

**(CONVENIENCE TRANSLATION OF CONDENSED INTERIM  
CONSOLIDATED FINANCIAL STATEMENTS  
ORIGINALLY ISSUED IN TURKISH- SEE NOTE 16)**

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

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2014**

<b>TABLE OF CONTENTS</b>		<b>Page</b>
<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION .....</b>		<b>1-2</b>
<b>CONSOLIDATED STATEMENT OF INCOME .....</b>		<b>3</b>
<b>CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME .....</b>		<b>4</b>
<b>CONSOLIDATED STATEMENT OF CHANGES IN EQUITY .....</b>		<b>5</b>
<b>CONSOLIDATED STATEMENT OF CASH FLOW .....</b>		<b>6</b>
<b>NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS .....</b>		<b>7-42</b>
NOTE 1	GROUP'S ORGANIZATION AND NATURE OF OPERATIONS .....	7-8
NOTE 2	BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS .....	8-13
NOTE 3	RELATED PARTY TRANSACTIONS .....	13-14
NOTE 4	INVENTORIES .....	15
NOTE 5	TANGIBLE AND INTANGIBLE ASSETS .....	16-17
NOTE 6	FINANCIAL LIABILITIES .....	18-20
NOTE 7	PROVISIONS .....	21-25
NOTE 8	EMPLOYEE BENEFITS .....	26-27
NOTE 9	COMMITMENTS AND CONTINGENCIES .....	28
NOTE 10	TAX ASSETS AND LIABILITIES .....	29-31
NOTE 11	SALES AND COST OF SALES .....	32-33
NOTE 12	OPERATING EXPENSES AND OTHER OPERATING INCOME/ (EXPENSES) .....	34-36
NOTE 13	FINANCIAL INCOME/EXPENSES .....	37
NOTE 14	NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS .....	38-41
NOTE 15	ADDITIONAL INFORMATION FOR CASH FLOW STATEMENT .....	42
NOTE 16	OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR UNDERSTANDABLE AND INTERPRETABLE PRESENTATION .....	42

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 16)

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

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 30 SEPTEMBER 2014

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

ASSETS	Note	Current Period	(Unaudited) Current Period	Previous Period	(Audited) Previous Period
		30 September 2014 USD'000	30 September 2014 TRY'000	31 December 2013 USD'000	31 December 2013 TRY'000
<b>Current Assets</b>		<b>3.318.900</b>	<b>7.563.443</b>	<b>2.815.209</b>	<b>6.008.498</b>
Cash and Cash Equivalents		1.119.351	2.550.890	356.609	761.111
Other Short Term Financial Assets		14.936	34.038	3.455	7.374
Trade Receivables		760.364	1.732.793	800.515	1.708.538
<i>Due From Related Parties</i>	3	15.208	34.658	17.193	36.694
<i>Other Trade Receivables</i>		745.156	1.698.135	783.322	1.671.844
Other Receivables		1.944	4.431	1.959	4.181
Inventories	4	1.366.602	3.114.349	1.585.104	3.383.087
Prepaid Expenses		21.428	48.833	8.488	18.115
Other Current Assets		34.275	78.109	59.079	126.092
<b>Non Current Assets</b>		<b>3.714.410</b>	<b>8.464.767</b>	<b>3.760.478</b>	<b>8.025.986</b>
Other Receivables		9.888	22.533	10.641	22.711
Financial Investments		250	570	-	-
Other Long Term Financial Assets		22.930	52.256	34.043	72.657
Investment Properties		24.879	56.696	24.199	51.647
Property, Plant and Equipment	5	3.556.279	8.104.404	3.595.350	7.673.556
Intangible Assets	5	70.828	161.409	74.568	159.150
Prepaid Expenses		18.427	41.993	13.320	28.429
Deferred Tax Assets	10	10.929	24.906	8.357	17.836
<b>TOTAL ASSETS</b>		<b>7.033.310</b>	<b>16.028.210</b>	<b>6.575.687</b>	<b>14.034.484</b>

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 16)

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

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 30 SEPTEMBER 2014

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

LIABILITIES	Note	(Unaudited)		(Audited)	
		Current Period 30 September 2014 USD'000	Current Period 30 September 2014 TRY'000	Previous Period 31 December 2013 USD'000	Previous Period 31 December 2013 TRY'000
<b>Current Liabilities</b>		<b>1.595.702</b>	<b>3.636.446</b>	<b>1.159.820</b>	<b>2.475.406</b>
Financial Liabilities	6	412.912	940.986	93.055	198.608
Short Term Portion of Long Term Fin. Liab.	6	759.214	1.730.172	600.285	1.281.188
Other Current Financial Liabilities		3.372	7.685	6.832	14.582
Trade Payables		179.083	408.112	236.230	504.186
<i>Due to Related Parties</i>	3	<i>5.550</i>	<i>12.648</i>	<i>6.767</i>	<i>14.443</i>
<i>Other Trade Payables</i>		<i>173.533</i>	<i>395.464</i>	<i>229.463</i>	<i>489.743</i>
Other Payables		4.936	11.248	2.931	6.256
Deferred Revenue		37.594	85.674	43.568	92.988
Current Tax Liabilities	10	21.928	49.972	21.080	44.990
Short Term Provisions	7	96.383	219.647	96.062	205.026
Payables for Employee Benefits	8	46.609	106.217	50.974	108.794
Other Current Liabilities		33.671	76.733	8.803	18.788
<b>Non Current Liabilities</b>		<b>1.168.049</b>	<b>2.661.868</b>	<b>1.336.389</b>	<b>2.852.258</b>
Financial Liabilities	6	678.410	1.546.028	946.579	2.020.283
Other Non Current Financial Liabilities		5.949	13.558	5.758	12.290
Provisions for Employee Benefits	8	203.563	463.899	183.775	392.232
Deferred Tax Liabilities	10	279.968	638.020	200.113	427.102
Other Non Current Liabilities		159	363	164	351
<b>EQUITY</b>		<b>4.269.559</b>	<b>9.729.896</b>	<b>4.079.478</b>	<b>8.706.820</b>
<b>Equity Att. to Equity Holders of the Parent</b>		<b>4.142.905</b>	<b>9.441.265</b>	<b>3.967.015</b>	<b>8.466.790</b>
Share Capital		1.818.371	3.500.000	1.818.371	3.500.000
Inflation Adjustment to Capital		81.366	156.613	81.366	156.613
Treasury Shares (-)		(60.387)	(116.232)	(60.387)	(116.232)
Share Issue Premium		55.303	106.447	55.303	106.447
Other Comprehensive Income/Expense Not to be Reclassified to Profit/ (Loss)		(35.650)	(76.880)	(20.407)	(43.554)
<i>Revaluation Reserve of Tangible Assets</i>		<i>10.742</i>	<i>24.315</i>	<i>10.896</i>	<i>23.255</i>
<i>Actuarial (Loss)/ Gain funds</i>		<i>(46.392)</i>	<i>(101.195)</i>	<i>(31.303)</i>	<i>(66.809)</i>
Other Comprehensive Income/Expense to be Reclassified to Profit/ (Loss)		(13.256)	1.423.411	(5.697)	835.320
<i>Cash Flow Hedging Reserves</i>		<i>(4.969)</i>	<i>(11.324)</i>	<i>(4.378)</i>	<i>(9.344)</i>
<i>Foreign Currency Translation Reserves</i>		<i>(8.287)</i>	<i>1.434.735</i>	<i>(1.319)</i>	<i>844.664</i>
Restricted Reserves Assorted from Profit		313.307	617.355	260.261	500.949
Retained Earnings		1.422.232	2.616.106	1.354.568	2.607.273
Net Profit for the Period		561.619	1.214.445	483.637	919.974
<b>Non-Controlling Interests</b>		<b>126.654</b>	<b>288.631</b>	<b>112.463</b>	<b>240.030</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>7.033.310</b>	<b>16.028.210</b>	<b>6.575.687</b>	<b>14.034.484</b>

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 16)

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

### CONSOLIDATED STATEMENTS OF INCOME FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014

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

	Note	(Unaudited)		(Unaudited)		(Unaudited)	
		Current Period 1 January - 30 September 2014 USD'000	Current Period 1 January - 30 September 2014 TRY'000	Current Period 1 July - 30 September 2014 TRY'000	Previous Period 1 January - 30 September 2013 USD'000	Previous Period 1 January - 30 September 2013 TRY'000	Previous Period 1 July - 30 September 2013 TRY'000
<b>OPERATING INCOME</b>							
Revenue	11	3.974.630	8.594.739	2.950.652	3.866.766	7.199.531	2.152.499
Cost of Sales (-)	11	(3.156.808)	(6.826.281)	(2.304.896)	(3.141.037)	(5.848.297)	(1.714.563)
<b>GROSS PROFIT</b>		<b>817.822</b>	<b>1.768.458</b>	<b>645.756</b>	<b>725.729</b>	<b>1.351.234</b>	<b>437.936</b>
Marketing, Sales and Distribution Expenses (-)	12	(40.268)	(87.075)	(29.223)	(42.208)	(78.588)	(24.627)
General Administrative Expenses (-)	12	(73.956)	(159.923)	(54.771)	(75.374)	(140.339)	(45.184)
Research and Development Expenses (-)	12	(2.245)	(4.854)	(1.244)	(1.495)	(2.784)	(1.150)
Other Operating Income	12	49.627	107.314	31.434	71.849	133.776	22.372
Other Operating Expenses (-)	12	(29.002)	(62.715)	(15.010)	(40.140)	(74.736)	(39.241)
<b>OPERATING PROFIT</b>		<b>721.978</b>	<b>1.561.205</b>	<b>576.942</b>	<b>638.361</b>	<b>1.188.563</b>	<b>350.106</b>
Finance Income	13	29.116	62.961	20.826	51.053	95.055	30.556
Finance Expense (-)	13	(78.675)	(163.297)	(30.512)	(167.825)	(299.914)	(106.294)
<b>PROFIT BEFORE TAX</b>		<b>672.419</b>	<b>1.460.869</b>	<b>567.256</b>	<b>521.589</b>	<b>983.704</b>	<b>274.368</b>
Tax Expense	10	(89.659)	(200.708)	(114.715)	(94.013)	(187.601)	(43.580)
- Current Corporate Tax Expense		(58.626)	(133.602)	(52.028)	(72.879)	(148.251)	(60.023)
- Deferred Tax Expense		(31.033)	(67.106)	(62.687)	(21.134)	(39.350)	16.443
<b>PROFIT FOR THE PERIOD</b>		<b>582.760</b>	<b>1.260.161</b>	<b>452.541</b>	<b>427.576</b>	<b>796.103</b>	<b>230.788</b>
- Non-Controlling Interests		21.141	45.716	15.195	15.158	28.223	7.197
- Equity Holders of the Parent		561.619	1.214.445	437.346	412.418	767.880	223.591
<b>EARNINGS PER SHARE</b>			0,3470	0,1250		0,2194	0,0639
(TRY 1 Nominal value per share)							

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

### CONSOLIDATED STATEMENTS OF OTHER COMPREHENSİVE INCOME FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014

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

	Current Period 1 January - 30 September 2014 USD'000	(Unaudited) Current Period 1 January - 30 September 2014 TRY'000	Current Period 1 July - 30 September 2014 TRY'000	Previous Period 1 January - 30 September 2013 USD'000	(Unaudited) Previous Period 1 January - 30 September 2013 TRY'000	Previous Period 1 July - 30 September 2013 TRY'000
<b>PROFIT FOR THE PERIOD</b>	<b>582.760</b>	<b>1.260.161</b>	<b>452.541</b>	<b>427.576</b>	<b>796.103</b>	<b>230.788</b>
<b>Other Comprehensive Income/(Expense):</b>						
<b>Not to be reclassified subsequently to profit or loss</b>						
Change in Revaluation Reserve of Tangible Assets	(154)	1.060	1.358	(651)	(1.213)	(1.942)
Change in Actuarial (Loss)/ Gain	(19.312)	(44.009)	(2.916)	(3.613)	(6.727)	-
Tax Effect of Changes in Actuarial (Loss)/ Gain	3.862	8.802	583	722	1.345	-
<b>To be reclassified subsequently to profit or loss</b>						
Change in Cash Flow Hedging Reserves	(785)	(2.619)	(9.451)	5.458	10.163	(5.059)
Tax Effect of Change in Cash Flow Hedging Reserves	157	524	1.891	(1.093)	(2.035)	1.009
Change in Foreign Currency Translation Reserves	(8.190)	605.732	642.474	215.579	401.386	403.153
<b>OTHER COMP. INCOME/ EXPENSE FOR THE PERIOD (AFTER TAX)</b>	<b>(24.422)</b>	<b>569.490</b>	<b>633.939</b>	<b>216.402</b>	<b>402.919</b>	<b>397.161</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>558.338</b>	<b>1.829.651</b>	<b>1.086.480</b>	<b>643.978</b>	<b>1.199.022</b>	<b>627.949</b>
<b>Distribution of Total Comprehensive Income</b>						
- Non-controlling Interests	19.520	60.441	32.034	20.967	39.038	17.344
- Equity Holders of the Parent	538.818	1.769.210	1.054.446	623.011	1.159.984	610.605

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

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014

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

(Unaudited)	Share Capital	Inflation Adjustment to Capital	Treasury Shares (-)	Share Issue Premium	Other comprehensive income/expense not to be reclassified subsequently to profit or loss		Other comprehensive income/expense to be reclassified subsequently to profit or loss			Retained Earnings and Net Profit	Equity Attributable to the Parent	Non-controlling Interests	Total Shareholders' Equity
					Revaluation Reserve of Tangible Assets	Actuarial loss/ (gain) funds	Cash Flow Hedging Reserves	Foreign Currency Translation Reserves	Restricted Reserves Assorted from Profit				
<b>1 January 2014</b>	<b>3.500.000</b>	<b>156.613</b>	<b>(116.232)</b>	<b>106.447</b>	<b>23.255</b>	<b>(66.809)</b>	<b>(9.344)</b>	<b>844.664</b>	<b>500.949</b>	<b>3.527.247</b>	<b>8.466.790</b>	<b>240.030</b>	<b>8.706.820</b>
Net profit for the period	-	-	-	-	-	-	-	-	-	1.214.445	1.214.445	45.716	1.260.161
Other comprehensive income/ (loss)	-	-	-	-	1.060	(34.386)	(1.980)	590.071	-	-	554.765	14.725	569.490
Total comprehensive income/ (loss)	-	-	-	-	1.060	(34.386)	(1.980)	590.071	-	1.214.445	1.769.210	60.441	1.829.651
Dividends paid (*)	-	-	-	-	-	-	-	-	-	(794.735)	(794.735)	(11.840)	(806.575)
Transfers from retained earnings	-	-	-	-	-	-	-	-	116.406	(116.406)	-	-	-
<b>30 September 2014</b>	<b>3.500.000</b>	<b>156.613</b>	<b>(116.232)</b>	<b>106.447</b>	<b>24.315</b>	<b>(101.195)</b>	<b>(11.324)</b>	<b>1.434.735</b>	<b>617.355</b>	<b>3.830.551</b>	<b>9.441.265</b>	<b>288.631</b>	<b>9.729.896</b>
(Unaudited)													
<b>1 January 2013 (previously reported)</b>	<b>3.090.000</b>	<b>342.195</b>	<b>(103.600)</b>	<b>106.447</b>	<b>26.814</b>	<b>-</b>	<b>(29.878)</b>	<b>(315)</b>	<b>432.878</b>	<b>3.340.271</b>	<b>7.204.812</b>	<b>211.100</b>	<b>7.415.912</b>
Effect of changes in accounting policy	-	-	-	-	-	(57.784)	-	-	-	57.784	-	-	-
<b>1 January 2013 Restated</b>	<b>3.090.000</b>	<b>342.195</b>	<b>(103.600)</b>	<b>106.447</b>	<b>26.814</b>	<b>(57.784)</b>	<b>(29.878)</b>	<b>(315)</b>	<b>432.878</b>	<b>3.398.055</b>	<b>7.204.812</b>	<b>211.100</b>	<b>7.415.912</b>
Net profit for the period	-	-	-	-	-	-	-	-	-	767.880	767.880	28.223	796.103
Other comprehensive income/ (loss)	-	-	-	-	(1.213)	(5.218)	7.579	390.956	-	-	392.104	10.815	402.919
Total comprehensive income/ (loss)	-	-	-	-	(1.213)	(5.218)	7.579	390.956	-	767.880	1.159.984	39.038	1.199.022
Dividends paid	-	-	-	-	-	-	-	-	-	(116.303)	(116.303)	(17.442)	(133.745)
Capital increase	410.000	(185.582)	(12.632)	-	-	-	-	-	-	(211.786)	-	-	-
Transfers from retained earnings	-	-	-	-	-	-	-	-	23.071	(23.071)	-	-	-
<b>30 September 2013</b>	<b>3.500.000</b>	<b>156.613</b>	<b>(116.232)</b>	<b>106.447</b>	<b>25.601</b>	<b>(63.002)</b>	<b>(22.299)</b>	<b>390.641</b>	<b>455.949</b>	<b>3.814.775</b>	<b>8.248.493</b>	<b>232.696</b>	<b>8.481.189</b>

(\*) Annual General Assembly dated 31 March 2014, dividend distribution (gross dividend per share: TRY 0,2343 (2013: TRY 0,03429)) amounting to TRY 820.000 thousand (29 March 2013: TRY 120.000 thousand) from 2013 net profit was approved. As the Company holds 3,08% of its shares with a nominal value of TRY 1 as of 31 March 2014, dividends for treasury shares are netted off under dividends paid. The dividend payment was completed at 26 May 2014.

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 16)

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

### CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014

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

Note	(Unaudited)		(Unaudited)	
	Current Period 1 January 30 September 2014	Current Period 1 January 30 September 2014	Previous Period 1 January 30 September 2013	Current Period 1 January 30 September 2013
	US'000	TRY'000	US'000	TRY'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax and non-controlling interests	672.419	1.460.869	521.589	983.704
<b>Adjustments to reconcile net profit before tax to net cash provided by operating activities:</b>				
Depreciation and amortization expenses	11/12 148.385	320.867	161.772	301.204
Provision for employee termination benefits	8 18.798	40.648	18.350	34.166
Provision for seniority incentive premium	8 4.146	8.965	(886)	(1.649)
(Gain)on sale of property plant and equipment	12 (321)	(694)	(550)	(1.024)
Loss on write off of property plant and equipment	12 284	614	682	1.270
Increase in provision for doubtful receivables	796	1.721	1.840	3.426
Decrease in the allowance for inventories	4 152	329	1.048	1.951
Increase/ (decrease) in provision for unpaid vacations	8 1.509	3.263	2.674	4.979
Increase in provision for pending claims and lawsuits	7 3.898	8.430	32.711	60.904
Increase in penalty prov. for obligatory empl.t shortage of disabled people	7 351	758	273	509
Increase in provision for state right on mining activities	7 1.803	3.899	1.041	1.939
Increase in provision for civil defense fund	7 3.135	6.779	1.794	3.341
Interest expenses	13 61.334	132.628	85.830	159.806
Interest income from bank deposits	13 (17.221)	(37.238)	(30.386)	(56.576)
Interest income from overdue sales	12 (19.679)	(42.553)	(18.017)	(33.546)
Unrealized foreign currency (gain) of financial liabilities	(12.238)	(26.464)	(8.705)	(16.208)
Loss/(gain) on fair value changes of derivative financial instruments	(11.896)	(25.723)	(20.654)	(38.455)
<b>Net cash provided by operating activities before changes in working capital</b>	<b>855.655</b>	<b>1.857.098</b>	<b>750.406</b>	<b>1.409.741</b>
Changes in working capital	15 239.114	544.918	(239.183)	(445.335)
Interest income from overdue sales collected	19.240	41.605	11.958	22.264
Lawsuits paid	7 (2.817)	(6.091)	(3.116)	(5.802)
Penalty paid for the employment shortage of disabled people	7 (402)	(870)	(788)	(1.467)
Corporate tax paid	10 (59.480)	(128.620)	(55.868)	(104.020)
Employee termination benefits paid	8 (7.721)	(16.696)	(9.039)	(16.830)
State rights paid for mining activities	7 (1.396)	(3.018)	(1.958)	(3.645)
Unused vacation paid	8 (1.572)	(3.399)	(1.570)	(2.924)
Seniority incentive premium paid	8 (1.012)	(2.188)	(473)	(881)
<b>Net cash provided by operating activities</b>	<b>1.039.609</b>	<b>2.282.739</b>	<b>450.369</b>	<b>851.101</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Changes in financial investments	(250)	(540)	46	85
Payments for investment property	(681)	(1.472)	-	-
Cash used in the purchase of tangible assets	5 (109.273)	(236.291)	(116.775)	(217.423)
Cash used in the purchase of intangible assets	5 (2.833)	(6.125)	(1.223)	(2.278)
Cash provided by sales of tangible assets	5/12 323	698	696	1.295
<b>Net cash used in investing activities</b>	<b>(112.714)</b>	<b>(243.730)</b>	<b>(117.256)</b>	<b>(218.321)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
New borrowings	947.996	2.160.387	1.898.698	3.535.186
Repayment of borrowings	(731.594)	(1.667.230)	(2.139.040)	(3.982.679)
Interest paid	(54.880)	(118.672)	(88.478)	(164.737)
Interest received on bank deposits	15.840	34.252	38.074	70.890
Dividends paid	(380.040)	(794.735)	(62.465)	(116.303)
Dividends paid to non-controlling interests	(5.472)	(11.840)	(9.368)	(17.442)
<b>Net cash used in by financing activities</b>	<b>(208.150)</b>	<b>(397.838)</b>	<b>(362.579)</b>	<b>(675.085)</b>
<b>NET CHANGES IN CASH AND CASH EQUIVALENTS</b>	<b>718.745</b>	<b>1.641.171</b>	<b>(29.466)</b>	<b>(42.305)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE</b>	<b>355.997</b>	<b>759.804</b>	<b>1.025.299</b>	<b>1.827.698</b>
Currency translation difference, net	42.726	145.623	(60.877)	116.495
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>1.117.468</b>	<b>2.546.598</b>	<b>934.956</b>	<b>1.901.888</b>
Accrued interest income	1.883	4.292	1.532	3.116
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD INCLUDING ACCRUED INTEREST INCOME</b>	<b>1.119.351</b>	<b>2.550.890</b>	<b>936.488</b>	<b>1.905.004</b>



(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 16)

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014

(Amounts are expressed in thousands of Turkish Lira (“TRY Thousand”) 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 (OYAK/Armed Forces Pension Fund), respectively.

OYAK was incorporated on 1 March 1961 under the Act No. 205 as a private entity under its own law subject to Turkish civil and commercial codes and autonomous in financial and administrative matters. OYAK, being an “aid and retirement fund” for Turkish Armed Forces’ members, provides various services and benefits within the framework of social security concept anticipated by Turkish Constitution. OYAK has 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](http://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	2014 Share %	2013 Share %
İskenderun Demir ve Çelik A.Ş. (“ISDEMİR”)	Turkey	Iron and Steel	95,07	95,07
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&Consultancy	100	100
Erdemir Romania S.R.L.	Romania	Iron and Steel	100	100

In order to carry out business activities in Far East, the Group has established “Erdemir Asia Pacific Private Limited (EAPPL)” with a capital of USD 250.000 in Singapore in 4 July 2014, which is a wholly owned subsidiary of Erdemir. EAPPL wasn’t included in the consolidation and classified under the long term financial investments since it hasn’t started its operations yet and hasn’t significant effect on consolidated financial statements.

The registered address of the Company is Merdivenköy Yolu Cad. No: 2, 34750 Küçükbakkalköy /İSTANBUL.

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 16)

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014

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

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

The number of the personnel employed by the Group as at 30 September 2014 and 31 December 2013 are as follows:

	Paid Hourly Personnel	Paid Montly Personnel	30 September 2014 Total
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.647	1.836	6.483
İskenderun Demir ve Çelik A.Ş.	4.205	1.745	5.950
Erdemir Madencilik San. ve Tic. A.Ş.	126	139	265
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	60	76	136
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	-	116	116
Erdemir Romania S.R.L.	223	51	274
	<u>9.261</u>	<u>3.963</u>	<u>13.224</u>

  

	Paid Hourly Personnel	Paid Montly Personnel	31 December 2013 Total
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.612	1.824	6.436
İskenderun Demir ve Çelik A.Ş.	4.271	1.255	5.526
Erdemir Madencilik San. ve Tic. A.Ş.	123	148	271
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	43	95	138
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	-	160	160
Erdemir Romania S.R.L.	218	52	270
	<u>9.267</u>	<u>3.534</u>	<u>12.801</u>

#### 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 Group’s condensed consolidated financial statements and disclosures have been prepared in accordance with the communiqué numbered II-14,1 “Communiqué on the Principles of Financial Reporting In Capital Markets” (“the Communiqué”) announced by the Capital Markets Board (“CMB”) (hereinafter will be referred to as “the CMB Accounting Standards”) on 13 June 2013 which is published on Official Gazette numbered 28676. The financial statements are prepared on cost basis, except the derivative financial instruments and iron ore and silicon steel used in the production of fixed assets carried on fair value measured at business at acquisition date.

In accordance with article 5<sup>th</sup> of the CMB Reporting Standards, companies should apply Turkish Accounting Standards/Turkish Financial Reporting Standards and its interpretations issued by the Public Oversight Accounting and Auditing Standards Authority of Turkey (“POA”).

In accordance with the Turkish Accounting Standard No: 34 “Interim Financial Reporting”, entities are allowed to prepare a complete or condensed set of interim financial statements. In this respect, the Group has preferred to prepare condensed interim consolidated financial statements in the interim period starting from for the nine months period ended 30.09.2014. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2013.

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

### **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014**

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

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

##### **2.1 Basis of Presentation (cont’d)**

###### Functional and Reporting Currency

TRY is accepted as the functional currency of the Company’s subsidiaries operating in Turkey and presentation currency of the consolidated financial statements until 30 June 2013. Due to changes in sale and collection policies of Company and its subsidiaries’ İskenderun Demir ve Çelik A.Ş. “İsdemir” and Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. “Ersem”, the functional currency of the Company and its subsidiaries İsdemir and Ersem changed from TRY to US Dollars in accordance with TAS 21 (“The Effects of Foreign Exchange Rates”) starting from the beginning of third quarter, which is 1 July 2013. The functional currency of the Company’s subsidiaries, Erdemir Madencilik San. Ve Tic. A.Ş. “Ermaden” and Erdemir Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş. “Erenco”, operating in Turkey have been accepted in TRY and Erdemir Romania S.R.L in Euro.

###### Presentation currency translation

Presentation currency of the consolidated financial statements is TRY. According to IAS 21 (“The Effects of Changes in Foreign Exchange Rates”) financial statements, that are prepared in USD Dollars for İsdemir and Ersem and in Euro for Erdemir Romania, have been translated in TRY as the following method:

- a) For the purpose of presenting consolidated financial statements, the assets and liabilities are translated from USD Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 2,2789=US \$ 1 and TRY 2,8914=EUR 1 on the balance sheet date (31 December 2013: TRY 2,1343= US \$ 1, TRY 2,9365=EUR 1).
- b) For the nine months period ended 30 September 2014, income statements are translated from the average TRY 2,1624=US \$ 1 and TRY 2,9330=EUR 1 rates of 2014 January-September period.
- c) Exchange differences are shown in other comprehensive income as of foreign currency translation reserve.
- d) The differences between presentation of statutory and historical figures are recognised as translation differences under equity. All capital, capital measures and other measures are represented with their statutory figures in the accompanying financial statements.

###### USD amounts presented in the financial statements

The figures in USD amounts presented in the accompanying condensed consolidated financial statements comprising the statements of financial position as of 30 September 2014 and 31 December 2013, consolidated statement of income and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the interim period ended 30 September 2014 represent the consolidated financial statements prepared according to USD reporting currency within the frame of functional currency change that the Company has made, which is effective as of July 1, 2013, prepared in accordance with the TAS 21- Effects of Changes in Foreign Exchange Rates.

###### Going concern

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

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 16)

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014

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

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

##### 2.1 Basis of Presentation (cont’d)

###### Approval of the consolidated financial statements

The consolidated financial statements have been approved and authorized to be published on 27 October 2014 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

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

The Group’s condensed interim consolidated financial statements are presented in accordance with the communiqué numbered II-14,1 “Communiqué on the Principles of Financial Reporting In Capital Markets” (“the Communiqué”) announced by the Capital Markets Board (“CMB”). The Group’s condensed interim consolidated financial statements are prepared in comparison with the previous period in order to allow for the determination of the financial position and performance trends in accordance with a new illustrative financial statements and guidance that has been effective from the interim periods ended after 30 September 2013.

###### Reclassifications of income statement are as follows:

Account	(Previously Reported)	(Restated)	(Difference)
	1 January - 30 September 2013	1 January - 30 September 2013	1 January - 30 September 2013
Other Operating Income <sup>(1)</sup>	132.776	133.776	1.000
Other Operating Expenses <sup>(1)</sup>	(73.718)	(74.736)	(1.018)
Financial Expense (-) <sup>(1)</sup>	(299.932)	(299.914)	18
			<u>-</u>

(1) Out of (net) TRY 18 thousand discount expense that was reported under “Financial Expenses (-)”, is reclassified under “Financial Income” TRY 1.000 thousand as discount income and under “Financial Expenses (-)” TRY (1.018) thousand as discount expenses in consolidated income statement as of 30 September 2013.

##### 2.3 Adoption of New and Revised Financial Reporting Standards

The accounting policies adopted in the preparation of the condensed interim consolidated financial statements as at 30 September 2014 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and IFRIC interpretations effective as of 1 January 2014 summarized below.

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 16)

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

### **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014**

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

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

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

Standards, amendments and interpretations effective as of 1 January 2014:

- TAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities (Amended)
- TRFS Interpretation 21 Levies
- Amendments to TAS 36 - (Recoverable Amount Disclosures for Non-Financial assets)
- Amendments to TAS 39 - Novation of Derivatives and Continuation of Hedge Accounting
- TFRS 10 Consolidated Financial Statements (Amendment)

##### **Standards issued but not yet effective and not early adopted**

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

- TFRS 9 Financial Instruments – Classification and measurement

##### **The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by Public Oversight Authority (POA):**

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued by the POA, thus they do not constitute part of TFRS. The Group will make the necessary changes to its interim condensed consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

- IFRS 9 Financial Instruments – Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39 -IFRS 9 (2013)

##### **Improvements to IFRSs:**

In December 2013, the IASB issued two cycles of Annual Improvements to IFRSs – 2010–2012 Cycle and IFRSs – 2011–2013 Cycle. Other than the amendments that only affect the standards’ Basis for Conclusions, the changes are effective for annual reporting periods beginning on or after 1 July 2014.

##### ***Annual Improvements to IFRSs – 2010–2012 Cycle***

- IFRS 2 Share-based Payment:
- IFRS 3 Business Combinations
- IFRS 8 Operating Segments
- IFRS 13 Fair Value Measurement
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
- IAS 24 Related Party Disclosures

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 16)

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

### **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014**

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

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

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

###### Improvements to IFRSs (cont’d):

###### *Annual Improvements to IFRSs – 2011–2013 Cycle*

- IFRS 3 Business Combinations
- IFRS 11 Acquisition of an Interest in a Joint Operation (Amendment)
- IFRS 13 Fair Value Measurement
- IFRS 15 Revenue from Contracts with Customers
- IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)
- IAS 19 Defined Benefit Plans: Employee Contributions (Amendment)
- IAS 40 Investment Property

These amendments will not have significant impact on the financial position or performance of the Group.

In September 2014, IASB issued their annual cycle of improvements to IFRSs, Annual Improvements to IFRSs 2012-2014 Cycle. The document sets out five amendments to four standards, excluding those standards that are consequentially amended, and the related Basis for Conclusions. The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

###### *Annual Improvements - 2012–2014 Cycle*

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal
- IFRS 7 Financial Instruments: Disclosures – servicing contracts; applicability of the amendments to IFRS 7 to condensed interim financial statements
- IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments
- IAS 19 Employee Benefits – regional market issue regarding discount rate
- IAS 34 Interim Financial Reporting – disclosure of information ‘elsewhere in the interim financial report’

##### **2.4 Summary of Significant Accounting Policies**

The interim condensed consolidated financial statements for the period ended 30 September 2014 have been prepared in accordance with TAS 34. The accounting policies used in the preparation of these interim condensed consolidated financial statements for the period ended 30 September 2014 are consistent with those used in the preparation of annual consolidated financial statements for the year ended 31 December 2013. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2013.

There has been no change in total ownership interests and effective interests of the subsidiaries, included in the scope of consolidation as of 30 September 2014, from the interests reported as of 31 December 2013.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014**

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

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

**2.5 Segment Reporting**

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

**NOTE 3 –RELATED PARTY DISCLOSURES**

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

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

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

	30 September 2014	31 December 2013
<u>Due from related parties (short term)</u>		
Oyak Renault Otomobil Fab. A.Ş. <sup>(2)</sup>	25.262	27.443
Bolu Çimento Sanayi A.Ş. <sup>(1)</sup>	4.087	4.263
Adana Çimento Sanayi T.A.Ş. <sup>(1)</sup>	4.515	4.689
Other	794	299
	<u>34.658</u>	<u>36.694</u>
	30 September 2014	31 December 2013
<u>Due to related parties (short term)</u>		
Omsan Lojistik A.Ş. <sup>(1)</sup>	3.270	2.531
Omsan Denizcilik A.Ş. <sup>(1)</sup>	2.321	2.469
Oyak Pazarlama Hizmet ve Turizm A.Ş. <sup>(1)</sup>	3.282	2.894
Oyak Savunma ve Güvenlik Sistemleri A.Ş. <sup>(1)</sup>	1.680	2.263
Omsan Logistica SRL <sup>(1)</sup>	681	479
OYAK Yatırım Menkul Değerler A.Ş. <sup>(1)</sup>	2	2.141
Other	1.412	1.666
	<u>12.648</u>	<u>14.443</u>

<sup>(1)</sup> Subsidiaries of the parent company

<sup>(2)</sup> Equity investment

The trade receivables from related parties mainly arise from sales of iron, steel and by-products, trade payables to related parties mainly arise from purchased service transactions.

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 16)

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014

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

#### NOTE 3 –RELATED PARTY DISCLOSURES (cont’d)

	1 January - 30 September 2014	1 January - 30 September 2013
<u>Major sales to related parties</u>		
Oyak Renault Otomobil Fab. A.Ş. <sup>(2)</sup>	94.532	74.492
Adana Çimento Sanayi T.A.Ş. <sup>(1)</sup>	16.059	10.517
Bolu Çimento Sanayi A.Ş. <sup>(1)</sup>	12.791	9.476
Aslan Çimento A.Ş. <sup>(1)</sup>	2.154	1.284
Mardin Çimento Sanayi ve Ticaret A.Ş. <sup>(1)</sup>	1.086	397
Other	735	663
	<u>127.357</u>	<u>96.829</u>
	1 January -	1 January -
	30 September 2014	30 September 2013
<u>Major purchases from related parties</u>		
Omsan Denizcilik A.Ş. <sup>(1)</sup>	76.552	49.590
Oyak Pazarlama Hizmet ve Turizm A.Ş. <sup>(1)</sup>	28.964	18.674
Omsan Lojistik A.Ş. <sup>(1)</sup>	25.699	19.860
Oyak Savunma ve Güvenlik Sistemleri A.Ş. <sup>(1)</sup>	21.365	16.383
Omsan Logistica SRL <sup>(1)</sup>	5.687	4.795
Oyak Teknoloji Bilişim ve Kart Hizmetleri A.Ş. <sup>(1)</sup>	-	2.421
Other	3.913	2.446
	<u>162.180</u>	<u>114.169</u>

<sup>(1)</sup> Subsidiaries of the parent company

<sup>(2)</sup> Equity investment

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

OYAK Teknoloji Bilişim ve Kart Hizmetleri A.Ş. has merged with OYAK Pazarlama Hizmet ve Turizm A.Ş. as of 30 April 2014

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

The period end balances are un-secured, interest free and their collections will be done in cash. As of 30 September 2014, the Group provides no provision for doubtful receivables from related parties (30 September 2013: None).

#### Salaries, bonuses and other benefits of the key management

For the nine months period ended 30 September 2014, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 18.570 thousand (30 September 2013: TRY 11.130 thousand).



(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 16)

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014

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

#### NOTE 4 – INVENTORIES

	30 September 2014	31 December 2013
Raw materials	834.753	770.493
Work in progress	519.621	586.384
Finished goods	823.638	907.440
Spare parts	471.586	447.941
Goods in transit	328.487	553.101
Other inventories	231.063	206.467
Allowance for impairment on inventories (-)	(94.799)	(88.739)
	<u>3.114.349</u>	<u>3.383.087</u>

The movement of the allowance for impairment on inventories:

	1 January - 30 September 2014	1 January - 30 September 2013
Opening balance	88.739	60.395
Provision for the period (Note 11)	13.952	9.658
Provision released (-) (Note 11)	(13.623)	(7.707)
Translation difference	5.731	4.754
Closing balance	<u>94.799</u>	<u>67.100</u>

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 11).

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 16)

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014

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

#### NOTE 5 – TANGIBLE AND INTANGIBLE ASSETS

The movement of tangible assets for the periods 1 January – 30 September 2014 and 1 January – 30 September 2013 is as follows:

	30 September 2014	30 September 2013
<u>Opening balance as of 1 January</u>		
Cost	17.487.681	15.568.259
Accumulated depreciation	(9.814.125)	(8.570.361)
Net book value	<u>7.673.556</u>	<u>6.997.898</u>
Net book value at the begin.of the period	7.673.556	6.997.898
Additions (*)	236.291	217.423
Disposals (-)	(618)	(1.541)
Transfers (**)	(2.742)	(391)
Currency translation difference	510.108	394.255
Currenct period depreciation (-)	(312.191)	(250.400)
Net book value at the end of the period	<u>8.104.404</u>	<u>7.357.244</u>
<u>Closing balance as of</u>		
Cost	18.877.653	16.607.847
Accumulated depreciation	(10.773.249)	(9.250.603)
Net book value	<u>8.104.404</u>	<u>7.357.244</u>

(\*) The amount of capitalized financial expense is TRY 2.962 thousand for the current period (The capitalized financial expenses for the nine months period ended 30 September 2013 is TRY 1.964 thousand).

(\*\*) TRY 2.742 thousand is transferred to intangible assets (30 September 2013: TRY 391 thousand).

As of 30 September 2014, the Group has no collaterals or pledges upon its tangible assets (30 September 2013: None).

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 16)

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014**

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

**NOTE 5 – TANGIBLE AND INTANGIBLE ASSETS (cont’d)**

The movement of intangible assets for the periods 1 January – 30 September 2014 and 1 January – 30 September 2013 is as follows:

	30 September 2014	30 September 2013
<u>Opening balance as of 1 January</u>		
Cost	319.317	284.599
Accumulated amortisation	(160.167)	(131.688)
Net book value	<u>159.150</u>	<u>152.911</u>
Net book value at the begin.of the period	159.150	152.911
Additions (*)	6.125	2.277
Transfers (**)	2.742	391
Currency translation difference	8.205	6.272
Currenct period amortisation (-)	(14.813)	(14.661)
Net book value at the end of the period	<u>161.409</u>	<u>147.190</u>
<u>Closing balance as of</u>		
Cost	343.683	298.573
Accumulated amortisation	(182.274)	(151.383)
Net book value	<u>161.409</u>	<u>147.190</u>

As of 30 September 2014, the Group has no collaterals or pledges upon its intangible assets (30 September 2013: None).

The breakdown of depreciation expenses related to tangible and intangible assets are as follows:

	30 September 2014	30 September 2013
Associated with cost of production	307.177	251.852
General administrative expenses	9.496	5.183
Marketing, sales and distribution expenses	10.331	8.026
	<u>327.004</u>	<u>265.061</u>

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 16)

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014

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

#### NOTE 6 – FINANCIAL LIABILITIES

Breakdown of financial liabilities is as follows:

	30 September 2014	31 December 2013
Short term financial liabilities	940.986	198.608
Current portion of long term financial liabilities	1.529.238	1.275.113
Corporate bonds issued (*)	200.934	6.075
Total short term financial liabilities	<u>2.671.158</u>	<u>1.479.796</u>
Long term financial liabilities	1.546.028	1.820.381
Corporate bonds issued (*)	-	199.902
Total long term financial liabilities	<u>1.546.028</u>	<u>2.020.283</u>
	<u>4.217.186</u>	<u>3.500.079</u>

(\*) As of 13 March 2013, the Group has completed issuance of floating rate corporate bond with the total nominal value of TRY 200.000 thousand with 6-months coupon payments, principal payment at the maturity date of 11 March 2015 and 150 basis points added to the benchmark interest payments that is determined at coupon payment dates.

As of 30 September 2014, 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	30 September 2014
No interest	TRY	-	38.752	-	38.752
Fixed	TRY	10,00	312.953	173.936	486.889
Fixed	US Dollars	1,52	629.761	60.459	690.220
Fixed	EURO	5,50	965	3.001	3.966
Floating	TRY	Trlibor+1,5	200.934	-	200.934
Floating	US Dollars	Libor+2,15	1.347.131	1.014.040	2.361.171
Floating	EURO	Euribor+0,32	113.201	233.030	346.231
Floating	Japanese Yen	JPY Libor+0,22	27.461	61.562	89.023
			<u>2.671.158</u>	<u>1.546.028</u>	<u>4.217.186</u>

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 16)

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014

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

#### NOTE 6 – FINANCIAL LIABILITIES (cont’d)

As of 31 December 2013, 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 2013
No interest	TRY	-	61.487	-	61.487
Fixed	TRY	8,57	231.995	290.925	522.920
Fixed	US Dollars	1,96	62.618	41.281	103.899
Fixed	EURO	5,50	628	3.859	4.487
Floating	TRY	Trlibor+1,50	6.075	199.902	205.977
Floating	US Dollars	Libor+2,52	974.459	1.118.262	2.092.721
Floating	EURO	Euribor+0,33	114.956	295.301	410.257
Floating	Japanese Yen	JPY Libor+0,22	27.578	70.753	98.331
			<u>1.479.796</u>	<u>2.020.283</u>	<u>3.500.079</u>

As of 30 September 2014, 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	30 September 2014
US Dollars	2,40	31.710	-	31.710
US Dollars	3,29	16.266	15.444	31.710
US Dollars	1,09	31.845	-	31.845
US Dollars	2,75	17.954	25.745	43.699
US Dollars	4,46	16.223	39.363	55.586
US Dollars	1,68	3.212	3.162	6.374
US Dollars	2,01	4.887	-	4.887
US Dollars	3,75	42.288	82.484	124.772
EURO	2,18	7.050	3.509	10.559
EURO	1,79	1.467	-	1.467
EURO	1,80	3.356	8.385	11.741
EURO	4,43	2.708	6.571	9.279
EURO	2,32	7.323	7.200	14.523
EURO	1,66	1.816	1.840	3.656
US Dollars (*)	7,30	9.829	25.172	35.001
EURO (**)	10,65	41.672	91.373	133.045
TRY (***)	0,92	24.485	20.386	44.871
		<u>264.091</u>	<u>330.634</u>	<u>594.725</u>

(\*) The loan amount USD 12.337 thousand will be paid till the maturity date with the floating rates by using 7,30% fixed rate and 1,4560 exchange rate (out of total loan amount USD 21.591 thousand). The maturity of the cross currency swap contract is 2 April 2018. The loan amount USD 12.337 thousand, TRY equivalent TRY 17.963 thousand, will be paid till the maturity of the cross currency swap contract is 3 October 2016.

(\*\*) The loan amount EUR 48.660 thousand, TRY equivalent TRY 101.333 thousand, will be paid till the maturity date with the floating rates by using 10,65% fixed rate and 2,0825 exchange rate. The maturity of the cross currency swap contract is 15 December 2017.

(\*\*\*) The loan amount TRY 44.444 thousand, US Dollars equivalent USD 20.401 thousand, will be paid till the maturity date with the fixed rates by using 0,92% with fixed interest rate and 2,1785 exchange rate. The maturity of the cross currency swap contract is 30 June 2016.

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 16)

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014

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

#### NOTE 6 – FINANCIAL LIABILITIES (cont’d)

As of 31 December 2013, 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 2013
US Dollars	2,38	29.182	14.445	43.627
US Dollars	4,18	25.144	9.207	34.351
US Dollars	3,29	15.517	21.066	36.583
US Dollars	3,28	31.719	-	31.719
US Dollars	1,09	29.355	14.511	43.866
US Dollars	4,46	14.802	44.238	59.040
US Dollars	1,68	3.008	4.412	7.420
US Dollars	2,01	9.174	4.564	13.738
US Dollars	4,15	38.610	96.463	135.073
EURO	2,18	7.175	7.065	14.240
EURO	1,82	60.904	-	60.904
EURO	1,75	39.571	-	39.571
EURO	1,79	1.489	706	2.195
EURO	1,80	3.396	10.155	13.551
EURO	4,43	2.680	8.009	10.689
EURO	2,29	7.456	10.896	18.352
EURO	1,66	1.841	2.763	4.604
US Dollars (*)	7,22	22.856	64.868	87.724
EURO (**)	10,65	43.913	109.711	153.624
		<u>387.792</u>	<u>423.079</u>	<u>810.871</u>

(\*)The loan amount USD 80.194 thousand, TRY equivalent TRY 116.822 thousand, will be paid till the maturity date with the floating rates by using 7,22% fixed rate and 1,4568 exchange rate. The maturity of the cross currency swap contract is 2 April 2018.

(\*\*) The loan with variable interest rate amounting to EUR 111.305 thousand, TRY equivalent TRY 231.791 thousand, will be paid till the maturity date with the floating rates by using 10,65% fixed rate and 2,0825 exchange rate. The maturity of the cross currency swap contract is 15 December 2017.

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

	30 September 2014	31 December 2013
Within 1 year	2.671.158	1.479.796
Between 1-2 years	615.737	869.087
Between 2-3 years	566.931	577.900
Between 3-4 years	215.034	347.915
Between 4-5 years	62.218	154.698
Five years or more	86.108	70.683
	<u>4.217.186</u>	<u>3.500.079</u>

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 16)

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014**

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

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**NOTE 7 – PROVISIONS**

The Group’s short term provisions are as follows:

	30 September 2014	31 December 2013
Provision for lawsuits	201.652	194.475
Penalty prov. for employment shortage of disabled pers.	4.472	4.568
Provision for state right on mining activities (*)	3.523	2.642
Provision for civil defense fund (**)	10.000	3.341
	<u>219.647</u>	<u>205.026</u>

(\*) 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.

(\*\*) According to law number 5217, it is a provision of the enterprises that were subjected to “Natural Disaster Fund” ile “Civil Defense Fund”. It is calculated through 2004 revenue of the company.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014**

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

**NOTE 7 – PROVISIONS (cont’d)**

The movement of the provisions is as follows:

	1 January 2014	Provision for the period	Payments	Provision released (-)	Translation difference	30 September 2014
Provision for lawsuits	194.475	24.015	(6.091)	(15.585)	4.838	201.652
Penalty prov. for employment shortage of disabled pers.	4.568	1.790	(870)	(1.032)	16	4.472
Provision for state right on mining activities	2.642	3.899	(3.018)	-	-	3.523
Provision for civil defense fund	3.341	6.779	-	-	(120)	10.000
	<u>205.026</u>	<u>36.483</u>	<u>(9.979)</u>	<u>(16.617)</u>	<u>4.734</u>	<u>219.647</u>

  

	1 January 2013	Provision for the period	Payments	Provision released (-)	Translation difference	30 September 2013
Provision for lawsuits	104.472	64.947	(5.802)	(4.043)	1.277	160.851
Penalty prov. for employment shortage of disabled pers.	4.945	2.027	(1.467)	(1.518)	(37)	3.950
Provision for state right on mining activities	3.644	1.939	(3.645)	-	-	1.938
Provision for civil defense fund	-	3.341	-	-	-	3.341
	<u>113.061</u>	<u>72.254</u>	<u>(10.914)</u>	<u>(5.561)</u>	<u>1.240</u>	<u>170.080</u>



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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014

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

#### NOTE 7 – PROVISIONS (cont’d)

As of 30 September 2014 and 31 December 2013, lawsuits filed by and against the Group are as follows:

	30 September 2014	31 December 2013
Lawsuits filed by the Group	285.816	311.275
Provision for lawsuits filed by the Group	4.294	4.183

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

	30 September 2014	31 December 2013
Lawsuits filed against the Group	236.865	225.543
Provision for lawsuits filed against the Group	201.652	194.475

The Group, 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 Group Management. The aforementioned Communiqué (Serial XI No. 25 on the “Accounting Standards to be implemented in Capital Markets”), and Communiqués inserting some provisions thereto together with the Communiqués amending it, became effective starting with the consolidated financial statements of the first interim period ending after 1 January 2005.

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

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

### **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014**

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

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#### **NOTE 7 – 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 152.330 thousand, that had previously been added to the accumulated earnings, to the profit of 2005 on its own motion and account, and published them on Istanbul Stock Exchange Bulletin on 15 August 2006; with the rationale that the Company had not fulfilled its due demand on grounds that “Article 726 and Temporary Provision 1 of CMB’s Communiqué Serial XI, No. 25 authorize the use of 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 judgment by the majority of the votes on 30 May 2012 with its decision no. E. 2010/4405; K. 2012/1352. This decision was notified to the Company’s lawyers on 20 July 2012.

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 was 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 thousand allegedly unpaid dividend must be paid to itself (E. 2006/218). The Court rejected the case on 23 October 2008; Privatization Administration appealed this rejection on 7 January 2009. Court of Appeals’ 11th Chamber reversed this rejection 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). The next hearing day is 13 November 2014.

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 30 September 2014 and 30 September 2013 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 condensed interim 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 resolution of the pending lawsuit opened by Privatization Administration.

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

### **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014**

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

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#### **NOTE 7 – PROVISIONS (cont’d)**

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 USD 68.313 thousand should be paid to itself (E. 2010/259). The Court dismissed the case, in favor of the Company, on 23.06.2011. 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) and the next court hearing is on 17 December 2014.

An action of debt was instituted by Messrs. Bor-San Isı Sistemleri Üretim ve Pazarlama A.Ş. against our company at the 3rd Civil Court of Kdz. Ereğli on 17 April 2013 under file no 2013/253 Esas claiming for the compensation of the loss arising from the sales contract of TRY 18 thousand,-, reserving the rights for surplus. The Company was informed from the amendment petition, which was served to the company on 01 November 2013 that the plaintiff pleaded from the court to raise the claim to TRY 10.838 thousand as assessed by the expert opinion submitted to the court. The Company contested to the expert opinion and the amendment petition within the statutory period. The court has given the judgment of dismissal on 11 March 2014. The plaintiff, Bor-San Isı Sistemleri Üretim ve Pazarlama A.Ş. has appealed against the judgment. Upon the reversal of judgment, the Company appealed the decision of Supreme Court of Appeal.

Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.) located at Illinois state of United States of America and the Company executed a contract in 2008. The company fulfilled all its performances arisen from this contract in January and February in 2009. Corus International Trading Ltd. Co. sold to third parties the products supplied from our company but thereafter alleged that they directed claim to some compensation and that these claims must be covered by Erdemir. Parties could not reach an exact agreement about this matter and then Corus International Trading Ltd. Co filed an action for compensation at amount of USD 4.800 thousand together with accessory against the Company in Illinois State District Court of USA. It is learnt through a notified made to the Company on 21 July 2010.

After the subject case is dismissed by the court from jurisdiction aspect; this time a lawsuit is re-filed by Tata Steel International (North America) Ltd.) in Texas State District Court. This case is also dismissed by the court from jurisdiction aspect.

It is learnt through a notified made to the Company on 31 October 2012 that Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.) filed an action for compensation at amount of TRY 8.669 thousand (USD 4.800 thousand) together with accessory against the Company before Ankara 14th Commercial Court of First Instance. As a result of adjudication made; the court adjudged to dismiss the case on procedural grounds because of non-competence and to send the file to commissioned and competent Karadeniz Ereğli Commercial Court of First Instance in Duty when the judgment becomes definite and in case of request. The case still continues on file no. 2013/63 in Karadeniz Ereğli 2nd Civil Court of First Instance. The court file has been entrusted to the expert. Date of next hearing of the case is 9 December 2014.

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014

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

#### NOTE 8 –EMPLOYEE BENEFITS

The Group’s payables for short term employee benefits are as follows:

	30 September 2014	31 December 2013
Due to personnel	58.466	66.871
Social security premiums payable	26.363	22.676
Employee's income tax payables	21.388	19.247
	<u>106.217</u>	<u>108.794</u>

Long term provision of the employee termination benefits of the Group is as follows:

	30 September 2014	31 December 2013
Provisions for employee termination benefits	372.669	307.528
Provisions for seniority incentive premium	24.586	17.667
Provision for unpaid vacations	66.644	67.037
	<u>463.899</u>	<u>392.232</u>

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 30 September 2014, the amount payable consists of one month’s salary limited to a maximum of TRY 3.438,22 (31 December 2013: TRY 3.254, 44).

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

The employee termination benefit has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. TAS 19 (“Employee Benefits”) requires actuarial valuation methods to be developed to estimate the Group’s obligation under defined benefit plans. The obligation as of 30 September 2014 has been calculated by an independent actuary.

	30 September 2014	31 December 2013
Discount rate	%8.80	%9.40
Inflation rate	%6.60	%6.30
Salary increase	real %1.5	real %1.5
Maximum liability increase	%6.60	%6.30

Discount rates are determined considering the expected duration of the retirement obligations and the currency in which the obligations will be paid. In calculations as of 30 September 2014, 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 30 September 2014, 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.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014**

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

**NOTE 8 –PROVISION FOR EMPLOYEE BENEFITS (cont’d)**

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

	1 January - 30 September 2014	1 January - 30 September 2013
Opening balance	307.528	265.083
Service cost	20.114	20.273
Interest cost	20.534	13.893
Actuarial loss	44.009	6.727
Termination benefits paid	(16.696)	(16.830)
Translation difference	(2.820)	384
Closing balance	<u>372.669</u>	<u>289.530</u>

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 - 30 September 2014	1 January - 30 September 2013
Opening balance	17.667	18.896
Service cost	1.625	1.644
Interest cost	1.254	1.006
Actuarial loss/(gain)	6.086	(4.299)
Termination benefits paid	(2.188)	(881)
Translation difference	142	165
Closing balance	<u>24.586</u>	<u>16.531</u>

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

	1 January - 30 September 2014	1 January - 30 September 2013
Opening balance	67.037	62.270
Provision for the period	37.796	35.844
Vacation paid during the period (-)	(3.399)	(2.924)
Provisions released (-)	(34.533)	(30.865)
Translation difference	(257)	(630)
Closing balance	<u>66.644</u>	<u>63.695</u>

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014

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

#### NOTE 9 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	30 September 2014	31 December 2013
Letters of guarantees received	1.599.244	1.469.209
	<u>1.599.244</u>	<u>1.469.209</u>

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

	30 September 2014	31 December 2013
A. Total CPM given for the Company's own legal entity	74.465	69.757
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	1.351.653	1.577.126
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	-	-
D. Other CPM given	-	-
i. Total CPM given in favour of parent entity	-	-
ii. Total CPM given in favour of other Group companies out of the scope of clause B and C	-	-
iii. Total CPM given in favour of other 3rd parties out of the scope of clause C	-	-
	<u>1.426.118</u>	<u>1.646.883</u>

As of 30 September 2014, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2013: 0%). Total CPM given in favor of subsidiaries consolidated on line-by-line basis amounting to TRY 1.351.653 thousand 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:

	30 September 2014	31 December 2013
US Dollars	912.856	973.629
TRY	145.609	236.352
EURO	320.156	381.965
Japanese Yen	47.497	52.906
Romanian Lei	-	2.031
	<u>1.426.118</u>	<u>1.646.883</u>

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 16)

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014

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

#### NOTE 10 –TAX ASSETS AND LIABILITIES

	30 September 2014	31 December 2013		
<u>Corporate tax payable:</u>				
Current corporate tax provision	133.602	195.980		
Prepaid taxes and funds (-)	(83.630)	(150.990)		
	<u>49.972</u>	<u>44.990</u>		
	1 January - 30 September 2014	1 July - 30 September 2014	1 January - 30 September 2013	1 July - 30 September 2013
<u>Taxation:</u>				
Current corporate tax expense	133.602	52.028	148.251	60.023
Deferred tax expense	67.106	62.687	39.350	(16.443)
	<u>200.708</u>	<u>114.715</u>	<u>187.601</u>	<u>43.580</u>
<u>Corporate tax</u>				

The effective corporate tax rate in Turkey is 20% and 16% in Romania as of 30 September 2014 (31 December 2013: in Turkey 20%, in Romania 16%). The total amount of the corporate tax paid by the Group in 2014 is TRY 128.620 thousand (30 September 2013: TRY 104.020 thousand).

#### Deferred tax

Tax rate used in the calculation of deferred tax assets and liabilities (excluding land) are 20% for the subsidiaries in Turkey and, 16% for the subsidiary in Romania (31 December 2013: 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 2013: 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.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014**

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

**NOTE 10 – TAX ASSETS AND LIABILITIES (cont’d)**

	30 September 2014	31 December 2013
<u>Deferred tax assets:</u>		
Carry forward tax losses	283	20.625
Provisions for employee benefits	92.778	78.445
Investment incentive	2.654	44.253
Provision for lawsuits	40.330	38.895
Inventories	9.668	6.519
Provision for other doubtful receivables	11.297	11.192
Tangible and intangible fixed assets	10.234	10.455
Fair values of the derivative financial instruments	1.420	2.952
Other	15.619	17.754
	<u>184.283</u>	<u>231.090</u>
<u>Deferred tax liabilities:</u>		
Tangible and intangible fixed assets	(748.591)	(593.509)
Fair values of the derivative financial instruments	(14.356)	(13.327)
Amortized cost adjustment on loans	(6.614)	(8.870)
Inventories	(23.331)	(20.399)
Other	(4.505)	(4.251)
	<u>(797.397)</u>	<u>(640.356)</u>
	<u>(613.114)</u>	<u>(409.266)</u>

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

Presentation of deferred tax assets/(liabilities):

	30 September 2014	31 December 2013
Deferred tax assets	24.906	17.836
Deferred tax (liabilities)	(638.020)	(427.102)
	<u>(613.114)</u>	<u>(409.266)</u>



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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014**

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

**NOTE 10 – TAX ASSETS AND LIABILITIES (cont’d)**

Maturities of carry forward tax losses are as follows:

	Carry forward tax losses		Deferred tax assets (*)	
	30 September 2014	31 December 2013	30 September 2014	31 December 2013
1 year	1.415	511.825	1.415	51.716
2 year	-	-	-	-
3 year	-	51.411	-	51.411
4 year	19.100	-	-	-
5 year	8.651	-	-	-
	<u>29.166</u>	<u>563.236</u>	<u>1.415</u>	<u>103.127</u>

(\*) The Company had written off TRY 92.022 thousand of deferred tax assets in 31 December 2012 assuming that recoverability of tax losses amounting to TRY 460.108 thousand is remote.

	1 January - 30 September 2014	1 January - 30 September 2013
<u>Deferred tax asset/(liability) movements:</u>		
Opening balance	(409.266)	(135.970)
Deferred tax expense	(67.106)	(39.350)
The amount in comprehensive income/(expense)	9.326	(690)
Translation difference	(146.068)	(108.829)
Closing balance	<u>(613.114)</u>	<u>(284.839)</u>

	1 January - 30 September 2014	1 January - 30 September 2013
<u>Reconciliation of tax provision:</u>		
Profit before tax	1.460.869	983.704
Statutory tax rates	20%	20%
Calculated tax acc. to effective tax rate	292.174	196.741
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	7.628	5.023
- Effect of tax losses written off from deferred tax assets	(92.022)	-
- Effect of currency translation to non taxable assets	2.372	(11.900)
- Investment incentives	(3.352)	(2.225)
- Effect of non-taxable adjustments	(3.205)	(2.527)
- Effect of the different tax rates due to foreign subsidiaries	109	539
- Other	(2.996)	1.950
Tax expense in income statement	<u>200.708</u>	<u>187.601</u>

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 16)

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014**

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

**NOTE 11 – SALES AND COST OF SALES**

	1 January - 30 September 2014	1 July - 30 September 2014	1 January - 30 September 2013	1 July - 30 September 2013
<u>Sales Revenue</u>				
Domestic sales	7.406.287	2.593.507	6.203.341	1.974.122
Export sales	938.679	272.911	818.824	124.026
Other revenues (*)	262.554	88.543	193.501	59.342
Sales returns (-)	(8.103)	(2.456)	(3.387)	(1.420)
Sales discounts (-)	(4.678)	(1.853)	(12.748)	(3.571)
	<u>8.594.739</u>	<u>2.950.652</u>	<u>7.199.531</u>	<u>2.152.499</u>
	<u>(6.826.281)</u>	<u>(2.304.896)</u>	<u>(5.848.297)</u>	<u>(1.714.563)</u>
	<u>1.768.458</u>	<u>645.756</u>	<u>1.351.234</u>	<u>437.936</u>

(\*) The total amount of by product exports in other revenues is TRY 122.764 thousand (30 September 2013: TRY 102.455 thousand).

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014**

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

**NOTE 11 – SALES AND COST OF SALES (cont’d)**

The breakdown of cost of sales for the periods 1 January – 30 September 2014 and 1 January – 30 September 2013 is as follows:

	1 January - 30 September 2014	1 July - 30 September 2014	1 January - 30 September 2013	1 July - 30 September 2013
Raw material usage	(4.871.911)	(1.608.314)	(4.169.123)	(1.193.367)
Personnel costs	(788.221)	(276.984)	(672.509)	(191.193)
Energy costs	(453.361)	(157.807)	(416.770)	(123.713)
Depreciation and amortization expenses	(301.040)	(105.590)	(287.995)	(89.842)
Factory overheads	(164.669)	(70.908)	(121.790)	(29.249)
Other cost of goods sold	(112.950)	(39.317)	(67.778)	(23.843)
Non-operating costs (*)	(60.051)	(557)	(52.696)	(52.696)
Freight costs for sales delivered to customers	(43.922)	(23.821)	(26.729)	(7.184)
Inventory write-downs within the period (Note 4)	(13.952)	(7.222)	(9.658)	(1.102)
Reversal of inventory write-downs (Note 4)	13.623	2.596	7.707	2.828
Other	(29.827)	(16.972)	(30.956)	(5.202)
	<u>(6.826.281)</u>	<u>(2.304.896)</u>	<u>(5.848.297)</u>	<u>(1.714.563)</u>

(\*) Due to the planned/ unplanned halt production of plant of the Group’s, operations were suspended temporarily in the current period. As a result of this, unallocated overheads, TRY (60.051) thousand, has been accounted directly under cost of goods sold (30 September 2013: TRY 52.696 thousand).

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014**

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

**NOTE 12 – OPERATING EXPENSES AND OTHER OPERATING INCOME/ (EXPENSES)**

The breakdown of marketing, sales and distribution expenses according to their nature for the periods 1 January – 30 September 2014 and 1 January – 30 September 2013 is as follows:

	1 January - 30 September 2014	1 July - 30 September 2014	1 January - 30 September 2013	1 July - 30 September 2013
Personnel expense (-)	(46.964)	(15.188)	(43.091)	(13.863)
Depreciation and amortization(-)	(10.331)	(3.565)	(8.026)	(2.838)
Service expenses (-)	(11.927)	(2.927)	(14.308)	(3.895)
Other (-)	(17.853)	(7.543)	(13.163)	(4.031)
	<u>(87.075)</u>	<u>(29.223)</u>	<u>(78.588)</u>	<u>(24.627)</u>

The breakdown of general administrative expenses for the periods 1 January – 30 September 2014 and 1 January – 30 September 2013 is as follows:

	1 January - 30 September 2014	1 July - 30 September 2014	1 January - 30 September 2013	1 July - 30 September 2013
Personnel expense (-)	(101.215)	(33.296)	(90.276)	(28.985)
Depreciation and amortization (-)	(9.496)	(3.156)	(5.183)	(1.752)
Service expenses (-)	(10.893)	(2.314)	(13.791)	(4.793)
Tax, duty and charges (-)	(2.566)	(567)	(4.668)	(798)
Other (-)	(35.753)	(15.438)	(26.421)	(8.856)
	<u>(159.923)</u>	<u>(54.771)</u>	<u>(140.339)</u>	<u>(45.184)</u>

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 16)

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014

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

#### NOTE 12 – OPERATING EXPENSES AND OTHER OPERATING INCOME/ (EXPENSES) (cont’d)

The breakdown of other operating income for the periods 1 January – 30 September 2014 and 1 January – 30 September 2013 is as follows:

	1 January - 30 September 2014	1 July - 30 September 2014	1 January - 30 September 2013	1 July - 30 September 2013
<u>Other operating income</u>				
Foreign exchange gain from trade receivables and payables (net)	-	-	57.901	-
Interest income from on credit sales	42.553	16.022	33.546	10.163
Discount income	10.219	(367)	1.000	136
Provisions released	16.274	5.539	4.814	1.239
Service income	12.992	4.787	5.062	1.768
Maintenance repair and rent income	5.419	1.809	5.215	1.797
Warehouse income	2.366	647	606	342
Indemnity and penalty detention income	4.429	1.346	1.668	793
Insurance indemnity income	348	113	6.799	72
Royalty income	572	231	5.509	1.126
Gain on sale of tangible assets	694	106	1.024	151
Other income and gains	11.448	1.201	10.632	4.785
	<u>107.314</u>	<u>31.434</u>	<u>133.776</u>	<u>22.372</u>

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 16)

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014

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

#### NOTE 12 – OPERATING EXPENSES AND OTHER OPERATING INCOME/ (EXPENSES) (cont’d)

The breakdown of other operating expenses for the periods 1 January – 30 September 2014 and 1 January – 30 September 2013 is as follows:

	1 January - 30 September 2014	1 July - 30 September 2014	1 January - 30 September 2013	1 July - 30 September 2013
<u>Other operating expenses (-)</u>				
Provisions expenses	(23.561)	(5.875)	(39.462)	(22.280)
Donation expenses	(7.130)	(474)	(1.562)	(1.152)
Discount expenses	(4.443)	217	(1.017)	(122)
Port facility pre-licence expenses	(3.818)	(1.031)	(4.693)	(1.043)
Lawsuit compensation expenses	(2.565)	(320)	(2.362)	(888)
Penalty expenses	(3.053)	(2.060)	(2.273)	(924)
Service expenses	(2.497)	(1.215)	(2.308)	(1.029)
Rent expenses	(467)	(145)	(458)	(176)
Stock exchange registration expenses	-	-	(820)	-
Capital Markets Board registration expenses	(900)	-	(1.183)	-
Loss on disposal of tangible assets	(614)	(441)	(1.270)	(530)
Other expenses and losses	(13.667)	(3.666)	(17.328)	(11.097)
	<u>(62.715)</u>	<u>(15.010)</u>	<u>(74.736)</u>	<u>(39.241)</u>

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 16)

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014

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

#### NOTE 13 – FINANCIAL INCOME/ EXPENSES

	1 January - 30 September 2014	1 July - 30 September 2014	1 January - 30 September 2013	1 July - 30 September 2013
<u>Financial incomes</u>				
Interest income on bank deposits	37.238	11.871	56.576	18.838
Fair value differences of derivative financial instruments (net)	25.723	8.955	38.455	11.694
Other financial income	-	-	24	24
	<u>62.961</u>	<u>20.826</u>	<u>95.055</u>	<u>30.556</u>
	1 January - 30 September 2014	1 July - 30 September 2014	1 January - 30 September 2013	1 July - 30 September 2013
<u>Financial expenses (-)</u>				
Interest expenses on financial liabilities	(132.628)	(61.093)	(159.806)	(48.329)
Foreign exchange loss (net)	(6.645)	38.929	(123.775)	(53.145)
Interest cost of employee benefits	(21.788)	(7.548)	(14.899)	(4.750)
Other financial expenses	(2.236)	(800)	(1.434)	(70)
	<u>(163.297)</u>	<u>(30.512)</u>	<u>(299.914)</u>	<u>(106.294)</u>

TRY 2.962 thousand have been capitalized as part of the Group’s property, plant and equipment (1 January - 30 September 2013: TRY 1.964 thousand).

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014

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

#### NOTE 14 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

##### Additional information about financial instruments

##### Foreign currency risk management

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). Foreign currency position table represents foreign currencies other than each entity’s functional currency. As of 30 September 2014, the foreign currency position of the Group in terms of original currency is calculated as it as follows:

	30 September 2014				
	TRY (Total in currency)	TRY (Original currency)	US Dollars (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)
1. Trade Receivables	90.219	20.250	791	23.520	7.220
2a. Monetary financial assets	166.119	31.467	282	46.220	17.304
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	259.618	259.172	-	154	-
<b>4. Current assets (1+2+3)</b>	<b>515.957</b>	<b>310.889</b>	<b>1.073</b>	<b>69.894</b>	<b>24.524</b>
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	39.733	-	-	13.742	-
6b. Non- monetary financial assets	-	-	-	-	-
7. Other	46.516	39.061	-	2.546	4.524
<b>8. Non-current assets (5+6+7)</b>	<b>86.250</b>	<b>39.061</b>	<b>-</b>	<b>16.288</b>	<b>4.524</b>
<b>9. Total assets (4+8)</b>	<b>602.206</b>	<b>349.949</b>	<b>1.073</b>	<b>86.182</b>	<b>29.048</b>
10. Trade payables	262.867	236.480	495	4.346	611.560
11. Financial liabilities	693.604	551.978	-	39.484	1.322.958
12a. Other monetary financial liabilities	495.870	494.797	-	197	24.297
12b. Other non-monetary financial liabilities	48.822	48.822	-	-	-
<b>13. Current liabilities (10+11+12)</b>	<b>1.501.163</b>	<b>1.332.077</b>	<b>495</b>	<b>44.027</b>	<b>1.958.816</b>
14. Trade payables	-	-	-	-	-
15. Financial liabilities	471.532	173.939	-	81.632	2.965.835
16a. Other monetary financial liabilities	474.920	468.954	-	2.063	-
16b. Other non-monetary financial liabilities	-	-	-	-	-
<b>17. Non-current liabilities (14+15+16)</b>	<b>946.452</b>	<b>642.893</b>	<b>-</b>	<b>83.695</b>	<b>2.965.835</b>
<b>18. Total liabilities (13+17)</b>	<b>2.447.615</b>	<b>1.974.970</b>	<b>495</b>	<b>127.723</b>	<b>4.924.651</b>
<b>19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)</b>	<b>112.477</b>	<b>112.477</b>	<b>-</b>	<b>-</b>	<b>-</b>
19a. Off-balance sheet foreign currency derivative financial assets	213.885	213.885	-	-	-
liabilities	101.409	101.409	-	-	-
<b>20. Net foreign currency asset/liability position (9-18+19)</b>	<b>(1.732.932)</b>	<b>(1.512.543)</b>	<b>578</b>	<b>(41.541)</b>	<b>(4.895.603)</b>
<b>21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>(2.102.721)</b>	<b>(1.874.431)</b>	<b>578</b>	<b>(44.241)</b>	<b>(4.900.127)</b>
22. Fair value of derivative financial instruments used in foreign currency hedge	-	-	-	-	-
23. Hedged foreign currency assets	101.409	101.409	-	-	-
24. Hedged foreign currency liabilities	213.885	213.885	-	-	-
25. Exports	1.061.443	-	433.685	42.156	-
26. Imports	3.945.761	-	1.822.273	1.799	-



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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014

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

#### NOTE 14 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

##### Additional information about financial instruments (cont’d)

##### Foreign currency risk management (cont’d)

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). As of 31 December 2013, the foreign currency position of the Group in terms of original currency is as follows:

	31 December 2013					
	TRY (Total in currency)	TRY (Original currency)	US Dollars (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	GB Pound (Original currency)
1. Trade Receivables	91.603	24.567	45	22.656	19.623	3
2a. Monetary financial assets	59.424	48.120	298	3.630	14	2
2b. Non- monetary financial assets	-	-	-	-	-	-
3. Other	144.125	142.694	-	487	-	-
<b>4. Current assets (1+2+3)</b>	<b>295.152</b>	<b>215.382</b>	<b>343</b>	<b>26.773</b>	<b>19.638</b>	<b>6</b>
5. Trade receivables	-	-	-	-	-	-
6a. Monetary financial assets	47.920	-	-	16.319	-	-
6b. Non- monetary financial assets	-	-	-	-	-	-
7. Other	41.812	26.495	-	4.883	44.924	20
<b>8. Non-current assets (5+6+7)</b>	<b>89.731</b>	<b>26.495</b>	<b>-</b>	<b>21.201</b>	<b>44.924</b>	<b>20</b>
<b>9. Total assets (4+8)</b>	<b>384.883</b>	<b>241.877</b>	<b>343</b>	<b>47.975</b>	<b>64.562</b>	<b>25</b>
10. Trade payables	220.202	177.812	465	8.671	717.437	405
11. Financial liabilities	442.092	298.928	-	39.361	1.363.208	-
12a. Other monetary financial liabilities	280.802	275.200	-	-	276.885	-
12b. Other non-monetary financial liabilities	50.800	50.800	-	-	-	-
<b>13. Current liabilities (10+11+12)</b>	<b>993.896</b>	<b>802.740</b>	<b>465</b>	<b>48.032</b>	<b>2.357.529</b>	<b>405</b>
14. Trade payables	-	-	-	-	-	-
15. Financial liabilities	860.740	490.827	-	101.876	3.497.293	-
16a. Other monetary financial liabilities	386.623	382.890	-	1.271	-	-
16b. Other non-monetary financial liabilities	-	-	-	-	-	-
<b>17. Non-current liabilities (14+15+16)</b>	<b>1.247.362</b>	<b>873.716</b>	<b>-</b>	<b>103.147</b>	<b>3.497.293</b>	<b>-</b>
<b>18. Total liabilities (13+17)</b>	<b>2.241.258</b>	<b>1.676.457</b>	<b>465</b>	<b>151.180</b>	<b>5.854.822</b>	<b>405</b>
<b>19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)</b>	<b>217.341</b>	<b>53.918</b>	<b>-</b>	<b>55.653</b>	<b>-</b>	<b>-</b>
19a. Off-balance sheet foreign currency derivative financial assets	333.237	169.813	-	55.653	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	115.895	115.895	-	-	-	-
<b>20. Net foreign currency asset/liability position (9-18+19)</b>	<b>(1.639.033)</b>	<b>(1.380.661)</b>	<b>(121)</b>	<b>(47.553)</b>	<b>(5.790.260)</b>	<b>(379)</b>
<b>21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>(1.991.512)</b>	<b>(1.552.969)</b>	<b>(121)</b>	<b>(108.575)</b>	<b>(5.835.184)</b>	<b>(399)</b>
22. Fair value of derivative financial instruments used in foreign currency hedge	65.197	65.197	-	-	-	-
23. Hedged foreign currency assets	115.895	115.895	-	-	-	-
24. Hedged foreign currency liabilities	333.237	169.813	-	55.653	-	-
25. Exports	1.102.944	-	518.695	46.003	-	-
26. Imports	4.891.486	-	2.566.578	3.695	-	-

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

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014

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

#### NOTE 14 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

##### Additional information about financial instruments (cont’d)

##### Foreign currency risk management (cont’d)

The following table shows the Group’s sensitivity to a 10% (+/-) change in the TRY, 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.

As of 30 September 2014 asset and liability balances are translated by using the following exchange rates: TRY 2,2789 = US \$ 1, TRY 2,8914 = EUR 1 and TRY 0, 0209= JPY 1 (31 December 2013: TRY 2,1343 = US \$ 1, TRY 2,9365 = EUR 1 and TRY 0,0202= JPY 1)

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency	Depreciation of foreign currency
30 September 2014		
1- TRY net asset/liability	(162.502)	162.502
2- Hedged portion from TRY risk (-)	21.389	(21.389)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(141.113)	141.113
5- US Dollars net asset/liability	132	(132)
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- US Dollars net effect (5+6+7)	132	(132)
9- Euro net asset/liability	(12.011)	12.011
10- Hedged portion from Euro risk (-)	-	-
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	(12.011)	12.011
13- Jap. Yen net asset/liability	(10.162)	10.162
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(10.162)	10.162
<b>TOTAL (4+8+12+16)</b>	<b>(163.154)</b>	<b>163.154</b>

In addition to the Group’s foreign currency sensitivity to a 10% (+/-) change in TRY, TRY 106.780 thousand of income / (TRY (86.540) thousand expense) will occur due to the decrease/ (increase) in deferred tax base.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014**

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

**NOTE 14 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS  
(cont’d)**

**Additional information about financial instruments (cont’d)**

Foreign currency risk management (cont’d)

31 December 2013	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency against	Depreciation of foreign currency against
1- TRY net asset/liability	(143.458)	143.458
2- Hedged portion from TRY risk (-)	16.981	(16.981)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(126.477)	126.477
5- US Dollars net asset/liability	(26)	26
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- US Dollars net effect (5+6+7)	(26)	26
9- Euro net asset/liability	(30.306)	30.306
10- Hedged portion from Euro risk (-)	16.342	(16.342)
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	(13.964)	13.964
13- Jap. Yen net asset/liability	(11.714)	11.714
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(11.714)	11.714
17- Other currencies net asset/liability	(133)	133
18- Hedged portion from other currency risk (-)	-	-
19- Effect of capitalization (-)	-	-
20- Other currencies net effect (17+18+19)	(133)	133
<b>TOTAL (4+8+12+16+20)</b>	<b>(152.314)</b>	<b>152.314</b>

(Convenience Translation into English of Condensed Interim Consolidated Financial Statements Originally Issued in Turkish – See Note 16)

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

### **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014**

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

#### **NOTE 15 – ADDITIONAL INFORMATION FOR CASH FLOW STATEMENTS**

Details of changes in working capital for the periods between 1 January – 30 September 2014 and 1 January – 30 September 2013 are as follows:

	1 January- 30 September 2014	1 January- 30 September 2013
Current trade receivables	96.485	(333.731)
Inventories	504.366	(47.855)
Other short term receivables / current assets	907	(33.927)
Other long term receivables / non current assets	18.242	(79.117)
Current trade payables	(130.232)	(74.024)
Other short term payables / liabilities	54.728	108.046
Other long term payables / liabilities	422	15.273
	<u>544.918</u>	<u>(445.335)</u>

Changes in working capital represents differences in functional currencies converted to presentation currency, which is TRY.

#### **NOTE 16 – OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION**

##### **Convenience translation to English**

As at September 30, 2014, the accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying financial statements differ from International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board with respect to the application of inflation accounting, certain reclassifications and also for certain disclosures requirement of the POA/CMB. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with IFRS.