

(Convenience translation of condensed interim consolidated financial statements originally issued in Turkish- See note 18)

**Eređli Demir ve elik Fabrikaları T.A.Ş.
and its Subsidiaries**

**Condensed interim consolidated financial statements
for the period 1 January - 30 June 2014 and independent auditor's
review report**



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**(Convenience Translation into English of Independent Auditor's review report
Originally Issued in Turkish)**

Review Report on the Interim Condensed Financial Information

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

Introduction

We have reviewed the accompanying condensed consolidated financial statements of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ("the Company") and its subsidiaries (all together referred to as "the Group") as of June 30, 2014, which comprise the statement of consolidated financial position and the consolidated statement of income and other comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month-period then ended. The management of the Company is responsible for the preparation and fair presentation of this interim condensed financial information in accordance with Turkish Accounting Standards 34 - Interim Financial Reporting ("TAS 34"). Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of a Review

We conducted our review in accordance with the Standard on Review Engagements (SRE) 2410, "Limited Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed interim financial information consists of making inquiries, primarily of persons responsible for financial reporting process, and applying analytical and other review procedures. A review of condensed interim financial information is substantially less in scope than an independent audit performed in accordance with the Independent Auditing Standards of Turkey and the objective of which is to express an opinion on the financial statements. Consequently, a review on the condensed interim financial information does not provide assurance that the audit firm will be aware of all significant matters which would have been identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention which may cause us to believe that the accompanying interim condensed consolidated financial information are not prepared, in all material respects, in accordance with TAS 34.

Other Matter

Without qualifying our conclusion, we draw attention to the matter in note 8 to the accompanying condensed consolidated financial statements: The court cases related to CMB's claim that the Company had prepared its December 31, 2005 financial statements in accordance with International Financial Reporting Standards instead of the Communiqué Serial XI, No:25 on "Accounting Standards in Capital Markets" without the permission of the CMB in prior years were concluded against the Company at Council of State and such conclusions declared to the Company via notifications received in July 2012. On August 1, 2012, the Company has applied to Administrative Court to remove the conflicting decisions of these courts; in accordance with the decision notified by Administrative Court on February 17, 2014, this application was rejected. The lawsuit, which was commenced by the Privatization Administration ("PA") of the Turkish Republic, is pending as of our report date.

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



Ethem Kutucuđar, SMMM
Engagement Partner

August 12, 2014
Istanbul, Turkey

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2014

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

ASSETS	Note	Current Period	(Reviewed) Current Period	Previous Period	(Audited) Previous Period
		30 June 2014 USD'000	30 June 2014 TRY'000	31 December 2013 USD'000	31 December 2013 TRY'000
Current Assets		3.103.979	6.590.989	2.815.209	6.008.498
Cash and Cash Equivalents		682.576	1.449.382	356.609	761.111
Other Short Term Financial Assets	3	58.111	123.392	3.455	7.374
Trade Receivables		818.889	1.738.829	800.515	1.708.538
<i>Due From Related Parties</i>	4	<i>18.970</i>	<i>40.280</i>	<i>17.193</i>	<i>36.694</i>
<i>Other Trade Receivables</i>		<i>799.919</i>	<i>1.698.549</i>	<i>783.322</i>	<i>1.671.844</i>
Other Receivables		2.037	4.326	1.959	4.181
Inventories	5	1.474.323	3.130.578	1.585.104	3.383.087
Prepaid Expenses		28.482	60.479	8.488	18.115
Other Current Assets		39.561	84.003	59.079	126.092
Non Current Assets		3.740.927	7.943.485	3.760.478	8.025.986
Other Receivables		10.612	22.533	10.641	22.711
Other Long Term Financial Assets		25.176	53.459	34.043	72.657
Investment Properties		24.879	52.828	24.199	51.647
Property, Plant and Equipment	6	3.581.216	7.604.355	3.595.350	7.673.556
Intangible Assets	6	72.956	154.914	74.568	159.150
Prepaid Expenses		13.715	29.123	13.320	28.429
Deferred Tax Assets	11	12.373	26.273	8.357	17.836
TOTAL ASSETS		6.844.906	14.534.474	6.575.687	14.034.484

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

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2014

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

	Note	Current Period	(Reviewed) Current Period	Previous Period	(Audited) Previous Period
		30 June 2014	30 June 2014	31 December 2013	31 December 2013
LIABILITIES		USD'000	TRY'000	USD'000	TRY'000
Current Liabilities		1.632.866	3.467.228	1.159.820	2.475.406
Financial Liabilities	7	398.010	845.135	93.055	198.608
Short Term Portion of Long Term Fin. Liab.	7	769.814	1.634.623	600.285	1.281.188
Other Current Financial Liabilities		1.359	2.885	6.832	14.582
Trade Payables		234.627	498.208	236.230	504.186
<i>Due to Related Parties</i>	4	<i>7.833</i>	<i>16.633</i>	<i>6.767</i>	<i>14.443</i>
<i>Other Trade Payables</i>		<i>226.794</i>	<i>481.575</i>	<i>229.463</i>	<i>489.743</i>
Other Payables		4.849	10.296	2.931	6.256
Deferred Revenue		40.539	86.080	43.568	92.988
Current Tax Liabilities	11	7.699	16.347	21.080	44.990
Short Term Provisions	8	99.535	211.353	96.062	205.026
Payables for Employee Benefits		42.393	90.018	50.974	108.794
Other Current Liabilities		34.041	72.283	8.803	18.788
Non Current Liabilities		1.141.485	2.423.830	1.336.389	2.852.258
Financial Liabilities	7	721.231	1.531.461	946.579	2.020.283
Other Non Current Financial Liabilities		4.186	8.889	5.758	12.290
Provisions for Employee Benefits	9	218.739	464.471	183.775	392.232
Deferred Tax Liabilities	11	197.160	418.650	200.113	427.102
Other Non Current Liabilities		169	359	164	351
EQUITY		4.070.555	8.643.416	4.079.478	8.706.820
Equity Attributable to Equity Holders of the Parent		3.949.712	8.386.819	3.967.015	8.466.790
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)		(35.188)	(75.958)	(20.407)	(43.554)
<i>Revaluation Reserve of Tangible Assets</i>		<i>11.235</i>	<i>22.957</i>	<i>10.896</i>	<i>23.255</i>
<i>Actuarial (Loss)/ Gain funds</i>		<i>(46.423)</i>	<i>(98.915)</i>	<i>(31.303)</i>	<i>(66.809)</i>
Other Comprehensive Income/Expense to be Reclassified to Profit/ (Loss)		(4.460)	805.389	(5.697)	835.320
<i>Cash Flow Hedging Reserves</i>		<i>(1.947)</i>	<i>(4.135)</i>	<i>(4.378)</i>	<i>(9.344)</i>
<i>Foreign Currency Translation Reserves</i>		<i>(2.513)</i>	<i>809.524</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		359.168	777.099	483.637	919.974
Non-Controlling Interests		120.843	256.597	112.463	240.030
TOTAL LIABILITIES AND EQUITY		6.844.906	14.534.474	6.575.687	14.034.484

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

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES**CONSOLIDATED STATEMENTS OF INCOME FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2014**

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

	Note	Current Period		Current Period		Previous Period		Previous Period	
		1 January - 30 June 2014	30 June 2014	1 April - 30 June 2014	30 June 2014	1 January - 30 June 2013	30 June 2013	1 April - 30 June 2013	30 June 2013
		USD'000	TRY'000	TRY'000	TRY'000	USD'000 (*)	TRY'000	TRY'000	TRY'000
OPERATING INCOME									
Revenue	12	2.608.655	5.644.087	2.709.450	5.047.032	2.789.803	5.047.032	2.618.090	
Cost of Sales (-)	12	(2.089.751)	(4.521.385)	(2.189.531)	(4.133.734)	(2.284.967)	(4.133.734)	(2.099.081)	
GROSS PROFIT		518.904	1.122.702	519.919	913.298	504.836	913.298	519.009	
Marketing, Sales and Distribution Expenses (-)	13	(26.739)	(57.852)	(29.462)	(53.961)	(29.828)	(53.961)	(28.504)	
General Administrative Expenses (-)	13	(48.600)	(105.152)	(57.742)	(95.155)	(52.598)	(95.155)	(52.421)	
Research and Development Expenses (-)	13	(1.669)	(3.610)	(2.221)	(1.634)	(903)	(1.634)	(933)	
Other Operating Income	13	35.071	75.880	37.975	111.404	61.580	111.404	81.297	
Other Operating Expenses (-)	13	(22.049)	(47.705)	(22.165)	(35.495)	(19.620)	(35.495)	(18.150)	
OPERATING PROFIT		454.918	984.263	446.304	838.457	463.467	838.457	500.298	
Finance Income	14	19.474	42.135	20.363	64.499	35.653	64.499	34.830	
Finance Expense (-)	14	(60.658)	(132.785)	(84.995)	(193.620)	(109.958)	(193.620)	(126.929)	
PROFIT BEFORE TAX		413.734	893.613	381.672	709.336	389.162	709.336	408.199	
Tax Expense	11	(40.459)	(85.993)	(24.721)	(76.677)	(76.677)	(144.021)	(83.387)	
- Current Corporate Tax Expense		(38.417)	(81.574)	(18.783)	(45.837)	(45.837)	(88.228)	(61.327)	
- Deferred Tax Expense		(2.042)	(4.419)	(5.938)	(55.793)	(30.840)	(55.793)	(22.060)	
PROFIT FOR THE PERIOD		373.275	807.620	356.951	565.315	312.485	565.315	324.812	
- Non-Controlling Interests		14.107	30.521	12.229	21.026	11.622	21.026	8.771	
- Equity Holders of the Parent		359.168	777.099	344.722	544.289	300.863	544.289	316.041	
EARNINGS PER SHARE			0,2220	0,0985	0,1555		0,1555	0,0903	
(TRY 1 Nominal value per share)									

(*) US Dollar amounts represented above have been translated from Turkish Lira ("TL") for convenience purposes only, at the official TL bid rate announced by the Central Bank of Republic of Turkey ("CBRT") at 30 June 2013, and therefore do not form part of these interim condensed consolidated financial statements (Note 2.1).

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

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

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2014

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

	Current Period		(Reviewed) Current Period		Previous Period		(Reviewed) Previous Period	
	1 January - 30 June 2014	1 April - 30 June 2014	1 January - 30 June 2014	1 January - 30 June 2014	1 January - 30 June 2013	1 January - 30 June 2013	1 January - 30 June 2013	1 April - 30 June 2013
	USD'000	TRY'000	USD'000	TRY'000	USD'000 (*)	TRY'000	USD'000	TRY'000
PROFIT FOR THE PERIOD	373.275	356.951	807.620	356.951	312.485	565.315	312.485	324.812
Other Comprehensive Income/(Expense):								
Not to be reclassified subsequently to profit or loss								
Change in Revaluation Reserve of Tangible Assets	340	(1.090)	(298)	(1.090)	403	729	403	864
Change in Actuarial (Loss)/ Gain	(19.352)	(37.419)	(41.093)	(37.419)	(3.718)	(6.727)	(3.718)	(6.727)
Tax Effect of Changes in Actuarial (Loss)/ Gain	3.870	7.485	8.219	7.485	743	1.345	743	1.345
To be reclassified subsequently to profit or loss								
Change in Cash Flow Hedging Reserves	3.188	7.852	6.832	7.852	8.414	15.222	8.414	17.801
Tax Effect of Change in Cash Flow Hedging Reserves	(638)	(1.570)	(1.367)	(1.570)	(1.683)	(3.044)	(1.683)	(3.560)
Change in Foreign Currency Translation Reserves	(1.347)	(251.935)	(36.742)	(251.935)	(977)	(1.767)	(977)	(2.136)
OTHER COMP. INCOME/EXPENSE FOR THE PERIOD (AFTER TAX)	(13.939)	(276.677)	(64.449)	(276.677)	3.182	5.758	3.182	7.587
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	359.336	80.274	743.171	80.274	315.667	571.073	315.667	332.399
Distribution of Total Comprehensive Income								
- Non-controlling Interests	13.709	4.989	28.407	4.989	11.992	21.694	11.992	9.588
- Equity Holders of the Parent	345.627	75.285	714.764	75.285	303.675	549.379	303.675	322.811

(*) US Dollar amounts represented above have been translated from Turkish Lira (“TL”) for convenience purposes only, at the official TL bid rate announced by the Central Bank of Republic of Turkey (“CBRT”) at 30 June 2013, and therefore do not form part of these interim condensed consolidated financial statements (Note 2.1)

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

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2014**

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

	Share Capital	Inflation Adjustment to Capital	Treasury Shares (-)	Share Issue Premium	Other comprehensive income/expense not 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
(Reviewed)													
1 January 2014	3.500.000	156.613	(116.232)	106.447	23.255	(66.809)	(9.344)	844.664	500.949	3.527.247	8.466.790	240.030	8.706.820
Net profit for the period	-	-	-	-	-	(32.106)	5.209	(35.140)	-	777.099	777.099	30.521	807.620
Other comprehensive income/(loss)	-	-	-	-	(298)	(32.106)	5.209	(35.140)	-	-	(62.335)	(2.114)	(64.449)
Total comprehensive income/(loss)	-	-	-	-	(298)	(32.106)	5.209	(35.140)	-	777.099	714.764	28.407	743.171
Dividends paid (*)	-	-	-	-	-	-	-	-	-	(794.735)	(794.735)	(11.840)	(806.575)
Transfers from retained earnings	-	-	-	-	22.957	(98.915)	(4.135)	809.524	617.355	(116.406)	8.386.819	256.597	8.643.416
30 June 2014	3.500.000	156.613	(116.232)	106.447	22.957	(98.915)	(4.135)	809.524	617.355	3.393.205	8.386.819	256.597	8.643.416
(Reviewed)													
1 January 2013 (previously reported)	3.090.000	342.195	(103.600)	106.447	26.814	-	(29.878)	(315)	1.618.843	2.154.306	7.204.812	211.100	7.415.912
Effect of changes in accounting policy	-	-	-	-	-	(57.784)	-	-	-	57.784	-	-	-
1 January 2013 Restated	3.090.000	342.195	(103.600)	106.447	26.814	(57.784)	(29.878)	(315)	1.618.843	2.212.090	7.204.812	211.100	7.415.912
Net profit for the period	-	-	-	-	-	-	-	-	-	544.289	544.289	21.026	565.315
Other comprehensive income/(loss)	-	-	-	-	729	(5.218)	11.346	(1.767)	-	-	5.090	668	5.758
Total comprehensive income/(loss)	-	-	-	-	729	(5.218)	11.346	(1.767)	-	544.289	549.379	21.694	571.073
Dividends paid	-	-	-	-	-	-	-	-	-	(116.303)	(116.303)	(17.442)	(133.745)
Capital increase	410.000	(185.582)	(12.632)	-	-	-	-	-	(205.953)	(5.833)	-	-	-
Transfers from retained earnings	-	-	-	-	-	-	-	-	23.071	(23.071)	-	-	-
30 June 2013	3.500.000	156.613	(116.232)	106.447	27.543	(63.002)	(18.532)	(2.082)	1.435.961	2.611.172	7.637.888	215.352	7.853.240

(*) 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.

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

CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2014

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

	Note	(Reviewed)		Previous Period 1 January 30 June 2013 US'000 (*)	(Reviewed) Current Period 1 January 30 June 2013 TRY'000
		Current Period 1 January 30 June 2014 US'000	Current Period 1 January 30 June 2014 TRY'000		
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax and non-controlling interests		413 734	893 613	389 162	709 336
Adjustments to reconcile net profit before tax to net cash provided by operating activities:					
Depreciation and amortization expenses	12/13	96 393	208 556	114 296	206 772
Provision for employee termination benefits	9	12 816	27 729	13 040	23 591
Provision for seniority incentive premium	9	3 658	7 914	(1 292)	(2 337)
(Gain) on sale of property plant and equipment	13	(272)	(588)	(483)	(873)
Loss on write off of property plant and equipment	13	80	173	409	740
Increase in provision for doubtful receivables		293	633	1 489	2 694
Decrease in the allowance for inventories	5	(1 986)	(4 297)	2 033	3 677
Increase/ (decrease) in provision for unpaid vacations		5 554	12 016	4 619	8 357
Increase in provision for pending claims and lawsuits	8	2 715	5 874	16 886	30 549
Increase in penalty prov. for obligatory empl t shortage of disabled people	8	422	914	82	149
Increase in provision for state right on mining activities	8	1 026	2 220	725	1 312
Increase in provision for civil defense fund	8	3 089	6 683	1 847	3 341
Interest expenses	14	33 063	71 535	61 620	111 477
Interest income from bank deposits	14	(11 724)	(25 367)	(20 860)	(37 738)
Interest income from overdue sales	13	(12 262)	(26 531)	(12 925)	(23 383)
Unrealized foreign currency (gain) of financial liabilities		4 176	9 035	125 844	227 664
Loss/(gain) on fair value changes of derivative financial instruments		(7 750)	(16 768)	(14 792)	(26 761)
Net cash provided by operating activities before changes in working capital		543,025	1,173,344	681,700	1,238,567
Changes in working capital	17	117 264	248 998	2 426	4 389
Interest income from overdue sales collected		10 764	23 290	15 208	27 513
Lawsuits paid	8	(2 300)	(4 976)	(2 419)	(4 376)
Penalty paid for the employment shortage of disabled people	8	(403)	(871)	(355)	(643)
Corporate tax paid	11	(50 941)	(110 217)	(23 461)	(42 444)
Employee termination benefits paid	9	(5 417)	(11 720)	(7 884)	(14 263)
State rights paid for mining activities	8	(1 395)	(3 019)	(2 014)	(3 644)
Unused vacation paid	9	(1 140)	(2 467)	(1 368)	(2 475)
Seniority incentive premium paid	9	(962)	(2 082)	(473)	(856)
Net cash provided by operating activities		608,495	1,310,280	661,360	1,201,768
CASH FLOWS FROM INVESTING ACTIVITIES					
Changes in financial assets held to maturity	3	(49 905)	(105 968)	-	-
Changes in financial investments		-	-	(10)	(18)
Payments for investment property		(680)	(1 472)	-	-
Cash used in the purchase of tangible assets	6	(81 124)	(175 519)	(88 818)	(160 680)
Cash used in the purchase of intangible assets	6	(1 627)	(3 520)	(946)	(1 712)
Cash provided by sales of tangible assets		281	607	634	1 147
Net cash used in investing activities		(133,055)	(285,872)	(89,140)	(161,263)
CASH FLOWS FROM FINANCING ACTIVITIES					
New borrowings		859 661	1 825 404	1 558 273	2 819 072
Repayment of borrowings		(617 217)	(1 310 599)	(1 946 470)	(3 521 359)
Interest paid		(29 048)	(62 848)	(72 817)	(131 733)
Interest received on bank deposits		11 234	24 306	20 385	36 878
Dividends paid		(380 040)	(794 735)	(64 288)	(116 303)
Dividends paid to non-controlling interests		(5 472)	(11 840)	(9 641)	(17 442)
Net cash used in by financing activities		(160,882)	(330,312)	(514,558)	(930,887)
NET CHANGES IN CASH AND CASH EQUIVALENTS		314,558	694,096	57,662	109,618
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD					
Currency translation difference, net		10 906	(6 886)	(77 182)	(1 392)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		681,461	1,447,014	1,005,779	1,935,924
Accrued interest income		1 115	2 368	1 496	2 879
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD INCLUDING ACCRUED INTEREST INCOME		682,576	1,449,382	1,007,275	1,938,803

(*) US Dollar amounts represented above have been translated from Turkish Lira (“TL”) for convenience purposes only, at the official TL bid rate announced by the Central Bank of Republic of Turkey (“CBRT”) at 30 June 2013, and therefore do not form part of these interim condensed consolidated financial statements (Note 2.1).

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 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).

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. (“İSDEMİR”)	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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 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 June 2014 and 31 December 2013 are as follows:

	Paid Hourly	Paid Montly	30 June 2014 Total
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.593	1.806	6.399
İskenderun Demir ve Çelik A.Ş.	4.222	1.227	5.449
Erdemir Madencilik San. ve Tic. A.Ş.	127	149	276
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	63	80	143
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	-	152	152
Erdemir Romania S.R.L.	217	51	268
	<u>9.222</u>	<u>3.465</u>	<u>12.687</u>
	Paid Hourly	Paid Montly	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 5th 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 six months period ended 30.06.2014. 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 SIX MONTHS PERIOD ENDED 30 JUNE 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)

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:

- 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 2,1234=US \$ 1 and TRY 2,8919=EUR 1 on the balance sheet date (31 December 2013: TRY 2,1343= US \$ 1, TRY 2,9365=EUR 1).
- For the six months period ended 30 June 2014, income statements are translated from the average TRY 2,1636=US \$ 1 and TRY 2,9656=EUR 1 rates of 2014 January-June period.
- Exchange differences are shown in other comprehensive income as of foreign currency translation reserve.
- The differences between presentation of statutory and historical figures are recognised as translation differences under equity. All capital, capital measures and other measures are repressed 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 June 30, 2014 and December 31, 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 June 30, 2014 represent the consolidated financial statements 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.

In addition to this, the figures in USD amounts presented in the accompanying condensed consolidated financial statements comprising the consolidated statement of income and other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statements for the period ended June 30, 2013, are calculated via using the average official exchange rates published by Central Bank of Turkey and do not form an integral part of the current condensed interim consolidated financial statements.

Going concern

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 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 12 August 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 June 2013.

Reclassifications of income statement are as follows:

Account	(Previously 1 January - 30 June 2013)	(Restated) 1 January - 30 June 2013	(Difference) 1 January - 30 June 2013
Other Operating Income ⁽²⁾	110.540	111.404	864
Other Operating Expenses ⁽²⁾	(34.600)	(35.495)	(895)
Financial Income ⁽¹⁾⁽²⁾	218.672	64.499	(154.173)
Financial Expense (-) ⁽¹⁾⁽²⁾	(347.824)	(193.620)	154.204
			-

(1) Foreign exchange gain from bank deposits (net) TRY 146.742 thousand and foreign exchange gain from non-trade operations (net) TRY 7.431 thousand which were reported in “Financial Income” was offset with “Foreign exchange gain (net)” in “Financial Expenses” in consolidated income statement as of 30 June 2013.

(2) Out of (net)TRY 31 thousand discount expense that was reported under “Financial Expenses (-)”, is reclassified under “Other Operating Income” TRY 864 thousand as discount income and under “Other Operating Expenses (-)” TRY (895) thousand as discount expenses in consolidated income statement as of 30 June 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 June 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.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 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)

2.3 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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 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)

2.3 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 13 Fair Value Measurement
- IAS 40 Investment Property
- IAS 19 Defined Benefit Plans: Employee Contributions (Amendment)
- IFRS 11 - Acquisition of an Interest in a Joint Operation (Amendment)
- IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)
- IFRS 15 – Revenue from Contracts with Customers

The Group do not expect that these amendments will have significant impact on the financial position or performance of the Group.

2.4 Summary of Significant Accounting Policies

The interim condensed consolidated financial statements for the period ended 30 June 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 June 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 June 2014, from the interests reported as of 31 December 2013.

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.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2014**

(Amounts are expressed in thousands of Turkish Lira ("TRY Thousand") unless otherwise indicated)

NOTE 3 –FINANCIAL ASSETS

	30 June 2014	31 December 2013
Held to maturity financial assets (*)	105.968	-
Derivative financial assets at fair value through income statement	17.424	7.374
Total	123.392	7.374

(*) As of 30 June 2014, the Group holds time deposits with a maturity of 156 days.

NOTE 4 –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 June 2014	31 December 2013
<u>Due from related parties (short term)</u>		
Oyak Renault Otomobil Fab. A.Ş. ⁽²⁾	30.757	27.443
Bolu Çimento Sanayi A.Ş. ⁽¹⁾	3.936	4.263
Adana Çimento Sanayi T.A.Ş. ⁽¹⁾	4.872	4.689
Other	715	299
	40.280	36.694

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

⁽¹⁾ Subsidiaries of the parent company

⁽²⁾ Equity investment

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts are expressed in thousands of Turkish Lira ("TRY Thousand") unless otherwise indicated)

NOTE 4 –RELATED PARTY DISCLOSURES (cont'd)

	30 June 2014	31 December 2013
<u>Due to related parties (short term)</u>		
Omsan Lojistik A.Ş. ⁽¹⁾	3.261	2.531
Omsan Denizcilik A.Ş. ⁽¹⁾	7.645	2.469
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	3.808	2.894
Oyak Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	35	2.263
Omsan Logistica SRL ⁽¹⁾	345	479
OYAK Yatırım Menkul Değerler A.Ş. ⁽¹⁾	-	2.141
Other	1.539	1.666
	<u>16.633</u>	<u>14.443</u>

Trade payables to related parties mainly arise from 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.

	1 January - 30 June 2014	1 January - 30 June 2013
<u>Major sales to related parties</u>		
Oyak Renault Otomobil Fab. A.Ş. ⁽²⁾	67.074	51.211
Adana Çimento Sanayi T.A.Ş. ⁽¹⁾	10.295	6.377
Bolu Çimento Sanayi A.Ş. ⁽¹⁾	8.515	5.855
Aslan Çimento A.Ş. ⁽¹⁾	1.533	380
Mardin Çimento Sanayi ve Ticaret A.Ş. ⁽¹⁾	601	259
Other	504	162
	<u>88.522</u>	<u>64.244</u>

⁽¹⁾ Subsidiaries of the parent company

⁽²⁾ Equity investment

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

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

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts are expressed in thousands of Turkish Lira ("TRY Thousand") unless otherwise indicated.)

NOTE 4 –RELATED PARTY DISCLOSURES (cont'd)

	<u>1 January - 30 June 2014</u>	<u>1 January - 30 June 2013</u>
<u>Major purchases from related parties</u>		
Omsan Denizcilik A.Ş. ⁽¹⁾	42.414	35.335
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	16.509	9.999
Omsan Lojistik A.Ş. ⁽¹⁾	15.800	13.642
Oyak Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	13.441	9.775
Omsan Logistica SRL ⁽¹⁾	3.446	3.328
Oyak Teknoloji Bilişim ve Kart Hizmetleri A.Ş. ⁽¹⁾	-	2.684
Other	2.348	1.678
	<u>93.958</u>	<u>76.441</u>

⁽¹⁾ Subsidiaries of the parent company

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 June 2014, the Group provides no provision for the receivables from related parties (30 June 2013: None).

Salaries, bonuses and other benefits of the key management

For the six months period ended 30 June 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 11.273 thousand (30 June 2013: TRY 7.863 thousand).

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

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts are expressed in thousands of Turkish Lira (“TRY Thousand”) unless otherwise indicated)

NOTE 5 – INVENTORIES

	30 June 2014	31 December 2013
Raw materials	791.512	770.493
Work in progress	556.106	586.384
Finished goods	728.822	907.440
Spare parts	443.428	447.941
Goods in transit	488.120	553.101
Other inventories	206.607	206.467
Allowance for impairment on inventories (-)	(84.017)	(88.739)
	<u>3.130.578</u>	<u>3.383.087</u>

The movement of the allowance for impairment on inventories:

	1 January - 30 June 2014	1 January - 30 June 2013
Opening balance	88.739	60.395
Provision for the period (Note 12)	6.730	8.556
Provision released (-) (Note 12)	(11.027)	(4.879)
Translation difference	(425)	-
Closing balance	<u>84.017</u>	<u>64.072</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 12).

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

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2014**

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

NOTE 6 – TANGIBLE AND INTANGIBLE ASSETS

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

	30 June 2014	30 June 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 (*)	175.519	160.680
Disposals (-)	(192)	(1.014)
Transfers (**)	(2.744)	(125)
Currency translation difference	(38.916)	2.178
Current period depreciation (-)	(202.868)	(180.014)
Net book value at the end of the period	<u>7.604.355</u>	<u>6.979.603</u>
<u>Closing balance as of</u>		
Cost	17.560.870	15.698.428
Accumulated depreciation	(9.956.515)	(8.718.825)
Net book value	<u>7.604.355</u>	<u>6.979.603</u>

(*) The amount of capitalized financial expense is TRY 1.997 thousand for the current period (The capitalized financial expenses for the year ended 30 June 2013 is TRY 2.090 thousand).

(**) TRY 2.744 thousand is transferred to intangible assets (30 June 2013: TRY 125 thousand).

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

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

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts are expressed in thousands of Turkish Lira (“TRY Thousand”) unless otherwise indicated)

NOTE 6 – TANGIBLE AND INTANGIBLE ASSETS (cont’d)

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

	<u>30 June 2014</u>	<u>30 June 2013</u>
<u>Opening balance as of 1 January</u>		
Cost	319.317	284.599
Accumulated depreciation	(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 (*)	3.520	1.712
Transfers (**)	2.744	125
Currency translation difference	(593)	1
Current period depreciation (-)	(9.907)	(9.676)
Net book value at the end of the period	<u>154.914</u>	<u>145.073</u>
<u>Closing balance as of</u>		
Cost	324.381	286.540
Accumulated depreciation	(169.467)	(141.467)
Net book value	<u>154.914</u>	<u>145.073</u>

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

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

	<u>30 June 2014</u>	<u>30 June 2013</u>
Associated with cost of production	199.669	181.071
General administrative expenses	6.340	3.431
Marketing, sales and distribution expenses	6.766	5.188
	<u>212.775</u>	<u>189.690</u>

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

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

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

NOTE 7 – FINANCIAL LIABILITIES

Breakdown of financial liabilities is as follows:

	30 June 2014	31 December 2013
Short term financial liabilities	845.135	198.608
Current portion of long term financial liabilities	1.433.786	1.275.113
Corporate bonds issued (*)	200.837	6.075
Total short term financial liabilities	2.479.758	1.479.796
Long term financial liabilities	1.531.461	1.820.381
Corporate bonds issued (*)	-	199.902
Total long term financial liabilities	1.531.461	2.020.283
	4.011.219	3.500.079

(*) 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 June 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 (%)	30 June 2014	
			Short Term Portion	Long Term Portion
No interest	TRY	-	118.283	-
Fixed	TRY	9,86	342.814	215.617
Fixed	US Dollars	1,74	413.300	59.538
Fixed	EURO	5,50	1.000	3.421
Floating	TRY	Trlibor+1,50	207.091	-
Floating	US Dollars	Libor+2,16	1.261.871	947.913
Floating	EURO	Euribor+0,33	107.605	243.691
Floating	Japanese Yen	JPY Libor+0,22	27.794	61.281
			2.479.758	1.531.461
				4.011.219

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

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NOTE 7 – 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 (%)	31 December 2013	
			Short Term Portion	Long Term Portion
No interest	TRY	-	61.487	-
Fixed	TRY	8,57	231.995	290.925
Fixed	US Dollars	1,96	62.618	41.281
Fixed	EURO	5,50	628	3.859
Floating	TRY	Trlibor+1,50	6.075	199.902
Floating	US Dollars	Libor+2,52	974.459	1.118.262
Floating	EURO	Euribor+0,33	114.956	295.301
Floating	Japanese Yen	JPY Libor+0,22	27.578	70.753
			1.479.796	2.020.283
			3.500.079	

As of 30 June 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 June 2014
US Dollars	2,38	29.009	-	29.009
US Dollars	3,29	15.068	14.034	29.102
US Dollars	1,09	29.189	-	29.189
US Dollars	4,47	17.977	25.736	43.713
US Dollars	4,46	14.714	36.677	51.391
US Dollars	1,68	2.977	2.929	5.906
US Dollars	2,01	9.171	-	9.171
US Dollars	4,15	38.397	76.774	115.171
EURO	2,18	3.495	7.020	10.515
EURO	1,79	1.438	-	1.438
EURO	1,80	3.339	8.335	11.674
EURO	4,43	2.637	6.573	9.210
EURO	2,29	7.293	7.162	14.455
EURO	1,66	1.812	1.815	3.627
US Dollars (*)	7,30	9.165	23.157	32.322
EURO (**)	10,65	41.897	90.349	132.246
TRY (***)	0,92	23.864	19.870	43.734
		251.442	320.431	571.873

(*) The loan amount USD 15.422 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 51.188 thousand). The maturity of the cross currency swap contract is 2 April 2018. The loan amount USD 15.422 thousand, TRY equivalent TRY 22.454 thousand, will be paid till the maturity of the cross currency swap contract is 3 October 2018.

(**) The loan amount EUR 55.652 thousand, TRY equivalent TRY 115.895 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 55.556 thousand, US Dollars equivalent USD 25.502 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.

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NOTE 7 – 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 June 2014	31 December 2013
Within 1 year	2.479.758	1.479.796
Between 1-2 years	569.753	869.087
Between 2-3 years	590.909	577.900
Between 3-4 years	223.162	347.915
Between 4-5 years	67.694	154.698
Five years or more	79.943	70.683
	<u>4.011.219</u>	<u>3.500.079</u>

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

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

NOTE 8 – PROVISIONS

The Group’s short term provisions are as follows:

	30 June 2014	31 December 2013
Provision for lawsuits	195.008	194.475
Penalty prov. for employment shortage of disabled pers.	4.602	4.568
Provision for state right on mining activities (*)	1.843	2.642
Provision for civil defense fund (**)	9.900	3.341
	<u>211.353</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.

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NOTE 8 – PROVISIONS (cont'd)

The movement of the provisions is as follows:

	1 January 2014	Provision for the period	Payments	Provision released (-)	Translation difference	30 Haziran 2014
Provision for lawsuits	194.475	16.028	(4.976)	(10.154)	(365)	195.008
Penalty prov. for employment shortage of disabled	4.568	1.186	(871)	(272)	(9)	4.602
Provision for state right on mining activities	2.642	2.220	(3.019)	-	-	1.843
Provision for civil defense fund	3.341	6.683	-	-	(124)	9.900
	<u>205.026</u>	<u>26.117</u>	<u>(8.866)</u>	<u>(10.426)</u>	<u>(498)</u>	<u>211.353</u>

	1 January 2013	Provision for the period	Payments	Provision released (-)	Translation difference	30 Haziran 2013
Provision for lawsuits	104.472	32.748	(4.376)	(2.199)	-	130.645
Penalty prov. for employment shortage of disabled	4.945	1.354	(643)	(1.205)	-	4.451
Provision for state right on mining activities	3.644	1.312	(3.644)	-	-	1.312
Provision for civil defense fund	-	3.341	-	-	-	3.341
	<u>113.061</u>	<u>38.755</u>	<u>(8.663)</u>	<u>(3.404)</u>	<u>-</u>	<u>139.749</u>

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NOTE 8 – PROVISIONS (cont’d)

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

	30 June 2014	31 December 2013
<u>Lawsuits filed by the Group</u>		
TRY	205.757	203.019
US Dollars	107.704	108.256
	<u>313.461</u>	<u>311.275</u>

Provision for lawsuits filed by the Group

TRY	4.294	4.183
	<u>4.294</u>	<u>4.183</u>

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

	30 June 2014	31 December 2013
<u>Lawsuits filed against the Group</u>		
TRY	65.898	67.124
US Dollars	157.609	158.419
	<u>223.507</u>	<u>225.543</u>

Provision for lawsuits filed against the Group

TRY	182.369	181.771
US Dollars	12.639	12.704
	<u>195.008</u>	<u>194.475</u>

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.

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NOTE 8 – 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 31 March 2014 and 31 March 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.

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NOTE 8 – 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 23 September 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 30 September 2014.

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NOTE 9 –PROVISIONS FOR EMPLOYEE BENEFITS

Provision of the employee termination benefits of the Group is as follows:

	30 June 2014	31 December 2013
Provisions for employee termination benefits	364.683	307.528
Provisions for seniority incentive premium	23.528	17.667
Provision for unpaid vacations	76.260	67.037
	<u>464.471</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 June 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 June 2014 has been calculated by an independent actuary.

	30 June 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 June 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 June 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.

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NOTE 9 –PROVISION FOR EMPLOYEE BENEFITS (cont’d)

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

	1 January - 30 June 2014	1 January - 30 June 2013
Opening balance	307.528	265.083
Service cost	14.282	14.133
Interest cost	13.447	9.458
Actuarial loss	41.093	6.727
Termination benefits paid	(11.720)	(14.263)
Translation difference	53	-
Closing balance	<u>364.683</u>	<u>281.138</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 June 2014	1 January - 30 June 2013
Opening balance	17.667	18.896
Service cost	1.035	1.152
Interest cost	793	691
Actuarial loss/(gain)	6.086	(4.180)
Termination benefits paid	(2.082)	(856)
Translation difference	29	-
Closing balance	<u>23.528</u>	<u>15.703</u>

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

	1 January - 30 June 2014	1 January - 30 June 2013
Opening balance	67.037	62.270
Provision for the period	26.787	23.879
Vacation paid during the period (-)	(2.467)	(2.475)
Provisions released (-)	(14.771)	(15.522)
Translation difference	(326)	-
Closing balance	<u>76.260</u>	<u>68.152</u>

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NOTE 10 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	30 June 2014	31 December 2013
Letters of guarantees received	1.354.172	1.469.209
	<u>1.354.172</u>	<u>1.469.209</u>

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

	30 June 2014	31 December 2013
A. Total CPM given for the Company's own legal entity	73.828	69.757
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	1.364.476	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>1.438.304</u>	<u>1.646.883</u>

As of 30 June 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 1.364.476 thousand has been given as collateral for financial liabilities explained in Note 7.

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

	30 June 2014	31 December 2013
US Dollars	916.628	973.629
TRY	145.372	236.352
EURO	328.494	381.965
Japanese Yen	47.810	52.906
Romanian Lei	-	2.031
	<u>1.438.304</u>	<u>1.646.883</u>

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NOTE 11 – TAX ASSETS AND LIABILITIES

Corporate tax payable:
Current corporate tax provision
Prepaid taxes and funds (-)

	30 June 2014	31 December 2013
	81.574	195.980
	(65.227)	(150.990)
	<u>16.347</u>	<u>44.990</u>

	1 January - 30 June 2014	1 April - 30 June 2014	1 January - 30 June 2013	1 April - 30 June 2013
	81.574	18.783	88.228	61.327
	4.419	5.938	55.793	22.060
	<u>85.993</u>	<u>24.721</u>	<u>144.021</u>	<u>83.387</u>

Taxation:

Current corporate tax expense
Deferred tax expense

Corporate tax

The effective corporate tax rate in Turkey is 20% and 16% in Romania as of 30 June 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 110.217 thousand (30 June 2013: TRY 42.444 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.

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

	30 June 2014	31 December 2013
Deferred tax assets:		
Carry forward tax losses	15.952	20.625
Provisions for employee benefits	92.893	78.445
Investment incentive	46.664	44.253
Provision for lawsuits	39.002	38.895
Inventories	23.728	6.519
Provision for other doubtful receivables	11.336	11.192
Tangible and intangible fixed assets	10.766	10.455
Fair values of the derivative financial instruments	464	2.952
Other	14.440	17.754
	<u>255.245</u>	<u>231.090</u>
Deferred tax liabilities:		
Tangible and intangible fixed assets	(622.455)	(593.509)
Fair values of the derivative financial instruments	(13.234)	(13.327)
Amortized cost adjustment on loans	(7.793)	(8.870)
Inventories	(327)	(20.399)
Other	(3.813)	(4.251)
	<u>(647.622)</u>	<u>(640.356)</u>
	<u>(392.377)</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 June 2014	31 December 2013
Deferred tax assets	26.273	17.836
Deferred tax (liabilities)	(418.650)	(427.102)
	<u>(392.377)</u>	<u>(409.266)</u>

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

Maturities of carry forward tax losses are as follows:

	Carry forward tax losses		Deferred tax assets (*)	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013
1 year	28.351	511.825	28.351	51.716
3 year	51.411	51.411	51.411	51.411
	<u>79.762</u>	<u>563.236</u>	<u>79.762</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.

<u>Deferred tax asset/(liability) movements:</u>	<u>1 January - 30 June 2014</u>	<u>1 January - 30 June 2013</u>
Opening balance	(409.266)	(135.970)
Deferred tax expense	(4.419)	(55.793)
The amount in comprehensive income/(expense)	6.852	(1.699)
Translation difference	14.456	30
Closing balance	<u>(392.377)</u>	<u>(193.432)</u>

	<u>1 January - 30 June 2014</u>	<u>1 January - 30 June 2013</u>
<u>Reconciliation of tax provision:</u>		
Profit before tax	893.613	709.336
Statutory tax rates	20%	20%
Calculated tax acc. to effective tax rate	178.723	141.867
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	7.437	2.392
- Non-taxable income	(15.952)	-
- Effect of tax losses written off from deferred tax assets	(76.070)	-
- Effect of currency translation to non taxable assets	(3.906)	-
- Investment incentives	(2.411)	(1.410)
- Effect of non-taxable adjustments	(51)	(922)
- Effect of the different tax rates due to foreign subsidiaries	101	333
- Other	(1.878)	1.761
Tax expense in income statement	<u>85.993</u>	<u>144.021</u>

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

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NOTE 12 – SALES AND COST OF SALES

	1 January - 30 June 2014	1 April - 30 June 2014	1 January - 30 June 2013	1 April - 30 June 2013
<u>Sales Revenue</u>				
Domestic sales	4.812.780	2.298.017	4.229.219	2.270.316
Export sales	665.768	331.238	694.798	293.520
Other revenues (*)	174.011	84.915	134.159	61.037
Sales returns (-)	(5.647)	(3.427)	(1.967)	(1.045)
Sales discounts (-)	(2.825)	(1.293)	(9.177)	(5.738)
	<u>5.644.087</u>	<u>2.709.450</u>	<u>5.047.032</u>	<u>2.618.090</u>
	<u>(4.521.385)</u>	<u>(2.189.531)</u>	<u>(4.133.734)</u>	<u>(2.099.081)</u>
	<u>1.122.702</u>	<u>519.919</u>	<u>913.298</u>	<u>519.009</u>

(*) The total amount of by product exports in other revenues is TRY 95.521 thousand (30 June 2013: TRY 74.499 thousand).

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NOTE 12 – SALES AND COST OF SALES (cont'd)

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

	1 January - 30 June 2014	1 April - 30 June 2014	1 January - 30 June 2013	1 April - 30 June 2013
Raw material usage	(3.230.207)	(1.540.307)	(2.936.289)	(1.477.927)
Personnel costs	(511.237)	(263.965)	(481.316)	(253.537)
Energy costs	(295.554)	(147.584)	(293.057)	(141.315)
Depreciation and amortization expenses	(195.450)	(97.668)	(198.153)	(97.811)
Factory overheads	(93.761)	(43.755)	(92.541)	(53.166)
Other cost of goods sold	(73.633)	(36.980)	(43.935)	(22.717)
Unallocated overheads due to their lower capacity utilization (*)	(59.494)	(36.068)	-	-
Transportation costs	(53.491)	(18.911)	(59.012)	(38.215)
Inventory write-downs within the period (Note 5)	(6.730)	(3.105)	(8.556)	(5.896)
Reversal of inventory write-downs (Note 5)	11.027	6.441	4.879	33
Other	(12.855)	(7.629)	(25.754)	(8.530)
	<u>(4.521.385)</u>	<u>(2.189.531)</u>	<u>(4.133.734)</u>	<u>(2.099.081)</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 (59.494) thousand, has been accounted directly under cost of goods sold.

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NOTE 13 – 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 June 2014 and 1 January – 30 June 2013 is as follows:

	1 January - 30 June 2014	1 April - 30 June 2014	1 January - 30 June 2013	1 April - 30 June 2013
Personnel expense (-)	(31.776)	(16.483)	(29.228)	(15.301)
Depreciation and amortization(-)	(6.766)	(3.301)	(5.188)	(2.800)
Service expenses (-)	(9.000)	(3.305)	(10.413)	(5.436)
Other (-)	(10.310)	(6.373)	(9.132)	(4.967)
	<u>(57.852)</u>	<u>(29.462)</u>	<u>(53.961)</u>	<u>(28.504)</u>

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

	1 January - 30 June 2014	1 April - 30 June 2014	1 January - 30 June 2013	1 April - 30 June 2013
Personnel expense (-)	(67.919)	(39.907)	(61.291)	(34.544)
Depreciation and amortization (-)	(6.340)	(3.171)	(3.431)	(1.826)
Service expenses (-)	(8.579)	(4.043)	(8.998)	(4.591)
Tax, duty and charges (-)	(1.999)	(855)	(3.870)	(2.882)
Other (-)	(20.315)	(9.766)	(17.565)	(8.578)
	<u>(105.152)</u>	<u>(57.742)</u>	<u>(95.155)</u>	<u>(52.421)</u>

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NOTE 13 – OPERATING EXPENSES AND OTHER OPERATING INCOME/ (EXPENSES) (cont'd)

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

	1 January - 30 June 2014	1 April - 30 June 2014	1 January - 30 June 2013	1 April - 30 June 2013
<u>Other operating income</u>	-	-	57.901	51.639
Foreign exchange gain from trade receivables and payables (net)	26.531	15.354	23.383	11.427
Interest income from on credit sales	10.586	625	864	(113)
Discount income	10.735	6.982	3.575	2.390
Provisions released	8.205	4.944	3.294	1.499
Service income	3.610	1.772	3.418	1.424
Maintenance repair and rent income	1.719	23	264	134
Warehouse income	3.083	1.866	875	513
Indemnity and penalty detention income	235	4	6.727	6.119
Insurance indemnity income	341	243	4.383	3.085
Royalty income	588	28	873	300
Gain on sale of tangible assets	10.247	6.134	5.847	2.880
Other income and gains	75.880	37.975	111.404	81.297

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NOTE 13 – OPERATING EXPENSES AND OTHER OPERATING INCOME/ (EXPENSES) (cont'd)

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

	1 January - 30 June 2014	1 April - 30 June 2014	1 January - 30 June 2013	1 April - 30 June 2013
<u>Other operating expenses (-)</u>				
Provisions expenses	(17.686)	(10.950)	(17.182)	(10.736)
Donation expenses	(6.656)	(41)	(410)	(162)
Discount expenses	(4.660)	(1.320)	(895)	218
Port facility pre-licence expenses	(2.787)	(1.176)	(3.650)	(2.013)
Lawsuit compensation expenses	(2.245)	(1.068)	(1.474)	(967)
Penalty expenses	(993)	(85)	(1.349)	(1.275)
Service expenses	(1.282)	(613)	(1.279)	(842)
Rent expenses	(322)	(149)	(282)	(134)
Stock exchange registration expenses	-	-	(820)	(820)
Capital Markets Board registration expenses	(900)	(900)	(1.183)	(1.183)
Loss on disposal of tangible assets	(173)	(162)	(740)	(197)
Other expenses and losses	(10.001)	(5.701)	(6.231)	(39)
	<u>(47.705)</u>	<u>(22.165)</u>	<u>(35.495)</u>	<u>(18.150)</u>

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NOTE 14 – FINANCIAL INCOME/ EXPENSES

	1 January - 30 June 2014	1 April - 30 June 2014	1 January - 30 June 2013	1 April - 30 June 2013
<u>Financial incomes</u>				
Interest income on bank deposits	25.367	14.206	37.738	17.729
Foreign exchange gains (net)	-	(1.179)	-	-
Fair value differences of derivative financial instruments (net)	16.768	7.336	26.761	17.101
	<u>42.135</u>	<u>20.363</u>	<u>64.499</u>	<u>34.830</u>
<u>Financial expenses (-)</u>				
Interest expenses on financial liabilities	(71.535)	(31.955)	(111.477)	(54.752)
Foreign exchange loss (net)	(45.574)	(45.574)	(70.630)	(66.137)
Interest cost of employee benefits	(14.240)	(7.167)	(10.149)	(5.074)
Other financial expenses	(1.436)	(299)	(1.364)	(966)
	<u>(132.785)</u>	<u>(84.995)</u>	<u>(193.620)</u>	<u>(126.929)</u>

During the period, the interest expenses of TRY 1.997 thousand have been capitalized as part of the Group's property, plant and equipment (1 January - 30 June 2013: TRY 2.090 thousand).

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NOTE 15 – 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 June 2014, the foreign currency position of the Group in terms of original currency is calculated as it as follows:

	30 June 2014				
	TRY (Total in reporting currency)	TRY (Original currency)	US Dollars (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)
1. Trade Receivables	142.719	76.079	439	22.654	8.264
2a. Monetary financial assets	197.403	80.751	676	39.798	5.384
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	193.899	193.696	-	70	-
4. Current assets (1+2+3)	534.021	350.526	1.115	62.521	13.648
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	43.335	3.577	-	13.748	-
6b. Non- monetary financial assets	-	-	-	-	-
7. Other	44.759	37.524	-	2.496	806
8. Non-current assets (5+6+7)	88.093	41.101	-	16.244	806
9. Total assets (4+8)	622.115	391.627	1.115	78.765	14.454
10. Trade payables	250.447	221.209	440	4.836	684.168
11. Financial liabilities	803.597	667.298	-	37.520	1.330.285
12a. Other monetary financial liabilities	530.650	529.705	-	327	-
12b. Other non-monetary financial liabilities	8.030	8.030	-	-	-
13. Current liabilities (10+11+12)	1.592.725	1.426.242	440	42.683	2.014.453
14. Trade payables	-	-	-	-	-
15. Financial liabilities	524.010	215.617	-	85.450	2.932.939
16a. Other monetary financial liabilities	469.237	463.816	-	1.874	-
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. Non-current liabilities (14+15+16)	993.246	679.433	-	87.324	2.932.939
18. Total liabilities (13+17)	2.585.972	2.105.675	440	130.007	4.947.391
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	250.190	109.367	-	48.696	-
19a. Off-balance sheet foreign currency derivative financial assets	351.599	210.775	-	48.696	-
19b. Off-balance sheet foreign currency derivative financial liabilities	101.409	101.409	-	-	-
20. Net foreign currency asset/liability position (9-18+19)	(1.713.667)	(1.604.682)	676	(2.546)	(4.932.937)
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(2.194.484)	(1.937.238)	676	(53.808)	(4.933.743)
22. Fair value of derivative financial instruments used in foreign currency hedge	45.217	45.217	-	-	-
23. Hedged foreign currency assets	101.409	101.409	-	-	-
24. Hedged foreign currency liabilities	351.599	210.775	-	48.696	-
25. Exports	761.289	-	319.616	23.526	-
26. Imports	2.640.165	-	1.218.688	1.151	-

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NOTE 15 – 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 reporting 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	-	-
4. Current assets (1+2+3)	295.152	215.382	343	26.773	19.638	6
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
8. Non-current assets (5+6+7)	89.731	26.495	-	21.201	44.924	20
9. Total assets (4+8)	384.883	241.877	343	47.975	64.562	25
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	-	-	-	-
13. Current liabilities (10+11+12)	993.896	802.740	465	48.032	2.357.529	405
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	-	-	-	-	-	-
17. Non-current liabilities (14+15+16)	1.247.362	873.716	-	103.147	3.497.293	-
18. Total liabilities (13+17)	2.241.258	1.676.457	465	151.180	5.854.822	405
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	217.341	53.918	-	55.653	-	-
19a. Offbalance sheet foreign currency derivative financial assets	333.237	169.813	-	55.653	-	-
19b. Offbalance sheet foreign currency derivative financial liabilities	115.895	115.895	-	-	-	-
20. Net foreign currency asset/liability position (9-18+19)	(1.639.033)	(1.380.661)	(121)	(47.553)	(5.790.260)	(379)
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(1.991.512)	(1.552.969)	(121)	(108.575)	(5.835.184)	(399)
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	-	-

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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR SIX MONTHS PERIOD ENDED 30 JUNE 2014**

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

**NOTE 15 – 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 June 2014 asset and liability balances are translated by using the following exchange rates: TRY 2,1234 = US \$ 1, TRY 2,8919 = 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)

30 June 2014	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency	Depreciation of foreign currency
1- TRY net asset/liability	(171.405)	171.405
2- Hedged portion from TRY risk (-)	21.078	(21.078)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(150.327)	150.327
5- US Dollars net asset/liability	143	(143)
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- US Dollars net effect (5+6+7)	143	(143)
9- Euro net asset/liability	(14.819)	14.819
10- Hedged portion from Euro risk (-)	14.082	(14.082)
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	(737)	737
13- Jap. Yen net asset/liability	(10.307)	10.307
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(10.307)	10.307
TOTAL (4+8+12+16)	(161.228)	161.228

In addition to the Group’s foreign currency sensitivity to a 10% (+/-) change in TRY, TRY 118.978 thousand of income/ (TRY (97.200) thousand expense) will occur due to the decrease/ (increase) in deferred tax base.

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

**NOTE 15– 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
TOTAL (4+8+12+16+20)	(152.314)	152.314

NOTE 16 – SUBSEQUENT EVENTS

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.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2014

(Amounts are expressed in thousands of Turkish Lira ("TRY Thousand") unless otherwise indicated)

NOTE 17 – ADDITIONAL INFORMATION FOR CASH FLOW STATEMENTS

Changes in working capital are as follows:

	1 January- 30 June 2014	1 January- 30 June 2013
Current trade receivables	(38.563)	(146.032)
Inventories	243.641	209.030
Other short term receivables / current assets	(11.265)	(25.388)
Other long term receivables / non current assets	17.040	(45.589)
Current trade payables	(3.404)	(126.503)
Other short term payables / liabilities	44.878	128.623
Other long term payables / liabilities	(3.329)	10.248
	<u>248.998</u>	<u>4.389</u>

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

Convenience translation to English

As at June 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.