 to the accompanying financial statements, as of December 31, 2012, the accounting principles described in Note 2 (defined as CMB Financial Reporting Standards) to the accompanying consolidated financial statements differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting and the presentation of the basic financial statements and the notes to them. Accordingly, the accompanying consolidated financial statements are not intended to present the financial position and results of operations in accordance with IFRS.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Ethem Kutucular, SMMM
Engagement Partner

February 19, 2013
İstanbul,Turkey

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

	Note	(Audited) Current Period 31 December 2012	(Audited) Previous Period 31 December 2011
ASSETS			
Current Assets		**5.854.230.082**	**6.024.733.105**
Cash and Cash Equivalents	4	1.829.716.171	1.102.710.213
Other Short Term Financial Assets	5	543.101	9.232.974
Trade Receivables	8	1.047.300.360	1.141.698.002
Due From Related Parties	*28*	*17.941.389*	*9.723.604*
Other Trade Receivables	*8*	*1.029.358.971*	*1.131.974.398*
Other Receivables	9	296.045	277.962
Inventories	10	2.848.119.207	3.628.497.829
Other Current Assets	18	128.255.198	142.316.125
Non Current Assets		**7.287.190.543**	**7.365.849.568**
Other Receivables	9	238.949	219.483
Financial Investments	5	84.594	66.086
Other Long Term Financial Assets	5	9.579.245	47.475.443
Investment Properties	5	46.577.264	46.577.264
Property, Plant and Equipment	11	6.997.897.584	6.911.644.581
Intangible Assets	12	152.910.729	164.152.691
Deferred Tax Assets	13	14.073.770	110.735.816
Other Non Current Assets	26	65.828.408	84.978.204
TOTAL ASSETS		**13.141.420.625**	**13.390.582.673**

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

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

	Note	(Audited) Current Period 31 December 2012	(Audited) Previous Period 31 December 2011
LIABILITIES			
Current Liabilities		**2.880.173.816**	**2.470.408.918**
Financial Liabilities	6	2.022.433.668	1.487.868.881
Other Current Financial Liabilities	7	4.180.528	558.936
Trade Payables	8	428.055.750	533.658.160
Due to Related Parties	*28*	*11.727.235*	*9.852.395*
Other Trade Payables	*8*	*416.328.515*	*523.805.765*
Other Payables	9	48.017.783	63.694.522
Due to Related Parties	*28*	-	*341*
Other Payables	*9*	*48.017.783*	*63.694.181*
Current Tax Liabilities	26	12.209.061	44.693.617
Provisions	15	113.061.323	77.424.150
Other Current Liabilities	18	252.215.703	262.510.652
Non Current Liabilities		**2.845.334.724**	**3.632.625.683**
Financial Liabilities	6	2.396.318.269	3.289.928.316
Other Non Current Financial Liabilities	7	14.576.726	10.400.444
Provisions for Employment Benefits	17	283.979.209	218.122.934
Deferred Tax Liabilities	26	150.043.899	113.234.445
Other Non Current Liabilities	18	416.621	939.544
EQUITY	**19**	**7.415.912.085**	**7.287.548.072**
Equity attributable to equity holders of the parent		**7.204.811.565**	**7.086.723.062**
Share Capital		3.090.000.000	2.150.000.000
Inflation Adjustment to Capital		342.195.166	731.967.735
Treasury Shares (-)		(103.599.856)	(74.637.969)
Share Issue Premium		106.447.376	231.020.042
Revaluation Reserve of Tangible Assets		26.813.595	27.228.155
Cash Flow Hedging Reserves		(29.878.279)	(14.783.355)
Foreign Currency Translation Reserves		(315.217)	(489.005)
Restricted Reserves Assorted from Profit		1.618.843.079	1.757.470.693
Retained Earnings		1.730.124.661	1.273.384.263
Net Profit for the Period		424.181.040	1.005.562.503
Non-controlling Interests		**211.100.520**	**200.825.010**
TOTAL LIABILITIES AND EQUITY		**13.141.420.625**	**13.390.582.673**

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

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

	Note	(Audited) Current Period 1 January- 31 December 2012	(Audited) Previous Period 1 January- 31 December 2011
OPERATING INCOME			
Revenue	20	9.570.396.709	8.920.544.781
Cost of Sales (-)	20	(8.594.486.663)	(6.848.422.807)
GROSS PROFIT		**975.910.046**	**2.072.121.974**
Marketing, Sales and Distribution Expenses (-)	21	(106.243.102)	(105.057.371)
General Administrative Expenses (-)	21	(179.511.651)	(187.430.193)
Research and Development Expenses (-)	21	(1.517.122)	(1.400.733)
Other Operating Income	23	63.829.936	89.081.061
Other Operating Expenses (-)	23	(69.789.801)	(142.169.899)
OPERATING PROFIT		**682.678.306**	**1.725.144.839**
Finance Income	24	365.359.192	528.487.361
Finance Expense (-)	25	(402.587.258)	(956.618.752)
PROFIT BEFORE TAX		**645.450.240**	**1.297.013.448**
Tax Expense	26	(190.700.760)	(257.885.271)
- Current Corporate Tax Expense		(53.282.231)	(200.150.105)
- Deferred Tax Expense		(137.418.529)	(57.735.166)
PROFIT FOR THE PERIOD		**454.749.480**	**1.039.128.177**
- Non-Controlling Interests		30.568.440	33.565.674
- Equity Holders of the Parent		424.181.040	1.005.562.503
EARNINGS PER SHARE	**27**	**0,1373**	**0,3254**
(TRY 1 Nominal value per share)			

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

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

	Note	(Audited) Current Period 1 January- 31 December 2012	(Audited) Previous Period 1 January- 31 December 2011
PROFIT FOR THE PERIOD		**454.749.480**	**1.039.128.177**
Other Comprehensive Income/(Expense):			
Change in Revaluation Reserve of Tangible Assets		(414.560)	1.986.483
Change in Cash Flow Hedging Reserves		(16.293.719)	10.372.793
Change in Foreign Currency Translation Reserves		173.788	(5.334.398)
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD (AFTER TAX)	**26**	**(16.534.491)**	**7.024.878**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**438.214.989**	**1.046.153.055**
Distribution of Total Comprehensive Income			
- Non-controlling Interests		29.369.645	34.325.005
- Equity Holders of the Parent		408.845.344	1.011.828.050

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

(Convenience Translation into English of Consolidated Financial Statement Originally Issued in Turkish - See Note 32)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

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

	Note	Share Capital	Inflation Adjustment to Capital	Treasury Shares (-)	Share Issue Premium	Revaluation Reserve of Tangible Assets	Cash Flow Hedging Reserves	Foreign Currency Translation Reserves	Restricted Reserves Assorted from Profit	Retained Earnings	Equity Attributable to the Parent	Non-controlling Interests	Total Shareholders' Equity
(Audited)													
1 January 2012		**2.150.000.000**	**731.967.735**	**(74.637.969)**	**231.020.042**	**27.228.155**	**(14.783.355)**	**(489.005)**	**1.757.470.693**	**2.278.946.766**	**7.086.723.062**	**200.825.010**	**7.287.548.072**
Net profit for the period		-	-	-	-	-	-	-	-	424.181.040	424.181.040	30.568.440	454.749.480
Other comprehensive income/ (loss)		-	-	-	-	(414.560)	(15.094.924)	173.788	-	-	(15.335.696)	(1.198.795)	(16.534.491)
Total comprehensive income/ (loss)		-	-	-	-	(414.560)	(15.094.924)	173.788	-	424.181.040	408.845.344	29.369.645	438.214.989
Dividends paid (*)		-	-	-	-	-	-	-	-	(290.756.841)	(290.756.841)	(19.094.135)	(309.850.976)
Capital increase	19	940.000.000	(389.772.569)	(28.961.887)	(124.572.666)	-	-	-	(216.668.513)	(180.024.365)	-	-	-
Transfers from retained earnings	19	-	-	-	-	-	-	-	78.040.899	(78.040.899)	-	-	-
31 December 2012	**19**	**3.090.000.000**	**342.195.166**	**(103.599.856)**	**106.447.376**	**26.813.595**	**(29.878.279)**	**(315.217)**	**1.618.843.079**	**2.154.305.701**	**7.204.811.565**	**211.100.520**	**7.415.912.085**
(Audited)													
1 January 2011		**1.600.000.000**	**731.967.735**	**(57.692.172)**	**231.020.042**	**25.241.672**	**(24.396.817)**	**4.845.393**	**1.696.170.542**	**2.303.873.875**	**6.511.030.270**	**180.214.055**	**6.691.244.325**
Net profit for the period		-	-	-	-	-	-	-	-	1.005.562.503	1.005.562.503	33.565.674	1.039.128.177
Other comprehensive income/ (loss)		-	-	-	-	1.986.483	9.613.462	(5.334.398)	-	-	6.265.547	759.331	7.024.878
Total comprehensive income/ (loss)		-	-	-	-	1.986.483	9.613.462	(5.334.398)	-	1.005.562.503	1.011.828.050	34.325.005	1.046.153.055
Dividends paid		-	-	-	-	-	-	-	-	(436.135.258)	(436.135.258)	(13.714.050)	(449.849.308)
Capital increase		550.000.000	-	(16.945.797)	-	-	-	-	-	(533.054.203)	-	-	-
Transfers from retained earnings	19	-	-	-	-	-	-	-	61.300.151	(61.300.151)	-	-	-
31 December 2011	**19**	**2.150.000.000**	**731.967.735**	**(74.637.969)**	**231.020.042**	**27.228.155**	**(14.783.355)**	**(489.005)**	**1.757.470.693**	**2.278.946.766**	**7.086.723.062**	**200.825.010**	**7.287.548.072**

(*) On the Regular General Assembly dated 30 March 2012, dividend distribution (gross dividend per share: TRY 0,0971 (2011: TRY 0,1456)) amounting to TRY 300.000.000 (31 March 2011: TRY 450.000.000) from 2011 net profit was approved. As the Company holds 3,08% of its shares with a nominal value of TRY 66.242.638 as of 30 March 2012, dividends for treasury shares are netted off under dividends paid. The dividend amount of TRY 456.659 has not been paid as of 31 December 2012.

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

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

	Note	(Audited) Current Period 1 January- 31 December 2012	(Audited) Previous Period 1 January- 31 December 2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax and non-controlling interests		645.450.240	1.297.013.448
Adjustments to reconcile net profit before tax to net cash provided by operating activities:			
Depreciation and amortization expenses	20/22	343.712.684	313.558.275
Provision for employee termination benefits	17	78.849.684	52.179.422
Provision for seniority incentive premium	17	4.624.823	13.018.352
Gain on sale of property plant and equipment	23	(745.105)	(588.310)
Income from sale of financial assets	23	-	(7.962.073)
Loss on write off of property plant and equipment	23	940.576	4.413.261
Increase in provision for doubtful receivables	8/9	2.479.422	24.028.772
Increase in the allowance for inventories	10	6.869.706	14.743.957
Increase in provision for unpaid vacations	18	7.213.988	7.365.380
Increase in provision for pending claims and lawsuits	15	49.952.170	44.520.823
Increase in penalty provision for obligatory employment shortage of disabled people	15	126.043	630.247
Decrease in provisions for tax related contingencies	15	-	(21.556.149)
Increase in provision for state right on mining activities	15	3.643.868	3.527.716
Interest expenses	25	251.006.590	267.296.164
Interest income	24	(126.553.035)	(159.663.247)
Unrealized foreign currency (gain)/loss of financial liabilities		(220.442.132)	672.680.166
Loss/(gain) on fair value changes of derivative financial instruments	24/25	22.302.509	(65.455.513)
Net cash provided by operating activities before changes in working capital		**1.069.432.031**	**2.459.750.691**
Changes in working capital	32	780.370.034	(1.314.642.457)
Interest paid		(242.313.302)	(258.394.458)
Interest received		126.909.573	168.384.424
Lawsuits paid	15	(13.964.834)	(5.434.448)
Penalty paid for the employment shortage of disabled people	15	(415.650)	(1.363.482)
Taxes paid	26	(85.766.787)	(162.572.209)
Employee termination benefits paid	17	(13.139.161)	(13.840.519)
State rights paid for mining activities	15	(3.704.424)	(1.578.340)
Provision paid for wages and salaries	15	-	(12.000.000)
Seniority incentive premium paid	17	(4.479.071)	(1.523.392)
Net cash provided by operating activities		**1.612.928.409**	**856.785.810**
CASH FLOWS FROM INVESTING ACTIVITIES			
Changes in financial assets held as available for sale	5	(18.508)	(9.405)
Proceeds from sale of financial assets		-	51.744.050
Cash used in the purchase of tangible assets	12	(423.660.412)	(422.511.835)
Cash used in the purchase of intangible assets	13	(8.175.491)	(4.872.982)
Cash provided by sales of tangible assets	12/13/23	5.048.819	2.390.581
Net cash used in investing activities		**(426.805.592)**	**(373.259.591)**
CASH FLOWS FROM FINANCING ACTIVITIES			
New borrowings		2.560.177.133	2.358.790.309
Repayment of borrowings		(2.708.201.606)	(4.160.799.817)
Dividends paid		(290.300.182)	(435.325.415)
Dividends paid to non-controlling interests		(19.094.135)	(13.714.050)
Net cash used in by financing activities		**(457.418.790)**	**(2.251.048.973)**
NET CHANGES IN CASH AND CASH EQUIVALENTS		**728.704.027**	**(1.767.522.754)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**4**	**1.100.335.205**	**2.866.694.086**
Currency translation difference, net		(1.341.531)	1.163.873
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**4**	**1.827.697.701**	**1.100.335.205**
Accrued interest income	4	2.018.470	2.375.008
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD INCLUDING ACCRUED INTEREST INCOME	**4**	**1.829.716.171**	**1.102.710.213**

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

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

NOTE 1 – GROUP'S ORGANIZATION AND NATURE OF OPERATIONS

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

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

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

The Company was incorporated in Turkey as a joint stock company in 1960. The principal activities of the Company are production of iron and steel rolled products, alloyed and non-alloyed iron, steel and pig iron castings, cast and pressed products, coke and their by-products.

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

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

Name of the Company	Country of Operation	Operation	2012 Share %	2011 Share %
İskenderun Demir ve Çelik A.Ş. ("ISDEMIR")	Turkey	Iron and Steel	92,91	92,91
Erdemir Madencilik San. ve Tic. A.Ş.	Turkey	Iron Ore and Pellet	90,00	90,00
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Turkey	Iron and Steel	100	100
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100	100
Erdemir Romania S.R.L.	Romania	Iron and Steel	100	100
Erdemir Lojistik A.Ş.	Turkey	Logistics Services	100	100

Erdemir Gaz San. ve Tic. A.Ş. as disclosed in non-current financial investments is excluded from consolidation, as it has been dormant since its establishment at 21 December 2004 and it does not significantly affect the consolidated financial statements of the Group (Note 5). In the Extraordinary General Meeting of Erdemir Gaz San. ve Tic. A.Ş. dated 7 May 2012, liquidation of the Company has been decided.

In the General Meeting of Erdemir Lojistik A.Ş. dated 8 June 2012, the merger of the Company with Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. has been decided. Merger operations has been completed as of 13 February 2013. This merger has no impact on the financial position of the Group.

The Company's trade registry address is Uzunkum No:7 / Karadeniz Ereğli.

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

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

The number of the personnel employed by the Group as at 31 December 2012 and 31 December 2011 are as follows:

	31 December 2012 Personnel	31 December 2011 Personnel
Monthly paid personnel (A)	3.180	3.368
Hourly paid personnel (B)	9.096	8.640
Candidate worker (C)	675	1.293
Contractual personnel (D)	18	20
Contractual personnel (SZ)	76	112
Total	**13.045**	**13.433**

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

The Company and all its subsidiaries in Turkey maintain their legal books of account and prepare their statutory financial statements ("Statutory Financial Statements") in accordance with accounting principles issued by the Turkish Commercial Code ("TCC") and tax legislation. The subsidiary which operates abroad maintain its books of account and prepare its statutory financial statements denominated in the currency of the foreign country and in compliance with the legislation of the foreign country. The consolidated financial statements include the adjustments and reclassifications applied on the Group's legal books in accordance with the Generally Accepted Accounting Principles issued by Capital Market Board ("CMB"). The financial statements are prepared on cost basis, except the derivative financial instruments carried on fair value (Note 5 and Note 7).

CMB, in accordance with Communiqué Serial: XI, No: 29 on "Communiqué on Financial Reporting in the Capital Markets", regulates the comprehensive set of principles, procedures and basis of preparation, presentation and announcement of financial statements prepared by the entities. This communiqué is effective for the periods from the first interim financial statements prepared subsequent to1 January 2008 and supersedes the Communiqué Serial XI, No: 25 "Accounting Standards in Capital Markets". According to the Communiqué, entities shall prepare their financial statements in accordance with International Financial Reporting Standards ("IAS/IFRS") endorsed by the European Union (EU). However, IAS/IFRS issued by the IASB shall be applied until the differences between IAS/IFRS that are endorsed by the European Union and the standards issued by the International Accounting Standards Board ("IASB") are announced by Turkish Accounting Standards Board ("TASB"). Accordingly, Turkish Accounting Standards/ Turkish Financial Reporting Standards ("TAS/TFRS") issued by the TASB which are in line with the aforementioned standards are essential.

Until the differences between IAS/IFRS that are endorsed by the European Union and the ones issued by the IASB are announced by TASB, the consolidated financial statements are prepared within the framework of Communiqué XI, No:29. The consolidated financial statements and the related notes are presented in accordance with the formats required by the CMB, with the announcements dated 17 April 2008 and 9 January 2009, including all compulsory disclosures.

In accordance with article 5th of the CMB Accounting Standards, companies should apply IFRS as adopted by the European Union (EU). However, again in accordance with the provisional clause 2 of the same standards adoption of the IFRS as adopted by the EU is postponed until the Turkish Accounting Standards Board ("TASB") (In November 2011 TASB has been dismissed and its responsibilities are transferred to Public Oversight Accounting and Auditing Standards Authority) declares the differences between the IFRS as adopted by the EU and the IFRS as adopted by the International Accounting Standards Board (IASB). Thus, for the year ended 31 December 2012, the Group prepared its consolidated financial statements in accordance with the Turkish Financial Reporting Standards which is in line with IFRS adopted by the IASB.

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

2.1 Basis of Presentation (cont'd)

The Group prepares its consolidated financial statements as of 31 December 2005 and after in accordance with IFRS based on the permission of the CMB's Statement No:017/83-3483, dated 7 March 2006, stating that: "…As explained in your letter, if the disclosure of the financial statements prepared in accordance with IFRS, instead of the CMB's Communiqué Serial: XI, No: 25 is needed, the 2005 financial statements prepared in accordance with IFRS should be revised according to the accounting standards announced by our Board. Hence, these financial statements may be issued to public if only the necessary restatement adjustments in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" are eliminated and the necessary adjustments in the comparative financial statements are made".

Functional and Reporting Currency

TRY is accepted as the functional currency of the Company's subsidiaries and affiliates operating in Turkey and reporting currency of the consolidated financial statements.

There were changes in sale operations of Company's and its subsidiaries' İskenderun Demir ve Çelik A.Ş. and Erdemir Çelik Servis Merkezi San. Ve Tic. A.Ş in 2012. These changes are stated below:

- Erdemir Group announced that there won't be TRY sales and settlements of products starting from 31 March 2012 its website and other communication channels. Starting from 31 March 2012, new orders and sales contracts excluding exports to Europe have been started to perform with US Dollar currency. In addition to this change, there were existing orders and sales contracts with TRY currency as of 31 March 2012. Therefore the effects of TRY sales with or without maturity continued during year of 2012.

- Together with the change in sales conditions, TRY amounts in trade receivables in 2012 decreased significantly and more than 95% of trade receivables turned into receivables with USD currency as of 31 December 2012.

Due to reasons stated above, the change of current functional currency of the Company and its subsidiaries İskenderun Demir ve Çelik A.Ş. and Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. from TRY into US Dollars has been considered starting from 2013. Group Management is evaluating the effects of these changes made in 2012 and its possible effects on financial statements as of reporting date with the assumption that the conditions that require the change of functional currency have not occurred in 2012 due to effects of current orders and sales contracts in 2012 with TRY currency.

Functional and reporting currency for the subsidiary abroad

Erdemir Romania S.RL has been established as a foreign legal entity.

The financial statements of the subsidiary operating in Romania have been prepared in accordance with the legislation in force within the country, and are arranged reflecting the necessary adjustments and reclassifications in conformity with IFRS. The assets and liabilities of the foreign subsidiary in terms of EUR have been translated into Turkish Lira using the foreign exchange rate at the balance sheet date. Income and expenses and cash flows have been translated into Turkish Lira using the average foreign exchange rate for the period.

The functional currency of the subsidiary operating in Romania which was Romanian Lei before has been changed into Euro due to change of sales conditions in 2012 effective as of 1 January 2012. The change has no effect in previous year financial statements.

The differences between closing and average foreign exchange rates and due to the deviation arising from differences between the value of the equity accounts of the consolidated partnership and the subsidiary are followed under the foreign currency translation reserves in equity.

Approval of the consolidated financial statements

The consolidated financial statements have been approved and authorized to be published on 19 February 2013 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

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

2.2 The Adjustment of the Financial Statements in Hyperinflationary Periods

In accordance with the decision made on 17 March 2005, by CMB, as effective from 1 January 2005, the inflation accounting is no longer required for companies operating in Turkey and preparing their financial statements due to the accounting standards of CMB. Since the date of the decision, the preparation and publication of the financial statements in accordance with IAS 29, " Financial Reporting in Hyperinflationary Economies", issued by the IASB, have ceased.

2.3 Changes in Accounting Estimates and Errors

The changes in accounting estimates affecting the current period are recognized in the current period, the changes in accounting estimates affecting both in the current and future periods, prospectively.

2.4 Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Group and its subsidiaries controlled by the Group as at the same date. This control is normally evidenced when Group is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

Subsidiaries

The companies which the Group, directly or indirectly, has above 50% ownership interest or 50% voting rights or has power to exercise control on operations, have been fully consolidated. If the Group has the power to govern the financial and operating policies of the subsidiaries for its own benefit, control is deemed to present.

Subsidiaries are consolidated from the date on which control is transferred to the Group and ceased to be consolidated from the date on which control is transferred out of the Group.

The accounting policies of the subsidiaries consolidated are changed and aligned with the Group's accounting policies when necessary. All significant transactions and balances between the Company and its subsidiaries are eliminated during consolidation.

When the Group purchases a company, the assets and liabilities of the relevant subsidiary are measured at their fair values at the date of acquisition. The amount of the non-controlling interest shares is obtained by the calculation of the fair values of assets and liabilities with respect to the proportion of the non-controlling interest. The operational results of subsidiaries are included or excluded from consolidation according to their effective dates of acquisition and disposal, respectively.

Non-controlling interests in the net assets of the subsidiaries included in consolidation, appears as a separate item in Group's equity. Non-controlling interests consist of non-controlling party's amount that already exists as of the first acquisition date and the amounts take place during the changes in the parent company's equity related to non-controlling interest after the first acquisition date. Losses of the non-controlling interests are distributed to the shares of the non-controlling interests. The equity and net income attributable to non-controlling interests are shown separately in the consolidated balance sheet and income statement, respectively.

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

The Group's consolidated financial statements are presented in comparison with the previous period in order to allow for the determination of the financial position and performance trends. The comparative information is reclassified when necessary in order to be aligned with the current period consolidated financial statements. The detailed information about these restatements are presented in Note 32.

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

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

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

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

The Group calculates depreciation for the fixed assets by taking into account their production amounts and useful lives that are stated in Note 2.9.3 and 2.9.4 (Note 12, Note 13).

2.6.2 Deferred tax

The Group recognizes deferred tax on the temporary timing differences between the carrying amounts of assets and liabilities in the financial statements prepared in accordance with IFRS and statutory financial statements which is used in the computation of taxable profit. The related differences are generally due to the timing difference of the tax base of some income and expense items between statutory and IFRS financial statements. The Group has deferred tax assets resulting from tax loss carry-forwards and deductible temporary differences, which could reduce taxable income in the future periods. All or partial amounts of the realizable deferred tax assets are estimated in current circumstances. The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring, the carry-forward period associated with the deferred tax assets, future reversals of existing taxable temporary differences that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset (Note 26).

2.6.3 Fair values of derivative financial instruments

The Group values its derivative financial instruments by using the foreign exchange and interest rate estimations and based on the valuation estimates of the market values as of the balance sheet date (Note5, Note 7, Note 29).

2.6.4 Provision for doubtful receivables

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

2.6.5 Provision for inventories

During the assessment of the provision for inventory the following are considered; analyzing the inventories physically and historically, considering the employment and usefulness of the inventories respecting to the technical personnel view. Sales prices listed, average discount rates given for sale and expected cost incurred to sell are used to determine the net realizable value of the inventories. As a result of this, the provision for inventories with the net realizable values below the costs and the slow moving inventories are presented in Note 10.

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
2.6 Significant Judgments and Estimates of the Group on Application of Accounting Policies (cont'd)

2.6.6 Provisions for employee benefits

Assumptions about discount rates, inflation rates, future salary increases and employee turnover rates are made to calculate Group's provision for employee benefits. The details related with the defined benefit plans are stated in Note 17.

2.7 Offsetting

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

2.8 Adoption of New and Revised International Financial Reporting Standards

The accounting policies adopted in the preparation of the consolidated financial statements as at 31 December 2012 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2012 summarized below. These standards, amendments and interpretations have no effect on the Group's financial position and performance.

The new standards, amendments and interpretations which are effective as at 1 January 2012 are as follows:

IAS 12 (Amended) 'Deferred Taxes: Recovery of Underlying Assets' IAS 12 has been updated to include i) a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and ii) a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. These amendments will be applied retrospectively. Adoption of this amendment did not have any impact on the financial position or performance of the Group.

IFRS 7 (Amended) 'Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements' The amendment affects disclosures only and did not have any impact on the financial position or performance of the Group.

Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not effective up to date of issuance of the consolidated financial statements are as follows.The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

IAS 1 (Amended) 'Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income' (Effective for annual periods beginning on or after 1 July 2012, but earlier application is permitted). This standard has not yet been endorsed by the EU. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

IAS 19 (Amended) 'Employee Benefits' (Effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. With very few exceptions retrospective application is required). The effect of the amended standard will be the recognition of TRY 28.258.427 in consolidated income statement after tax and non-controlling interests for the year ended 31 December 2012.

IAS 27 (Amended) 'Separate Financial Statements' (Effective for annual periods beginning on or after 1 January 2013 and are applied on a modified retrospective basis). The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

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

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

Standards issued but not yet effective and not early adopted (cont'd)

IAS 28 (Amended) 'Investments in Associates and Joint Ventures' (Effective for annual periods beginning on or after 1 January 2014 and are applied on a modified retrospective basis). The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

IAS 32 (Amended) 'Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities' (These amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2014). The Group does not expect that this amendment will have a major impact on the financial position or performance of the Group.

IFRS 7 (Amended) 'Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities' (The amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods). The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

IFRS 9 'Financial Instruments: Classification and measurement' (Effective for annual periods beginning on or after 1 January 2015): The standard has not been endorsed by EU yet. The Group is assessing the effects of the amendment.

IFRS 10 'Consolidated Financial Statements' (Effective for annual periods beginning on or after 1 January 2014 and are applied on a modified retrospective basis). The Group is assessing the effects of the standard.

IFRS 11 'Joint Arrangements' (Effective for annual periods beginning on or after 1 January 2014 and are applied on a modified retrospective basis). The Group does not expect that this standard will have an impact on the financial position or performance of the Group.

IFRS 12 'Disclosure of Interests in Other Entities' (Effective for annual periods beginning on or after 1 January 2013 and are applied on a modified retrospective basis). This amendment has not yet been endorsed by the EU. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

IFRS 13 'Fair Value Measurement' (Effective for annual periods beginning on or after 1 January 2013 and will be adopted prospectively). The Group is assessing the impact of the new standard on the financial position or performance of the Group.

IFRIC 20 'Stripping Costs in the Production Phase of a Surface Mine' (Effective for annual periods beginning on or after 1 January 2013 with earlier application permitted). The Group is considering the impact on the financial position or performance of the Group.

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

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

Standards issued but not yet effective and not early adopted (cont'd)

Improvements to IFRSs

The IASB has issued the Annual Improvements to IFRSs – 2009 – 2011 Cycle, which contains amendments to its standards. The annual improvements project provides a mechanism for making necessary, but non-urgent, amendments to IFRS. The effective date for the amendments is for annual periods beginning on or after 1 January 2013. Earlier application is permitted in all cases, provided that fact is disclosed. This project has not yet been endorsed by the EU. The Company (Group) does not expect that the project will have a significant impact on the financial position or performance of the Company (Group).

IAS 1 "Financial Statement Presentation" Clarifies the difference between voluntary additional comparative information and the minimum required comparative information.

IAS 16 "Property, Plant and Equipment" Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 "Financial Instruments: Presentation" Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

IAS 34 "Interim Financial Reporting" Clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment. Total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements for that reportable segment.

IFRS 10 "Consolidated Financial Statements" (Amendment) IFRS 10 is amended to provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments. The amendment applies for annual periods beginning on or after 1 January 2014 with earlier application permitted. The amendment has not yet been endorsed by the EU. The amendment is not applicable for the Company (Group) and will not have any impact on the financial position or performance of the Company (Group).

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

2.9 Valuation Principles Applied / Significant Accounting Policies

Valuation principles and accounting policies used in the preparation of the consolidated financial statements are as follows:

2.9.1 Revenue recognition

Revenue is measured at the fair value of the received or receivable amount. The estimated customer returns, rebates, and other similar allowances are deducted from this amount.

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- The Group transfers the significant risks and benefits of the ownership of the goods to the buyer;
- The Group retains neither a continuing managerial involvement usually associated with ownership nor effective control over the goods sold;
- The amount of revenue is measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred due to the transaction are measured reliably.

Dividend and interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend revenue from investments is recognized when the shareholders' rights to receive payment have been established.

Rental income

Rental income from investment properties is recognized on a straight-line basis over the term of the relevant lease.

2.9.2 Inventories

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

2.9.3 Property, plant and equipment

Property, plant and equipment purchased before 1 January 2005 are disclosed in the financial statements at their indexed historical cost for inflation effects as at 31 December 2004, on the other hand the purchases made in 2005 and in later periods are presented at their historical cost, less depreciation and impairment loss. Except for land and construction in progress, other tangible assets are depreciated according to straight-line basis or units of production method basis using the expected useful lives and units of production of the assets.

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

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

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

2.9.3 Property, plant and equipment (cont'd)

The Group's tangible fixed assets operating in the production of iron ore, flat steel, long steel and high silicon flat steel are stated in the balance sheet at their revalued amounts. Any increase arising from the revaluation of the existing assets is recorded under the revaluation reserve, in the shareholders' equity. A decrease in carrying amount arising on the revaluation of assets is charged to the consolidated income statement to the extent that it exceeds the balance in the revaluation reserve that is related to the previous revaluation.

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

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

The rates that are used to depreciate the fixed assets are as follows:

	Rates
Buildings	2-16%
Land improvements	2-33% and units of production level
Machinery and equipment	3-50% and units of production level
Vehicles	5-25% and units of production level
Furniture and fixtures	5-33%
Other tangible fixed assets	5-25%

2.9.4 Intangible assets

Intangible assets purchased before 1 January 2005 are recognized at their acquisition cost indexed for inflation effects as at 31 December 2004, on the other hand the purchases made in and after 1 January 2005 are recognized at acquisition cost less any amortization and impairment loss. Intangible assets are amortized principally on a straight-line basis over their estimated useful lives and units of production. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, and any changes in the estimate are accounted for on a prospective basis.

The amortization rates of the intangible assets are stated below:

	Rates
Rights	2-33%
Exploration costs and other intangible fixed assets with special useful lives	5-10% and units of production
Other intangible fixed assets	20-33%

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

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

2.9.5 Impairment of assets

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

2.9.6 Borrowing costs

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

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

2.9.7 Financial instruments

Financial assets and financial liabilities are recognized in the Group's consolidated balance sheet when the Group becomes a legal party for the contractual provisions of the financial instrument.

<u>Financial assets</u>

Financial assets, are initially measured at fair value, less transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale financial assets' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest rate method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the ratio exactly discounts the estimated future cash receipts through the expected life of the financial asset to the net present value of the financial asset or in a shorter period where appropriate.

Incomes related to the debt instruments that are held to maturity and are available for sale, and financial assets that are classified as loans and receivables are calculated according to the effective interest rate method.

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

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

2.9.7 Financial instruments (cont'd)

Financial assets (cont'd)

Available for sale financial assets

Some of the shares and long term marketable securities held by the Group are classified as available for sale and recognized at their fair values.

The financial assets, which are not priced in an active market and the fair value cannot be recognized accurately, are recognized at cost less accumulated impairments.

Gains and losses arising from changes in fair value are recognized directly in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognized directly in the consolidated income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in the consolidated income statement for the period.

Dividends associated with the available for sale equity instruments are recognized in consolidated income statement when the Group has the right to receive the related payments.

Receivables

Trade receivables and other receivables are initially recognized at their fair value. Subsequently, receivables are measured at amortized cost using the effective interest method.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For receivables, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated income statement.

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

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

2.9.7 Financial instruments (cont'd)

Financial assets (cont'd)

Impairment of financial assets (cont'd)

With the exception of available for sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available for sale equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in the consolidated statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three-months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value.

Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Other financial liabilities

Other financial liabilities are initially accounted at fair value, net of transaction costs.

Subsequently other financial liabilities are accounted at amortized cost using the effective interest method, with interest expense recognized on an effective interest rate basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating the interest expense to the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount.

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

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

2.9.7 Financial instruments (cont'd)

Derivative financial instruments and hedge accounting

Derivatives are initially recognized at cost of acquisition and are subsequently accounted to their fair value at the end of each reporting period. The method of recognizing the result of gain or loss is dependent on the nature of the item being hedged.

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 from changes that could affect the statement of income due to a specific risk in cash flow of a forecasted transaction (cash flow hedge). Fair value of the Group's interest swap agreements is determined by valuation methods depending on analyzable market data.

Changes in the fair value of the derivatives that are designated and qualified as cash flow hedges and that are highly effective, are recognized in equity as hedging reserve. Where the forecasted transaction or firm commitment results in the recognition of an asset or a liability, the gains and losses previously booked under equity are transferred from equity and included in the initial measurement of the cost of acquisition of the asset or liability. Otherwise, amounts booked under equity are transferred to the consolidated statement of income and classified as revenue or expense in the period in which the hedged item affects the statement of income.

When the hedging instrument expires, is sold, or when a hedge no longer meets the criteria for hedge than hedge accounting is terminated. Any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the committed or forecasted transaction ultimately is recognized in the statement of income. However, if the hedged transaction is not realized, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss of the current period.

The Group evaluates the derivative financial instruments held for fair value hedge purpose with their fair values and associates them with profit or loss.

2.9.8 The effects of foreign exchange rate changes

Foreign currency transactions are recorded at the rates of exchange prevailing on the dates of the transactions. Assets and liabilities denominated in foreign currencies are converted at the exchange rates prevailing on the balance sheet date. Exchange differences are recognized in the consolidated income statements.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in TRY using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as consolidated statement of other comprehensive income and transferred to the Group's translation reserves. Such exchange differences are recognized in the consolidated statement of income in the period in which the foreign operation is disposed of.

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

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

2.9.9 Earnings per share

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

In Turkey, companies can increase their share capital by distributing "bonus shares" to shareholders from retained earnings. In computing earnings per share, such "bonus share" distributions are assessed as issued shares. Accordingly, the weighted-average number of shares are computed by taking into consideration of the retrospective effects of the share distributions.

2.9.10 Subsequent events

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

In the case that events occur requiring an adjustment, the Group adjusts the amounts recognized in its consolidated financial statements to reflect the adjustments after the balance sheet date.

2.9.11 Provisions, contingent liabilities and contingent assets

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

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

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

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

2.9.12 Related parties

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

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

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

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

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

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

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

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

2.9.13 Investment properties

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

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

2.9.14 Taxation and deferred income taxes

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the consolidated financial statements, have been calculated on a separate-entity basis.

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

Current tax

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

Deferred tax

Deferred tax is determined by calculating the temporary differences between the carrying amounts of assets/liabilities in the financial statements and the corresponding tax bases, used in the computation of the taxable profit, using currently enacted tax rates. Deferred tax liabilities are generally recognized for all taxable temporary differences where deferred tax assets resulting from deductible temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

2.9.14 Taxation and deferred income taxes (cont'd)

Deferred tax (cont'd)

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

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

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

Current and deferred tax for the period

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

2.9.15 Provisions for employment benefits

According to the Turkish and Romanian law and union agreements, employee termination payments are made to employees in the case of retiring or involuntarily leaving. Such payments are considered as a part of defined retirement benefit plan in accordance with IAS19 (revised) "Employee Benefits" ("IAS 19").

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

The Group makes certain assumptions about discount rates, inflation rates, future salary increases and employee turnover rates in calculation of provisions for employee benefits. The present value of employee benefits as of 31 December 2012 is calculated by an independent actuary and some changes are done in accounting assumptions used in calculations. The impact of the changes in assumptions is recognized in the statement of income. The details related with the defined benefit plans are stated in Note 17.

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

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

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

2.9.16 Government grants and incentives

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

2.9.17 Statement of cash flows

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

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

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

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

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

2.9.18 Share capital and dividends

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

2.9.19 Treasury shares

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

NOTE 3 – SEGMENTAL REPORTING

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

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

NOTE 4 – CASH AND CASH EQUIVALENTS

The detail of cash and cash equivalents as of 31 December 2012 and 31 December 2011 is as follows:

	31 December 2012	31 December 2011
Cash	27.100	41.790
Banks – demand deposits	33.291.123	84.343.351
Banks – time deposits	1.796.397.948	1.018.325.072
	1.829.716.171	**1.102.710.213**
Time deposit interest accruals (-)	(2.018.470)	(2.375.008)
Cash and cash equivalents excluding interest accruals	**1.827.697.701**	**1.100.335.205**

The breakdown of demand deposits is presented below:

	31 December 2012	31 December 2011
US Dollars	10.926.074	49.734.756
TRY	17.110.339	30.710.792
EURO	4.622.001	3.189.345
Romanian Lei	592.051	532.391
GB Pound	28.118	24.026
Japanese Yen	12.540	152.041
	33.291.123	**84.343.351**

The breakdown of time deposits is presented below:

	31 December 2012	31 December 2011
US Dollars	1.697.696.627	877.785.945
TRY	85.519.056	124.546.150
EURO	13.085.895	15.290.338
Romanian Lei	96.370	702.639
	1.796.397.948	**1.018.325.072**

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

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

NOTE 5 – FINANCIAL INVESTMENTS

Current financial investments:

	31 December 2012	31 December 2011
Derivative financial assets at fair value through income statement (*)	543.101	9.232.974
Total	**543.101**	**9.232.974**

Non-current financial investments:

	31 December 2012	31 December 2011
Financial Investments	84.594	66.086
Derivative financial assets at fair value through other comprehensive income statement (*)	9.579.245	47.475.443
Total	**9.663.839**	**47.541.529**

(*) As explained in Note 29 (f) and Note 29 (g), the derivative financial liabilities comprise of forward agreements, option agreements, cross currency and interest rate swap agreements.

As of 31 December 2012 and 31 December 2011 the Group's subsidiaries, their percentage shares and amounts of the ownership interest are as follows:

Company	Rate %	31 December 2012	Rate %	31 December 2011
Erdemir Gaz San. ve Tic. A.Ş. (*)	100	84.594	100	66.086

(*) The financial statements of Erdemir Gaz San. ve Tic. A.Ş., which has a total asset of TRY 4.313 and has been dormant since its establishment at 21 December 2004, are not consolidated as their effects on the consolidated financial statements are immaterial and disclosed at cost. There are no off balance sheet liabilities and contingencies given between the Group companies and Erdemir Gaz in favor of each other. In the Extraordinary General Meeting of Erdemir Gaz San. ve Tic. A.Ş. dated 7 May 2012, liquidation of the Company has been decided. Liquidation process is continuing.

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

NOTE 6 – FINANCIAL LIABILITIES

Breakdown of financial liabilities is as follows:

	31 December 2012	31 December 2011
Short term financial liabilities	867.824.521	394.588.121
Current portion of long term financial liabilities	1.154.609.147	1.093.280.760
Total short term financial liabilities	**2.022.433.668**	**1.487.868.881**
Long term financial liabilities	2.396.318.269	3.289.928.316
Total long term financial liabilities	**2.396.318.269**	**3.289.928.316**
	4.418.751.937	**4.777.797.197**

As of 31 December 2012, the breakdown of the Group's loans with their original currency and their weighted average interest rates, is presented as follows:

Interest Type	Type of Currency	Weighted Average Rate of Interest (%)	Short Term Portion	Long Term Portion	31 December 2012
No interest	TRY	-	8.891.317	-	8.891.317
Fixed	TRY	9,41	269.311.833	682.341.271	951.653.104
Fixed	US Dollars	2,91	1.063.793.079	23.011.745	1.086.804.824
Fixed	EURO	5,50	58.841	3.527.550	3.586.391
Floating	US Dollars	Libor+2,54	566.416.226	1.262.194.976	1.828.611.202
Floating	EURO	Euribor+0,33	88.815.893	324.706.901	413.522.794
Floating	Jap. Yen	JPY Libor+0,22	25.146.479	100.535.826	125.682.305
			2.022.433.668	**2.396.318.269**	**4.418.751.937**

As of 31 December 2011, the breakdown of the Group's loans with their original currency and their weighted average interest rates, is presented as follows:

Interest Type	Type of Currency	Weighted Average Rate of Interest (%)	Short Term Portion	Long Term Portion	31 December 2011
No interest	TRY	-	1.726.390	-	1.726.390
Fixed rate	TRY	10,60	109.383.453	927.777.779	1.037.161.232
Fixed rate	US Dollars	1,95	751.270.745	25.757.727	777.028.472
Floating	US Dollars	Libor+2,45	500.485.839	1.757.301.180	2.257.787.019
Floating	EURO	Euribor+0,33	95.021.329	429.361.325	524.382.654
Floating	Jap. Yen	JPY Libor+0,22	29.981.125	149.730.305	179.711.430
			1.487.868.881	**3.289.928.316**	**4.777.797.197**

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

NOTE 6 – FINANCIAL LIABILITIES (cont'd)

As of 31 December 2012, according to their type of original currency and interest rates, the breakdown of floating-interest loans fixed by using financial hedge agreements, is as follows:

Type of Currency	Fixed rate of interest (%)	Short Term Portion	Long Term Portion	31 December 2012
US Dollars	2,38	24.017.496	36.024.212	60.041.708
US Dollars	4,18	21.046.789	9.087.765	30.134.554
US Dollars	3,29	12.068.556	30.168.228	42.236.784
US Dollars	3,28	12.816.541	-	12.816.541
US Dollars	1,09	24.085.817	36.263.478	60.349.295
US Dollars	4,47	81.354.770	283.595.455	364.950.225
US Dollars	4,46	12.377.019	49.264.582	61.641.601
US Dollars	1,68	2.473.425	6.178.302	8.651.727
US Dollars	2,01	7.559.453	11.310.572	18.870.025
US Dollars	4,15	32.257.320	112.667.298	144.924.618
EURO	2,18	5.683.008	11.364.653	17.047.661
EURO	1,82	715.194	-	715.194
EURO	1,75	2.666.601	-	2,666.601
EURO	1,79	1.152.192	1.726.058	2.878.250
EURO	1,80	2.679.559	10.684.866	13.364.425
EURO	4,43	2.147.539	8.551.636	10.699.175
EURO	2,29	5.857.509	14.633.848	20.491.357
EURO	1,66	1.454.643	3.639.434	5.094.077
US Dollars (*)	7,22	16.275.452	72.343.463	88.618.915
EURO (**)	10,65	30.276.793	121.035.489	151.312.282
		298.965.676	**818.539.339**	**1.117.505.015**

(*) As described in Note 29 (f) and Note 29 (g), it is the interest rate of the TRY valued cross currency swap contract resulted from the sale of TRY and purchase of USD. The maturity of the cross currency swap contract is 3 October 2016. The amount represents TRY equivalent of the portion of the loan amount of USD 74.024.862, with maturity of 3 April 2018, that is hedged till 2016.

(**) As described in Note 29 (f) and Note 29 (g), it is the interest rate of the TRY valued cross currency swap contract resulted from the sale of TRY and purchase of Euro.

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

NOTE 6 – FINANCIAL LIABILITIES (cont'd)

As of 31 December 2011, according to their type of original currency and interest rates, the breakdown of floating-interest loans fixed by using financial hedge agreements, is as follows:

Type of Currency	Fixed rate of interest (%)	Short Term Portion	Long Term Portion	31 December 2012
US Dollars	2,38	25.474.382	63.585.894	89.060.276
US Dollars	3,29	12.847.838	44.945.655	57.793.493
US Dollars	3,28	27.091.672	13.473.527	40.565.199
US Dollars	1,09	25.663.313	64.012.278	89.675.591
US Dollars	4,47	86.320.936	386.365.909	472.686.845
US Dollars	4,46	6.602.483	65.252.909	71.855.392
EURO	2,18	5.911.534	17.725.829	23.637.363
EURO	1,82	1.496.538	739.797	2.236.335
EURO	1,75	2.776.405	2.772.153	5.548.558
EURO	1,79	1.209.043	2.999.046	4.208.089
US Dollars (*)	7,22	18.777.561	101.800.109	120.577.670
EURO (**)	10,65	31.695.819	157.669.001	189.364.820
		245.867.524	**921.342.107**	**1.167.209.631**

(*) As described in Note 29 (f) and Note 29 (g), it is the interest rate of the TRY valued cross currency swap contract resulted from the sale of TRY and purchase of USD. The maturity of the cross currency swap contract is 3 October 2016. The amount represents TRY equivalent of the portion of the loan amount of USD 80.193.601, with maturity of 3 April 2018, that is hedged till 2016.

(**) As described in Note 29 (f) and Note 29 (g), it is the interest rate of the TRY valued cross currency swap contract resulted from the sale of TRY and purchase of Euro.

The breakdown of the loan repayments with respect to their maturities is as follows:

	31 December 2012	31 December 2011
Within 1 year	2.022.433.668	1.487.868.881
Between 1-2 years	759.838.591	827.447.833
Between 2-3 years	688.636.253	771.380.960
Between 3-4 years	589.040.223	712.334.875
Between 4-5 years	274.057.020	610.130.802
Five years or more	84.746.182	368.633.846
	4.418.751.937	**4.777.797.197**

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

NOTE 7 - OTHER FINANCIAL LIABILITIES

	31 December 2012	31 December 2011
Other current financial liabilities		
Derivative financial liabilities at fair value through other comprehensive income statement (*)	278.881	-
Derivative financial liabilities at fair value through income statement (*)	3.901.647	558.936
	4.180.528	**558.936**
Other non-current financial liabilities		
Derivative financial liabilities at fair value through other comprehensive income statement (*)	14.576.726	10.400.444
	14.576.726	**10.400.444**

(*) As explained in Note 29 (f) and Note 29 (g), the derivative financial liabilities comprise of forward agreements, option agreements, interest rate swap agreements and cross currency and interest rate swap agreements.

NOTE 8 – TRADE RECEIVABLES AND PAYABLES

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

	31 December 2012	31 December 2011
Short term trade receivables		
Trade receivables	1.069.683.038	1.176.272.796
Due from related parties (Note 28)	17.941.389	9.723.604
Notes receivables	1.296.567	2.201.537
Discount on receivables (-)	(349.432)	(3.460.040)
Provision for doubtful trade receivables (-)	(41.271.202)	(43.039.895)
	1.047.300.360	**1.141.698.002**

The movement of the provision for short term doubtful trade receivables are as follows:

	1 January – 31 December 2012	1 January – 31 December 2011
Opening balance	43.039.895	42.714.004
Provision for the period	554.589	5.482.158
Doubtful receivables collected (-)	-	(1.864.654)
Provision released (-)	-	(8.884.584)
Translation loss/(gain)	(2.323.282)	5.592.971
Closing balance	**41.271.202**	**43.039.895**

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

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

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

As the Group provides services and products to a large number of customers, collection risk is widely distributed amongst these customers and there is no significant credit risk exposure. Therefore, the Group does not provide for any further provision beyond the doubtful receivables provisions that the Group has already provided for in the consolidated financial statements.

As of the balance sheet date, there is no significant amount of overdue receivables within the trade receivables.

Other explanatory notes related to the credit risk of the Group are disclosed in Note 29.

The Group provides a specific amount of provision according to the balances of all unsecured receivables under legal follow up.

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

Short term trade payables	31 December 2012	31 December 2011
Trade payables	417.099.017	524.975.798
Due to related parties (Note 28)	11.727.235	9.852.395
Discount on trade payables (-)	(770.502)	(1.170.033)
	428.055.750	**533.658.160**

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

NOTE 9 – OTHER RECEIVABLES AND PAYABLES

Other current receivables	31 December 2012	31 December 2011
Deposits and guarantees given	296.045	252.962
Due from related parties (Note 28)	-	25.000
	296.045	**277.962**

Other non-current receivables	31 December 2012	31 December 2011
Receivables from Privatization Authority	54.061.043	52.458.346
Deposits and guarantees given	238.949	219.483
Provision for other doubtful receivables (-)	(54.061.043)	(52.458.346)
	238.949	**219.483**

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

	1 January- 31 December 2012	1 January- 31 December 2011
Opening balance	52.458.346	25.854.055
Provision for the period	1.924.833	27.431.198
Other doubtful receivables collected (-)	(322.136)	(826.907)
Closing balance	**54.061.043**	**52.458.346**

Other current payables	31 December 2012	31 December 2011
Social security deductions payable	21.941.319	38.454.834
Taxes and funds payable	20.111.086	17.995.565
Deposits and guarantees received	3.137.566	4.754.217
Dividend payables to shareholders (*)	2.827.812	2.489.565
Non trade payables to related parties (Note 28)	-	341
	48.017.783	**63.694.522**

(*) On the Regular General Assembly dated 30 March 2012, dividend distribution amounting to TRY 300.000.000 from 2011 net profit was approved. The dividend distribution was completed on 31 May 2012. TRY 456.659 of dividend payables as of 31 December 2012 is related to 2011 dividend distribution, while TRY 2.371.153 (31 December 2011: TRY 2.489.565) is uncollected dividends related to previous years by shareholders.

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

NOTE 10 – INVENTORIES

	31 December 2012	31 December 2011
Raw materials	770.111.781	1.046.863.873
Work in progress	442.315.116	531.166.124
Finished goods	739.686.707	976.530.545
Spare parts	411.694.494	358.331.015
Goods in transit	378.626.074	550.025.922
Other inventories	166.079.744	219.105.353
Allowance for impairment on inventories (-)	(60.394.709)	(53.525.003)
	2.848.119.207	**3.628.497.829**

The movement of the allowance for impairment on inventories:

	1 January – 31 December 2012	1 January – 31 December 2011
Opening balance	53.525.003	38.781.046
Provision for the period (Note 20)	17.000.853	19.186.222
Provision released (-) (Note 20)	(10.131.147)	(4.442.265)
Closing balance	**60.394.709**	**53.525.003**

The Group has provided an allowance for the impairment on the inventories of finished goods, work in progress and raw materials in the cases when their net realizable values are lower than their costs or when they are classified as slow moving inventories. The provision released has been recognized under cost of sales (Note 20).

NOTE 11 – INVESTMENT PROPERTIES

	1 January – 31 December 2012	1 January – 31 December 2011
Cost		
As of 1 January	46.577.264	46.577.264
As of 31 December	**46.577.264**	**46.577.264**
Book value	**46.577.264**	**46.577.264**

According to the recent valuation reports, the fair value of the Group's investment properties is TRY 211.240.000 (31 December 2011: TRY 198.409.000). The fair values of the investment properties have been determined in reference to the valuations of independent valuation firms authorized by the CMB. The valuations are undertaken predominantly by using the precedent values of similar properties as references.

The Group's all investment properties consist of land parcels.

For the year ended 31 December 2012, the Group recognized rent income amounting to TRY 94.799 (31 December 2011: TRY 89.347) under other operating income.

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

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT

	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Property, plant and equipment	Construction in progress (CIP)	Total
Cost									
Opening balance as of 1 January 2012	99.970.596	1.502.021.260	2.371.470.716	9.939.412.661	669.521.997	322.062.397	15.692.249	303.035.174	15.223.187.050
Translation difference	(294.801)	-	(459.932)	(899.983)	(133.546)	-	(70.597)	(34.538)	(1.893.397)
Additions (*)	-	886.980	578.059	35.219.105	6.558.674	4.668.900	1.226.660	375.250.091	424.388.469
Disposals	-	(5.782.840)	(19.600)	(63.464.759)	(4.943.092)	(615.992)	(118.203)	-	(74.944.486)
Transfers from CIP (**)	-	29.855.384	30.255.782	214.440.263	4.204.069	835.324	1.007.084	(283.076.755)	(2.478.849)
Closing balance as of 31 December 2012	**99.675.795**	**1.526.980.784**	**2.401.825.025**	**10.124.707.287**	**675.208.102**	**326.950.629**	**17.737.193**	**395.173.972**	**15.568.258.787**
Accumulated Depreciation									
Opening balance as of 1 January 2012	-	(1.016.431.739)	(1.545.595.586)	(5.225.691.075)	(353.940.724)	(156.076.545)	(13.806.800)	-	(8.311.542.469)
Translation difference	-	-	124.279	615.423	23.025	-	45.424	-	808.151
Charge for the period	-	(30.045.966)	(48.895.656)	(215.025.666)	(21.587.816)	(13.651.238)	(588.390)	-	(329.794.732)
Disposals	-	5.782.840	3.920	58.855.610	4.845.075	563.628	116.774	-	70.167.847
Closing balance as of 31 December 2012	**-**	**(1.040.694.865)**	**(1.594.363.043)**	**(5.381.245.708)**	**(370.660.440)**	**(169.164.155)**	**(14.232.992)**	**-**	**(8.570.361.203)**
Net book value as of 31 December 2011	**99.970.596**	**485.589.521**	**825.875.130**	**4.713.721.586**	**315.581.273**	**165.985.852**	**1.885.449**	**303.035.174**	**6.911.644.581**
Net book value as of 31 December 2012	**99.675.795**	**486.285.919**	**807.461.982**	**4.743.461.579**	**304.547.662**	**157.786.474**	**3.504.201**	**395.173.972**	**6.997.897.584**

(*) The amount of capitalized financial expense is TRY 728.057 for the current period (The capitalized financial expenses for the year ended 31 December 2011 is TRY 46.983.553).
(**) TRY 2.478.849 is transferred to intangible assets (Note 13).
As of 31 December 2012, the Group has no collaterals or pledges upon its tangible assets.

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

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other property, plant and equipment	Construction in progress (CIP)	Total
Cost									
Opening balance as of 1 January 2011	94.744.073	1.453.704.231	2.110.488.192	9.333.046.763	657.405.179	310.281.131	14.806.588	842.035.068	14.816.511.225
Translation difference	1.153.402	-	1.429.621	3.402.990	132.410	-	291.047	319.670	6.729.140
Additions	4.073.121	3.071.760	5.311.017	77.250.230	10.906.226	4.732.131	617.095	363.533.808	469.495.388
Disposals	-	(1.201.281)	-	(26.237.328)	(2.983.626)	(1.396.262)	(72.670)	-	(31.891.167)
Transfer from CIP (*)	-	46.446.550	254.241.886	551.950.006	4.061.808	8.445.397	50.189	(902.853.372)	(37.657.536)
Closing balance as of 31 December 2011	**99.970.596**	**1.502.021.260**	**2.371.470.716**	**9.939.412.661**	**669.521.997**	**322.062.397**	**15.692.249**	**303.035.174**	**15.223.187.050**
Accumulated Depreciation									
Opening balance as of 1 January 2011	-	(992.566.781)	(1.501.610.257)	(5.048.615.511)	(337.081.439)	(143.268.011)	(13.374.450)	-	(8.036.516.449)
Translation difference	-	-	(447.267)	(2.303.806)	(71.932)	-	(184.852)	-	(3.007.857)
Charge for the period	-	(24.758.362)	(43.538.062)	(196.403.938)	(19.635.691)	(13.908.863)	(312.839)	-	(298.557.755)
Disposals	-	893.404	-	21.632.180	2.848.338	1.100.329	65.341	-	26.539.592
Closing balance as of 31 December 2011	**-**	**(1.016.431.739)**	**(1.545.595.586)**	**(5.225.691.075)**	**(353.940.724)**	**(156.076.545)**	**(13.806.800)**	**-**	**(8.311.542.469)**
Net book value as of 31 December 2010	**94.744.073**	**461.137.450**	**608.877.935**	**4.284.431.252**	**320.323.740**	**167.013.120**	**1.432.138**	**842.035.068**	**6.779.994.776**
Net book value as of 31 December 2011	**99.970.596**	**485.589.521**	**825.875.130**	**4.713.721.586**	**315.581.273**	**165.985.852**	**1.885.449**	**303.035.174**	**6.911.644.581**

(*) TRY 37.657.536 is transferred to intangible assets (Note 13).

As of 31 December 2011, the Group has no collaterals or pledges upon its tangible assets.

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

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT (cont'd)

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

	31 December 2012	31 December 2011
Associated with production	315.098.675	282.755.455
General administrative expenses	5.637.607	8.598.404
Marketing, sales and distribution expenses	9.058.450	7.203.896
	329.794.732	**298.557.755**

NOTE 13 – INTANGIBLE ASSETS

	Rights	Exploration costs and other assets with specific useful life	Other intangible assets	Total
Cost				
Opening balance as of 1 January 2012	181.438.363	88.324.945	4.912.952	274.676.260
Translation difference	(12.242)	-	(45.336)	(57.578)
Additions	6.913.585	69.153	1.192.753	8.175.491
Disposals	-	-	(674.084)	(674.084)
Transfers from CIP	2.478.849	-	-	2.478.849
Closing balance as of 31 December 2012	**190.818.555**	**88.394.0985**	**5.386.285**	**284.598.938**
Accumulated amortization				
Opening balance as of 1 January 2012	(61.991.877)	(44.794.501)	(3.737.191)	(110.523.569)
Translation difference	10.721	-	35.981	46.702
Charge for the period	(15.890.333)	(4.853.606)	(673.836)	(21.417.775)
Disposal	-	-	206.433	206.433
Closing balance as of 31 December 2012	**(77.871.489)**	**(49.648.107)**	**(4.168.613)**	**(131.688.209)**
Net book value as of 31 December 2011	**119.446.486**	**43.530.444**	**1.175.761**	**164.152.691**
Net book value as of 31 December 2012	**112.947.066**	**38.745.991**	**1.217.672**	**152.910.729**

As of 31 December 2012, the Group has no collaterals or pledges upon its intangible assets.

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

NOTE 13 – INTANGIBLE ASSETS (cont'd)

	Rights	Exploration costs and other assets with specific useful life	Other intangible assets	Total
Cost				
Opening balance as of 1 January 2011	167.280.421	61.593.885	5.123.670	233.997.976
Translation difference	50.245	-	182.566	232.811
Additions	3.181.221	-	1.691.761	4.872.982
Disposals	-	-	(2.085.045)	(2.085.045)
Transfers from CIP	10.926.476	26.731.060	-	37.657.536
Closing balance as of 31 December 2011	**181.438.363**	**88.324.945**	**4.912.952**	**274.676.260**
Accumulated amortization				
Opening balance as of 1 January 2011	(47.821.557)	(38.665.482)	(3.854.123)	(90.341.162)
Translation difference	(29.190)	-	(85.770)	(114.960)
Charge for the period	(14.141.130)	(6.129.019)	(1.018.386)	(21.288.535)
Disposal	-	-	1.221.088	1.221.088
Closing balance as of 31 December 2011	**(61.991.877)**	**(44.794.501)**	**(3.737.191)**	**(110.523.569)**
Net book value as of 31 December 2010	**119.458.864**	**22.928.403**	**1.269.547**	**143.656.814**
Net book value as of 31 December 2011	**119.446.486**	**43.530.444**	**1.175.761**	**164.152.691**

As of 31 December 2011, the Group has no collaterals or pledges upon its intangible assets.

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

	31 December 2012	31 December 2011
Associated with production	19.978.302	20.103.333
General administrative expenses	1.111.520	1.141.236
Marketing, sales and distribution expenses	327.953	43.966
	21.417.775	**21.288.535**

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

NOTE 14 – GOVERNMENT GRANTS AND INCENTIVES

The government grants and incentives used in the current period are as follows:

	1 January- 31 December 2012	1 January- 31 December 2011
Research and development grants	678.942	821.679
Social security grants	500.839	460.792
	1.179.781	**1.282.471**

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

There is an investment incentive right of the Group amounting to TRY 204.883.114 with indefinite useful life, deductable in the next periods within the concept of the law numbered 5479, article 2 which repealed the 19th article of Income Tax Law (ITL) as of 1 January 2006 (31 December 2011: TRY 46.016.899).

NOTE 15 – PROVISIONS

	31 December 2012	31 December 2011
Provision for lawsuits	104.471.986	68.484.650
Penalty provision for employment shortage of disabled personnel	4.945.469	5.235.076
Provision for state right on mining activities (*)	3.643.868	3.704.424
	113.061.323	**77.424.150**

(*) According to "Mining Law" numbered 3213 and regulation on "Mining Law Enforcement" published in the Official Gazette, numbered 25716 on 3 February 2005, the Group is obliged to pay state right on mining activities based on the sales profit.

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

NOTE 15 – PROVISIONS (cont'd)

The movement of the provisions is as follows:

	1 January 2012	Provision for the period	Payments	Provision released (-)	31 December 2012
Provision for lawsuits	68.484.650	62.358.450	(13.964.834)	(12.406.280)	104.471.986
Penalty provision for employment shortage of disabled personnel	5.235.076	2.408.900	(415.650)	(2.282.857)	4.945.469
Provision for state right on mining activities	3.704.424	3.643.868	(3.704.424)	-	3.643.868
	77.424.150	**68.411.218**	**(18.084.908)**	**(14.689.137)**	**113.061.323**

	1 January 2011	Provision for the period	Payments	Provision released (-)	31 December 2011
Provision for lawsuits	29.398.275	56.114.000	(5.434.448)	(11.593.177)	68.484.650
Penalty provision for employment shortage of disabled personnel	5.968.311	2.314.048	(1.363.482)	(1.683.801)	5.235.076
Provision for state right on mining activities	1.755.048	3.704.424	(1.578.340)	(176.708)	3.704.424
	37.121.634	**62.132.472**	**(8.376.270)**	**(13.453.686)**	**77.424.150**

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

NOTE 15 – PROVISIONS (cont'd)

As of 31 December 2012 and 31 December 2011, lawsuits filed by and against the Group are as follows:

	31 December 2012	31 December 2011
Lawsuits filed by the Group		
TRY	206.805.171	79.312.909
US Dollars	90.417.539	95.389.450
	297.222.710	**174.702.359**

Provision for lawsuits filed by the Group		
TRY	3.670.471	3.161.033
	3.670.471	**3.161.033**

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

	31 December 2012	31 December 2011
Lawsuits filed against the Group		
TRY	54.325.739	62.418.405
US Dollars	132.313.443	140.203.558
	186.639.182	**202.621.963**

Provision for lawsuits filed against the Group		
TRY	90.914.952	55.202.748
US Dollars	13.557.034	13.281.902
	104.471.986	**68.484.650**

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

CMB asked the Company to prepare its consolidated financial statements of 31 December 2005 all over again according to the same accounting standards set used during the period, to publish those statements, and to submit them to the General Assembly Approval as soon as possible, by stating on its decision no. 21/526 dated 5 May 2006 that the Company's changing the accounting standards set used during the term (Serial XI, No 25) at the end of the same term (UFRS) caused decrease amount of TRY 152.329.914 on the period income.

NOTE 15 – PROVISIONS (cont'd)

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

CMB, prepared the Company's consolidated financial statements as of 31 December 2005, which had been prepared according to the IFRS, by adding the negative goodwill of TRY 152.329.914, that had previously been added to the accumulated earnings, to the profit of 2005 on its own motion and account, and published them on Istanbul Stock Exchange Bulletin on 15 August 2006; with the rationale that the Company had not fulfilled its due demand on grounds that "Article 726 and Temporary Provision 1 of CMB's Communiqué Serial XI, No. 25 authorize the use of IFRS on consolidated financial statements of 2005, although CMB had given the Company a 'permission' No. SPK.0.17/83-3483 of 7 March 2006, and the lawsuits regarding this issue are still pending". The Company challenged CMB's aforementioned decision by a separate lawsuit on 10 October 2006. 11th Administrative Court of Ankara rejected this case on 25 June 2007. The Company appealed this rejection 11 October 2007; 13th Chamber of the Council of State, accepted the appeal request and abolished the rejection judgment. CMB appealed the Chamber's decision on 6 September 2010. 13th Chamber of the Council of State accepted CMB's appeal and reverted its previous abolishment decision, and ratified 11th Administrative Court of Ankara's judgement by the majority of the votes on 30 May 2012 with its decision no. E. 2010/4405; K. 2012/1352. This decision was notified to the Company's lawyers on 20 July 2012.

In the meeting no. 29/1110 dated 7 December 2008, CMB imposed administrative fine upon management of the Company as the Company did not obey the decision of CMB dated 2 December 2006 asking the Company to restate its consolidated financial statements of 31 December 2005. The Company appealed against the administrative fine. Ankara 1. Criminal Court of Peace accepted the appeal request with its decision no. 2006/1480 dated 7 July 2009. CMB appealed this decision. However, this time Ankara 3. High Criminal Court rejected CMB's appeal request with its decision no. 2009/320 dated 10 August 2009 and the rejection decision is final and definite.

Consequently, the decisions given by two different courts conflicted with each other according to the Company.

In 1 August 2012, the Company applied to 11th Administrative Court of Ankara to remove the decision conflict of these courts by adopting Ankara 1. Criminal Court of Peace's decision no. 2006/1480 dated 7 July 2009 instead of decisions no E.2006/2548, K.2007/1071 dated 25 June 2007 and no. E.2006/1396, K.2007/494 dated 29 March 2007. No improvement has been seen about the decision as of balance sheet date.

Meanwhile, Company's Shareholders' General Assembly, which was held at 30 March 2006, decided dividend distribution according to the consolidated financial statements as of 31 December 2005, which were prepared according to IFRS. Privatization Administration, who has a usufruct right over 1 (one) equity share among the Company shares it transferred to Ataer Holding A.Ş., filed a lawsuit before the 3th Commercial Court of Ankara against the aforementioned General Assembly decision, and claimed that, dividend distribution decision must be abolished and TRY 35.673.249 allegedly unpaid dividend must be paid to itself (E. 2006/218). The Court rejected the case on 23 October 2008; Privatization Administration appealed this rejection on 7 January 2009. Court of Appeals' 11th Chamber reversed this rejection judgment on 30 November 2010; this time the Company appealed the Chamber's decision on 18 February 2011. However, the Chamber rejected the Company's appeal on 14 July 2011. The case file, sent back to 3th Commercial Court of Ankara once again. Therefore the case is still pending (E. 2011/551).

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

NOTE 15 – PROVISIONS (cont'd)

Had the Company started to prepare its consolidated financial statements in accordance with IFRS after 31 December 2005, it would also have to present the comparative consolidated financial statements in accordance with IFRS based on "IFRS 1: First-time adoption of International Financial Reporting Standards" and the previously recognized negative goodwill would be transferred directly to retained earnings on 1 January 2005 instead of recognizing in the consolidated income statement in accordance with "IFRS 3: Business Combinations". Therefore, the net profit for the periods ended 31 December 2012 and 31 December 2011 will not be affected from the above mentioned disputes.

The Company, based on the above mentioned reasons, did not make any adjustments in the accompanying consolidated financial statements for the possible effects of changes in the net profit for the year ended 31 December 2005 due to the lawsuits mentioned above and waits for the result of its claim about removal of decision conflict and resolution of the pending lawsuit opened by Privatization Administration.

Enerjia Metal Maden Sanayi ve Ticaret A.Ş. initiated a debt collection proceeding that might end with a bankruptcy judgment against the Company based on the Export Protocol No. 69187 of 02.07.2009 and "Additional Terms to the Erdemir-Enerjia Export Protocol No. 68197" drafted by and between Enerjia and the Company. However the process stopped upon the Company's objection to Enerjia's request, and that led Enerjia to file a lawsuit against the Company before the 7th Commercial Court of Ankara on 27.03.2010 claiming that the objection should be overruled and 68.312.520 USD should be paid to itself (E. 2010/259). The Court dismissed the case, in favor of the Company, on 23 June 2011. Enerjia appealed this rejection. 23rd Chamber of the Court of Appeals accepted this rejection on 6 April 2012 (E. 2011/2915) and after this, the case file was sent back to the 7th Commercial Court of Ankara. Therefore the case is still pending (E. 2013/17) before the 7th Commercial Court of Ankara and the next court hearing is on 11 April 2013.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	31 December 2012	31 December 2011
Letters of guarantees received	1.038.595.060	1.150.323.715
	1.038.595.060	**1.150.323.715**

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

	31 December 2012	31 December 2011
A. Total CPM given for the Company's own legal entity	121.524.013	104.831.403
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	2.634.472.886	3.223.049.554
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	-	-
D. Other CPM given	-	-
i. Total CPM given in favour of parent entity	-	-
ii. Total CPM given in favour of other Group companies out of the scope of clause B and C	-	-
iii. Total CPM given in favour of other 3rd parties out of the scope of clause C	-	-
	2.755.996.899	**3.327.880.957**

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

NOTE 16 – COMMITMENTS AND CONTINGENCIES (cont'd)

As of 31 December 2012, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2011: 0%). Total CPM given in favor of subsidiaries consolidated on line-by-line basis amounting to TRY 2.634.472.886 has been given as collateral for financial liabilities explained in Note 6.

The breakdown of the Group's collaterals, pledges and mortgages according to their original currency is as follows:

	31 December 2012	31 December 2011
US Dollars	1.339.482.191	1.751.124.659
TRY	965.475.620	998.772.894
EURO	382.171.926	481.334.789
Japanese Yen	67.522.169	95.477.706
Romanian Lei	1.344.993	1.170.909
	2.755.996.899	**3.327.880.957**

NOTE 17 – PROVISIONS FOR EMPLOYMENT BENEFITS

	31 December 2012	31 December 2011
Provisions for employee termination benefits	265.082.814	199.372.291
Provisions for seniority incentive premium	18.896.395	18.750.643
	283.979.209	**218.122.934**

According to the articles of Turkish Labor Law in force, there is an obligation to pay the legal employee termination benefits to each employee whose employment contracts are ended properly entitling them to receive employee termination benefits. Also, in accordance with the effective laws of the Social Insurance Act No: 506 No: 2422 on 6 March 1981 and No: 4447 on 25 August 1999 and with the amended Article 60 of the related Act, it is obliged to pay the employees their legal employee termination benefits, who are entitled to terminate.

As of 31 December 2012, the amount payable consists of one month's salary limited to a maximum of TRY 3.033,98 (31 December 2011: TRY 2.731,85). As of 1 January 2013, one month's salary is limited to TRY 3.129,25.

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

The employee termination benefit has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. IAS 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the Group's obligation under defined benefit plans. The obligation as of 31 December 2012 has been calculated by an independent actuary. The method used in calculation is "Projected Unit Credit Method". The actuarial assumptions used in the calculation of the present value of the future probable obligation are as follows:

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

NOTE 17 – PROVISIONS FOR EMPLOYMENT BENEFITS (cont'd)

	31 December 2012	31 December 2011
Discount rate	%7.62	%9.2-%11.55
Inflation rate	%4.3	%4.5-%8.75
Salary increase	real %1.5	real %1.5
Maximum liability increase	%4.3	%4.5-%8.75

Discount rates are determined considering the expected duration of the retirement obligations and the currency in which the obligations will be paid. In calculations as of 31 December 2012, a fixed discount rate is used. Long term inflation estimates are made using an approach consistent with discount rate estimates and long term inflation rate fixed over years is used.

The anticipated rate of resignation which do not result in the payment of employee benefits is also considered in the calculation. The anticipated rate of resignation is assumed to be related with the past experience, therefore past experiences of employees are analyzed and considered in the calculation. In the actuarial calculation as of 31 December 2012, the anticipated rate of resignation is considered to be inversely proportional to the past experience. The anticipated rate of resignation is between 2%-0% for the employees with past experience between 0-15 years or over.

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

	1 January- 31 December 2012	1 January- 31 December 2011
Opening balance	199.372.291	161.033.388
Service cost	23.764.160	17.426.490
Interest cost	19.052.935	15.156.754
Actuarial loss	36.032.589	19.596.178
Termination benefits paid	(13.139.161)	(13.840.519)
Closing balance	**265.082.814**	**199.372.291**

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

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

	1 January 31 December 2012	1 January- 31 December 2011
Opening balance	18.750.643	7.255.683
Service cost	2.368.484	1.632.467
Interest cost	1.684.303	1.183.526
Actuarial loss	572.036	10.202.359
Termination benefits paid	(4.479.071)	(1.523.392)
Closing balance	**18.896.395**	**18.750.643**

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

NOTE 18 – OTHER ASSETS AND LIABILITIES

Other current assets

	31 December 2012	31 December 2011
Other VAT Receivable	85.590.505	89.263.686
Prepaid expenses	12.632.518	29.425.273
Advances given	5.772.142	13.081.557
VAT carried forward	8.068.989	4.382.712
Prepaid taxes and funds	13.679.448	1.798.153
Due from personnel	62.734	241.247
Job advances given	139.037	56.744
Other current assets	2.309.825	4.066.753
	128.255.198	**142.316.125**

Other non-current assets

	31 December 2012	31 December 2011
Prepaid expenses	45.370.919	46.535.047
Advances given for fixed assets	20.457.489	38.322.455
Other non-current assets	-	120.702
	65.828.408	**84.978.204**

Other current liabilities

	31 December 2012	31 December 2011
Advances received	93.234.464	133.778.985
Provision for unpaid vacations	62.269.715	55.055.727
Due to personnel	61.083.831	43.851.477
VAT payable	27.619.537	25.351.881
Expense accruals	813.316	896.361
Deferred income	2.290.265	212.410
Other current liabilities	4.904.575	3.363.811
	252.215.703	**262.510.652**

Other non-current liabilities

	31 December 2012	31 December 2011
Other non-current liabilities	416.621	939.544
	416.621	**939.544**

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

NOTE 19 – EQUITY

As of 31 December 2012 and 31 December 2011, the capital structure is as follows:

Shareholders	(%)	31 December 2012	(%)	31 December 2011
Ataer Holding A.Ş.	49,29	1.522.913.196	49,29	1.059.632.159
Quoted in Stock Exchange	47,63	1.471.882.268	47,63	1.024.125.203
Erdemir's own shares	3,08	95.204.536	3,08	66.242.638
Historical capital	100,00	3.090.000.000	100,00	2.150.000.000
Effect of inflation		342.195.166		731.967.735
Restated capital		3.432.195.166		2.881.967.735
Treasury shares		(103.599.856)		(74.637.969)
		3.328.595.310		**2.807.329.766**

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

With the decision of Ereğli Iron and Steel Inc.'s Board Meeting as of 15 February 2012 and approval no: 1061 of CMB as of 12 April 2012; it is decided that TRY 2.150.000.000 of issued capital to be increased toTRY 3.090.000.000 by the increase of TRY 940.000.000 by 43,7% of current issued capital to be covered from retained earnings and inflation adjustments to capital.

The issued capital of the Company in 2012 consists of 309.000.000.000 lots of shares (2011: 215.000.000.000 lots). The nominal value of each share is 1 Kr (Turkish cent) (2011: 1 Kr). This capital is split between A and B group shares. Group A shares consist of 1 share with a share value of 1 Kr and Group B shares consist of 3.089.999.999,99 shares representing TRY 308.999.999.999 of the issued capital.

The Board of Directors consists of 9 members, 3 of which are independent. The number and qualifications of independent members are ascertained in compliance with the CMB's Communique Serial IV; No:56 on Principles Regarding Determination and Application of Corporate Governance Principles.

The General Assembly has to choose one member to the Board of Directors from the nominees of the Privatization Administration as the beneficiary owner representing A Group shares. In case, the Board member representing the A Group shares leaves the board within the chosen period, a new board member is obliged to be chosen from the nominees of the Privatization Administration as the beneficiary owner. For decisions to be taken about the rights assigned to A Group shares, the board member representing A Group shares is also obliged to use an affirmative vote. One of the auditors is selected from the nominees of Turkish Privatization Administration as the beneficiary owner representing A Group shares. The decisions to change the Articles of Association of the Company that will have an effect on the board of directors' meeting and decision quorum, rights assigned to A Group shares, rights assigned to A Group shares in relation to investments and employment decisions and any other changes in the Articles of Association of the Company which will directly or indirectly affect the rights of A Group shares, have to receive an affirmative vote of the beneficiary owner representing the A Group shares. Otherwise, the decisions are accepted as invalid.

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

NOTE 19 – EQUITY (cont'd)

Article IV-K of Articles of Association "According to Turkish Commercial Code Article 329, transactions of an entity's own shares" allows Erdemir to purchase, hold, sell or transfer its own shares, without voting rights. As of 31 December 2012, the Company holds its own shares with a nominal value of TRY 95.204.536 (31 December 2011: TRY 66.242.638). The Company's own shares have been reclassified with its inflation adjusted value in the consolidated balance sheet as a deduction under equity.

	31 December 2012	**31 December 2011**
Other equity items		
Share premium	106.447.376	231.020.042
Revaluation reserves	26.813.595	27.228.155
-Revaluation reserves of property, plant & equipment	*26.813.595*	*27.228.155*
Cash flow hedging reserves	(29.878.279)	(14.783.355)
Foreign currency translation reserves	(315.217)	(489.005)
Restricted reserves assorted from profit	1.618.843.079	1.757.470.693
-Legal reserves	*432.878.502*	*550.543.376*
-Statutory reserves	*1.185.964.577*	*1.206.927.317*
Retained earnings	1.730.124.661	1.273.384.263
-Extraordinary reserves	*484.013.314*	*86.748.517*
-Accumulated profit	*1.246.111.347*	*1.186.635.746*
	3.452.035.215	**3.273.830.793**

However, in accordance with the Communiqué Serial: XI, No: 29 issued on 1 January 2008 and other related CMB's announcements, "Paid-in capital", "Restricted profit reserves" and "Share premium" should be presented by using their registered amounts in the statutory records. The restatement differences (e.g. inflation restatement differences) arising from the application of this Communiqué should be associated with the:

- "Capital restatement differences" account, following the "paid-in capital" line item in the financial statements, if the differences are caused by "paid-in capital" and have not been added to capital yet;

- "Retained earnings", if the differences are arising from "restricted profit reserves" and "share premium" and have not been associated with either profit distribution or capital increase yet.

Other equity items are carried at the amounts that are valued based on the CMB's Financial Reporting Standards.

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

NOTE 19 – EQUITY (cont'd)

In accordance with the Capital Market Board decision dated 27 January 2010, concerning with distribution of dividends for publicly traded joint stock companies, it was decided that no minimum dividend distribution requirement will be applied for publicly traded joint stock companies.

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

Other sources which might be used in dividend distribution, except the profit for the period, in statutory books of the Company are equal to TRY 1.849.665.654 as of 31 December 2012 (31 December 2011: TRY 2.448.860.832).

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

According to the first paragraph of Article 466 of the Turkish Commercial Code ("TCC"), 5% of the profit shall be allocated as the first legal reserves, up to 20% of the paid/ issued capital. First dividend is appropriated for shareholders after deducting from the profit. Following the deduction of the amounts from the "profit", General Assembly of Shareholders is authorized to decide whether shall be the remaining balance shall be fully or totally placed in extraordinary legal reserves or whether it is distributed, also taking into consideration the Company's profit distribution policy. According to the sub-clause 3 of the clause 2 of Article 466 of the Turkish Commercial Code, after deducting dividends amounting to 5% of the paid/issued capital from the part decided to be allocated; ten percent of the remaining balance shall be appropriated to second legal reserves. If it is decided to distribute the profit as bonus share, through the method of adding the profit to the capital, second legal reserves is not appropriated.

According to the CMB Communiqué, until the company's Article of Association was revised on 31 March 2008, an amount equal to the first dividend distributed to shareholders is allocated as status reserves in order to be used in the plant expansion. Also according to the 13th Article of Association before the revision on 31 March 2008, 5% of the net profit for the period after taxation is estimated to be allocated as legal reserves up until reaching 50% of the paid/issued capital. The reserve amount that exceeds the 20% of the legal reserves, defined by the Article 466 of TCC, is recorded as status reserve.

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

Revaluation reserve of property, plant and equipment arises from the revaluation of land and buildings. In the case of a sale or retirement of the revalued property, the related revaluation surplus remaining in the properties revaluation reserve is transferred directly to the retained earnings.

Foreign currency translation reserve arises from expressing the assets and liabilities of the Group's foreign operations in TRY by using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified to equity and transferred to the Group's translation reserve. Such exchange differences are recognized in the consolidated income statement in the period of which the foreign operation is disposed.

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

NOTE 20 – SALES AND COST OF SALES

	1 January – 31 December 2012	1 January- 31 December 2011
Sales Revenue		
Domestic sales	8.066.770.186	7.284.201.903
Export sales	1.273.855.238	1.490.884.512
Other revenues (*)	266.700.851	186.741.095
Sales returns (-)	(9.103.451)	(9.955.679)
Sales discounts (-)	(27.826.115)	(31.327.050)
	9.570.396.709	**8.920.544.781**
Cost of Sales (-)	**(8.594.486.663)**	**(6.848.422.807)**
Gross profit	**975.910.046**	**2.072.121.974**

(*) The total amount of by product exports in other revenues is TRY 108.628.827 (31 December 2011: TRY 64.846.393).

The breakdown of cost of sales for the periods 1 January – 31 December 2012 and 1 January – 31 December 2011 is as follows:

	1 January – 31 December 2012	1 January- 31 December 2011
Raw material usage	(5.472.360.261)	(4.371.722.474)
Factory overheads	(1.061.984.482)	(847.472.732)
Personnel expenses	(966.060.017)	(826.539.194)
Energy expenses	(545.165.286)	(402.955.250)
Depreciation and amortization expenses	(327.577.154)	(296.570.773)
Inventory write-downs within the period (Note 10)	(17.000.853)	(19.186.222)
Reversal of inventory write-downs (Note 10)	10.131.147	4.442.265
Other cost of goods sold	(105.461.823)	(53.030.657)
Other	(109.007.934)	(35.387.770)
	(8.594.486.663)	**(6.848.422.807)**

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

NOTE 21 – RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

The breakdown of operating expenses for the periods 1 January – 31 December 2012 and 1 January – 31 December 2011 is as follows:

	1 January – 31 December 2012	1 January- 31 December 2011
Marketing, sales and distribution expenses (-)	(106.243.102)	(105.057.371)
General administrative expenses (-)	(179.511.651)	(187.430.193)
Research and development expenses (-)	(1.517.122)	(1.400.733)
	(287.271.875)	**(293.888.297)**

NOTE 22 – OPERATING EXPENSES ACCORDING TO THEIR NATURE

The breakdown of marketing, sales and distribution expenses according to their nature for the periods 1 January – 31 December 2012 and 1 January – 31 December 2011 is as follows:

	1 January – 31 December 2012	1 January- 31 December 2011
Personnel expense (-)	(60.333.577)	(55.907.796)
Depreciation and amortization(-)	(9.386.403)	(7.247.862)
Other (-)	(36.523.122)	(41.901.713)
	(106.243.102)	**(105.057.371)**

The breakdown of general administrative expenses for the periods 1 January – 31 December 2012 and 1 January – 31 December 2011 is as follows:

	1 January – 31 December 2012	1 January- 31 December 2011
Personnel expense (-)	(115.519.891)	(116.125.848)
Depreciation and amortization (-)	(6.749.127)	(9.739.640)
Other (-)	(57.242.633)	(61.564.705)
	(179.511.651)	**(187.430.193)**

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

NOTE 23 – OTHER OPERATING INCOME/(EXPENSE)

Other operating income	1 January – 31 December 2012	1 January- 31 December 2011
Provisions released	14.689.138	37.713.880
Revenue from sale of financal assets	-	7.962.073
Royalty income	3.195.333	3.354.352
Service income	6.612.005	6.702.305
Maintenance and repair income	2.128.161	2.163.845
Indemnity and penalty detention income	3.445.091	3.451.744
Insurance indemnity income	4.148.291	1.494.369
Income from customer deposits	3.776.312	1.952.952
Gain on sale of tangible assets	745.105	588.310
Rent income	5.015.665	4.583.871
Other income and gains	20.074.835	19.113.360
	63.829.936	**89.081.061**

Other operating expenses (-)	1 January – 31 December 2012	1 January- 31 December 2011
Provisions expenses	(26.047.384)	(85.324.726)
Penalty expenses	(6.150.880)	(12.602.196)
Lawsuit compensation expenses	(6.381.020)	(4.919.457)
Loss on disposal of tangible assets	(940.576)	(4.413.261)
Service expenses	(2.622.116)	(4.227.438)
Rent expenses	(1.781.403)	(2.312.872)
Istanbul Stock Exchange registration expenses	(1.477.500)	(950.000)
Capital Markets Board registration expenses	(1.880.000)	(1.100.000)
Port facility pre-licence expenses	(6.095.572)	(5.823.207)
Other expenses and losses	(16.413.350)	(20.496.742)
	(69.789.801)	**(142.169.899)**

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

NOTE 24 – FINANCE INCOME

	1 January – 31 December 2012	1 January- 31 December 2011
Foreign exchange gains from financial liabilities (net)	224.955.975	-
Interest income on bank deposits	70.997.685	106.524.740
Interest income from sales with maturity	55.555.350	53.138.507
Foreign exchange gains from forward contracts	10.896.324	3.057.409
Discount income	2.733.057	-
Foreign exchange gains from trade receivables and payables (net)	-	145.664.835
Fair value differences of derivative financial instruments	-	65.455.513
Foreign exchange gains from bank deposits (net)	-	139.620.362
Other financial income	220.801	15.025.995
	365.359.192	**528.487.361**

NOTE 25 – FINANCE EXPENSES

	1 January – 31 December 2012	1 January- 31 December 2011
Interest expenses on financial liabilities	(251.006.590)	(267.296.164)
Foreign exchange loss from bank deposits (net)	(81.686.790)	-
Foreign exchange loss from trade receivables and payables (net)	(41.667.772)	-
Fair value differences of derivative financial instruments	(22.302.509)	-
Foreign exchange loss from financial liabilities (net)	-	(682.635.390)
Other financial expenses	(5.923.597)	(6.687.198)
	(402.587.258)	**(956.618.752)**

During the period, TRY 266.284 of financial expenses related to foreign currency translation losses and TRY 461.773 of interest expenses in total TRY 728.057, have been capitalized as part of the Group's property, plant and equipment (1 January – 31 December 2011: the foreign currency translation losses of TRY 44.268.944, the interest expenses of TRY 2.714.609, in total TRY 46.983.553 has been capitalized).

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

NOTE 26 –TAX ASSETS AND LIABILITIES

Corporate tax payable:	31 December 2012	31 December 2011
Current corporate tax provision	53.282.231	200.150.105
Prepaid taxes and funds (-)	(41.073.170)	(155.456.488)
	12.209.061	**44.693.617**

Taxation:	1 January - 31 December 2012	1 January - 31 December 2011
Current corporate tax expense	53.282.231	200.150.105
Deferred tax expense	137.418.529	57.735.166
	190.700.760	**257.885.271**

Corporate tax

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

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

The effective corporate tax rate in Turkey is 20% and 16% in Romania as of 31 December 2012 (31 December 2011: in Turkey 20%, in Romania 16%). The total amount of the corporate tax paid by the Group in 2012 is TRY 85.766.787 (31 December 2011: TRY 162.572.209).

NOTE 26 –TAX ASSETS AND LIABILITIES (cont'd)

Corporate tax (cont'd)

In Turkey, advance tax returns are filed on a quarterly basis. The temporary tax of 2012 has been calculated over the corporate earnings using the rate 20%, during the temporary taxation period. (2011: 20%).

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

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

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes on dividends distributed, except for the dividends distributed to fully fledged taxpayer companies receiving and declaring these dividends and to Turkish branches of foreign companies. The rate of income withholding tax applied to all companies in the period of 24 April 2003 - 22 July 2006 is 10%. This rate was changed to 15% as of 22 July 2006 by the decision of the Council of Ministers, numbered 2006/10731. Undistributed dividends incorporated in share capital are not subject to the income withholding taxes.

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

Investment allowance application

With the decision numbered 2006/95, which was taken during the meeting of the Constitutional Court on 15 October 2009, the phrase "only related to the years 2006, 2007 and 2008…" which was a part of the Temporary Article 69 of the Income Tax Law was cancelled and the cancellation became effective from the date the decision has been published in the Official Gazette on 8 January 2010. According to the decision, the investment incentive amount outstanding that cannot be deducted from 2008 taxable income previously, will be deducted from taxable income of the subsequent profitable years.

Regarding the cancellation decision taken by the Constitutional Court, an amendment was made in the 69th article in Income Tax Regulation using the regulation numbered 6009 and dated 23 July 2010. Consequently, in compliance with the cancellation decision of the Constitutional Court, the year limitation has been abolished and investment allowance has been limited to 25% of the profit. As limitation of investment allowance to 25% of the profit by regulation numbered 6009 is found to be contrary to law by the Constitutional Court, the Constitutional Court cancelled the regulation and stayed an execution. Corporate tax ratio of 30% in the previous regulation for the ones who benefit from investment allowance has been decreased to the effective corporate tax with the amendment made (2011: 20%).

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

NOTE 26 –TAX ASSETS AND LIABILITIES (cont'd)

Deferred tax

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

Tax rate used in the calculation of deferred tax assets and liabilities (excluding land) is 20% for the subsidiaries in Turkey and, 16% for the subsidiary in Romania (31 December 2011: in Turkey 20%, in Romania 16%). Deferred tax related with the temporary differences arising from land parcels is calculated with the tax rate of 5% (December 2011: 5%).

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

	31 December 2012	31 December 2011
Deferred tax assets:		
Carry forward tax losses (*)	55.833.424	159.246.770
Provision for employee benefits	56.791.670	43.624.587
Tangible and intangible fixed assets	9.074.080	9.233.224
Inventories	25.537.251	30.132.341
Provision for unpaid vacations	12.464.456	11.011.145
Investment incentive	40.976.623	9.203.380
Provision for lawsuits	20.894.397	13.696.930
Fair values of the derivative financial instruments	2.210.218	591.063
Provision for other doubtful receivables	10.812.209	10.491.669
Prepaid expenses	1.410.058	1.410.058
Other	9.141.128	7.094.479
	245.145.514	**295.735.646**
Deferred tax liabilities:		
Tangible and intangible fixed assets	(365.267.266)	(272.804.755)
Amortized cost adjusment on loans	(12.343.086)	(12.695.491)
Fair values of the deriavite financial instruments	(108.620)	(9.740.870)
Other	(3.396.671)	(2.993.159)
	(381.115.643)	**(298.234.275)**
	(135.970.129)	**(2.498.629)**

(*)The Group has deferred tax assets for carry forward tax losses deductible from future profits. Partially or totally recoverable amount of the deferred tax assets is estimated under current conditions. The Company, based on its projections, has written off and recognized as deferred tax expense 92.021.695 of deferred tax assets for 460.108.473 TRY of carry forward tax losses due to the impossibility to deduct tax chargeable losses from profit. The effect of the amount written off on consolidated net income for equity holders of the parent as of 31 December 2012 is negatively 85.497.356 TRY.

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

NOTE 26 –TAX ASSETS AND LIABILITIES (cont'd)

Deferred tax (cont'd)

Presentation of deferred tax assets/(liabilities):	31 December 2012	31 December 2011
Deferred tax assets	14.073.770	110.735.816
Deferred tax (liabilities)	(150.043.899)	(113.234.445)
	(135.970.129)	**(2.498.629)**

Maturities of carry forward tax losses are as follows:

	Carry forward tax losses		Deferred tax assets	
	31 December 2012	31 December 2011	31 Aralık 2012	31 Aralık 2011
1 year	-	-	-	-
2 year	-	-	-	-
3 year	680.827.842	740.554.728	220.719.369	740.554.728
4 year	-	-	-	-
5 years or more	58.833.647	56.904.175	58.833.647	56.904.175
	739.661.489	**797.458.903**	**279.553.016**	**797.458.903**

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

Deferred tax asset/(liability) movements:	1 January – 31 December 2012	1 January – 31 December 2011
Opening balance	(2.498.629)	57.827.206
Deferred tax expense	(137.418.529)	(57.735.166)
The amount in comprehensive income	4.073.430	(2.593.198)
Translation difference	(126.401)	2.529
Closing balance	**(135.970.129)**	**(2.498.629)**

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

NOTE 26 –TAX ASSETS AND LIABILITIES (cont'd)

Reconciliation of tax provision:	**1 January – 31 December 2012**	**1 January 31 December 2011**
Profit before tax	645.450.240	1.297.013.448
Effective tax rate	20%	20%
Calculated tax acc. to effective tax rate	129.090.048	259.402.690
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	3.240.672	6.765.853
- Non-taxable income	(1.944.190)	(2.178.200)
- Tax losses written off from deferred tax assets	92.021.695	-
- Investment incentives	(31.773.243)	(1.082.512)
- Effect of non-taxable adjustments	-	(3.776.176)
- Effect of the different tax rates due to foreign subsidiaries	23.501	(21.214)
- Other	42.277	(1.225.170)
Tax expense in income statement	**190.700.760**	**257.885.271**

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

NOTE 26 –TAX ASSETS AND LIABILITIES (cont'd)

As of 1 January – 31 December 2012 and 2011, the details of the tax gains/(losses) of the other comprehensive income/(expense) are as follows:

	1 January – 31 December 2012		
Other comprehensive income/(loss) in the current period	**Amount before tax**	**Tax income/ (expense)**	**Amount after tax**
Change in revaluation reserves of fixed assets	(414.560)	-	(414.560)
Change in cash flow hedging reserves	(20.367.149)	4.073.430	(16.293.719)
Change in foreign currency translation reserves	173.788	-	173.788
	(20.607.921)	**4.073.430**	**(16.534.491)**

	1 January – 31 December 2011		
Other comprehensive income/(loss) in the current period	**Amount before tax**	**Tax income/ (expense)**	**Amount after tax**
Change in revaluation reserves of fixed assets	1.986.483	-	1.986.483
Change in cash flow hedging reserves	12.965.991	(2.593.198)	10.372.793
Change in foreign currency translation reserves	(5.334.398)	-	(5.334.398)
	9.618.076	**(2.593.198)**	**7.024.878**

NOTE 27 – EARNINGS/ (LOSS) PER SHARE

	1 January – 31 December 2012	**1 January- 31 December 2011**
Number of shares outstanding(*)	309.000.000.000	309.000.000.000
Net profit attributable to equity holders – TRY	424.181.040	1.005.562.503
Profit per share with 1 TRY nominal value TRY %	0,1373 / %13,73	0,3254 / %32,54

(*) In accordance with the decision of the Board of Directors dated 15 February 2012 and the Capital Market Board document dated 12 April 2012 and numbered 1061, the registered capital was increased non-cash from TRY 2.150.000.000 to TRY 3.090.000.000.

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

NOTE 28 –RELATED PARTY DISCLOSURES

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

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

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

	31 December 2012	31 December 2011
Due from related parties (short term)		
Oyak Renault Otomobil Fab. A.Ş.[2]	12.152.741	6.481.336
Bolu Çimento Sanayi A.Ş.[1]	2.764.405	1.619.752
Adana Çimento Sanayi T.A.Ş. [1]	2.898.838	1.467.240
Other	125.405	155.276
	17.941.389	**9.723.604**

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

Due to related parties (short term)	31 December 2012	31 December 2011
Omsan Denizcilik A.Ş.[1]	2.239.702	2.232.146
Oyak Pazarlama Hizmet ve Turizm A.Ş.[1]	2.164.485	2.151.205
Omsan Lojistik A.Ş.[1]	2.960.289	1.921.699
Omsan Logistica SRL[1]	404.639	606.069
Oyak Savunma ve Güvenlik Sistemleri A.Ş.[1]	464.866	546.664
Oyak Teknoloji Bilişim ve Kart Hizmetleri [1]	990.089	205.987
Other	2.503.165	2.188.625
	11.727.235	**9.852.395**

Trade payables to related parties mainly arise from purchased service transactions.

[1] Subsidiaries of the parent company

[2] Investment in associates of the parent company

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

NOTE 28 –RELATED PARTY DISCLOSURES (cont'd)

Non trade receivables due from related parties (short term)	**31 December 2012**	**31 December 2011**
Oyak Pazarlama Hizmet ve Turizm A.Ş.[2]	-	25.000
	-	**25.000**

Non trade payables due to related parties (short term)	**31 December 2012**	**31 December 2011**
Other	-	341
	-	**341**

Major sales to related parties	**1 January – 31 December 2012**	**1 January – 31 December 2011**
Oyak Renault Otomobil Fab. A.Ş.[3]	64.086.439	49.218.980
Adana Çimento Sanayi T.A.Ş.[2]	8.926.821	10.253.227
Bolu Çimento Sanayi A.Ş.[2]	9.350.438	8.199.398
ArcelorMittal Amb.Çel. San. ve Tic. A.Ş.[1] [*]	-	7.087.445
Ünye Çimento Sanayi ve Ticaret A.Ş.[2]	914.520	1.150.923
Aslan Çimento A.Ş.[2]	1.702.283	47.039
Other	903.278	697.559
	85.883.779	**76.654.571**

[1] Investment in associate
[2] Subsidiaries of the parent company
[3] Investment in associates of the parent company

[*] The Group sold its shares in ArcelorMittal Ambalaj Çeliği San ve Tic. A.Ş. on 28 February 2011. Sales amounts refer to the revenue from sales realized till the date of share transfer.

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

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

NOTE 28 –RELATED PARTY DISCLOSURES (cont'd)

Major purchases from related parties	**1 January – 31 December 2012**	**1 January – 31 December 2011**
Omsan Denizcilik A.Ş.[1]	51.725.673	46.725.931
Omsan Lojistik A.Ş.[1]	19.741.878	22.938.285
Oyak Pazarlama Hizmet ve Turizm A.Ş.[1]	24.530.354	17.957.360
Omsan Logistica SRL[1]	10.044.050	12.321.641
Oyak Savunma ve Güvenlik Sistemleri A.Ş.[1]	4.839.118	7.756.387
Oyak Teknoloji Bilişim ve Kart Hizmetleri A.Ş.[1]	7.004.393	5.177.073
Oyak Beton A.Ş.[1]	55.226	1.724.247
Oyak Telekomünikasyon A.Ş.[1]	777.149	733.820
Oyak Genel Müdürlüğü	156.600	526.130
Other	3.268.987	2.136.227
	122.143.428	**117.997.101**

[1] Subsidiaries of the parent company

The major purchases from related parties are generally due to the purchased service transactions.

<u>The terms and policies applied to the transactions with related parties:</u>

The period end balances are non-secured, interest free and their collections will be done in cash. As of 31 December 2012, the Group provides no provision for the receivables from related parties (31 December 2011: none).

<u>Salaries, bonuses and other benefits of the key management</u>

For the nine months period ended 31 December 2012, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 14.188.992 (31 December 2011: TRY 12.713.002).

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

NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

Additional information about financial instruments

(a) Capital risk management

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

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

The capital structure of the Group consists of debt which includes the financial liabilities disclosed in Note 6, cash and cash equivalents and equity attributable to equity holders of the parent company, comprising issued capital, reserves and retained earnings as disclosed in Note 19.

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

As of 31 December 2012 and 31 December 2011 the net debt/equity ratio is as follows:

	Note	31 December 2012	31 December 2011
Total financial liabilities	6	4.418.751.937	4.777.797.197
Less: Cash and cash equivalents	4	1.829.716.171	1.102.710.213
Net debt		2.589.035.766	3.675.086.984
Total adjusted equity (*)		7.445.790.364	7.302.331.427
Total resources		10.034.826.130	10.977.418.411
Net debt/Total adjusted equity ratio		35%	50%
Distribution of net debt/ total adjusted equity		26/74	33/67

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

(b) Significant accounting policies

The Group's accounting policies related to the financial instruments are disclosed in Note 2 "Summary of Significant Accounting Policies, 2.9.7 Financial Instruments".

NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(c) Financial risk management objectives

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

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

(d) Market risk

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

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

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

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

NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Credit risk management

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

Credit risk of financial instruments

	Receivables					
	Trade receivables		Other receivables			
31 December 2012	**Related Party**	**Third Party**	**Related Party**	**Third Party**	**Bank Deposits**	**Derivative financial instruments**
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	17.941.389	1.029.358.971	-	534.994	1.829.689.071	10.122.346
- Secured part of the maximum credit risk exposure via collateral etc.	-	932.727.754	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	17.941.389	1.027.855.706	-	534.994	1.829.689.071	10.122.346
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	1.503.265	-	-	-	-
- secured part via collateral etc.	-	1.503.265	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	41.271.202	-	54.061.043	-	-
- Impairment (-)	-	(41.271.202)	-	(54.061.043)	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
- Not overdue (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-

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

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

NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Credit risk management (cont'd)

Credit risk of financial instruments

	Receivables					
	Trade receivables		Other receivables			
31 December 2011	**Related Party**	**Third Party**	**Related Party**	**Third Party**	**Bank Deposits**	**Derivative financial instruments**
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	9.723.604	1.131.974.398	25.000	472.445	1.102.668.423	56.708.417
- Secured part of the maximum credit risk exposure via collateral etc.	-	1.037.498.382	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	9.723.604	1.130.749.701	25.000	472.445	1.102.668.423	56.708.417
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	1.224.697	-	-	-	-
- secured part via collateral etc.	-	1.224.697	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	43.039.895	-	52.458.346	-	-
- Impairment (-)	-	(43.039.895)	-	(52.458.346)	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
- Not overdue (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-

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

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

NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Credit risk management (cont'd)

The aging of the overdue but not impaired assets is as follows:

	Receivables					
31 December 2012	**Trade receivables**	**Other receivables**	**Bank deposits**	**Derivative financial instruments**	**Other**	**Total**
Overdue 1-30 days	1.503.265	-	-	-	-	1.503.265
Overdue 1-3 months	-	-	-	-	-	-
Overdue 3-12 months	-	-	-	-	-	-
Overdue 1-5 years	-	-	-	-	-	-
Overdue 5 years or more	-	-	-	-	-	-
Total overdue receivables	**1.503.265**	**-**	**-**	**-**	**-**	**1.503.265**
Secured part via collateral etc.	**1.503.265**	**-**	**-**	**-**	**-**	**1.503.265**

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

NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Credit risk management (cont'd)

The aging of the overdue but not impaired assets is as follows:

	Receivables					
31 December 2011	**Trade receivables**	**Other receivables**	**Bank deposits**	**Derivative financial instruments**	**Other**	**Total**
Overdue 1-30 days	1.224.697	-	-	-	-	1.224.697
Overdue 1-3 months	-	-	-	-	-	-
Overdue 3-12 months	-	-	-	-	-	-
Overdue 1-5 years	-	-	-	-	-	-
Overdue 5 years or more	-	-	-	-	-	-
Total overdue receivables	**1.224.697**	**-**	**-**	**-**	**-**	**1.224.697**
Secured part via collateral etc.	**1.224.697**	**-**	**-**	**-**	**-**	**1.224.697**

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

NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(f) Foreign currency risk management

As of 31 December 2012, the foreign currency position of the Group in terms of original currency is as follows:

			31 December 2012		
	TRY (Functional currency)	US Dollars (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	GB Pound (Original currency)
1. Trade Receivables	994.070.979	526.968.213	23.228.264	2.983.830	3.448
2a. Monetary financial assets	1.726.371.256	958.500.338	7.529.827	607.078	9.794
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	7.484.291	3.532.085	504.860	-	250
4. Current assets (1+2+3)	**2.727.926.526**	**1.489.000.636**	**31.262.951**	**3.590.908**	**13.492**
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-	-
7. Other	9.217.972	848.904	1.934.351	152.774.110	-
8. Non-current assets (5+6+7)	**9.217.972**	**848.904**	**1.934.351**	**152.774.110**	**-**
9. Total assets (4+8)	**2.737.144.498**	**1.489.849.540**	**33.197.302**	**156.365.018**	**13.492**
10. Trade payables	271.364.821	143.270.095	6.536.918	28.939.870	313
11. Financial liabilities	1.744.230.516	914.512.120	37.791.696	1.217.393.385	-
12a. Other monetary financial liabilities	30.764.972	12.497.322	3.608.983	-	-
12b. Other non-monetary financial liabilities	-	-	-	-	-
13. Current liabilities (10+11+12)	**2.046.360.309**	**1.070.279.537**	**47.937.597**	**1.246.333.255**	**313**
14. Trade payables	-	-	-	-	-
15. Financial liabilities	1.713.977.000	720.973.141	139.573.266	4.867.148.907	-
16a. Other monetary financial liabilities	80.746	45.297	-	-	-
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. Non-current liabilities (14+15+16)	**1.714.057.746**	**721.018.438**	**139.573.266**	**4.867.148.907**	**-**
18. Total liabilities (13+17)	**3.760.418.055**	**1.791.297.975**	**187.510.863**	**6.113.482.162**	**313**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	**251.568.627**	**49.349.908**	**69.565.625**	**-**	**-**
19a. Off-balance sheet foreign currency derivative financial assets	251.568.627	49.349.908	69.565.625	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	-	-	-	-	-
20. Net foreign currency asset/liability position (9-18+19)	**(771.704.929)**	**(252.098.527)**	**(84.747.936)**	**(5.957.117.144)**	**13.179**
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**(1.039.975.819)**	**(305.829.424)**	**(156.752.772)**	**(6.109.891.254)**	**12.929**
22. Fair value of derivative financial instruments used in foreign currency hedge	9.579.245	3.472.025	1.441.516	-	-
23. Hedged foreign currency assets	-	-	-	-	-
24. Hedged foreign currency liabilities	251.568.627	49.349.908	69.565.625	-	-
25. Exports	1.382.484.065	711.766.056	46.341.953	-	-
26. Imports	5.064.710.894	2.822.247.480	2.775.999	-	-

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

NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

As of 31 December 2011, the foreign currency position of the Group in terms of original currency is as follows:

	31 December 2011				
	TRY (Functional currency)	US Dollars (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	GB Pound (Original currency)
1. Trade Receivables	859.689.568	451.515.152	2.574.695	21.761.408	304
2a. Monetary financial assets	946.176.451	491.037.483	7.561.864	6.246.549	8.237
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	7.117.464	3.763.488	3.524	-	-
4. Current assets (1+2+3)	**1.812.983.483**	**946.316.123**	**10.140.083**	**28.007.957**	**8.541**
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-	-
7. Other	27.774.470	7.303.997	5.701.334	1.850.000	-
8. Non-current assets (5+6+7)	**27.774.470**	**7.303.997**	**5.701.334**	**1.850.000**	**-**
9. Total assets (4+8)	**1.840.757.953**	**953.620.120**	**15.841.417**	**29.857.957**	**8.541**
10. Trade payables	354.424.226	187.547.723	-	-	56.679
11. Financial liabilities	1.376.759.037	662.690.764	38.882.613	1.231.763.542	-
12a. Other monetary financial liabilities	64.263.192	33.914.986	82.321	-	-
12b. Other non-monetary financial liabilities	-	-	-	-	-
13. Current liabilities (10+11+12)	**1.795.446.455**	**884.153.473**	**38.964.934**	**1.231.763.542**	**56.679**
14. Trade payables	74.562	39.474	-	-	-
15. Financial liabilities	2.362.150.538	943.966.810	175.694.134	6.151.614.847	-
16a. Other monetary financial liabilities	516.294	273.330	-	-	-
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. Non-current liabilities (14+15+16)	**2.362.741.394**	**944.279.614**	**175.694.134**	**6.151.614.847**	**-**
18. Total liabilities (13+17)	**4.158.187.849**	**1.828.433.087**	**214.659.068**	**7.383.378.389**	**56.679**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	**320.526.672**	**61.687.385**	**83.478.750**	**-**	**-**
19a. Off-balance sheet foreign currency derivative financial assets	320.526.672	61.687.385	83.478.750	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	-	-	-	-	-
20. Net foreign currency asset/liability position (9-18+19)	**(1.996.903.224)**	**(813.125.582)**	**(115.338.901)**	**(7.353.520.432)**	**(48.138)**
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**(2.352.321.830)**	**(885.880.452)**	**(204.522.509)**	**(7.355.370.432)**	**(48.138)**
22. Fair value of derivative financial instruments used in foreign currency hedge	47.048.393	12.009.961	9.969.219	-	-
23. Hedged foreign currency assets	-	-	-	-	-
24. Hedged foreign currency liabilities	320.526.672	61.687.385	83.478.750	-	-
25. Exports	1.555.730.905	855.271.379	75.513.067	-	-
26. Imports	5.583.434.612	3.445.541.072	3.659.131	-	-

NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

Foreign currency sensitivity

In the calculation of Group's currency risk, the Value at Risk (VaR) is calculated by using the parametric method arising from the consolidated foreign currency position including derivative financial instruments. Based on this method; the effects of changes in currency rates on the foreign currency position are determined.

Since there are no stock portfolios and interest bearing treasury products among assets, the Value at Risk related to interest rates and equity prices is not calculated.

In parametric method, the Value at Risk is defined as the maximum loss on holding the current position for 1 day, based on the change in the earning yield calculated with a 99% confidence level.

In cases where the Value at Risk exceeds the limit predefined by the Group Risk Committee periodically, the Group Risk Committee gathers to take necessary actions and develop action plans. After evaluations, the committee provides valid precautions to be taken.

	31 December 2012	31 December 2011
Foreign Currency Position Parametric VaR	7.097.877	34.998.091

The Value at Risk results are in line with the open foreign currency position and the fluctuations in currencies.

The calculations of Value at Risk are supported by stress tests and scenario analyses. The testing of potential losses in extraordinary market conditions helps the determination of the Group financial strategies.

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

NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

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

The profit/loss which will arise when the inventories are sold may change the effect if the foreign currency rates maintain this level in the long term.

As of 31 December 2012 asset and liability balances are translated by using the following exchange rates: TRY 1,7826 = US $ 1,TRY 2,3517 = EUR 1 and TRY 0,0207= JPY 1 (31 December 2011: TRY 1,8889 = US $ 1,TRY 2,4438 = EUR 1 and TRY 0,0243 = JPY 1)

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2012	**Appreciation of foreign currency against**	**Depreciation of foreign currency against**
1- US Dollars net asset/liability	(53.736.198)	53.736.198
2- Hedged portion from US Dollars risk (-)	8.797.115	(8.797.115)
3- Effect of capitalization (-)	-	-
4- US Dollars net effect (1+2+3)	(44.939.083)	44.939.083
5- EURO net asset/liability	(36.289.920)	36.289.920
6- Hedged portion from EURO risk (-)	16.359.748	(16.359.748)
7- Effect of capitalization (-)	68.848	(68.848)
8- EURO net effect (5+6+7)	(19.861.324)	19.861.324
9- Jap. Yen net asset/liability	(12.305.021)	12.305.021
10- Hedged portion from Jap. Yen risk (-)	-	-
11- Effect of capitalization (-)	-	-
12- Jap. Yen net effect (9+10+11)	(12.305.021)	12.305.021
13- Other currencies net asset/liability	-	-
14- Hedged portion from other currency risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Other currencies net effect (13+14+15)	-	-
TOTAL (4+8+12+16)	**(77.105.428)**	**77.105.428**

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

NOTE 29– NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2011	**Appreciation of foreign currency against**	**Depreciation of foreign currency against**
1- US Dollars net asset/liability	(165.243.421)	165.243.421
2- Hedged portion from US Dollars risk (-)	11.652.130	(11.652.130)
3- Effect of capitalization (-)	-	-
4- US Dollars net effect (1+2+3)	(153.591.291)	153.591.291
5- EURO net asset/liability	(48.587.058)	48.587.058
6- Hedged portion from EURO risk (-)	20.400.537	(20.400.537)
7- Effect of capitalization (-)	1.221.900	(1.221.900)
8- EURO net effect (5+6+7)	(26.964.621)	26.964.621
9- Jap. Yen net asset/liability	(17.898.469)	17.898.469
10- Hedged portion from Jap. Yen risk (-)	-	-
11- Effect of capitalization (-)	-	-
12- Jap. Yen net effect (9+10+11)	(17.898.469)	17.898.469
13- Other currencies net asset/liability	-	-
14- Hedged portion from other currency risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Other currencies net effect (13+14+15)	-	-
TOTAL (4+8+12+16)	**(198.454.381)**	**198.454.381**

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

NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

Cross currency and interest rate swap agreements:

As of 31 December 2012 and 31 December 2011 the details of the cross currency and interest rate swap agreements are provided in the table below:

31 December 2012	**Average agreement exchange rate**	**Sales with original currency**	**Purchases with original currency**	**Original currency (TRY equivalent)**	**Agreement value (TRY equivalent)**	**Fair value**
Cross currency and interest rate swap agreements:						
TRY sale/ US Dollars purchase	1,4568	71.890.479	49.349.908	71.890.479	65.701.247	6.189.232
Between 1-5 years						
TRY sale/ EURO purchase	2,0825	144.869.300	69.565.625	144.869.300	141.479.287	3.390.013
More than 5 years						
						9.579.245

31 December 2011	**Average agreement exchange rate**	**Sales with original currency**	**Purchases with original currency**	**Original currency (TRY equivalent**	**Agreement value (TRY equivalent)**	**Fair value**
Cross currency and interest rate swap agreements:						
TRY sale/ US Dollars purchase	1,4568	89.863.099	61.687.385	89.863.099	67.177.484	22.685.615
TRY sale/ EURO purchase	2,0825	173.843.160	83.478.750	173.843.160	149.480.382	24.362.778
More than 5 years						
						47.048.393

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

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

Additional information about financial instruments (cont'd)

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

Forward agreements

As of 31 December 2012 and 31 December 2011 the details of the forward agreements of the Group are provided in the table below:

31 December 2012	Average agreement exchange rate	Sales with original currency	Purchases with original currency	Original currency (TRY equivalent)	Agreement value (TRY equivalent)	Fair value
Forward agreements:						
EURO sale/ US Dollars purchase	1,2834	58.914.894	75.890.490	138.550.156	141.811.503	(3.261.347)
US Dollars sale/ EURO purchase	1,7959	10.263.684	5.716.000	10.263.684	10.282.838	(19.154)
Less than 3 months						
EURO sale/ US Dollars purchase	1,3155	57.461.445	75.845.576	135.132.080	135.197.248	(65.168)
3-6 months						
						(3.345.669)

The Group has option agreements that consists of 4 parts with the total nominal value of EUR 3.000.000 with the maturity of 28 May 2013 as of 31 December 2012. As of 31 December 2012, TRY 64.427 of the fair value from option agreements is recognized in other short term financial assets and TRY (77.304) of the fair value from option agreements is recognized in other current financial liabilities.

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

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

Additional information about financial instruments (cont'd)

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

Forward agreements

31 December 2011	Average agreement exchange rate	Sales with original currency	Purchases with original currency	Original currency (TRY equivalent	Agreement value (TRY equivalent	Fair value
Forward agreements:						
EURO sale/ US Dollars purchase	1,3838	38.520.000	53.220.574	94.135.176	87.724.410	6.410.766
US Dollars sale/ EURO purchase	1,3479	3.369.750	2.500.000	6.365.121	6.620.123	(255.002)
Less than 3 months						
EURO sale/ US Dollars purchase	1,3619	18.412.803	25.335.830	44.997.208	42.175.000	2.822.208
US Dollars sale/ EURO purchase	1,3478	4.043.250	3.000.000	7.637.699	7.941.633	(303.934)
3-6 months						
						8.674.038

NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(g) Interest rate risk management

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

In addition, through the use of deposits in which the Group has a right to claim the accrued interest when withdrawn before the predetermined maturity, the Group minimizes the interest rate risk by increasing the share of floating rate denominated assets in its consolidated the balance sheet.

Furthermore, for borrowings denominated in foreign currencies, except for US Dollars, the Group minimizes its interest rate risk by leveraging in foreign currencies that bear lower interest rate. In addition, a higher interest rate is applied to the trade receivables with a maturity when compared to the interest rate exposed for trade payables.

Interest rate sensitivity

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

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

Interest position table

Floating interest rate financial instruments	31 December 2012	31 December 2011
Financial liabilities	1.250.311.286	1.794.671.472

In addition to these, as of 31 December 2012, the amount of the Group's financial loans is TRY 1.117.505.015 of which the floating interest rates have been fixed by the hedge purposed agreements (31 December 2011: TRY 1.167.209.631) (Note 6).

For the year round, if the US Dollars, EURO and Jap. Yen denominated interest rates increase/decrease by 100 base points in TRY, 50 base points in US Dollars and EURO and 25 base points in Jap.Yen respectively ceteris paribus, the profit before taxation and non-controlling interest after considering the effect of capitalization and hedging would be lower/higher TRY 5.966.944 (31 December 2011: TRY 8.564.518).

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

NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

Interest rate swap agreements

The Group uses interest rate swap instruments and pays/receives the difference between fixed interest rate and floating interest rates multiplied by the nominal amount. These contracts aim to mitigate the risk of fluctuations in the cash flow which the Group is exposed to due to borrowings with floating interest rates.

As of the balance sheet date, the Group's agreed unpaid nominal amounts of the interest rate swap agreements and their remaining terms until maturity are stated below:

31 December 2012

Unrealized agreements with fixed payments and floating interest receipts	Average fixed interest rate of the agreements	Nominal amount (*)	Fair Value
Less than 1 year	1,43%	173.429.383	(278.881)
Between 1 - 5 years	1,39%	771.415.364	(12.088.506)
More than 5 years	1,68%	86.587.562	(2.488.220)
		1.031.432.309	**(14.855.607)**

31 December 2011

Unrealized agreements with fixed payments and floating interest receipts	Average fixed interest rate of the agreements	Nominal amount (*)	Fair Value
Between 1 - 5 years	1,87%	327.771.624	(5.206.901)
More than 5 years	1,37%	544.003.200	(4.766.493)
		871.774.824	**(9.973.394)**

(*) In order to hedge against the interest rate risk of the borrowings with floating rates, the Group trades floating interest rates with fixed rates by making swap agreements. The fair value of the interest rate swap agreements with a nominal amount of TRY 1.031.432.309 (31 December 2011: TRY 871.774.824) is found to be effective. The fair value of such agreements which is categorized as cash flow hedges, is recognized under equity with its deferred tax effect and non-controlling interest deducted as TRY (11.134.225) (31 December 2011: TRY (7.548.947)).

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

NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

Cross currency and interest rate swap agreements

31 December 2012

Unrealized agreements with fixed payments and floating interest receipts	Average fixed interest rate of the agreements	Nominal amount(*)	Fair Value
TRY sale / US Dollars purchase	7,22%	71.890.479	6.189.232
Between 1-5 years			
TRY sale / EURO purchase	10,65%	144.869.300	3.390.013
Over 5 years			
		216.759.779	**9.579.245**

31 December 2011

Unrealized agreements with fixed payments and floating interest receipts	Average fixed interest rate of the agreements	Nominal amount(*)	Fair Value
TRY sale / US Dollars purchase	7,22%	89.863.099	22.685.615
Over 5 years			
TRY sale / EURO purchase	10,65%	173.843.160	24.362.778
Over 5 years			
		263.706.259	**47.048.393**

(*) In order to hedge against the interest and foreign exchange rate risk of the Euro and US Dollars borrowings, the Group trades floating interest rates with fixed rates and Euro and US Dollars amounts with TRY amounts by making cross currency swap agreements. The fair value of such agreements which are categorized as cash flow hedges and found to be effective, with nominal amount of TRY 216.759.779 (31 December 2011: TRY 263.706.259) is recognized under equity net off its deferred tax effect, unrealized foreign exchange gain/losses and non-controlling interests as TRY (18.744.054) (31 December 2011: TRY (7.234.408)).

NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(h) Liquidity risk management

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

Liquidity risk tables

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

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

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

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

NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(h) Liquidity risk management (cont'd)

31 December 2012

Contractual maturity analysis	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Borrowings from banks	4.418.751.937	4.760.991.207	701.816.165	1.397.201.826	2.573.211.738	88.761.478
Trade payables	428.055.750	428.826.252	428.826.252	-	-	-
Other financial liabilities (*)	160.002.546	160.002.546	159.220.946	781.600	-	-
Total liabilities	**5.006.810.233**	**5.349.820.005**	**1.289.863.363**	**1.397.983.426**	**2.573.211.738**	**88.761.478**
Derivative financial liabilities						
Derivative cash inflows	10.122.346	609.978.843	135.462.979	231.767.669	242.748.195	-
Derivative cash outflows	(18.757.254)	(627.915.169)	(139.749.280)	(238.826.656)	(249.339.233)	-
	(8.634.908)	**(17.936.326)**	**(4.286.301)**	**(7.058.987)**	**(6.591.038)**	**-**

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

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

NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(h) Liquidity risk management (cont'd)

31 December 2011

Contractual maturity analysis	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Borrowings from banks	4.777.797.197	5.425.640.574	220.981.276	1.401.912.625	3.423.854.220	378.892.453
Trade payables	533.658.160	534.828.193	534.828.193	-	-	-
Other financial liabilities (*)	188.173.615	188.173.615	165.871.553	22.212.299	89.763	-
Total liabilities	**5.499.628.972**	**6.148.642.382**	**921.681.022**	**1.424.124.924**	**3.423.943.983**	**378.892.453**
Derivative financial liabilities						
Derivative cash inflows	56.708.417	687.940.218	106.987.584	166.805.142	414.147.492	-
Derivative cash outflows	(10.959.380)	(449.425.721)	(101.178.862)	(46.858.278)	(301.388.581)	-
	45.749.037	**238.514.497**	**5.808.722**	**119.946.864**	**112.758.911**	**-**

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

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

NOTE 30 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES)

Additional information about financial instruments

Categories of the financial instruments and their fair values

31 December 2012	Cash and cash equivalent	Loans and receivables	Available for sale financial assets	Held for trading financial instruments	Financial liabilities at amortized cost	Derivative financial instruments through other comprehensive income/loss	Derivative financial instruments through profit/loss	Carrying value	Note
Financial Assets									
Cash and cash equivalents	1.829.716.171	-	-	-	-	-	-	1.829.716.171	4
Trade receivables	-	1.047.300.360	-	-	-	-	-	1.047.300.360	8
Financial investments	-	-	84.594	-	-	-	-	84.594	5
Other financial assets	-	534.994	-	-	-	-	-	534.994	9
Derivative financial instruments	-	-	-	-	-	9.579.245	543.101	10.122.346	5
Financial Liabilities									
Financial liabilities	-	-	-	-	4.418.751.937	-	-	4.418.751.937	6
Trade payables	-	-	-	-	428.055.750	-	-	428.055.750	8
Other liabilities	-	-	-	-	160.002.546	-	-	160.002.546	9/18
Derivative financial instruments	-	-	-	-	-	14.855.607	3.901.647	18.757.254	7
31 December 2011									
Financial Assets									
Cash and cash equivalents	1.102.710.213	-	-	-	-	-	-	1.102.710.213	4
Trade receivables	-	1.141.698.002	-	-	-	-	-	1.141.698.002	8
Financial investments	-	-	66.086	-	-	-	-	66.086	5
Other financial assets	-	497.445	-	-	-	-	-	497.445	9
Derivative financial instruments	-	-	-	-	-	47.475.443	9.232.974	56.708.417	5
Financial Liabilities									
Financial liabilities	-	-	-	-	4.777.797.197	-	-	4.777.797.197	6
Trade payables	-	-	-	-	533.658.160	-	-	533.658.160	8
Other liabilities	-	-	-	-	188.173.615	-	-	188.173.615	9/18
Derivative financial instruments	-	-	-	-	-	10.400.444	558.936	10.959.380	7

(*) Book values of the financial assets and liabilities are close to the fair values.

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

NOTE 30 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (cont'd)

Additional information about financial instruments (cont'd)

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

Financial asset and liabilities at fair value			**Fair value level as of reporting date**	
	31 December 2012	**Level 1**	**Level 2**	**Level 3**
Financial assets and liabilities at fair value through profit/loss				
Financial assets held for trading	-	-	-	-
Derivative financial assets	543.101	-	543.101	-
Derivative financial liabilities	(3.901.647)	-	(3.901.647)	-
Financial assets and liabilities at fair value through other comprehensive income/ expense				
Derivative financial assets	9.579.245	-	9.579.245	-
Derivative financial liabilities	(14.855.607)	-	(14.855.607)	-
Total	**(8.634.908)**	**-**	**(8.634.908)**	**-**

Financial asset and liabilities at fair value			**Fair value level as of reporting date**	
	31 December 2011	**Level 1**	**Level 2**	**Level 3**
Financial assets and liabilities at fair value through profit/loss				
Financial assets held for trading	-	-	-	-
Derivative financial assets	9.232.974	-	9.232.974	-
Derivative financial liabilities	(558.936)	-	(558.936)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	47.475.443	-	47.475.443	-
Derivative financial liabilities	(10.400.444)	-	(10.400.444)	-
Total	**45.749.037**	**-**	**45.749.037**	**-**

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

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

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

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

NOTE 31 – SUBSEQUENT EVENTS

None.

NOTE 32 – OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION

Changes in working capital are as follows:

	1 January - 31 December 2012	1 January - 31 December 2011
Current trade receivables	96.166.335	(428.050.477)
Inventories	781.008.739	(1.133.999.399)
Other short term receivables / current assets	22.732.717	25.205.763
Non current trade receivables	-	2.621.888
Other long term receivables / non current assets	55.101.695	(67.598.733)
Current trade payables	(105.602.410)	173.716.258
Other short term payables / liabilities	(72.690.401)	129.425.190
Other long term payables / liabilities	3.653.359	(15.962.947)
	780.370.034	**1.314.642.457)**

The details and the amounts of the reclassifications made of the balance sheet are as follows:

Deferred and installed payables to public institutions of TRY 2.254.632 reported in "Other Payables" in consolidated balance sheet as of 31 December 2011, is netted off under other VAT receivable reported in "Other Current Assets".

Long term doubtful trade receivables of TRY 1.619.793 reported in "Long Term Trade Receivables" in consolidated balance sheet as of 31 December 2011 is reclassified to "Short Term Trade Receivables".

Convenience translation to English:

The effect of differences between the Financial Reporting Standards published by the Capital Market Board in Turkey and accounting principles generally accepted in countries in which the consolidated financial statements are to be distributed and International Financial Reporting Standards (IFRS) have not been quantified in the consolidated financial statements. The differences with IFRS mainly related to the application of inflation accounting which was ceased one year later in IFRS, and the presentation of the basic consolidated financial statements and the notes to them. Accordingly, the consolidated financial statements are not intended to present the consolidated financial position and consolidated financial performance of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its subsidiaries in accordance with the accounting principles generally accepted in such countries and IFRS.

AUDIT REPORT
(01.01.2012 - 31.12.2012)

TO THE GENERAL BOARD OF EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş

Details about the Partnership;

Title	:	Ereğli Demir ve Çelik Fabrikaları T.A.Ş.
Headquarters	:	Ankara
Issued Capital	:	TL 3,090,000,000
Scope of Activity	:	Production and Sales of Iron and Steel
Details about the Auditors;	:	
Name, Surname	:	Ahmet Türker ANAYURT
Term of Office	:	March 2012 - March 2013
Partnership Status	:	Not a Partner
Name, Surname	:	Ünal TAYYAN
Term of Office	:	March 2012 - March 2013
Partnership Status	:	Not a Partner
Board of Directors and Audit Committee Meetings	:	Board of Directors held eight meetings during the calendar year 2012 and Audit Committee attended all of these meetings.
Results of the Counts and Audit Required by the Turkish Commercial Code	:	Audits performed on documents and automation entries by the sampling method on various dates between 01.01.2012 - 31.12.2012 have revealed that legal ledgers of the Partnership were kept in compliance with the provisions of Turkish Commercial Code and Tax Procedure Law and that the securities received and kept in the vault were in compliance with the entries.
Complaints and Corruption Claims Received by the Audit Committee	:	No such complaint or claim has been received by the Audit Committee.

We have examined the accounts and transactions of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. for the period between January 1, 2012 and December 31, 2012 as per the Turkish Commercial Code, Articles of Association of the Partnership and other legislation, as well as generally accepted accounting principles and standards.

In our opinion, the enclosed Balance Sheet as of December 31, 2012, whose contents we confirm, reflect the Partnership's financial status on the date mentioned in a truthful and accurate fashion; and the Income Statement of the period between January 1, 2012 and December 31, 2012 reflects the Partnership's operational results in the period in a truthful and accurate fashion. We hereby propose the approval of the Balance Sheet and the Income Statement and the acquittal of the Board of Directors.

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş.
AUDIT COMMITTEE

Ünal TAYYAN
Statutory Auditor

Ahmet Türker ANAYURT
Statutory Auditor

Contact Details

EREĞLİ DEMİR ÇELİK FABRİKALARI T.A.Ş.

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To Grow with Türkiye, To Assist Türkiye to Grow…

We are a company that is more than a century old and yet in all that time we've never thought of ourselves as being "old". Half a century ago we restructured ourselves along the same lines as our peers in the world's advanced democracies but never for a moment did we ever forget our own country's core values.

We made it possible for our members to pool their modest savings and then we transformed them into significant, profitable, and enduring investments. We thought big. But we also never forgot that it was those modest savings of our members that nourished our growth. Year after year we stood by our members as we continued to build up their assets.

Never in our history have we ever had to receive any state assistance and yet we have always created value for our country as well as for our members. Between 2009 and 2011 we single-handedly paid 0.71% (TRL 5.1 billion worth) of all taxes collected in Türkiye as well as 1% (TRL 753 million worth) of the country's corporation tax while we were also responsible for 3.71% (worth USD 12.9 billion) of its exports. In 2012* alone we accounted for 0.70% (TRL 2 billion) of all taxes, 1.6% of all corporation tax (TRL 480 million), and 2.71% (USD 4.1 billion) of all exports in Türkiye.

We are a supplementary occupational pension fund and in that capacity we help transform people's saving consciousness into an asset that allows them to look to the future with confidence. We encouraged other occupational groups to do the same. We have grown with Türkiye. We have assisted Türkiye grow.

Having put yet another successful year behind us, we join hands with our more than 275,000 members and 29,000 employees in extending our best wishes to our country for a happy, healthy, and prosperous new year. In 2013 we shall continue to provide service and to create value with the same great commitment and enthusiasm that we have always had.

OYAK

* Provisional 2012 figures.

The announcement published by OYAK in Turkey's leading newspapers on 5-6 January 2013.