

(CONVENIENCE TRANSLATION OF
CONSOLIDATED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH- SEE NOTE 33)

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

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY-30 JUNE 2013 AND AUDITOR'S REPORT

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

**Independent auditors' review report for the
interim period January 1 - June 30, 2013**

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

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ("the Company") and its subsidiaries (collectively referred to as "the Group") as of June 30, 2013 and the related interim consolidated statement of income and other comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flow for the sixth months period then ended and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of interim financial statements in accordance with Turkish Accounting Standards (TAS) published by Public Oversight Accounting and Auditing Standards Authority (POA) of Turkey. Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of review

We conducted our review in accordance with Auditing Standards published by Capital Markets Board (CMB) of Turkey. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Auditing Standards published by CMB and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements do not give a true and fair view of the financial position of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its subsidiaries as at June 30, 2013 and its financial performance and its cash flows for the six months period then ended in accordance with Turkish Accounting Standards.

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

Other matter

We draw attention to the matter in note 17 to the accompanying interim consolidated financial statements: The court cases related to CMB's claim that the Company had prepared its December 31, 2005 financial statements in accordance with International Financial Reporting Standards instead of the Communiqué Serial XI, No:25 on "Accounting Standards in Capital Markets" without the permission of the CMB in prior years were concluded against the Company at Council of State and such conclusions declared to the Company via notifications received in July 2012. On August 1, 2012, the Company has applied to Administrative Court to remove the decision conflict of these courts; however there is no development regarding with this issue. The lawsuit, which was commenced by the Privatization Administration ("PA") of the Turkish Republic for the cancellation of the resolution of the Company's General Assembly dated March 30, 2006 regarding the dividend distribution, is still pending. Our conclusion is not qualified for this matter.

Additional paragraph for convenience translation into English:

As at 30 June 2013, the accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying interim consolidated financial statements differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting, certain reclassifications and also for certain disclosures requirement of the POA/CMB. Accordingly, the accompanying consolidated financial statements are not intended to present the financial position and results of operations in accordance with IFRS.

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



Ethem Kutucular, SMMM
Engagement Partner

August 16, 2013
İstanbul, Turkey

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(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2013

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

		(Audited) Current Period 30 June 2013	(Audited-Restated) (*) Previous Period 31 December 2012	(Audited-Restated) (*) Previous Period 31 December 2011
	Note			
ASSETS				
Current Assets		5.902.469.796	5.854.230.082	6.024.733.105
Cash and Cash Equivalents	4	1.938.802.644	1.829.716.171	1.102.710.213
Other Short Term Financial Assets	5	7.298.512	543.101	9.232.974
Trade Receivables	8	1.190.853.961	1.047.300.360	1.141.698.002
<i>Due From Related Parties</i>	29	<i>25.608.088</i>	<i>17.941.389</i>	<i>9.723.604</i>
<i>Other Trade Receivables</i>	8	<i>1.165.245.873</i>	<i>1.029.358.971</i>	<i>1.131.974.398</i>
Other Receivables	9	295.824	296.045	277.962
Inventories	10	2.618.330.739	2.848.119.207	3.628.497.829
Prepaid Expenses	11	25.940.445	18.404.660	42.506.830
Other Current Assets	19	120.947.671	109.850.538	99.809.295
Non Current Assets		7.306.241.309	7.287.190.543	7.365.849.568
Other Receivables	9	272.671	238.949	219.483
Financial Investments		102.356	84.594	66.086
Other Long Term Financial Assets	5	47.265.984	9.579.245	47.475.443
Investment Properties	12	46.577.264	46.577.264	46.577.264
Property, Plant and Equipment	13	6.979.603.201	6.997.897.584	6.911.644.581
Intangible Assets	14	145.072.847	152.910.729	164.152.691
Prepaid Expenses	11	71.622.938	65.828.408	84.857.502
Deferred Tax Assets	27	15.724.048	14.073.770	110.735.816
Other Non Current Assets		-	-	120.702
TOTAL ASSETS		13.208.711.105	13.141.420.625	13.390.582.673

(*) Detailed information about restated consolidated financial statements is given in note 33.

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

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2013

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

		(Audited) Current Period 30 June 2013	(Audited-Restated) (*) Previous Period 31 December 2012	(Audited-Restated) (*) Previous Period 31 December 2011
LIABILITIES				
Current Liabilities		2.580.490.537	2.817.904.101	2.415.353.191
Financial Liabilities	6	609.151.821	867.824.521	394.588.121
Short term portion of long term financial liabilities	6	1.143.260.552	1.154.609.147	1.093.280.760
Other Current Financial Liabilities	7	2.484.541	4.180.528	558.936
Trade Payables	8	301.552.479	428.055.750	533.658.501
<i>Due to Related Parties</i>	29	<i>8.663.662</i>	<i>11.727.235</i>	<i>9.852.736</i>
<i>Other Trade Payables</i>	8	<i>292.888.817</i>	<i>416.328.515</i>	<i>523.805.765</i>
Other Payables	9	11.497.064	7.784.500	9.499.032
Current Tax Liabilities	27	57.992.194	12.209.061	44.693.617
Short term provisions	17	139.749.139	113.061.323	77.424.150
Payables for employee benefits	16	153.896.657	101.317.114	98.046.626
Other Current Liabilities	19	160.906.090	128.862.157	163.603.448
Non Current Liabilities		2.774.980.882	2.907.604.439	3.687.681.410
Financial Liabilities	6	2.175.590.750	2.396.318.269	3.289.928.316
Other Non Current Financial Liabilities	7	24.897.298	14.576.726	10.400.444
Provisions for employee benefits	16	364.992.861	346.248.924	273.178.661
Deferred Tax Liabilities	27	209.156.327	150.043.899	113.234.445
Other Non Current Liabilities	19	343.646	416.621	939.544
EQUITY	20	7.853.239.686	7.415.912.085	7.287.548.072
Equity attributable to equity holders of the parent		7.637.888.088	7.204.811.565	7.086.723.062
Share Capital		3.500.000.000	3.090.000.000	2.150.000.000
Inflation Adjustment to Capital		156.613.221	342.195.166	731.967.735
Treasury Shares (-)		(116.232.173)	(103.599.856)	(74.637.969)
Share Issue Premium		106.447.376	106.447.376	231.020.042
Other comprehensive income/expense not to be reclassified to profit or loss		(35.459.682)	(30.970.759)	(1.730.127)
<i>Revaluation Reserve of Tangible Assets</i>		<i>27.542.612</i>	<i>26.813.595</i>	<i>27.228.155</i>
<i>Actuarial (loss)/ gain funds</i>		<i>(63.002.294)</i>	<i>(57.784.354)</i>	<i>(28.958.282)</i>
Other comprehensive income/expense to be reclassified to profit or loss		(20.614.205)	(30.193.496)	(15.272.360)
<i>Cash Flow Hedging Reserves</i>		<i>(18.531.368)</i>	<i>(29.878.279)</i>	<i>(14.783.355)</i>
<i>Foreign Currency Translation Reserves</i>		<i>(2.082.837)</i>	<i>(315.217)</i>	<i>(489.005)</i>
Restricted Reserves Assorted from Profit		1.435.961.396	1.618.843.079	1.757.470.693
Retained Earnings		2.066.883.264	1.760.073.286	1.287.337.399
Net Profit for the Period		544.288.891	452.016.769	1.020.567.649
Non-controlling Interests		215.351.598	211.100.520	200.825.010
TOTAL LIABILITIES AND EQUITY		13.208.711.105	13.141.420.625	13.390.582.673

(*) Detailed information about restated consolidated financial statements is given in note 33.

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

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)

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

CONSOLIDATED STATEMENT OF INCOME AS OF 30 JUNE 2013

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

	Note	(Audited) Current Period 1 January- 30 June 2013	Current Period 1 April- 30 June 2013	(Audited- Restated)(*) Previous Period 1 January- 30 June 2012	(Restated)(*) Previous Period 1 April- 30 June 2012
OPERATING INCOME					
Revenue	21	5.047.031.348	2.618.088.963	4.784.577.538	2.349.238.605
Cost of Sales (-)	21	(4.133.733.722)	(2.099.080.803)	(4.334.340.362)	(2.094.780.511)
GROSS PROFIT		913.297.626	519.008.160	450.237.176	254.458.094
Marketing, Sales and Distribution Expenses (-)	22	(53.960.959)	(28.504.308)	(55.228.605)	(27.356.878)
General Administrative Expenses (-)	22	(95.154.696)	(52.420.687)	(87.786.577)	(43.146.246)
Research and Development Expenses (-)	22	(1.633.517)	(932.039)	(422.640)	(244.136)
Other Operating Income	24	110.539.983	81.410.485	59.199.511	25.499.762
Other Operating Expenses (-)	24	(34.600.286)	(18.368.134)	(73.226.137)	(1.594.378)
OPERATING PROFIT		838.488.151	500.193.477	292.772.728	207.616.218
Finance Income	25	218.671.759	173.665.743	205.022.704	(34.488.675)
Finance Expense (-)	26	(347.824.314)	(265.660.385)	(200.503.373)	(46.078.209)
PROFIT BEFORE TAX		709.335.596	408.198.835	297.292.059	127.049.334
Tax Expense	27	(144.020.557)	(83.387.244)	(59.895.527)	(26.055.069)
- Current Corporate Tax Expense		(88.227.593)	(61.326.992)	(32.496.347)	(13.119.071)
- Deferred Tax Expense		(55.792.964)	(22.060.252)	(27.399.180)	(12.935.998)
PROFIT FOR THE PERIOD		565.315.039	324.811.591	237.396.532	100.994.265
- Non-Controlling Interests		21.026.148	8.770.866	18.225.193	5.776.304
- Equity Holders of the Parent		544.288.891	316.040.725	219.171.339	95.217.961
EARNINGS PER SHARE	28	0,1555	0,0903	0,0626	0,0272
(TRY 1 Nominal value per share)					

(*) Detailed information about restated consolidated financial statements is given in note 33.

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

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AS OF 30 JUNE 2013

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

	(Audited) Current Period 1 January- 30 June 2013	1 April- 30 June 2013	(Audited- Restated)(*) Previous Period 1 January- 30 June 2012	(Restated)(*) Previous Period 1 April- 30 June 2012
PROFIT FOR THE PERIOD	565.315.039	324.811.591	237.396.532	100.994.265
Other Comprehensive Income/(Expense):				
Not to be reclassified subsequently to profit or loss				
Change in Revaluation Reserve of Tangible Assets	729.017	863.668	(1.063.659)	(570.735)
Change in Actuarial (Loss)/ Gain	(6.726.666)	(6.726.666)	(17.490.967)	(17.490.967)
Tax Effect of Changes in Actuarial (Loss)/ Gain	1.345.332	1.345.332	3.498.194	3.498.194
To be reclassified subsequently to profit or loss				
Change in Cash Flow Hedging Reserves	15.222.146	17.801.550	(8.587.630)	837.048
Tax Effect of Change in Cash Flow Hedging Reserves	(3.044.429)	(3.560.310)	1.717.526	(167.409)
Change in Foreign Currency Translation Reserves	(1.767.620)	(2.136.038)	490.789	276.562
OTHER COMPREHENSIVE INCOME/ EXPENSE FOR THE PERIOD (AFTER TAX)	27	7.587.536	(21.435.747)	(13.617.307)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	571.072.819	332.399.127	215.960.785	87.376.958
Distribution of Total Comprehensive Income				
- Non-controlling Interests	21.693.560	9.587.937	17.241.668	5.323.311
- Equity Holders of the Parent	549.379.259	322.811.190	198.719.117	82.053.647

(*) Detailed information about restated consolidated financial statements is given in note 33.

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(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)

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 2013

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

Note	Share Capital	Inflation Adjustment to Capital	Treasury Shares (-)	Share Issue Premium	Revaluation Reserve of Tangible Assets	Other comprehensive income/expense not to be reclassified subsequently to profit or loss				Foreign Currency Translation Reserves	Retained Reserves Assorted from Profit	Retained Earnings	Equity Attributable to the Parent	Non-controlling Interests	Total Shareholders' Equity
						Other comprehensive income/expense not to be reclassified subsequently to profit or loss	Actuarial loss/(gain)/funds	Cash Flow Hedging Reserves	Other comprehensive income/expense to be reclassified subsequently to profit or loss						
(Audited)															
1 January 2013 (previously reported)	3,090,000,000	342,195,166	(103,599,856)	106,447,376	26,813,595	-	(29,878,279)	(315,217)	1,618,843,079	2,154,305,701	7,204,811,565	211,100,520	7,415,912,085		
Effect of changes in accounting policy	33	-	-	(57,784,354)	-	-	-	-	-	57,784,354	-	-	-		
Restated 1 January 2013 (*)	3,090,000,000	342,195,166	(103,599,856)	106,447,376	26,813,595	(57,784,354)	(29,878,279)	(315,217)	1,618,843,079	2,212,090,055	7,204,811,565	211,100,520	7,415,912,085		
Net profit for the period	-	-	-	-	-	-	-	-	-	544,288,891	544,288,891	21,026,148	565,315,039		
Other comprehensive income/ (loss)	-	-	-	-	729,017	(5,217,940)	11,346,911	(1,767,620)	-	-	5,090,368	667,412	5,757,780		
Total comprehensive income/ (loss)	-	-	-	-	729,017	(5,217,940)	11,346,911	(1,767,620)	-	544,288,891	549,379,259	21,693,560	571,072,819		
Dividends paid (**)	-	-	-	-	-	-	-	-	-	(116,302,736)	(116,302,736)	(17,442,482)	(133,745,218)		
Capital increase	20	410,000,000	(185,581,945)	-	-	-	-	-	(205,952,593)	(5,833,145)	-	-	-		
Transfers from retained earnings	20	-	-	-	-	-	-	-	23,070,910	(23,070,910)	-	-	-		
30 June 2013	20	3,500,000,000	156,613,221	(116,232,173)	106,447,376	27,542,612	(18,531,368)	(2,082,837)	1,435,961,396	2,611,172,155	7,637,888,088	215,351,598	7,853,239,686		
(Audited)															
1 January 2012 (previously reported)	2,150,000,000	731,967,735	(74,637,969)	231,020,042	27,228,155	-	(14,783,355)	(489,005)	1,757,470,693	2,278,946,766	7,086,723,062	200,825,010	7,287,548,072		
Effect of changes in accounting policy	33	-	-	-	-	(28,958,282)	-	-	-	28,958,282	-	-	-		
Restated 1 January 2012 (*)	2,150,000,000	731,967,735	(74,637,969)	231,020,042	27,228,155	(28,958,282)	(14,783,355)	(489,005)	1,757,470,693	2,307,905,048	7,086,723,062	200,825,010	7,287,548,072		
Net profit for the period	-	-	-	-	-	-	-	-	-	219,171,339	219,171,339	18,225,193	237,396,532		
Other comprehensive income/ (loss)	-	-	-	-	(1,063,659)	(13,520,590)	(6,358,762)	490,789	-	-	(20,452,222)	(983,525)	(21,435,747)		
Total comprehensive income/ (loss)	-	-	-	-	(1,063,659)	(13,520,590)	(6,358,762)	490,789	-	219,171,339	198,719,117	17,241,668	215,960,785		
Dividends paid	-	-	-	-	-	-	-	-	-	(290,756,841)	(290,756,841)	(19,094,135)	(309,850,976)		
Capital increase	20	940,000,000	(389,772,569)	(28,961,887)	(124,572,666)	-	-	-	(216,668,513)	(180,024,365)	-	-	-		
Transfers from retained earnings	20	-	-	-	-	-	-	-	78,040,899	(78,040,899)	-	-	-		
30 June 2012	20	3,090,000,000	342,195,166	(103,599,856)	106,447,376	26,164,496	(21,142,117)	1,784	1,618,843,079	1,978,254,282	6,994,685,338	198,972,543	7,193,657,881		

(*) Detailed information about restated consolidated financial statements is given in Note 33.

(**) Annual General Assembly dated 29 March 2013, dividend distribution (gross dividend per share: TRY 0,03429 (2012: TRY 0,0971)) amounting to TRY 120,000,000 (30 March 2012: TRY 300,000,000) from 2012 net profit was approved. As the Company holds 3,08% of its shares with a nominal value of TRY 1 as of 29 March 2013, dividends for treasury shares are netted off under dividends paid. The dividend payment was completed at 30 May 2013.

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

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS PERIOD
ENDED 30 JUNE 2013**

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

		(Audited) Current Period 1 January- 30 June 2013	(Audited) (Restated) Previous Period 1 January- 30 June 2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax and non-controlling interests		709.335.596	297.292.059
Adjustments to reconcile net profit before tax to net cash provided by operating activities:			
Depreciation and amortization expenses	21/23	206.770.956	159.346.711
Provision for employee termination benefits	16	23.591.063	19.124.799
Provision for seniority incentive premium	16	(2.336.885)	2.445.305
Gain on sale of property plant and equipment	24	(873.046)	(362.468)
Loss on write off of property plant and equipment	24	739.652	1.175.410
Increase in provision for doubtful receivables	8/9	2.693.940	1.052.344
Increase/ (decrease) in the allowance for inventories	10	3.677.433	(3.073.196)
Increase in provision for unpaid vacations	16	8.357.365	14.274.038
Increase in provision for pending claims and lawsuits	17	30.548.655	27.590.162
Increase in penalty provision for obligatory employment shortage of disabled people	17	148.095	362.554
Increase in provision for state right on mining activities	17	1.312.236	2.571.340
Increase in provision for civil defense fund	17	3.340.926	-
Interest expenses	26	111.477.354	128.023.084
Interest income	25	(37.737.659)	(31.976.815)
Interest income from overdue sales	24	(23.382.837)	(28.319.710)
Unrealized foreign currency loss/(gain) of financial liabilities		227.663.644	(177.310.091)
Loss/(gain) on fair value changes of derivative financial instruments	25/26	(26.761.493)	18.868.235
Net cash provided by operating activities before changes in working capital		1.238.564.995	431.083.761
Changes in working capital	33	4.388.676	550.462.907
Interest income from overdue sales collected		27.513.430	21.136.475
Lawsuits paid	17	(4.375.628)	(10.540.960)
Penalty paid for the employment shortage of disabled people	17	(642.600)	(694.716)
Corporate tax paid	27	(42.444.460)	(63.607.250)
Employee termination benefits paid	16	(14.262.621)	(1.969.275)
State rights paid for mining activities	17	(3.643.868)	(3.704.424)
Unused vacation paid	16	(2.475.491)	(624.621)
Seniority incentive premium paid	16	(856.160)	(1.528.973)
Net cash provided by operating activities		1.201.766.273	920.012.924
CASH FLOWS FROM INVESTING ACTIVITIES			
Changes in financial investments		(17.762)	(11.246)
Cash used in the purchase of tangible assets	13	(160.679.651)	(230.254.816)
Cash used in the purchase of intangible assets	14	(1.712.063)	(5.310.523)
Cash provided by sales of tangible assets	13/14/24	1.147.219	432.473
Net cash used in investing activities		(161.262.257)	(235.144.112)
CASH FLOWS FROM FINANCING ACTIVITIES			
New borrowings		2.819.072.339	1.421.616.019
Repayment of borrowings		(3.521.359.390)	(1.197.186.629)
Interest paid		(131.733.354)	(121.980.466)
Interest received on bank deposits	4/25	36.877.624	31.093.724
Dividends paid		(116.302.736)	(290.276.819)
Dividends paid to non-controlling interests		(17.442.482)	(19.094.135)
Net cash used in by financing activities		(930.887.999)	(175.828.306)
NET CHANGES IN CASH AND CASH EQUIVALENTS		109.616.017	509.040.506
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	1.827.697.701	1.100.335.205
Currency translation difference, net		(1.389.579)	(423.817)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	1.935.924.139	1.608.951.894
Accrued interest income	4	2.878.505	3.258.094
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD INCLUDING ACCRUED INTEREST INCOME	4	1.938.802.644	1.612.209.988

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2013

(Amounts are expressed as Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 1 – GROUP’S ORGANIZATION AND NATURE OF OPERATIONS

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

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

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

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

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

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

Name of the Company	Country of Operation	Operation	2013 Share %	2012 Share %
İskenderun Demir ve Çelik A.Ş. (“İSDEMİR”)	Turkey	Iron and Steel	92,91	92,91
Erdemir Madencilik San. ve Tic. A.Ş.	Turkey	Iron Ore and Pellet	90,00	90,00
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Turkey	Iron and Steel	100	100
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100	100
Erdemir Romania S.R.L.	Romania	Iron and Steel	100	100

Erdemir Gaz San. ve Tic. A.Ş. as disclosed in non-current financial investments is excluded from consolidation, as it has been dormant since its establishment at 21 December 2004 and it does not significantly affect the consolidated financial statements of the Group (Note 5). In the Extraordinary General Meeting of Erdemir Gaz San. ve Tic. A.Ş. dated 7 May 2012, liquidation of the Company has been decided. Registration and liquidation procedures are completed and published in Trade Registry Gazette numbered 8365 on 17 July 2013.

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

It has been decided to move the Company’s headquarter to İstanbul in Annual General Assembly dated 29 March 2013.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2013

(Amounts are expressed as Turkish Lira (“TRY”) unless otherwise indicated.)

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

The number of the personnel employed by the Group as at 30 June 2013 and 31 December 2012 are as follows:

	Paid Hourly Personnel	Paid Montly Personnel	30 June 2013 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.674	1.805	6.479
İskenderun Demir ve Çelik A.Ş.	4.538	870	5.408
Erdemir Madencilik San. ve Tic. A.Ş.	117	140	257
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	43	92	135
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	-	162	162
Erdemir Romania S.R.L.	214	55	269
	9.586	3.124	12.710

	Paid Hourly Personnel	Paid Montly Personnel	31 December 2012 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.732	1.898	6.630
İskenderun Demir ve Çelik A.Ş.	4.658	885	5.543
Erdemir Madencilik San. ve Tic. A.Ş.	128	145	273
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	33	86	119
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	180	180
Erdemir Romania S.R.L.	208	72	280
Erdemir Lojistik A.Ş.	12	8	20
	9.771	3.274	13.045

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 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 carried on fair value (Note 5 and Note 7).

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”).

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD
ENDED 30 JUNE 2013**

(Amounts are expressed as Turkish Lira (“TRY”) 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 and affiliates operating in Turkey and reporting currency of the consolidated financial statements.

There were changes in sale operations of Company’s and its subsidiaries’ İskenderun Demir ve Çelik A.Ş. and Erdemir Çelik Servis Merkezi San. Ve Tic. A.Ş in 2012.

Erdemir Group announced that there won’t be sales with maturities in TRY starting from 31 March 2012 its website and other communication channels. Starting from 31 March 2012, new orders and sales contracts excluding exports to Europe have been started to perform with US Dollar currency. In addition to this change, there were existing orders and sales contracts with TRY currency as of 31 March 2012. Therefore the effects of TRY sales with or without maturity continued during year of 2012 and 2013.

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

Functional and reporting currency for the subsidiary abroad

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

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

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

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

Approval of the consolidated financial statements

The consolidated financial statements have been approved and authorized to be published on 16 August 2013 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2013

(Amounts are expressed as Turkish Lira (“TRY”) unless otherwise indicated.)

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

2.2 The Adjustment of the Financial Statements in Hyperinflationary Periods

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

2.3 Changes in Accounting Estimates and Errors

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

2.4 Basis of Consolidation

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

Subsidiaries

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

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

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

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

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

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

The Group’s consolidated financial statements are presented in comparison with the previous period in order to allow for the determination of the financial position and performance trends. The comparative information is reclassified when necessary in order to be aligned with the current period consolidated financial statements. The detailed information about these restatements are presented in Note 33.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD
ENDED 30 JUNE 2013**

(Amounts are expressed as Turkish Lira (“TRY”) unless otherwise indicated.)

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

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

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

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

The Group calculates depreciation for the fixed assets by taking into account their production amounts and useful lives that are stated in Note 2.9.3 and 2.9.4 (Note 13, Note 14).

2.6.2 Deferred tax

The Group recognizes deferred tax on the temporary timing differences between the carrying amounts of assets and liabilities in the financial statements prepared in accordance with TFRS and statutory financial statements which is used in the computation of taxable profit. The related differences are generally due to the timing difference of the tax base of some income and expense items between statutory and TFRS financial statements. The Group has deferred tax assets resulting from tax loss carry-forwards and deductible temporary differences, which could reduce taxable income in the future periods. All or partial amounts of the realizable deferred tax assets are estimated in current circumstances. The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring, the carry-forward period associated with the deferred tax assets, future reversals of existing taxable temporary differences that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset (Note 27).

2.6.3 Fair values of derivative financial instruments

The Group values its derivative financial instruments by using the foreign exchange and interest rate estimations and based on the valuation estimates of the market values as of the balance sheet date (Note5, Note 7, Note 30).

2.6.4 Provision for doubtful receivables

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

2.6.5 Provision for inventories

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD
ENDED 30 JUNE 2013**

(Amounts are expressed as Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(cont’d)

2.6 Significant Judgments and Estimates of the Group on Application of Accounting Policies (cont’d)

2.6.6 Provisions for employee benefits

Assumptions about discount rates, inflation rates, future salary increases and employee turnover rates are made to calculate Group’s provision for employee benefits. The details related with the defined benefit plans are stated in Note 16.

2.6.7 Provision for lawsuits

Provision for lawsuits is evaluated by the Group Management based on opinions of Group Legal Council and legal consultants. The Group Management determines the amount of provisions based on best estimates. As of balance sheet date, provision for lawsuits is stated in Note 17.

2.7 Offsetting

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

2.8 Adoption of New and Revised International Financial Reporting Standards

The accounting policies adopted in the preparation of the consolidated financial statements as at 30 June 2013 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 2013 summarized below. The effects of these standards and interpretations on the Group’s financial position and performance have been disclosed in the related paragraphs.

The new standards, amendments and interpretations which are effective as at 1 January 2013 are as follows:

TFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendment)

The amendment requires the disclosure of the rights of the entity relating to the offsetting of the financial instruments and some information about the related regulations (eg, collateral agreements). New disclosures would provide users of financial statements with information that is useful in

- i) evaluating the effect or potential effect of netting arrangements on an entity’s financial position and,
- ii) analyzing and comparing financial statements prepared in accordance with TFRSs and other generally accepted accounting standards.

New disclosures have to be provided for all the financial instruments in the balance sheet that have been offset according to TAS 32. Such disclosures are applicable to financial instruments in the balance sheet that have not been offset according to TAS 32 but are available for offsetting according to main applicable offsetting regulations or other financial instruments that are subject to a similar agreement. The amendment affects disclosures only and did not have any impact on the interim condensed consolidated financial statements of the Group.

TAS 1 Presentation of Financial Statements (Amended) – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change only the grouping of items presented in other comprehensive income. Items that could be reclassified subsequently (or ‘recycled’) to profit or loss at a future point in time would be presented separately from items which will never be reclassified. The amendments will be applied retrospectively. The amendment affects presentation only and did not have an impact on the financial position or performance of the Group.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD
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(Amounts are expressed as Turkish Lira (“TRY”) unless otherwise indicated.)

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

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

TAS 19 Employee Benefits (Amended)

Numerous changes or clarifications are made under the amended standard. Among these numerous amendments, the most important changes are removing the corridor mechanism, for determined benefit plans recognizing actuarial gain/(loss) under other comprehensive income and making the distinction between short-term and other long-term employee benefits based on expected timing of settlement rather than employee entitlement. The Group has accounted the actuarial gain/losses in other comprehensive income in accordance with the amendment. As a result of change in actuarial gain/ losses in other comprehensive income difference from previous year is explained in Note 33. Additionally, based on the amendment in the presentation of short term employee benefits, vacation pay liability formerly presented in the short term provisions has been retrospectively reclassified to long term provisions.

TAS 27 Separate Financial Statements (Amended)

As a consequential amendment to TFRS 10 and TFRS 12, the POA also amended TAS 27, which is now limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. This amendment did not have an impact on the financial position or performance of the the Group.

TAS 28 Investments in Associates and Joint Ventures (Amended)

As a consequential amendment to TFRS 11 and TFRS 12, the POA also amended TAS 28, which has been renamed TAS 28 Investments in Associates and Joint Ventures, to describe the application of the equity method to investments in joint ventures in addition to associates. Transitional requirement of this amendment is similar to TFRS 11. This amendment did not have an impact on the financial position or performance of the Group.

TFRS 10 Consolidated Financial Statements

TFRS 10, replaces the parts of previously existing TAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. A new definition of control is introduced, which is used to determine which entities are consolidated. This is a principle based standard and require preparers of financial statements to exercise significant judgment. This amendment will not have an impact on the financial position or performance of the Group.

TFRS 11 Joint Arrangements

The standard describes the accounting for joint ventures and joint operations with joint control. Among other changes introduced, under the new standard, proportionate consolidation is not permitted for joint ventures. This standard did not have an impact on the financial position or performance of the Group.

TFRS 12 Disclosure of Interests in Other Entities

TFRS 12 includes all of the requirements that are related to disclosures of an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. Apart from the disclosures regarding the significant issues and transactions in the interim period, disclosures according to the new standards are not applicable to interim periods so the Group did not provide this disclosure in the interim period.

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

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

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

IFRS 13 Fair Value Measurement

The new Standard provides guidance on how to measure fair value under IFRS but does not change when an entity is required to use fair value. It is a single source of guidance under IFRS for all fair value measurements. The new standard also brings new disclosure requirements for fair value measurements. The new disclosures are only required for periods beginning after TFRS 13 is adopted. Some of the disclosures about the financial instruments mentioned above, have to be provided in the interim condensed consolidated financial statements according to TAS 34.16 A (j). This amendment did not have an impact on the interim consolidated financial statements of the Group.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

Entities will be required to apply its requirements for production phase stripping costs incurred from the start of the earliest comparative period presented. The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. The interpretation is applicable for the Group however did not have any impact on the financial position or performance of the Group.

Transition Guidance (Amendments to TFRS 10, TFRS 11 and TFRS 12)

The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application is defined as ‘the beginning of the annual reporting period in which TFRS 10 is applied for the first time’. The assessment of whether control exists is made at ‘the date of initial application’ rather than at the beginning of the comparative period. If the control assessment is different between TFRS 10 and TAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IASB has also amended TFRS 11 Joint Arrangements and TFRS 12 Disclosure of Interests in Other Entities to provide transition relief. These amendments did not have an impact on the interim consolidated financial statements of the Group.

Improvements to TFRS

Annual Improvements to TFRSs – 2009 – 2011 Cycle, which contains amendments to its standards, is effective for annual periods beginning on or after 1 January 2013. This project did not have an impact on the financial position or performance of the Group.

TAS 1 Financial Statement Presentation:

Clarifies the difference between voluntary additional comparative information and the minimum required comparative information.

TAS 16 Property, Plant and Equipment:

Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD
ENDED 30 JUNE 2013

(Amounts are expressed as Turkish Lira (“TRY”) unless otherwise indicated.)

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

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

Improvements to TFRS (cont’d)

TAS 32 Financial Instruments: Presentation:

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

TAS 34 Interim Financial Reporting:

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

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 consolidated interim 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, after the new standards and interpretations become in effect.

TAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities (Amended)

The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the TAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2014. The Group does not expect that these amendments will have significant impact on the financial position or performance of the Group.

TFRS 9 Financial Instruments – Classification and measurement

As amended in December 2011, the new standard is effective for annual periods beginning on or after 1 January 2015. Phase 1 of this new TFRS introduces new requirements for classifying and measuring financial instruments. The amendments made to TFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. This standard has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD
ENDED 30 JUNE 2013**

(Amounts are expressed as Turkish Lira (“TRY”) unless otherwise indicated.)

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

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

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by 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 interim 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 consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

IFRS 10 Consolidated Financial Statements (Amendment)

IFRS 10 is amended to provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments. The Group does not expect that this amendment will have any impact on the financial position or performance of the Group.

IFRIC Interpretation 21 Levies

The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognized before the specified minimum threshold is reached. The interpretation is effective for annual periods beginning on or after 1 January 2014, with early application permitted. Retrospective application of this interpretation is required. The Group does not expect that this amendment will have any impact on the financial position or performance of the Group.

IAS 36 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial assets (Amendment)

The IASB, as a consequential amendment to IFRS 13 Fair Value Measurement, modified some of the disclosure requirements in IAS 36 Impairment of Assets regarding measurement of the recoverable amount of impaired assets. The amendments require additional disclosures about the measurement of impaired assets (or a group of assets) with a recoverable amount based on fair value less costs of disposal. The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2014. Earlier application is permitted for periods when the entity has already applied IFRS 13. The Group does not expect that this amendment will have any impact on the financial position or performance of the Group.

IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendment)

In June 2013, the IASB issued amendments to IAS 39 Financial Instruments: Recognition and Measurement that provides a narrow exception to the requirement for the discontinuation of hedge accounting in circumstances when a hedging instrument is required to be novated to a central counterparty as a result of laws or regulations. The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2014. The Group does not expect that this amendment will have any impact on the financial position or performance of the Group.

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

2.9 Valuation Principles Applied / Significant Accounting Policies

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

2.9.1 Revenue recognition

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

Sale of goods

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

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

Dividend and interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount. Group’s interest income from sales with maturities is recognized in other operating income.

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

Rental income

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

2.9.2 Inventories

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

2.9.3 Property, plant and equipment

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

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

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

2.9.3 Property, plant and equipment (cont’d)

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

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

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

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

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

2.9.4 Intangible assets

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

The amortization rates of the intangible assets are stated below:

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

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

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

2.9.5 Impairment of assets

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

2.9.6 Borrowing costs

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

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

2.9.7 Financial instruments

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

Financial assets

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

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

Effective interest method

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

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

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

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

2.9.7 Financial instruments (cont’d)

Financial assets (cont’d)

Available for sale financial assets

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

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

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

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

Receivables

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

Impairment of financial assets

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

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

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

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

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

2.9.7 Financial instruments (cont'd)

Financial assets (cont'd)

Impairment of financial assets (cont'd)

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

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

Cash and cash equivalents

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

Financial liabilities

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

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

Other financial liabilities

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

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

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

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

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

2.9.7 Financial instruments (cont’d)

Derivative financial instruments and hedge accounting

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

On the date a derivative contract is entered into, the Group designates certain derivatives as either a hedge of the fair value of a recognized asset or liability (fair value hedge) or a hedge from changes that could affect the statement of income due to a specific risk in cash flow of a forecasted transaction (cash flow hedge). Fair value of the Group’s interest swap agreements is determined by valuation methods depending on analyzable market data.

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

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

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

2.9.8 The effects of foreign exchange rate changes

Foreign currency transactions are recorded at the rates of exchange prevailing on the dates of the transactions. Assets and liabilities denominated in foreign currencies are converted at the exchange rates prevailing on the balance sheet date. Exchange differences are recognized in the consolidated income statements. Foreign exchange gain and loss from trade receivables and payables are recognized under other operating activities income and expenses. Foreign exchange gain and loss from financial assets and liabilities are recognized under finance income and expenses.

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

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

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

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

2.9.9 Earnings per share

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

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

2.9.10 Subsequent events

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

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

2.9.11 Provisions, contingent liabilities and contingent assets

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

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

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

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

2.9.12 Related parties

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

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

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

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

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

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

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

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

2.9.13 Investment properties

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

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

2.9.14 Taxation and deferred income taxes

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

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

Current tax

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

Deferred tax

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

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

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

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

2.9.14 Taxation and deferred income taxes (cont’d)

Deferred tax (cont’d)

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

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

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

Current and deferred tax for the period

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

2.9.15 Employee benefits

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

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

The Group makes certain assumptions about discount rates, inflation rates, future salary increases and employee turnover rates in calculation of provisions for employee benefits. The present value of employee benefits as of 31 December 2012 is calculated by an independent actuary and some changes are done in accounting assumptions used in calculations. The impact of the changes in assumptions is recognized in the statement of income. The details related with the defined benefit plans are stated in Note 16.

Liabilities due to unused vacations classified as provisions due to employee benefits are accrued and discounted if the discount effect is material.

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

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

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

2.9.16 Government grants and incentives

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

2.9.17 Statement of cash flows

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

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

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

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

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

2.9.18 Share capital and dividends

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

2.9.19 Treasury shares

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

NOTE 3 – SEGMENTAL REPORTING

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

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NOTE 4 – CASH AND CASH EQUIVALENTS

The detail of cash and cash equivalents as of 30 June 2013 and 31 December 2012 is as follows:

	30 June 2013	31 December 2012
Cash	22.831	27.100
Banks – demand deposits	70.140.867	33.291.123
Banks – time deposits	1.868.638.946	1.796.397.948
	<u>1.938.802.644</u>	<u>1.829.716.171</u>
Time deposit interest accruals (-)	(2.878.505)	(2.018.470)
Cash and cash equivalents excluding interest accruals	<u>1.935.924.139</u>	<u>1.827.697.701</u>

The breakdown of demand deposits is presented below:

	30 June 2013	31 December 2012
US Dollars	28.500.649	10.926.074
TRY	38.378.736	17.110.339
EURO	2.281.528	4.622.001
Romanian Lei	866.905	592.051
GB Pound	22.504	28.118
Japanese Yen	90.545	12.540
	<u>70.140.867</u>	<u>33.291.123</u>

The breakdown of time deposits is presented below:

	30 June 2013	31 December 2012
US Dollars	1.804.551.141	1.697.696.627
TRY	20.923.245	85.519.056
EURO	43.159.573	13.085.895
Romanian Lei	4.987	96.370
	<u>1.868.638.946</u>	<u>1.796.397.948</u>

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

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NOTE 5 – FINANCIAL ASSETS

Current financial investments:

	30 June 2013	31 December 2012
Derivative financial assets at fair value through income statement (*)	7.298.512	543.101
Total	7.298.512	543.101

Non-current financial investments:

	30 June 2013	31 December 2012
Derivative financial assets at fair value through other comprehensive income statement (*)	47.265.984	9.579.245
Total	47.265.984	9.579.245

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

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2013**

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NOTE 6 – FINANCIAL LIABILITIES

Breakdown of financial liabilities is as follows:

	30 June 2013	31 December 2012
Short term financial liabilities	605.223.782	867.824.521
Current portion of long term financial liabilities	1.143.260.552	1.154.609.147
Corporate bonds issued (*)	3.928.039	-
Total short term financial liabilities	1.752.412.373	2.022.433.668
Long term financial liabilities	1.975.947.504	2.396.318.269
Corporate bonds issued (*)	199.643.246	-
Total long term financial liabilities	2.175.590.750	2.396.318.269
	3.928.003.123	4.418.751.937

(*) As of 13 March 2013, completed sales of the Group is the total nominal value of TRY 200.000.000 floating rate bond issue 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 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		Short Term Portion	Long Term Portion	30 June 2013
		Average Rate of Interest (%)				
No interest	TRY	-		20.561.394	-	20.561.394
Fixed	TRY	8,63		198.704.868	342.801.860	541.506.728
Fixed	US Dollars	2,28		622.059.925	31.133.174	653.193.099
Fixed	EURO	5,50		64.513	3.770.549	3.835.062
Floating	TRY	Trlibor+1,50		3.928.039	199.643.246	203.571.285
Floating	US Dollars	Libor+2,53		790.588.660	1.210.016.960	2.000.605.620
Floating	EURO	Euribor+0,33		93.009.928	306.002.180	399.012.108
Floating	Jap. Yen	JPY Libor+0,22		23.495.046	82.222.781	105.717.827
				1.752.412.373	2.175.590.750	3.928.003.123

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

Interest Type	Type of Currency	Weighted		Short Term Portion	Long Term Portion	31 December 2012
		Average Rate of Interest (%)				
No interest	TRY	-		25.735.899	-	25.735.899
Fixed	TRY	9,41		269.311.833	682.341.271	951.653.104
Fixed	US Dollars	2,91		1.046.948.497	23.011.745	1.069.960.242
Fixed	EURO	5,50		58.841	3.527.550	3.586.391
Floating	US Dollars	Libor+2,54		566.416.226	1.262.194.976	1.828.611.202
Floating	EURO	Euribor+0,33		88.815.893	324.706.901	413.522.794
Floating	Jap. Yen	JPY Libor+0,22		25.146.479	100.535.826	125.682.305
				2.022.433.668	2.396.318.269	4.418.751.937

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NOTE 6 – FINANCIAL LIABILITIES (cont’d)

As of 30 June 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	30 June 2013
US Dollars	2,38	25.888.148	26.163.722	52.051.870
US Dollars	4,18	22.697.920	9.057.882	31.755.802
US Dollars	3,29	13.105.326	26.205.013	39.310.339
US Dollars	3,28	28.598.518	-	28.598.518
US Dollars	1,09	26.078.140	26.310.451	52.388.591
US Dollars	4,47	58.571.618	291.928.000	350.499.618
US Dollars	4,46	13.350.813	46.545.164	59.895.977
US Dollars	1,68	2.673.422	5.343.922	8.017.344
US Dollars	2,01	8.142.074	8.234.563	16.376.637
US Dollars	4,15	35.115.410	104.327.643	139.443.053
EURO	2,18	6.214.404	12.209.562	18.423.966
EURO	1,82	54.625.208	-	54.625.208
EURO	1,75	1.426.537	-	1.426.537
EURO	1,79	1.238.447	1.236.454	2.474.901
EURO	1,80	2.872.303	10.044.968	12.917.271
EURO	4,43	2.293.686	7.998.136	10.291.822
EURO	2,29	6.267.957	12.529.977	18.797.934
EURO	1,66	1.561.230	3.126.531	4.687.761
US Dollars (*)	7,22	17.588.731	69.789.441	87.378.172
EURO (**)	10,65	32.526.966	113.797.349	146.324.315
		<u>360.836.858</u>	<u>774.848.778</u>	<u>1.135.685.636</u>

(*)The loan amount USD 80.193.601, TRY equivalent TRY 116.822.029, 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 amount EUR 111.305.000, TRY equivalent TRY 231.790.880, 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.

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NOTE 6 – FINANCIAL LIABILITIES (cont’d)

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

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

(*)The loan amount USD 80.193.601, TRY equivalent TRY 116.822.029, 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 amount EUR 111.305.000, TRY equivalent TRY 231.790.880, 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2013

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NOTE 6 – FINANCIAL LIABILITIES (cont'd)

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

	30 June 2013	31 December 2012
Within 1 year	1.752.412.373	2.022.433.668
Between 1-2 years	845.637.988	759.838.591
Between 2-3 years	551.356.766	688.636.253
Between 3-4 years	453.570.601	589.040.223
Between 4-5 years	190.428.162	274.057.020
Five years or more	134.597.233	84.746.182
	<u>3.928.003.123</u>	<u>4.418.751.937</u>

NOTE 7 - OTHER FINANCIAL LIABILITIES

	30 June 2013	31 December 2012
<u>Other current financial liabilities</u>		
Derivative financial liabilities at fair value through other comprehensive income statement (*)	9.092	278.881
Derivative financial liabilities at fair value through income statement (*)	2.475.449	3.901.647
	<u>2.484.541</u>	<u>4.180.528</u>
<u>Other non-current financial liabilities</u>		
Derivative financial liabilities at fair value through other comprehensive income statement (*)	24.897.298	14.576.726
	<u>24.897.298</u>	<u>14.576.726</u>

(*) As explained in Note 30 (f) and Note 30 (g), the derivative financial liabilities comprise of forward agreements, option agreements, interest rate swap agreements and cross currency and interest rate swap agreements.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD
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NOTE 8 – TRADE RECEIVABLES AND PAYABLES

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

	30 June 2013	31 December 2012
<u>Short term trade receivables</u>		
Trade receivables	1.207.426.988	1.069.683.038
Due from related parties (Note 29)	25.608.088	17.941.389
Notes receivables	1.968.703	1.296.567
Discount on receivables (-)	(400.148)	(349.432)
Provision for doubtful trade receivables (-)	(43.749.670)	(41.271.202)
	<u>1.190.853.961</u>	<u>1.047.300.360</u>

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

	1 January – 30 June 2013	1 January – 30 June 2012
Opening balance	41.271.202	43.039.895
Provision for the period	783.030	35.283
Provision released (-)	(163.396)	(435.558)
Translation loss/(gain)	1.858.834	(2.770.357)
Closing balance	<u>43.749.670</u>	<u>39.869.263</u>

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

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

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

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

Other explanatory notes related to the credit risk of the Group are disclosed in Note 30.

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

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

	30 June 2013	31 December 2012
<u>Short term trade payables</u>		
Trade payables	293.656.783	417.099.017
Due to related parties (Note 29)	8.663.662	11.727.235
Discount on trade payables (-)	(767.966)	(770.502)
	<u>301.552.479</u>	<u>428.055.750</u>

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NOTE 9 – OTHER RECEIVABLES AND PAYABLES

Other current receivables

	30 June 2013	31 December 2012
Deposits and guarantees given	295.824	296.045
	<u>295.824</u>	<u>296.045</u>

Other non-current receivables

	30 June 2013	31 December 2012
Receivables from Privatization Authority	55.680.723	54.061.043
Deposits and guarantees given	272.671	238.949
Provision for other doubtful receivables (-)	(55.680.723)	(54.061.043)
	<u>272.671</u>	<u>238.949</u>

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

	1 January- 30 June 2013	1 January- 30 June 2012
Opening balance	54.061.043	52.458.346
Provision for the period	2.074.306	1.452.619
Other doubtful receivables collected (-)	(454.626)	(213.325)
Closing balance	<u>55.680.723</u>	<u>53.697.640</u>

Other current payables

	30 June 2013	31 December 2012
Taxes payable	5.572.106	1.819.122
Deposits and guarantees received	3.135.441	3.137.566
Dividend payables to shareholders (*)	2.789.517	2.827.812
	<u>11.497.064</u>	<u>7.784.500</u>

(*) TRY 674 of dividend payables as of 30 June 2013 is related to 2012 dividend distribution, while TRY 2.788.843 (31 December 2012: TRY 2.371.153) is uncollected dividends by shareholders related to previous years.

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NOTE 10 – INVENTORIES

	30 June 2013	31 December 2012
Raw materials	641.790.966	770.111.781
Work in progress	376.599.888	442.315.116
Finished goods	698.257.985	739.686.707
Spare parts	407.915.218	411.694.494
Goods in transit	385.226.247	378.626.074
Other inventories	172.612.577	166.079.744
Allowance for impairment on inventories (-)	(64.072.142)	(60.394.709)
	<u>2.618.330.739</u>	<u>2.848.119.207</u>

The movement of the allowance for impairment on inventories:

	1 January – 30 June 2013	1 January – 30 June 2012
Opening balance	60.394.709	53.525.003
Provision for the period (Note 21)	8.556.322	4.049.082
Provision released (-) (Note 21)	(4.878.889)	(7.122.278)
Closing balance	<u>64.072.142</u>	<u>50.451.807</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 21).

NOTE 11 – PREPAID EXPENSES

As of the balance sheet date, the details of the Group’s short term prepaid expenses are as follows:

	30 June 2013	31 December 2012
Insurance expenses	12.046.684	2.100.082
Order advances given	2.764.375	5.772.142
Prepaid utility allowance to employees	5.515.832	6.910.801
Other prepaid expenses	5.613.554	3.621.635
	<u>25.940.445</u>	<u>18.404.660</u>

As of the balance sheet date, the details of the Group’s long term prepaid expenses are as follows:

	30 June 2013	31 December 2012
Prepaid water expense	42.986.757	42.986.757
Order advances given	26.291.657	20.457.489
Prepaid expenses for mining rights	2.328.589	2.355.409
Other prepaid expenses	15.935	28.753
	<u>71.622.938</u>	<u>65.828.408</u>

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NOTE 12 – INVESTMENT PROPERTIES

	1 January – 30 June 2013	1 January – 30 June 2012
<u>Cost</u>		
As of 1 January	46.577.264	46.577.264
As of 31 December	46.577.264	46.577.264
<u>Book value</u>	46.577.264	46.577.264

According to the recent valuation reports, the fair value of the Group’s investment properties is TRY 211.240.000 (31 December 2012: TRY 211.240.000). The fair values of the investment properties have been determined in reference to the valuations of independent valuation firms authorized by the CMB. The valuations are undertaken predominantly by using the precedent values of similar properties as references. The management doesn’t require an independent valuation as of 30 June 2013, assuming that there is no significant change in market conditions and fair values of investment property.

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

For the six months period ended 30 June 2013, the Group recognized rent income amounting to TRY 48.328 (30 June 2012: TRY 47.281) under other operating income.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)

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NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

Cost	Land improvements	Land	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other property, plant and equipment	Construction in progress (CIP)	Total
Opening balance as of 1 January 2013	99.675.795	1.526.980.784	2.401.825.025	10.124.707.287	675.208.102	326.950.629	17.737.193	395.173.972	15.568.258.787
Translation difference	518.542	-	830.262	1.762.446	237.101	-	189.004	142.810	3.680.165
Additions (*)	10.542.622	94.220	19.287	11.979.247	802.486	2.592.515	1.304.747	133.344.527	160.679.651
Disposals	-	-	-	(29.232.307)	(2.223.769)	(2.602.240)	(7.967)	-	(34.066.283)
Transfers from CIP (**)	-	4.622.739	42.523.450	62.545.793	781.920	136.942	146.968	(110.882.385)	(124.573)
Closing balance as of 30 June 2013	110.736.959	1.531.697.743	2.445.198.024	10.171.762.466	674.805.840	327.077.846	19.369.945	417.778.924	15.698.427.747
<u>Accumulated Depreciation</u>									
Opening balance as of 1 January 2013	-	(1.040.694.865)	(1.594.363.043)	(5.381.245.708)	(370.660.440)	(169.164.155)	(14.232.992)	-	(8.570.361.203)
Translation difference	-	-	(241.790)	(1.116.229)	(63.603)	-	(80.292)	-	(1.501.914)
Charge for the period	-	(16.223.972)	(25.289.705)	(120.310.266)	(11.025.002)	(6.314.724)	(850.218)	-	(180.013.887)
Disposals	-	-	-	28.371.411	2.207.580	2.465.500	7.967	-	33.052.458
Closing balance as of 30 June 2013	-	(1.056.918.837)	(1.619.894.538)	(5.474.300.792)	(379.541.465)	(173.013.379)	(15.155.535)	-	(8.718.824.546)
Net book value as of 31 December 2012	99.675.795	486.285.919	807.461.982	4.743.461.579	304.547.662	157.786.474	3.504.201	395.173.972	6.997.897.584
Net book value as of 30 June 2013	110.736.959	474.778.906	825.303.486	4.697.461.674	295.264.375	154.064.467	4.214.410	417.778.924	6.979.603.201

(*) The amount of capitalized financial expense is TRY 2.089.974 for the current period (The capitalized financial expenses for the year ended 30 June 2012 is TRY 309.701).

(**) TRY 124.573 is transferred to intangible assets (Note 14).

As of 30 June 2013, the Group has no collaterals or pledges upon its tangible assets.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)

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NOTE 13 – PROPERTY, PLANT AND EQUIPMENT (cont'd)

Cost	Land	Land improvements	Land	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other property, plant and equipment	Construction in progress (CIP)	Total
Opening balance as of 1 January 2012	99.970.596	1.502.021.260	2.371.470.716	9.939.412.661	669.521.997	322.062.397	15.692.249	303.035.174	15.223.187.050	
Translation difference	(754.324)	-	(1.178.009)	(2.305.099)	(342.048)	-	(180.817)	(88.460)	(4.848.757)	
Additions	-	621.096	3.676	14.578.641	5.779.117	2.276.529	592.850	206.712.608	230.564.517	
Disposals	-	-	-	(9.195.316)	(1.714.741)	(125.592)	(76.862)	-	(11.112.511)	
Transfer from CIP (*)	-	13.203.153	3.714.491	45.085.486	1.776.624	96.602	-	(64.222.499)	(346.143)	
Closing balance as of 30 June 2012	99.216.272	1.515.845.509	2.374.010.874	9.987.576.373	675.020.949	324.309.936	16.027.420	445.436.823	15.437.444.156	
<u>Accumulated Depreciation</u>										
Opening balance as of 1 January 2012	-	(1.016.431.739)	(1.545.595.586)	(5.225.691.075)	(353.940.724)	(156.076.545)	(13.806.800)	-	(8.311.542.469)	
Translation difference	-	-	318.313	1.574.790	58.973	-	116.344	-	2.068.420	
Charge for the period	-	(14.817.799)	(24.396.426)	(102.587.894)	(10.450.974)	(7.028.791)	(277.998)	-	(159.559.882)	
Disposals	-	-	-	8.039.896	1.639.255	111.372	76.573	-	9.867.096	
Closing balance as of 30 June 2012	-	(1.031.249.538)	(1.569.673.699)	(5.318.664.283)	(362.693.470)	(162.993.964)	(13.891.881)	-	(8.459.166.835)	
Net book value as of 31 December 2011	99.970.596	485.589.521	825.875.130	4.713.721.586	315.581.273	165.985.852	1.885.449	303.035.174	6.911.644.581	
Net book value as of 30 June 2012	99.216.272	484.595.971	804.337.175	4.668.912.090	312.327.479	161.315.972	2.135.539	445.436.823	6.978.277.321	

(*) TRY 346.143 is transferred to intangible assets (Note 14).

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish
– See Note 33)

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(Amounts are expressed as Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT (cont’d)

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

	30 June 2013	30 June 2012
Associated with cost of production	171.969.309	152.160.664
General administrative expenses	2.956.510	2.775.898
Marketing, sales and distribution expenses	5.088.068	4.623.320
	<u>180.013.887</u>	<u>159.559.882</u>

NOTE 14 – INTANGIBLE ASSETS

	Rights	Exploration costs and other assets with specific useful life	Other intangible assets	Total
<u>Cost</u>				
Opening balance as of 1 January 2013	190.818.555	88.394.098	5.386.285	284.598.938
Translation difference	22.021	-	81.979	104.000
Additions	1.370.413	22.542	319.108	1.712.063
Transfers from CIP	124.573	-	-	124.573
Closing balance as of 30 June 2013	<u>192.335.562</u>	<u>88.416.640</u>	<u>5.787.372</u>	<u>286.539.574</u>
<u>Accumulated amortization</u>				
Opening balance as of 1 January 2013	(77.871.489)	(49.648.107)	(4.168.613)	(131.688.209)
Translation difference	(21.603)	-	(80.749)	(102.352)
Charge for the period	(6.418.055)	(3.008.808)	(249.303)	(9.676.166)
Closing balance as of 30 June 2013	<u>(84.311.147)</u>	<u>(52.656.915)</u>	<u>(4.498.665)</u>	<u>(141.466.727)</u>
Net book value as of 31 December 2012	<u>112.947.066</u>	<u>38.745.991</u>	<u>1.217.672</u>	<u>152.910.729</u>
Net book value as of 30 June 2013	<u>108.024.415</u>	<u>35.759.725</u>	<u>1.288.707</u>	<u>145.072.847</u>

As of 30 June 2013, the Group has no collaterals or pledges upon its intangible assets (30 June 2012: None).

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. VE BAĞLI ORTAKLIKLARI

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS
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(Amounts are expressed as Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 14 – INTANGIBLE ASSETS (cont’d)

	Rights	Exploration costs and other assets with specific useful life	Other intangible assets	Total
<u>Cost</u>				
Opening balance as of 1 January 2012	181.438.363	88.324.945	4.912.952	274.676.260
Translation difference	(31.354)	-	(116.118)	(147.472)
Additions	5.122.085	-	188.438	5.310.523
Transfers from CIP	346.143	-	-	346.143
Closing balance as of 30 June 2012	186.875.237	88.324.945	4.985.272	280.185.454
<u>Accumulated amortization</u>				
Opening balance as of 1 January 2012	(61.991.877)	(44.794.501)	(3.737.191)	(110.523.569)
Translation difference	27.490	-	92.124	119.614
Charge for the period	(8.112.405)	(3.133.037)	(400.285)	(11.645.727)
Closing balance as of 30 June 2012	(70.076.792)	(47.927.538)	(4.045.352)	(122.049.682)
Net book value as of 31 December 2011	119.446.486	43.530.444	1.175.761	164.152.691
Net book value as of 30 June 2012	116.798.445	40.397.407	939.920	158.135.772

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

	30 June 2013	30 June 2012
Associated with cost of production	9.102.432	10.952.633
General administrative expenses	474.155	674.561
Marketing, sales and distribution expenses	99.579	18.533
	9.676.166	11.645.727

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. VE BAĞLI ORTAKLIKLARI

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS
PERIOD ENDED 30 JUNE 2013**

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NOTE 15 – GOVERNMENT GRANTS AND INCENTIVES

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

	1 January- 30 June 2013	1 January- 30 June 2012
Research and development grants	67.557	536.375
Social security grants	687.893	245.586
	<u>755.450</u>	<u>781.961</u>

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

The subsidiary of the Group Erdemir Madencilik Sanayi ve Ticaret A.Ş has granted the investment incentive certificate numbered 110476 for Iron Ore Beneficiation and Pellet Plant in 31 May 2013. The investment will take place in Malatya city Hekimhan Hasaңcelebi town with the production capacity 3.000.000 ton/per year. Total expenses of the new investment is TRY 1.569.000.000. There is no board resolution for the investment as of approval date of financial statements.

There is an investment incentive right of the Group amounting to TRY 211.935.310 with indefinite useful life, deductible in the next periods within the concept of the law numbered 5479, article 2 which repealed the 19th article of Income Tax Law (ITL) as of 1 January 2006 (30 June 2012: TRY 46.489.471).

NOTE 16 – EMPLOYEE BENEFITS

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

	30 June 2013	31 December 2012
Due to personnel	88.801.836	61.083.831
Social security premiums payable	45.032.322	21.941.319
Income and stamp tax due to personnel	20.062.499	18.291.964
	<u>153.896.657</u>	<u>101.317.114</u>

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

	30 June 2013	31 December 2012
Provisions for employee termination benefits	281.137.922	265.082.814
Provisions for seniority incentive premium	15.703.350	18.896.395
Provision for unpaid vacations	68.151.589	62.269.715
	<u>364.992.861</u>	<u>346.248.924</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 2013, the amount payable consists of one month’s salary limited to a maximum of TRY 3.129,25 (31 December 2012: TRY 3.033, 98). As of 1 July 2013 the amount payable of one month’s salary updated to a maximum of TRY 3.254,44.

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

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. VE BAĞLI ORTAKLIKLARI

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NOTE 16 – EMPLOYEE BENEFITS (cont’d)

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 2013 has been calculated by an independent actuary. The method used in calculation is “Projected Unit Credit Method”.

The actuarial assumptions used in the calculation of the present value of the future probable obligation are as follows:

	<u>30 June 2013</u>	<u>31 December 2012</u>
Discount rate	8.46%	7.62%
Inflation rate	5.3%	4.3%
Salary increase	real 1.5%	real 1.5%
Maximum liability increase	5.3%	4.3%

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 2013, 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 2013, the anticipated rate of resignation is considered to be inversely proportional to the past experience. The anticipated rate of resignation is between 2%-0% for the employees with past experience between 0-15 years or over.

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

	<u>1 January- 30 June 2013</u>	<u>1 January- 30 June 2012</u>
Opening balance	265.082.814	199.372.291
Service cost	14.133.207	9.905.587
Interest cost	9.457.856	9.219.212
Actuarial loss	6.726.666	17.490.967
Termination benefits paid	<u>(14.262.621)</u>	<u>(1.969.275)</u>
Closing balance	<u>281.137.922</u>	<u>234.018.782</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:

	<u>1 January- 30 June 2013</u>	<u>1 January- 30 June 2012</u>
Opening balance	18.896.395	18.750.643
Service cost	1.152.001	649.877
Interest cost	690.721	866.273
Actuarial loss/(gain)	(4.179.607)	929.155
Termination benefits paid	<u>(856.160)</u>	<u>(1.528.973)</u>
Closing balance	<u>15.703.350</u>	<u>19.666.975</u>

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish
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EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. VE BAĞLI ORTAKLIKLARI

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NOTE 16 – EMPLOYEE BENEFITS (cont’d)

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

	1 January- 30 June 2013	1 January- 30 June 2012
Opening balance	62.269.715	55.055.727
Provision for the period	23.878.793	28.059.594
Unused vacation paid (-)	(2.475.491)	(624.621)
Provisions released (-)	(15.521.428)	(13.785.556)
Closing balance	68.151.589	68.705.144

NOTE 17 – PROVISIONS

The Group’s short term provisions are as follows:

	30 June 2013	31 December 2012
Provision for lawsuits	130.645.013	104.471.986
Penalty provision for employment shortage of disabled personnel	4.450.964	4.945.469
Provision for state right on mining activities (*)	1.312.236	3.643.868
Provision for civil defense fund (**)	3.340.926	-
	139.749.139	113.061.323

(*) 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.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish -- See Note 33)

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NOTE 17 – PROVISIONS (cont'd)

The movement of the provisions is as follows:

	1 January 2013	Provision for the period	Payments	Provision released (-)	30 June 2013
Provision for lawsuits	104.471.986	32.747.610	(4.375.628)	(2.198.955)	130.645.013
Penalty provision for employment shortage of disabled personnel	4.945.469	1.353.848	(642.600)	(1.205.753)	4.450.964
Provision for state right on mining activities	3.643.868	1.312.236	(3.643.868)	-	1.312.236
Provision for civil defense fund	-	3.340.926	-	-	3.340.926
	<u>113.061.323</u>	<u>38.754.620</u>	<u>(8.662.096)</u>	<u>(3.404.708)</u>	<u>139.749.139</u>
	1 January 2012	Provision for the period	Payments	Provision released (-)	30 June 2012
Provision for lawsuits	68.484.650	36.716.143	(10.540.960)	(9.125.981)	85.533.852
Penalty provision for employment shortage of disabled personnel	5.235.076	1.115.130	(694.716)	(752.576)	4.902.914
Provision for state right on mining activities	3.704.424	2.571.340	(3.704.424)	-	2.571.340
	<u>77.424.150</u>	<u>40.402.613</u>	<u>(14.940.100)</u>	<u>(9.878.557)</u>	<u>93.008.106</u>

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

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NOTE 17 – PROVISIONS (cont’d)

As of 30 June 2013 and 31 December 2012, lawsuits filed by and against the Group are as follows:

	30 June 2013	31 December 2012
<u>Lawsuits filed by the Group</u>		
TRY	208.534.916	206.805.171
US Dollars	97.630.247	90.417.539
	<u>306.165.163</u>	<u>297.222.710</u>
<u>Provision for lawsuits filed by the Group</u>		
TRY	3.689.822	3.670.471
	<u>3.689.822</u>	<u>3.670.471</u>

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

	30 June 2013	31 December 2012
<u>Lawsuits filed against the Group</u>		
TRY	57.612.927	54.325.739
US Dollars	142.868.234	132.313.443
	<u>200.481.161</u>	<u>186.639.182</u>
<u>Provision for lawsuits filed against the Group</u>		
TRY	115.551.124	90.914.952
US Dollars	15.093.889	13.557.034
	<u>130.645.013</u>	<u>104.471.986</u>

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

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

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NOTE 17 – PROVISIONS (cont’d)

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

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

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

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

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

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

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NOTE 17 – PROVISIONS (cont’d)

Had the Company started to prepare its consolidated financial statements in accordance with IFRS after 31 December 2005, it would also have to present the comparative consolidated financial statements in accordance with IFRS based on “IFRS 1: First-time adoption of International Financial Reporting Standards” and the previously recognized negative goodwill would be transferred directly to retained earnings on 1 January 2005 instead of recognizing in the consolidated income statement in accordance with “IFRS 3: Business Combinations”. Therefore, the net profit for the periods ended 30 June 2013 and 30 June 2012 will not be affected from the above mentioned disputes.

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

Enerjia Metal Maden Sanayi ve Ticaret A.Ş. initiated a debt collection proceeding that might end with a bankruptcy judgment against the Company based on the Export Protocol No. 69187 of 2 July 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 March 2010 claiming that the objection should be overruled and 68.312.520 USD should be paid to itself (E. 2010/259). The Court dismissed the case, in favor of the Company, on 23 June 2011. Enerjia appealed this rejection. Supreme Court 23th Civil Chamber has reversed the judgments on 6 April 2012 by its decision numbered 2011/2915 E., 2012/2675 K. and has remanded the case for further enquiry to the 7 the Civil Court of First Instance of Ankara. The trial goes on at the 7 the Civil Court of First Instance of Ankara on the file numbered 2013/17 E.

NOTE 18 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	30 June 2013	31 December 2012
Letters of guarantees received	1.126.244.933	1.038.595.060
	<u>1.126.244.933</u>	<u>1.038.595.060</u>

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

	30 June 2013	31 December 2012
A. Total CPM given for the Company's own legal entity	91.177.666	121.524.013
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	2.276.782.464	2.634.472.886
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>2.367.960.130</u>	<u>2.755.996.899</u>

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

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NOTE 18 – COMMITMENTS AND CONTINGENCIES (cont’d)

As of 30 June 2013, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2012: 0%). Total CPM given in favor of subsidiaries consolidated on line-by-line basis amounting to TRY 2.276.782.464 has been given as collateral for financial liabilities explained in Note 6.

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

	30 June 2013	31 December 2012
US Dollars	1.370.281.946	1.339.482.191
TRY	564.923.744	965.475.620
EURO	373.930.875	382.171.926
Japanese Yen	57.074.800	67.522.169
Romanian Lei	1.748.765	1.344.993
	<u>2.367.960.130</u>	<u>2.755.996.899</u>

NOTE 19 – OTHER ASSETS AND LIABILITIES

Other current assets

	30 June 2013	31 December 2012
Other VAT Receivable	100.827.391	85.590.505
VAT carried forward	15.344.549	8.068.989
Prepaid taxes and funds	1.551.282	13.679.448
Due from personnel	38.683	62.734
Job advances given	421.715	139.037
Other current assets	2.764.051	2.309.825
	<u>120.947.671</u>	<u>109.850.538</u>

Other current liabilities

	30 June 2013	31 December 2012
Advances received	85.380.139	93.234.464
VAT payable	66.588.392	27.619.537
Expense accruals	3.834.637	813.316
Deferred income	201.102	2.290.265
Other current liabilities	4.901.820	4.904.575
	<u>160.906.090</u>	<u>128.862.157</u>

Other non-current liabilities

	30 June 2013	31 December 2012
Other non-current liabilities	343.646	416.621
	<u>343.646</u>	<u>416.621</u>

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(Amounts are expressed as Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 20 – EQUITY

As of 30 June 2013 and 31 December 2012, the capital structure is as follows:

Shareholders	(%)	30 June		31 December	
		2013	(%)	2012	
Ataer Holding A.Ş.	49,29	1.724.982.584	49,29	1.522.913.196	
Quoted in Stock Exchange	47,63	1.667.180.563	47,63	1.471.882.268	
Erdemir’s own shares	3,08	107.836.853	3,08	95.204.536	
Historical capital	100,00	3.500.000.000	100,00	3.090.000.000	
Effect of inflation		156.613.221		342.195.166	
Restated capital		3.656.613.221		3.432.195.166	
Treasury shares		(116.232.173)		(103.599.856)	
		<u>3.540.381.048</u>		<u>3.328.595.310</u>	

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

With the decision of Ereğli Iron and Steel Inc.’s Board Meeting as of 19 February 2013 and approval no: 9189 of CMB as of 19 February 2013; it is decided that TRY 3.090.000.000 of issued capital will be increased to TRY 3.500.000.000 by increasing TRY 410.000.000 (TRY 185.581.944,96 from capital restatements positive differences, TRY 18.465.461,72 from special funds, TRY 205.952.593,32 inflation difference from investment funds), by 13,2686% of current issued capital to be covered from retained earnings and inflation adjustments to capital. The procedures for the increase in capital have been completed with the registration and publication of the Capital Market Board document dated 26 March 2013 and numbered 10/357 in the Turkish Trade Registry Gazette dated 5 April 2013 and numbered 8294.

The issued capital of the Company in 2013 consists of 350.000.000.000 lots of shares (2012: 309.000.000.000 lots). The nominal value of each share is 1 Kr (Turkish cent) (2012: 1 Kr). This capital is split between A and B group shares. Group A shares consist of 1 share with a share value of 1 Kr and Group B shares consist of 3.499.999.999,99 shares representing TRY 349.999.999.999 of the issued capital.

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

The General Assembly has to choose one member to the Board of Directors from the nominees of the Privatization Administration as the beneficiary owner representing A Group shares. In case, the Board member representing the A Group shares leaves the board within the chosen period, a new board member is obliged to be chosen from the nominees of the Privatization Administration as the beneficiary owner. For decisions to be taken about the rights assigned to A Group shares, the board member representing A Group shares is also obliged to use an affirmative vote.

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NOTE 20 – EQUITY (cont’d)

The decisions to change the Articles of Association of the Company that will have an effect on the board of directors’ meeting and decision quorum, rights assigned to A Group shares, rights assigned to A Group shares in relation to investments and employment decisions and any other changes in the Articles of Association of the Company which will directly or indirectly affect the rights of A Group shares, have to receive an affirmative vote of the beneficiary owner representing the A Group shares. Otherwise, the decisions are accepted as invalid.

Article IV-K of Articles of Association “According to Turkish Commercial Code Article 329, transactions of an entity’s own shares” allows Erdemir to purchase, hold, sell or transfer its own shares, without voting rights. As of 30 June 2013, the Company holds its own shares with a nominal value of TRY 107.836.853 (31 December 2012: TRY 95.204.536). The Company’s own shares have been reclassified with its inflation adjusted value in the consolidated balance sheet as a deduction under equity.

	30 June 2013	31 December 2012
Other equity items		
Share premium	106.447.376	106.447.376
Revaluation reserves	27.542.612	26.813.595
<i>-Revaluation reserves of property, plant & equipment</i>	<i>27.542.612</i>	<i>26.813.595</i>
Cash flow hedging reserves	(18.531.368)	(29.878.279)
Foreign currency translation reserves	(2.082.837)	(315.217)
Actuarial (loss)/ gain fund	(63.002.294)	(57.784.354)
Restricted reserves assorted from profit	1.435.961.396	1.618.843.079
<i>-Legal reserves</i>	<i>455.949.412</i>	<i>432.878.502</i>
<i>-Statutory reserves</i>	<i>980.011.984</i>	<i>1.185.964.577</i>
Retained earnings	2.066.883.264	1.760.073.286
<i>-Extraordinary reserves</i>	<i>780.894.088</i>	<i>484.013.314</i>
<i>-Accumulated profit</i>	<i>1.285.989.176</i>	<i>1.276.059.972</i>
	<u>3.553.218.149</u>	<u>3.424.199.486</u>

However, in accordance with the communiqué numbered II-14,1 “Communiqué on the Principles of Financial Reporting In Capital Markets” (“the Communiqué”) on 13 June 2013 which is published on Official Gazette numbered 28676, “Paid-in capital”, “Restricted profit reserves” and “Share premium” should be presented by using their registered amounts in the statutory records. The restatement differences (e.g. inflation restatement differences) arising from the application of this Communiqué should be associated with the:

- “Capital restatement differences” account, following the “paid-in capital” line item in the financial statements, if the differences are caused by “paid-in capital” and have not been added to capital yet;
- “Retained earnings”, if the differences are arising from “restricted profit reserves” and “share premium” and have not been associated with either profit distribution or capital increase yet.

Other equity items are carried at the amounts that are valued based on the CMB’s Financial Reporting Standards.

Capital restatement differences may only be considered as part of the paid-up capital.

In accordance with the Capital Market Board decision dated 27 January 2010, concerning with distribution of dividends for publicly traded joint stock companies, it was decided that no minimum dividend distribution requirement will be applied for publicly traded joint stock companies.

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NOTE 20 – EQUITY (cont’d)

Inflation adjustments to issued capital and historical amount of extraordinary reserves can be used as an internal source of capital increase, dividend distribution in cash or the net off from prior period losses. In case of usage of inflation adjustment to issued capital in dividend distribution in cash, it is subject to corporation tax.

Other sources which might be used in dividend distribution, except the profit for the period, in statutory books of the Company are equal to TRY 1.462.067.969 as of 30 June 2013 (31 December 2012: TRY 1.849.665.654).

The legal reserves and the share premium, which is regarded as legal reserve in accordance with TCC Article 466, are presented using their amounts in statutory records. In this context, the difference of inflation restatements in accordance with IFRS framework, that are not subject to profit distribution or capital increase as of the date of financial statements, is associated with the retained earnings.

According to the first paragraph of Article 466 of the Turkish Commercial Code (“TCC”), 5% of the profit shall be allocated as the first legal reserves, up to 20% of the paid/ issued capital. First dividend is appropriated for shareholders after deducting from the profit. Following the deduction of the amounts from the “profit”, General Assembly of Shareholders is authorized to decide whether shall be the remaining balance shall be fully or totally placed in extraordinary legal reserves or whether it is distributed, also taking into consideration the Company’s profit distribution policy. According to the sub-clause 3 of the clause 2 of Article 466 of the Turkish Commercial Code, after deducting dividends amounting to 5% of the paid/issued capital from the part decided to be allocated; ten percent of the remaining balance shall be appropriated to second legal reserves. If it is decided to distribute the profit as bonus share, through the method of adding the profit to the capital, second legal reserves is not appropriated.

According to the CMB Communiqué, until the company’s Article of Association was revised on 31 March 2008, an amount equal to the first dividend distributed to shareholders is allocated as status reserves in order to be used in the plant expansion. Also according to the 13th Article of Association before the revision on 31 March 2008, 5% of the net profit for the period after taxation is estimated to be allocated as legal reserves up until reaching 50% of the paid/issued capital. The reserve amount that exceeds the 20% of the legal reserves, defined by the Article 466 of TCC, is recorded as status reserve.

Cash flow hedging reserve arises from the recognition of the changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows directly in equity. The amounts deferred in equity are recognized in the consolidated statement of income in the same period, if the hedged item affects profit or loss.

Revaluation reserve of property, plant and equipment arises from the revaluation of land and buildings. In the case of a sale or retirement of the revalued property, the related revaluation surplus remaining in the properties revaluation reserve is transferred directly to the retained earnings.

The amendment in IAS-19 “Employee Benefits” does not permit the actuarial gain /loss considered in the calculation of provision for employee termination benefits to be accounted for under the statement of income. The gains and losses arising from the changes in the actuarial assumption have been accounted for by “Actuarial (Loss)/Gain Funds” under the equity. The funds for actuarial gains/ (losses) in the employee termination benefits is not in a position to be reclassified under profit and loss.

Foreign currency translation reserve arises from expressing the assets and liabilities of the Group’s foreign operations in TRY by using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified to equity and transferred to the Group’s translation reserve. Such exchange differences are recognized in the consolidated income statement in the period of which the foreign operation is disposed.

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NOTE 21 – SALES AND COST OF SALES

	1 January – 30 June 2013	1 April- 30 June 2013	1 January- 30 June 2012	1 April- 30 June 2012
<u>Sales Revenue</u>				
Domestic sales	4.229.218.579	2.270.315.453	4.068.032.693	1.959.231.402
Export sales	694.797.940	293.519.835	604.060.519	332.982.827
Other revenues (*)	134.158.647	61.036.571	130.519.791	67.054.337
Sales returns (-)	(1.966.659)	(1.045.018)	(4.153.801)	(3.680.758)
Sales discounts (-)	(9.177.159)	(5.737.878)	(13.881.664)	(6.349.203)
	<u>5.047.031.348</u>	<u>2.618.088.963</u>	<u>4.784.577.538</u>	<u>2.349.238.605</u>
<u>Cost of Sales (-)</u>	<u>(4.133.733.722)</u>	<u>(2.099.080.803)</u>	<u>(4.334.340.362)</u>	<u>(2.094.780.511)</u>
Gross profit	<u>913.297.626</u>	<u>519.008.160</u>	<u>450.237.176</u>	<u>254.458.094</u>

(*) The total amount of by product exports in other revenues is TRY 74.498.667 (30 June 2012: TRY 49.151.405).

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

NOTE 21 – SALES AND COST OF SALES (cont'd)

The breakdown of cost of sales for the periods 1 January – 30 June 2013 and 1 January – 30 June 2012 is as follows:

	1 January – 30 June 2013	1 April- 30 June 2013	1 January- 30 June 2012	1 April- 30 June 2012
<u>Sales Revenue</u>				
Domestic sales	4.229.218.579	2.270.315.453	4.068.032.693	1.959.231.402
Export sales	694.797.940	293.519.835	604.060.519	332.982.827
Other revenues (*)	134.158.647	61.036.571	130.519.791	67.054.337
Sales returns (-)	(1.966.659)	(1.045.018)	(4.153.801)	(3.680.758)
Sales discounts (-)	(9.177.159)	(5.737.878)	(13.881.664)	(6.349.203)
	5.047.031.348	2.618.088.963	4.784.577.538	2.349.238.605
	(4.133.733.722)	(2.099.080.803)	(4.334.340.362)	(2.094.780.511)
<u>Cost of Sales (-)</u>				
Gross profit	913.297.626	519.008.160	450.237.176	254.458.094

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NOTE 22 – RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

The breakdown of operating expenses for the periods 1 January – 30 June 2013 and 1 January – 30 June 2012 is as follows:

	1 January – 30 June 2013	1 April- 30 June 2013	1 January- 30 June 2012	1 April- 30 June 2012
Marketing, sales and distribution expenses (-)	(53.960.959)	(28.504.308)	(55.228.605)	(27.356.878)
General administrative expenses (-)	(95.154.696)	(52.420.687)	(87.786.577)	(43.146.246)
Research and development expenses (-)	(1.633.517)	(932.039)	(422.640)	(244.136)
	<u>(150.749.172)</u>	<u>(81.857.034)</u>	<u>(143.437.822)</u>	<u>(70.747.260)</u>

NOTE 23 – OPERATING EXPENSES ACCORDING TO THEIR NATURE

The breakdown of marketing, sales and distribution expenses according to their nature for the periods 1 January – 30 June 2013 and 1 January – 30 June 2012 is as follows:

	1 January – 30 June 2013	1 April- 30 June 2013	1 January- 30 June 2012	1 April- 30 June 2012
Personnel expense (-)	(29.228.047)	(15.300.698)	(30.298.189)	(14.465.129)
Depreciation and amortization(-)	(5.187.647)	(2.800.138)	(4.641.853)	(2.312.034)
Other (-)	(19.545.265)	(10.403.472)	(20.288.563)	(10.579.715)
	<u>(53.960.959)</u>	<u>(28.504.308)</u>	<u>(55.228.605)</u>	<u>(27.356.878)</u>

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NOTE 23 – OPERATING EXPENSES ACCORDING TO THEIR NATURE (cont'd)

The breakdown of general administrative expenses for the periods 1 January – 30 June 2013 and 1 January – 30 June 2012 is as follows:

	1 January – 30 June 2013	1 April- 30 June 2013	1 January- 30 June 2012	1 April- 30 June 2012
Personnel expense (-)	(61.291.089)	(34.544.083)	(53.616.453)	(25.948.553)
Depreciation and amortization (-)	(3.430.665)	(1.825.926)	(3.450.459)	(1.747.134)
Other (-)	(30.432.942)	(16.050.678)	(30.719.665)	(15.450.559)
	<u>(95.154.696)</u>	<u>(52.420.687)</u>	<u>(87.786.577)</u>	<u>(43.146.246)</u>

NOTE 24 – OTHER OPERATING INCOME/ (EXPENSE)

	1 January – 30 June 2013	1 April- 30 June 2013	1 January- 30 June 2012	1 April- 30 June 2012
<u>Other operating income</u>				
Foreign exchange gain from trade receivables and payables (net)	57.900.588	51.638.298	-	-
Interest income from overdue sales	23.382.837	11.426.848	28.319.710	13.172.427
Insurance indemnity income	6.727.459	6.119.382	2.028.740	1.886.790
Royalty income	4.383.008	2.774.756	1.297.587	761.532
Provisions released	3.575.340	2.390.652	10.091.882	2.055.656
Maintenance repair and rent income	3.417.540	1.423.427	3.576.767	1.963.889
Service income	3.293.648	1.498.518	3.408.471	1.782.536
Indemnity and penalty detention income	874.783	513.115	1.587.468	848.073
Gain on sale of tangible assets	873.046	300.035	362.468	339.124
Income from customer deposits	268.752	99.799	1.461.326	139.197
Other income and gains	5.842.982	3.225.655	7.065.092	2.550.538
	<u>110.539.983</u>	<u>81.410.485</u>	<u>59.199.511</u>	<u>25.499.762</u>

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NOTE 24 – OTHER OPERATING INCOME/ (EXPENSE) (cont'd)

	1 January – 30 June 2013	1 April- 30 June 2013	1 January- 30 June 2012	1 April- 30 June 2012
<u>Other operating expenses (-)</u>				
Provisions expenses	(17.182.327)	(10.736.329)	(18.895.078)	(5.623.450)
Port facility pre-licence expenses	(3.650.008)	(2.013.346)	(3.128.191)	(1.523.892)
Lawsuit compensation expenses	(1.474.467)	(967.524)	(2.957.868)	(351.345)
Penalty expenses	(1.349.404)	(1.275.710)	(3.618.357)	(2.033.135)
Service expenses	(1.279.287)	(841.929)	(1.381.742)	(684.929)
Stock exchange registration expenses	(1.182.500)	(410.000)	(1.477.500)	(940.000)
Capital Markets Board registration expenses	(820.000)	-	(1.880.000)	(1.880.000)
Loss on disposal of tangible assets	(739.652)	(196.476)	(1.175.410)	(978.659)
Rent expenses	(282.025)	(134.469)	(1.184.711)	(449.699)
Foreign exchange loss from trade receivables and payables (net)	-	-	(33.172.289)	15.629.757
Other expenses and losses	(6.640.616)	(1.792.351)	(4.354.991)	(2.759.026)
	<u>(34.600.286)</u>	<u>(18.368.134)</u>	<u>(73.226.137)</u>	<u>(1.594.378)</u>

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NOTE 25 – FINANCE INCOME

	1 January – 30 June 2013	1 April- 30 June 2013	1 January- 30 June 2012	1 April- 30 June 2012
Interest income on bank deposits	37.737.659	17.729.126	31.976.815	16.775.517
Foreign exchange gains from bank deposits (net)	146.741.539	132.684.850	-	-
Interest income from sales with maturity	-	-	467.393	467.393
Fair value differences of derivative financial instruments (net)	26.761.493	17.101.683	-	-
Fair value differences of derivative financial instruments	-	-	169.293.154	(52.852.002)
Foreign exchange gains from bank deposits (net)	-	-	2.867.880	799.649
Other financial income	7.431.068	6.150.084	417.462	320.768
	<u>218.671.759</u>	<u>173.665.743</u>	<u>205.022.704</u>	<u>(34.488.675)</u>

NOTE 26 – FINANCE EXPENSES

	1 January – 30 June 2013	1 April- 30 June 2013	1 January- 30 June 2012	1 April- 30 June 2012
Interest expenses on financial liabilities	(111.477.354)	(54.752.184)	(128.023.084)	(67.839.423)
Foreign exchange loss from financial liabilities (net)	(224.802.651)	(204.972.985)	-	-
Interest cost of employee benefits	(10.148.577)	(5.073.791)	(10.085.485)	(5.042.742)
Discount expenses (net)	(31.195)	105.071	-	-
Foreign exchange loss from bank deposits (net)	-	-	(40.903.695)	25.325.813
Fair value differences of derivative financial instruments	-	-	(18.868.235)	(2.097.596)
Foreign exchange loss from forward contracts	-	-	-	3.471.342
Other financial expenses	(1.364.537)	(966.496)	(2.622.874)	104.397
	<u>(347.824.314)</u>	<u>(265.660.385)</u>	<u>(200.503.373)</u>	<u>(46.078.209)</u>

During the period, the foreign currency translation losses of TRY 1.639.953, the interest expenses of TRY 450.021, out of total financial expense TRY 2.089.974, have been capitalized as part of the Group’s property, plant and equipment (1 January – 30 June 2012: the foreign currency translation losses of TRY 61.336, the interest expenses of TRY 248.365, in total TRY 309.701 has been capitalized).

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NOTE 27 – TAX ASSETS AND LIABILITIES

	30 June 2013	31 December 2012		1 January – 30 June 2013	1 April 30 June 2013	1 January- 30 June 2012	1 April- 30 June 2012
<u>Corporate tax payable:</u>							
Current corporate tax provision	88.227.593	53.282.231				32.496.347	13.119.071
Prepaid taxes and funds (-)	(30.235.399)	(41.073.170)				27.399.180	12.935.998
	<u>57.992.194</u>	<u>12.209.061</u>				<u>59.895.527</u>	<u>26.055.069</u>
<u>Taxation:</u>							
Current corporate tax expense	88.227.593			61.326.992		32.496.347	13.119.071
Deferred tax expense	55.792.964			22.060.252		27.399.180	12.935.998
	<u>144.020.557</u>			<u>83.387.244</u>		<u>59.895.527</u>	<u>26.055.069</u>

Corporate tax

The Group, except its subsidiary in Romania, is subject to Turkish corporate taxes in force. The necessary provisions are allocated in the consolidated financial statements for the estimated liabilities based on the Group's results for the year. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the consolidated financial statements, have been calculated on a separate-entity basis.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective corporate tax rate in Turkey is 20% and 16% in Romania as of 30 June 2013 (31 December 2012: in Turkey 20%, in Romania 16%). The total amount of the corporate tax paid by the Group in 2013 is TRY 42.444.460 (30 June 2012: TRY 63.607.250).

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ENDED 30 JUNE 2013**

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NOTE 27 – TAX ASSETS AND LIABILITIES (cont’d)

Corporate tax (cont’d)

In Turkey, advance tax returns are filed on a quarterly basis. The temporary tax of 2013 has been calculated over the corporate earnings using the rate 20%, during the temporary taxation period. (2012: 20%).

Losses can be carried forward to offset the future taxable income for up to maximum 5 years (Romania: 7 years). However, losses cannot be carried back to offset the profits of the previous periods, retrospectively.

In Turkey, a definite and distinct reconciliation procedure for tax assessment does not exist. Companies file their tax returns between 1 April - 25 April following the closing period of the related year’s accounts. Tax returns and related accounting records may be examined and revised within five years.

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes on dividends distributed, except for the dividends distributed to fully fledged taxpayer companies receiving and declaring these dividends and to Turkish branches of foreign companies. The rate of income withholding tax applied to all companies in the period of 24 April 2003 - 22 July 2006 is 10%. This rate was changed to 15% as of 22 July 2006 by the decision of the Council of Ministers, numbered 2006/10731. Undistributed dividends incorporated in share capital are not subject to the income withholding taxes.

19,8% withholding tax must be applied to the investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Investment disbursements without any investment incentive certificate after this date which are directly related to production facilities of the company can be deducted by 40% from the taxable income. The investments without investment incentive certificates do not qualify for tax allowance.

Investment allowance application

With the decision numbered 2006/95, which was taken during the meeting of the Constitutional Court on 15 October 2009, the phrase “only related to the years 2006, 2007 and 2008...” which was a part of the Temporary Article 69 of the Income Tax Law was cancelled and the cancellation became effective from the date the decision has been published in the Official Gazette on 8 January 2010. According to the decision, the investment incentive amount outstanding that cannot be deducted from 2008 taxable income previously, will be deducted from taxable income of the subsequent profitable years.

Regarding the cancellation decision taken by the Constitutional Court, an amendment was made in the 69th article in Income Tax Regulation using the regulation numbered 6009 and dated 23 July 2010. Consequently, in compliance with the cancellation decision of the Constitutional Court, the year limitation has been abolished and investment allowance has been limited to 25% of the profit. As limitation of investment allowance to 25% of the profit by regulation numbered 6009 is found to be contrary to law by the Constitutional Court, the Constitutional Court cancelled the regulation and stayed an execution. Corporate tax ratio of 30% in the previous regulation for the ones who benefit from investment allowance has been decreased to the effective corporate tax with the amendment made (2012: 20%).

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NOTE 27 – TAX ASSETS AND LIABILITIES (cont'd)

Deferred tax

The Group recognizes deferred tax assets and liabilities based upon the temporary differences arising between its taxable statutory financial statements and its financial statements prepared in accordance with the CMB's Communiqué on Accounting Standards. These differences usually result in the recognition of revenue and expenses in different reporting periods for the CMB regulations and tax purposes and are explained below.

Tax rate used in the calculation of deferred tax assets and liabilities (excluding land) is 20% for the subsidiaries in Turkey and, 16% for the subsidiary in Romania (31 December 2012: 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 2012: 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.

	30 June 2013	31 December 2012
<u>Deferred tax assets:</u>		
Carry forward tax losses (*)	25.456.252	55.833.424
Prov. for employee term. ben. and seniority inc. prem.	59.363.477	56.791.670
Tangible and intangible fixed assets	9.098.517	9.074.080
Inventories	23.949.717	25.537.251
Provision for unpaid vacations	14.940.570	12.464.456
Investment incentive	42.387.062	40.976.623
Provision for lawsuits	26.129.003	20.894.397
Fair values of the derivative financial instruments	705.807	2.210.218
Provision for other doubtful receivables	11.136.145	10.812.209
Prepaid expenses	1.233.752	1.410.058
Other	17.093.109	9.141.128
	<u>231.493.411</u>	<u>245.145.514</u>
<u>Deferred tax liabilities:</u>		
Tangible and intangible fixed assets	(403.087.547)	(365.267.266)
Amortized cost adjustment on loans	(11.409.527)	(12.343.086)
Fair values of the derivative financial instruments	(7.108.703)	(108.620)
Other	(3.319.913)	(3.396.671)
	<u>(424.925.690)</u>	<u>(381.115.643)</u>
	<u>(193.432.279)</u>	<u>(135.970.129)</u>

(*)The Group has deferred tax assets for carry forward tax losses deductible from future profits. Partially or totally recoverable amount of the deferred tax assets is estimated under current conditions.

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NOTE 27 – TAX ASSETS AND LIABILITIES (cont'd)

Deferred tax (cont'd)

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

	30 June 2013	31 December 2012
<u>Presentation of deferred tax assets/(liabilities):</u>		
Deferred tax assets	15.724.048	14.073.770
Deferred tax (liabilities)	(209.156.327)	(150.043.899)
	<u>(193.432.279)</u>	<u>(135.970.129)</u>

Maturities of carry forward tax losses are as follows:

	Carry forward tax losses		Deferred tax assets	
	30 June 2013	31 December 2012	30 June 2013	31 December 2012
1 year	-	-	-	-
2 year	533.114.997	-	73.006.524	-
3 year	-	680.827.842	-	220.719.369
4 year	55.152.003	-	55.152.003	-
5 years or more	-	58.833.647	-	58.833.647
	<u>588.267.000</u>	<u>739.661.489</u>	<u>128.158.527</u>	<u>279.553.016</u>

	1 January – 30 June 2013	1 January – 30 June 2012
<u>Deferred tax asset/(liability) movements:</u>		
Opening balance	(135.970.129)	(2.498.629)
Deferred tax expense	(55.792.964)	(27.399.180)
The amount in comprehensive income/(expense)	(1.699.097)	5.215.720
Translation difference	29.911	(111.215)
Closing balance	<u>(193.432.279)</u>	<u>(24.793.304)</u>

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)

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NOTE 27 – TAX ASSETS AND LIABILITIES (cont'd)

	1 January – 30 June 2013	1 January – 30 June 2012
<u>Reconciliation of tax provision:</u>		
Profit before tax	709.335.596	297.292.059
Statutory tax rates	20%	20%
Calculated tax acc. to effective tax rate	141.867.119	59.458.412
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	2.392.009	1.807.798
- Non-taxable income	(921.962)	(2.011.747)
- Investment incentives	(1.410.439)	(94.514)
- Effect of the different tax rates due to foreign subsidiaries	332.713	166.522
- Other	1.761.117	569.056
Tax expense in income statement	<u>144.020.557</u>	<u>59.895.527</u>

As of 1 January – 30 June 2013 and 2012, the details of the tax gains/(losses) of the other comprehensive income/(expense) are as follows:

	1 January – 30 June 2013		1 April – 30 June 2013	
	Amount before tax	Tax income/(expense)	Amount before tax	Tax income/(expense)
<u>Other comprehensive income/(loss) in the current period</u>				
Change in revaluation reserves of fixed assets	729.017	-	863.668	-
Change in actuarial (loss)/gain	(6.726.666)	1.345.332	(6.726.666)	1.345.332
Change in cash flow hedging reserves	15.222.146	(3.044.429)	12.177.717	(3.560.310)
Change in foreign currency translation reserves	(1.767.620)	-	(1.767.620)	-
	<u>7.456.877</u>	<u>(1.699.097)</u>	<u>9.802.514</u>	<u>(2.214.978)</u>
				<u>7.587.536</u>

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)

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NOTE 27 – TAX ASSETS AND LIABILITIES (cont'd)

	1 January – 30 June 2012		1 April – 30 June 2012	
	Amount before tax	Tax income/ (expense) after tax	Amount before tax	Tax income/ (expense) after tax
<u>Other comprehensive income/(loss) in the current period</u>	(1.063.659)	(1.063.659)	(570.735)	(570.735)
Change in revaluation reserves of fixed assets	(17.490.967)	(13.992.773)	(17.490.967)	(13.992.773)
Change in actuarial (loss)/gain	(8.587.630)	(6.870.104)	837.048	(167.409)
Change in cash flow hedging reserves	490.789	490.789	276.562	276.562
Change in foreign currency translation reserves	(26.651.467)	(21.435.747)	(16.948.092)	(3.330.785)

NOTE 28 – EARNINGS/ (LOSS) PER SHARE

	1 January – 30 June 2013		1 January – 30 June 2012	
	1 January – 30 June 2013	1 April – 30 June 2013	1 January – 30 June 2012	1 April – 30 June 2012
<u>Number of shares outstanding(*)</u>	350.000.000.000	350.000.000.000	350.000.000.000	350.000.000.000
Net profit attributable to equity holders – TRY	544.288.891	316.040.725	219.171.339	95.217.961
Profit per share with 1 TRY nominal value TRY %	0,1555 / %15,55	0,0903 / %9,03	0,0626 / %6,26	0,0272 / %2,72

(*) In accordance with the decision of the Board of Directors dated 19 February 2013 and the Capital Market Board document dated 26 March 2013 and numbered 1061, the registered capital was increased non-cash from TRY 3.090.000.000 to TRY 3.500.000.000.

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NOTE 29 –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 2013	31 December 2012
<u>Due from related parties (short term)</u>		
Oyak Renault Otomobil Fab. A.Ş. ⁽²⁾	18.488.375	12.152.741
Bolu Çimento Sanayi A.Ş. ⁽¹⁾	4.267.377	2.764.405
Adana Çimento Sanayi T.A.Ş. ⁽¹⁾	2.723.148	2.898.838
Other	129.188	125.405
	<u>25.608.088</u>	<u>17.941.389</u>

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

⁽¹⁾ Subsidiaries of the parent company

⁽²⁾ Joint venture

	30 June 2013	31 December 2012
<u>Due to related parties (short term)</u>		
Omsan Lojistik A.Ş. ⁽¹⁾	2.448.265	2.960.289
Omsan Denizcilik A.Ş. ⁽¹⁾	1.534.089	2.239.702
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	1.079.600	2.164.485
Oyak Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	973.709	464.866
Omsan Logistica SRL ⁽¹⁾	472.619	404.639
Oyak Teknoloji Bilişim ve Kart Hizmetleri ⁽¹⁾	6.359	990.089
Other	2.149.021	2.503.165
	<u>8.663.662</u>	<u>11.727.235</u>

Trade payables to related parties mainly arise from purchased service transactions.

⁽¹⁾ Subsidiaries of the parent company

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NOTE 29 –RELATED PARTY DISCLOSURES (cont'd)

	1 January – 30 June 2013	1 January – 30 June 2012
<u>Major sales to related parties</u>		
Oyak Renault Otomobil Fab. A.Ş. ⁽²⁾	51.211.455	29.346.114
Adana Çimento Sanayi T.A.Ş. ⁽¹⁾	6.377.206	4.153.915
Bolu Çimento Sanayi A.Ş. ⁽¹⁾	5.854.606	4.399.383
Mardin Çimento Sanayi ve Ticaret A.Ş. ⁽¹⁾	258.918	-
Ünye Çimento Sanayi ve Ticaret A.Ş. ⁽¹⁾	-	726.258
Oyka Kağıt Ambalaj Sanayi ve Ticaret A.Ş. ⁽¹⁾	157.084	-
Aslan Çimento A.Ş. ⁽²⁾	380.489	1.702.283
Other	3.999	471.600
	<u>64.243.757</u>	<u>40.799.553</u>

⁽¹⁾ Subsidiaries of the parent company

⁽²⁾ Joint venture

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

	1 January – 30 June 2013	1 January – 30 June 2012
<u>Major purchases from related parties</u>		
Omsan Denizcilik A.Ş. ⁽¹⁾	35.335.337	40.903.744
Omsan Lojistik A.Ş. ⁽¹⁾	13.641.749	11.707.448
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	9.998.914	12.231.210
Omsan Logistica SRL ⁽¹⁾	3.328.092	4.821.759
Oyak Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	9.774.544	2.267.088
Oyak Teknoloji Bilişim ve Kart Hizmetleri A.Ş. ⁽¹⁾	2.683.855	4.032.483
Oyak Telekomünikasyon A.Ş. ⁽¹⁾	259.218	322.673
Oyak Genel Müdürlüğü	-	436.308
Other	1.419.114	1.424.786
	<u>76.440.823</u>	<u>78.147.499</u>

⁽¹⁾ Subsidiaries of the parent company

The major purchases from related parties are generally due to the purchased service transactions.

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

The period end balances are non-secured, interest free and their collections will be done in cash. As of 30 June 2013, the Group provides no provision for the receivables from related parties (30 June 2012: none).

Salaries, bonuses and other benefits of the key management

For the three months period ended 30 June 2013, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 7.862.906 (30 June 2012: TRY 9.509.290).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2013

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NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

Additional information about financial instruments

(a) Capital risk management

The Group manages its capital through the optimization of the debt and the equity balance that minimizes the financial risk.

Through the forecasts regularly prepared by the Group, the future capital amount, debt to equity ratio and similar ratios are forecasted and required precautions are taken to strengthen the capital.

The capital structure of the Group consists of debt which includes the financial liabilities disclosed in Note 6, cash and cash equivalents and equity attributable to equity holders of the parent company, comprising issued capital, reserves and retained earnings as disclosed in Note 20.

The Group’s Board of Directors analyze the capital structure in regular meetings. During these analysis, the Board of Directors also evaluates the risks associated with each class of capital together with the cost of capital. The Group, by considering the decisions of the Board of Directors, aims to balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

As of 30 June 2013 and 31 December 2012 the net debt/equity ratio is as follows:

	Note	30 June 2013	31 December 2012
Total financial liabilities	6	3.928.003.123	4.418.751.937
Less: Cash and cash equivalents	4	1.938.802.644	1.829.716.171
Net debt		1.989.200.479	2.589.035.766
Total adjusted equity (*)		7.934.773.348	7.503.574.718
Total resources		9.923.973.827	10.092.610.484
Net debt/Total adjusted equity ratio		25%	35%
Distribution of net debt/ total adjusted equity		20/80	26/74

(*) Total adjusted equity is calculated by subtracting cash flow hedging reserves and actuarial (loss)/ gain fund and adding non-controlling interests.

(b) Significant accounting policies

The Group’s accounting policies related to the financial instruments are disclosed in Note 2 “Summary of Significant Accounting Policies, 2.9.7 Financial Instruments”.

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ENDED 30 JUNE 2013**

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**NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS
(cont’d)**

Additional information about financial instruments (cont’d)

(c) Financial risk management objectives

The Group manages its financial instruments through a separate treasury function which was established for that purpose. The developments are followed on a real time basis. The Group’s corporate treasury function manages the financial instruments through daily regular meetings by evaluating the domestic and international markets and by considering the daily cash inflows and outflows in accordance with the policies and regulations issued by the Group Risk Management Unit. At the end of each day, each Group company prepares a “daily cash report” and Group Risk Management Unit calculates daily Value at Risk (VaR) for cash and cash equivalents. The information included therein is consolidated by the treasury function and used to determine the cash management strategies. Additionally, the Group’s annual payment schedules are followed through the weekly reports and annual cash management is followed by the monthly reports.

The Group utilizes derivative financial instruments as required and within the terms and conditions determined by the Group Risk Management Unit. Instruments that are highly liquid and securing a high-level yield are preferred when determining the financial instruments. In that respect, the Group has a right to claim the accrued interest on time deposits when withdraw before the predetermined maturity.

(d) Market risk

The Group is exposed primarily to the financial risks of changes in foreign exchange rates and interest rates. The Group utilizes the following financial instruments to manage the risks associated with the foreign exchange rates and interest rates. Also, the Group follows price changes and market conditions regularly and takes action in pricing instantaneously.

The Group prefers floating interest rates for long term borrowings. To hedge against the interest risk the Group uses interest swap agreements for some of its borrowings.

In the current period, there is no significant change in the Group’s exposure to the market risks or the manner which it manages and measures risk when compared to the previous year.

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NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Credit risk management

Trade receivables include a large number of customers scattered in various sectors and regions. There is no risk concentration on a specific customer or a group of customers. The majority trade receivables are assured by bank letters of guarantee and/or credit limits. The credit reviews are performed continuously over the accounts receivable balance of the customers. The Group does not have a significant credit risk arising from any customer.

	Receivables						Derivative financial instruments
	Trade receivables			Other receivables			
	Related Party	Third Party	Related Party	Third Party	Bank Deposits		
30 June 2013							
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	25.608.088	1.165.245.873	-	568.495	1.938.779.813	54.564.496	
- Secured part of the maximum credit risk exposure via collateral etc.	-	1.090.159.989	-	-	-	-	
A. Net book value of the financial assets that are neither overdue nor impaired	25.608.088	1.163.399.553	-	568.495	1.938.779.813	54.564.496	
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-	
C. Net book value of financial assets that are overdue but not impaired	-	1.846.320	-	-	-	-	
- secured part via collateral etc.	-	1.846.320	-	-	-	-	
D. Net book value of impaired financial assets	-	-	-	-	-	-	
- Overdue (gross carrying amount)	-	43.749.670	-	55.680.723	-	-	
- Impairment (-)	-	(43.749.670)	-	(55.680.723)	-	-	
- Secured part via collateral etc.	-	-	-	-	-	-	
- Not overdue (gross carrying amount)	-	-	-	-	-	-	
- Impairment (-)	-	-	-	-	-	-	
- Secured part via collateral etc.	-	-	-	-	-	-	
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-	

(*) The factors that increase credibility such as guarantees received are not taken into account in determination of amount.

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NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Credit risk management (cont'd)

Credit risk of financial instruments

	Receivables						Derivative financial instruments
	Trade receivables			Other receivables			
	Related Party	Third Party	Related Party	Third Party	Bank Deposits		
31 December 2012	17,941.389	1,029,358.971	-	534,994	1,829,689.071	10,122.346	
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	-	932,727,754	-	-	-	-	
- Secured part of the maximum credit risk exposure via collateral etc.	17,941.389	1,027,855,706	-	534,994	1,829,689.071	10,122.346	
A. Net book value of the financial assets that are neither overdue nor impaired	-	-	-	-	-	-	
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-	
C. Net book value of financial assets that are overdue but not impaired	-	1,503,265	-	-	-	-	
- secured part via collateral etc.	-	1,503,265	-	-	-	-	
D. Net book value of impaired financial assets	-	-	-	-	-	-	
- Overdue (gross carrying amount)	-	41,271,202	-	54,061,043	-	-	
- Impairment (-)	-	(41,271,202)	-	(54,061,043)	-	-	
- Secured part via collateral etc.	-	-	-	-	-	-	
- Not overdue (gross carrying amount)	-	-	-	-	-	-	
- Impairment (-)	-	-	-	-	-	-	
- Secured part via collateral etc.	-	-	-	-	-	-	
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-	
(*) The factors that increase credibility such as guarantees received are not taken into account in determination of amount.	-	-	-	-	-	-	

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)

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NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

(e) Credit risk management (cont’d)

The aging of the overdue but not impaired assets is as follows:

	<u>Trade receivables</u>	<u>Other receivables</u>	<u>Bank deposits</u>	<u>Derivative financial instruments</u>	<u>Other</u>	<u>Total</u>
30 June 2013						
Overdue 1-30 days	1.846.320	-	-	-	-	1.846.320
Overdue 1-3 months	-	-	-	-	-	-
Overdue 3-12 months	-	-	-	-	-	-
Overdue 1-5 years	-	-	-	-	-	-
Overdue 5 years or more	-	-	-	-	-	-
Total overdue receivables	1.846.320	-	-	-	-	1.846.320
Secured part via collateral etc.	1.846.320	-	-	-	-	1.846.320

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NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Credit risk management (cont'd)

The aging of the overdue but not impaired assets is as follows:

	<u>Trade receivables</u>	<u>Other receivables</u>	<u>Bank deposits</u>	<u>Derivative financial instruments</u>	<u>Other</u>	<u>Total</u>
31 December 2012						
Overdue 1-30 days	1.503.265	-	-	-	-	1.503.265
Overdue 1-3 months	-	-	-	-	-	-
Overdue 3-12 months	-	-	-	-	-	-
Overdue 1-5 years	-	-	-	-	-	-
Overdue 5 years or more	-	-	-	-	-	-
Total overdue receivables	1.503.265	-	-	-	-	1.503.265
Secured part via collateral etc.	1.503.265	-	-	-	-	1.503.265

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NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**Additional information about financial instruments (cont’d)****(f) Foreign currency risk management**

As of 30 June 2013, the foreign currency position of the Group in terms of original currency is as follows:

	30 June 2013				
	TRY (Functional currency)	US Dollars (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	GB Pound (Original currency)
1. Trade Receivables	1.137.384.889	541.588.850	37.755.385	972.172	3.448
2a. Monetary financial assets	1.878.605.940	952.333.640	18.077.376	4.667.268	7.683
2b. Non- monetary financial assets	4.751.408	2.466.240	1.746	-	-
3. Other	52.953.856	27.300.197	161.688	-	-
4. Current assets (1+2+3)	3.073.696.093	1.523.688.927	55.996.195	5.639.440	11.131
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	7.298.512	3.734.115	11.904	4.183.660	-
6b. Non- monetary financial assets	-	-	-	-	-
7. Other	21.674.325	4.752.441	2.032.136	382.404.426	-
8. Non-current assets (5+6+7)	28.972.837	8.486.556	2.044.040	386.588.086	-
9. Total assets (4+8)	3.102.668.930	1.532.175.483	58.040.235	392.227.526	11.131
10. Trade payables	111.078.406	46.007.864	4.980.663	510.989.850	30.511
11. Financial liabilities	1.529.218.071	733.919.672	37.026.869	1.211.084.862	-
12a. Other monetary financial liabilities	30.125.733	14.432.209	199.099	95.161.907	-
12b. Other non-monetary financial liabilities	-	-	-	-	-
13. Current liabilities (10+11+12)	1.670.422.210	794.359.745	42.206.631	1.817.236.619	30.511
14. Trade payables	-	-	-	-	-
15. Financial liabilities	1.633.145.645	644.820.311	123.233.771	4.238.287.703	-
16a. Other monetary financial liabilities	-	-	-	-	-
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. Non-current liabilities (14+15+16)	1.633.145.645	644.820.311	123.233.771	4.238.287.703	-
18. Total liabilities (13+17)	3.303.567.855	1.439.180.056	165.440.402	6.055.524.322	30.511
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	240.495.516	43.181.170	62.609.063	-	-
19a. Off-balance sheet foreign currency derivative financial assets	240.495.516	43.181.170	62.609.063	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	-	-	-	-	-
20. Net foreign currency asset/liability position (9-13+19)	39.596.591	136.176.597	(44.791.104)	(5.663.296.796)	(19.380)
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(280.278.514)	58.476.549	(109.595.737)	(6.045.701.222)	(19.380)
22. Fair value of derivative financial instruments used in foreign currency hedge	31.225.514	6.917.771	7.125.030	-	-
23. Hedged foreign currency assets	-	-	-	-	-
24. Hedged foreign currency liabilities	240.495.516	43.181.170	62.609.063	-	-
25. Exports	769.296.607	385.277.473	30.425.560	-	-
26. Imports	2.368.617.742	1.306.581.390	2.054.440	-	-

(*) Includes USD based amounts that can be collected as TRY at maturity.

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NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)**Additional information about financial instruments (cont'd)****(f) Foreign currency risk management (cont'd)**

As of 31 December 2012, the foreign currency position of the Group in terms of original currency is as follows:

	31 December 2012				
	TRY (Functional currency)	US Dollars (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	GB Pound (Original currency)
1. Trade Receivables	994.070.979	526.968.213	23.228.264	2.983.830	3.448
2a. Monetary financial assets	1.726.371.256	958.500.338	7.529.827	607.078	9.794
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	7.484.291	3.532.085	504.860	-	250
4. Current assets (1+2+3)	2.727.926.526	1.489.000.636	31.262.951	3.590.908	13.492
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-	-
7. Other	9.217.972	848.904	1.934.351	152.774.110	-
8. Non-current assets (5+6+7)	9.217.972	848.904	1.934.351	152.774.110	-
9. Total assets (4+8)	2.737.144.498	1.489.849.540	33.197.302	156.365.018	13.492
10. Trade payables	271.364.821	144.248.347	5.795.399	28.939.870	313
11. Financial liabilities	1.744.230.516	914.512.120	37.791.696	1.217.393.385	-
12a. Other monetary financial liabilities	30.764.972	12.497.322	3.608.983	-	-
12b. Other non-monetary financial liabilities	-	-	-	-	-
13. Current liabilities (10+11+12)	2.046.360.309	1.071.257.789	47.196.078	1.246.333.255	313
14. Trade payables	-	-	-	-	-
15. Financial liabilities	1.697.132.418	711.523.695	139.573.266	4.867.148.907	-
16a. Other monetary financial liabilities	80.746	45.297	-	-	-
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. Non-current liabilities (14+15+16)	1.697.213.164	711.568.992	139.573.266	4.867.148.907	-
18. Total liabilities (13+17)	3.743.573.473	1.782.826.781	186.769.344	6.113.482.162	313
sheet derivative financial instruments (19a-19b)	251.568.627	49.349.908	69.565.625	-	-
19a. Offbalance sheet foreign currency derivative financial assets	251.568.627	49.349.908	69.565.625	-	-
19b. Offbalance sheet foreign currency derivative financial liabilities	-	-	-	-	-
20. Net foreign currency asset/liability position (9-18+19)	(754.860.348)	(243.627.333)	(84.006.417)	(5.957.117.144)	13.179
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(1.023.131.238)	(297.358.230)	(156.011.253)	(6.109.891.254)	12.929
22. Fair value of derivative financial instruments used in foreign currency hedge	9.579.245	3.472.025	1.441.516	-	-
23. Hedged foreign currency assets	-	-	-	-	-
24. Hedged foreign currency liabilities	251.568.627	49.349.908	69.565.625	-	-
25. Exports	1.375.841.447	711.766.056	43.459.248	-	-
26. Imports	5.064.710.894	2.822.247.480	2.775.999	-	-

(*) Includes USD based amounts that can be collected as TRY at maturity.

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**NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS
(cont’d)**

Additional information about financial instruments (cont’d)

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

Foreign currency sensitivity

In the calculation of Group’s currency risk, the Value at Risk (VaR) is calculated by using the parametric method arising from the consolidated foreign currency position including derivative financial instruments. Based on this method; the effects of changes in currency rates on the foreign currency position are determined.

Since there are no stock portfolios and interest bearing treasury products among assets, the Value at Risk related to interest rates and equity prices is not calculated.

In parametric method, the Value at Risk is defined as the maximum loss on holding the current position for 1 day, based on the change in the earning yield calculated with a 99% confidence level.

In cases where the Value at Risk exceeds the limit predefined by the Group Risk Committee periodically, the Group Risk Committee gathers to take necessary actions and develop action plans. After evaluations, the committee provides valid precautions to be taken.

	30 June 2013	31 December 2012
Foreign Currency Position Parametric VaR	2.213.710	7.097.877

The Value at Risk results are in line with the open foreign currency position and the fluctuations in currencies.

The calculations of Value at Risk are supported by stress tests and scenario analyses. The testing of potential losses in extraordinary market conditions helps the determination of the Group financial strategies.

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NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(f) Foreign currency risk management (cont'd)

The following table shows the Group's sensitivity to a 10% (+/-) change in the US Dollars, EURO and Japanese Yen. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates.

The profit/loss which will arise when the inventories are sold may change the effect if the foreign currency rates maintain this level in the long term.

As of 30 June 2013 asset and liability balances are translated by using the following exchange rates: TRY 1,9248 = US \$ 1, TRY 2,5137 = EUR 1 and TRY 0,0194= JPY 1 (31 December 2012: TRY 1,7826 = US \$ 1, TRY 2,3517 = EUR 1 and TRY 0,0207= JPY 1)

30 June 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- US Dollars net asset/liability	17.899.760	(17.899.760)
2- Hedged portion from US Dollars risk (-)	8.311.512	(8.311.512)
3- Effect of capitalization (-)	-	-
4- US Dollars net effect (1+2+3)	26.211.272	(26.211.272)
5- EURO net asset/liability	(26.997.180)	26.997.180
6- Hedged portion from EURO risk (-)	15.738.040	(15.738.040)
7- Effect of capitalization (-)	-	-
8- EURO net effect (5+6+7)	(11.259.140)	11.259.140
9- Jap. Yen net asset/liability	(10.986.796)	10.986.796
10- Hedged portion from Jap. Yen risk (-)	-	-
11- Effect of capitalization (-)	-	-
12- Jap. Yen net effect (9+10+11)	(10.986.796)	10.986.796
13- Other currencies net asset/liability	(5.677)	5.677
14- Hedged portion from other currency risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Other currencies net effect (13+14+15)	(5.677)	5.677
TOTAL (4+8+12+16)	3.959.659	(3.959.659)

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**NOTE 30– NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS
(cont'd)**

Additional information about financial instruments (cont'd)

(f) Foreign currency risk management (cont'd)

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency against	Depreciation of foreign currency against
31 December 2012		
1- US Dollars net asset/liability	(52.226.123)	52.226.123
2- Hedged portion from US Dollars risk (-)	8.797.115	(8.797.115)
3- Effect of capitalization (-)	-	-
4- US Dollars net effect (1+2+3)	(43.429.008)	43.429.008
5- EURO net asset/liability	(36.115.537)	36.115.537
6- Hedged portion from EURO risk (-)	16.359.748	(16.359.748)
7- Effect of capitalization (-)	68.848	(68.848)
8- EURO net effect (5+6+7)	(19.686.941)	19.686.941
9- Jap. Yen net asset/liability	(12.305.021)	12.305.021
10- Hedged portion from Jap. Yen risk (-)	-	-
11- Effect of capitalization (-)	-	-
12- Jap. Yen net effect (9+10+11)	(12.305.021)	12.305.021
13- Other currencies net asset/liability	3.783	(3.783)
14- Hedged portion from other currency risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Other currencies net effect (13+14+15)	3.783	(3.783)
TOTAL (4+8+12+16)	(75.417.187)	75.417.187

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)

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NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(f) Foreign currency risk management (cont'd)

Cross currency and interest rate swap agreements:

As of 30 June 2013 and 31 December 2012 the details of the cross currency and interest rate swap agreements are provided in the table below:

30 June 2013	Average agreement exchange rate	Sales with original currency	Purchases with original currency	Original currency (TRY equivalent)	Agreement value (TRY equivalent)	Fair value
Cross currency and interest rate swap agreements:						
TRY sale/ US Dollars purchase	1,4568	62.904.169	43.181.170	62.904.169	49.588.843	13.315.326
Between 1-5 years						
TRY sale/ EURO purchase	2,0825	130.382.370	62.609.063	130.382.370	112.472.182	17.910.188
Between 1-5 years						
						31.225.514
31 December 2012						
Cross currency and interest rate swap agreements:						
TRY sale/ US Dollars purchase	1,4568	71.890.479	49.349.908	71.890.479	65.701.247	6.189.232
Between 1-5 years						
TRY sale/ EURO purchase	2,0825	144.869.300	69.565.625	144.869.300	141.479.287	3.390.013
Between 1-5 years						
						9.579.245

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)

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30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(f) Foreign currency risk management (cont'd)

Forward agreements

As of 30 June 2013 and 31 December 2012 the details of the forward agreements of the Group are provided in the table below:

30 June 2013	Average agreement exchange rate	Sales with original currency	Purchases with original currency	Original currency (TRY equivalent)	Agreement value (TRY equivalent)	Fair value
Forward agreements:						
EURO sale/ US Dollars purchase	1,3329	45.808.519	60.703.589	115.148.874	113.300.966	1.847.908
US Dollars sale/ EURO purchase	1,3186	9.228.150	7.000.000	17.762.343	17.964.864	(202.521)
Less than 3 months						
EURO sale/ US Dollars purchase	1,3155	38.971.650	51.122.353	97.963.037	97.432.856	530.181
US Dollars sale/ EURO purchase	1,3029	6.514.600	5.000.000	12.539.302	12.509.378	29.924
TRY sale/ US Dollars purchase	1,8281	5.000.000	9.140.500	9.140.500	8.537.312	603.188
US Dollars sale/ TRY purchase	1,8654	9.326.800	5.000.000	9.624.000	9.991.089	(367.089)
3-6 months						
EURO sale/ US Dollars purchase	1,3249	28.612.877	21.638.075	54.391.629	53.695.070	696.559
Jap. Yen sale / US Dollars purchase	1,0715	2.640.335.000	28.500.000	51.222.499	47.772.607	3.449.892
US Dollars sale / Jap. Yen purchase	1,0411	27.623.926	2.640.335.000	53.170.534	54.935.513	(1.764.979)
6-12 months						
						4.823.063

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)

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30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(f) Foreign currency risk management (cont'd)

Forward agreements

31 December 2012	Average agreement exchange rate	Sales with original currency	Purchases with original currency	Original currency (TRY equivalent)	Agreement value (TRY equivalent)	Fair value
Forward agreements:						
EURO sale/ US Dollars purchase	1,2834	58.914.894	75.890.490	138.550.156	141.811.503	(3.261.347)
TRY sale/ US Dollars purchase	1,7959	10.263.684	5.716.000	10.263.684	10.282.838	(19.154)
Less than 3 months						
EURO sale/ US Dollars purchase	1,3155	57.461.445	75.845.576	135.132.080	135.197.248	(65.168)
3-6 months						
						(3.345.669)

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**NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS
(cont'd)**

Additional information about financial instruments (cont'd)

(g) Interest rate risk management

The majority of the Group's borrowings are based on floating interest rate terms. In order to manage the exposure to interest rate movements on certain portion of the bank borrowings, the Group uses interest rate swaps and changes floating rates to fixed rates.

In addition, through the use of deposits in which the Group has a right to claim the accrued interest when withdrawn before the predetermined maturity, the Group minimizes the interest rate risk by increasing the share of floating rate denominated assets in its consolidated the balance sheet.

Furthermore, for borrowings denominated in foreign currencies, except for US Dollars, the Group minimizes its interest rate risk by leveraging in foreign currencies that bear lower interest rate. In addition, a higher interest rate is applied to the trade receivables with a maturity when compared to the interest rate exposed for trade payables.

Interest rate sensitivity

The following sensitivity analysis is based on forecasted interest rate changes for the liabilities denominated in variable interest rates. The information details the Group's sensitivity to an increase/decrease of 0,50% for US Dollars and EURO, 0,25% for Jap.Yen and 1,00% for TRY denominated interest rates.

Since the principal payments of the loans with floating interest rates are not affected from changes in interest rates, the risk exposure of the Group loans is measured using a sensitivity analysis instead of a Value at Risk calculation.

Interest position table

	<u>30 June 2013</u>	<u>31 December 2012</u>
Floating interest rate financial instruments		
Financial liabilities	1.573.221.204	1.250.311.286

In addition to these, as of 30 June 2013, the amount of the Group's financial loans is TRY 1.135.685.636 of which the floating interest rates have been fixed by the hedge purposed agreements (31 December 2012: TRY 1.117.505.015) (Note 6).

For the year round, if the US Dollars, EURO and Jap. Yen denominated interest rates increase/decrease by 100 base points in TRY, 50 base points in US Dollars and EURO and 25 base points in Jap.Yen respectively ceteris paribus, the profit before taxation and non-controlling interest after considering the effect of capitalization and hedging would be lower/higher TRY 5.632.891 (31 December 2012: TRY 5.966.944).

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NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

(g) Interest rate risk management (cont’d)

Interest rate swap agreements

The Group uses interest rate swap instruments and pays/receives the difference between fixed interest rate and floating interest rates multiplied by the nominal amount. These contracts aim to mitigate the risk of fluctuations in the cash flow which the Group is exposed to due to borrowings with floating interest rates.

As of the balance sheet date, the Group’s agreed unpaid nominal amounts of the interest rate swap agreements and their remaining terms until maturity are stated below:

30 June 2013

Unrealized agreements with fixed payments and floating interest receipts	Average fixed interest rate of the agreements	Nominal amount(*)	Fair Value
Less than 1 year	1,55%	1.440.414	(9.092)
Between 1-5 years	1,44%	824.011.475	(8.856.828)
		<u>825.451.889</u>	<u>(8.865.920)</u>

31 December 2012

Unrealized agreements with fixed payments and floating interest receipts	Average fixed interest rate of the agreements	Nominal amount(*)	Fair Value
Less than 1 year	1,43%	173.429.383	(278.881)
Between 1-5 years	1,39%	771.415.364	(12.088.506)
More than 5 years	1,68%	86.587.562	(2.488.220)
		<u>1.031.432.309</u>	<u>(14.855.607)</u>

(*) In order to hedge against the interest rate risk of the borrowings with floating rates, the Group trades floating interest rates with fixed rates by making swap agreements. The fair value of the interest rate swap agreements with a nominal amount of TRY 825.451.889 (31 December 2012: TRY 1.031.432.309) is found to be effective. The fair value of such agreements which is categorized as cash flow hedges, is recognized under equity with its deferred tax effect and non-controlling interest deducted as TRY (6.649.628) (31 December 2012: TRY (11.134.225)).

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NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(g) Interest rate risk management (cont'd)

Cross currency and interest rate swap agreements

30 June 2013

Unrealized agreements with fixed payments and floating interest receipts	Average fixed interest rate of the agreements	Nominal amount	Fair Value
TRY sale / US Dollars purchase (*)	7,22%	62.904.169	13.315.326
Between 1-5 years			
TRY sale / EURO purchase (*)	10,65%	130.382.370	17.910.188
Between 1-5 years			
		<u>193.286.539</u>	<u>31.225.514</u>

31 December 2012

Unrealized agreements with fixed payments and floating interest receipts	Average fixed interest rate of the agreements	Nominal amount	Fair Value
TRY sale / US Dollars purchase (*)	7,22%	71.890.479	6.189.232
Over 5 years			
TRY sale / EURO purchase (*)	10,65%	144.869.300	3.390.013
Over 5 years			
		<u>216.759.779</u>	<u>9.579.245</u>

(*) In order to hedge against the interest and foreign exchange rate risk of the Euro and US Dollars borrowings, the Group trades floating interest rates with fixed rates and Euro and US Dollars amounts with TRY amounts by making cross currency swap agreements. The fair value of such agreements which are categorized as cash flow hedges and found to be effective, with nominal amount of TRY 193.286.539 (31 December 2012: TRY 216.759.779) is recognized under equity net off its deferred tax effect, unrealized foreign exchange gain/losses and non-controlling interests as TRY (11.881.751) (31 December 2012: TRY (18.744.054)).

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**NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS
(cont’d)**

Additional information about financial instruments (cont’d)

(h) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group’s short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities and maintaining adequate funds and reserves.

Liquidity risk tables

Conservative liquidity risk management includes maintaining sufficient cash, availability of sufficient amount of borrowings and funds and ability to settle market positions.

The Group manages its funding of actual and forecasted financial obligations by maintaining the availability of sufficient number of high quality loan providers.

The following table details the Group’s expected maturity for its derivative and non derivative financial liabilities. Interests which will be paid on borrowings in the future are included in the relevant columns in the following table.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)

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

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NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(h) Liquidity risk management (cont'd)

30 June 2013

Contractual maturity analysis	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3				More than 5 years (IV)
			months (I)	3-12 months (II)	1-5 years (III)	5 years (IV)	
Non derivative financial liabilities							
Borrowings from banks	3,928,003,123	4,102,276,717	539,009,315	1,188,385,197	2,240,939,307	133,942,898	
Trade payables	301,552,479	302,320,445	302,320,445	-	-	-	
Other financial liabilities (*)	180,672,769	180,672,769	180,672,769	-	-	-	
Total liabilities	4,410,228,371	4,585,269,931	1,022,002,529	1,188,385,197	2,240,939,307	133,942,898	
Derivative financial liabilities							
Derivative cash inflows	54,564,496	730,946,342	134,654,148	376,577,248	219,714,946	-	
Derivative cash outflows	(27,381,839)	(716,008,424)	(133,136,617)	(374,543,593)	(208,328,214)	-	
	27,182,657	14,937,918	1,517,531	2,033,655	11,386,732	-	

(*) Only the financial liabilities under other payables and liabilities are included.

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

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NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(h) Liquidity risk management (cont'd)

31 December 2012

Contractual maturity analysis	Book value	Total cash outflow per agreement				More than 5 years (IV)
		Less than 3 months (I)	3-12 months (II)	1-5 years (III)		
Non derivative financial liabilities						
Borrowings from banks	4.418.751.937	701.816.165	1.397.201.826	2.573.211.738	88.761.478	
Trade payables	428.055.750	428.826.252	-	-	-	
Other financial liabilities (*)	160.002.546	159.220.946	781.600	-	-	
Total liabilities	5.006.810.233	1.289.863.363	1.397.983.426	2.573.211.738	88.761.478	
Derivative financial liabilities						
Derivative cash inflows	10.122.346	135.462.979	231.767.669	242.748.195	-	
Derivative cash outflows	(18.757.254)	(139.749.280)	(238.826.656)	(249.339.233)	-	
	(8.634.908)	(4.286.301)	(7.058.987)	(6.591.038)	-	

(*) Only the financial liabilities under other payables and liabilities are included.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2013

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

NOTE 31 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES)
Additional information about financial instruments

Categories of the financial instruments and their fair values

30 June 2013	Cash and cash equivalent	Loans and receivables	Available for sale financial assets	Held for trading financial instruments	Financial liabilities at amortized cost	Derivative financial instruments through other comprehensive income/loss	Derivative financial instruments through profit/loss	Carrying value	Note
Financial Assets									
Cash and cash equivalents	1.938.802.644	-	-	-	-	-	-	1.938.802.644	4
Trade receivables	-	1.190.853.961	-	-	-	-	-	1.190.853.961	8
Financial investments	-	-	102.356	-	-	-	-	102.356	
Other financial assets	-	568.495	-	-	-	-	-	568.495	9
Derivative financial instruments	-	-	-	-	-	47.265.984	7.298.512	54.564.496	5
Financial Liabilities									
Financial liabilities	-	-	-	-	3.928.003.123	-	-	3.928.003.123	6
Trade payables	-	-	-	-	301.552.479	-	-	301.552.479	8
Other liabilities	-	-	-	-	180.672.769	-	-	180.672.769	6/9/16
Derivative financial instruments	-	-	-	-	-	24.906.390	2.475.449	27.381.839	7
31 December 2012									
Financial Assets									
Cash and cash equivalents	1.829.716.171	-	-	-	-	-	-	1.829.716.171	4
Trade receivables	-	1.047.300.360	-	-	-	-	-	1.047.300.360	8
Financial investments	-	-	84.594	-	-	-	-	84.594	
Other financial assets	-	534.994	-	-	-	-	-	534.994	9
Derivative financial instruments	-	-	-	-	-	9.579.245	543.101	10.122.346	5
Financial Liabilities									
Financial liabilities	-	-	-	-	4.418.751.937	-	-	4.418.751.937	6
Trade payables	-	-	-	-	428.055.750	-	-	428.055.750	8
Other liabilities	-	-	-	-	160.002.546	-	-	160.002.546	6/9/16
Derivative financial instruments	-	-	-	-	-	14.855.607	3.901.647	18.757.254	7

(*) Book values of the financial assets and liabilities are close to the fair values.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2013

(Amounts are expressed as Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 31 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (cont’d)

Additional information about financial instruments (cont’d)

Categories of the financial instruments and their fair values (cont’d)

<u>Financial asset and liabilities at fair value</u>	30 June 2013	Fair value level as of reporting date		
		Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Financial assets held for trading	-	-	-	-
Derivative financial assets	7.298.512	-	7.298.512	-
Derivative financial liabilities	(2.475.449)	-	(2.475.449)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	47.265.984	-	47.265.984	-
Derivative financial liabilities	(24.906.390)	-	(24.906.390)	-
Total	27.182.657	-	27.182.657	-

<u>Financial asset and liabilities at fair value</u>	31 December 2012	Fair value level as of reporting date		
		Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Financial assets held for trading	-	-	-	-
Derivative financial assets	543.101	-	543.101	-
Derivative financial liabilities	(3.901.647)	-	(3.901.647)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	9.579.245	-	9.579.245	-
Derivative financial liabilities	(14.855.607)	-	(14.855.607)	-
Total	(8.634.908)	-	(8.634.908)	-

First Level: Quoted (non adjusted) prices in active markets for identical assets or liabilities.

Second Level: Other valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Third Level: Valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD
ENDED 30 JUNE 2013**

(Amounts are expressed as Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 32 – SUBSEQUENT EVENTS

24th Period Collective Labor Agreement, which started on 25 February 2013, has been signed on July 26, 2013 between Turkish Employers’ Association of Metal Industries (MESS) on behalf of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and Turkish Metal Union as the collective bargaining agency.

25th Period Collective Labor Agreement, which started on 25 January 2013, has been signed on August 5, 2013 between Turkish Employers’ Association of Metal Industries (MESS) on behalf of İskenderun Demir ve Çelik A.Ş. and Steel Trade Union as the collective bargaining agency.

**NOTE 33 – OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS
MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR,
UNDERSTANDABLE AND INTERPRETABLE PRESENTATION**

Changes in working capital are as follows:

	1 January- 30 June 2013	1 January- 30 June 2012
Current trade receivables	(146.032.069)	189.525.346
Inventories	209.030.132	440.171.396
Other short term receivables / current assets	(25.388.108)	27.154.867
Other long term receivables / non current assets	(45.589.297)	8.179.916
Current trade payables	(126.503.271)	(102.498.089)
Other short term payables / liabilities	128.623.692	(14.365.270)
Other long term payables / liabilities	10.247.597	2.294.741
	<u>4.388.676</u>	<u>550.462.907</u>

The details and the amounts of the adjustments and reclassifications made of the balance sheet are as follows:

Based on the Group management’s preliminary assessment, the amendment is effective for annual periods beginning on or after 1 January 2013, the Group is reviewed the employee termination benefit for the period after 1 January 2007 and adjust amounts and the related cumulative actuarial gain/loss into the provisions for employment benefits on in the consolidated balance sheet at 31 December 2011. Because it is not possible to assess the actuarial gain/loss for the periods before 1 January 2007, the Group could not assess the classification of cumulative actuarial gain/ loss balance for the periods before 1 January 2007.

The Group reclassify the actuarial gain/ loss amount after the deferred tax effect into the actuarial gain/loss fund in income statement for the year 2012.

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2013**

(Amounts are expressed as Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 33 – OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION (cont’d)**The details and the amounts of the adjustments and reclassifications made of the balance sheet are as follows (cont’d):**

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 effects of reclassifications on consolidated financial statements, for the period 31 December 2012 and 31 December 2011, of accounted actuarial gain/loss from provisions of employee benefits under comprehensive income statement and reclassified of provision of unused vacation from short-term liabilities into the long-term liabilities are set out below:

Account	(Previously reported)	(Restated)	Difference	(Previously reported)	(Restated)	Difference
	31 December 2011	31 December 2011		31 December 2012	31 December 2012	
Prepaid Expenses ⁽¹⁾	-	42.506.830	42.506.830	-	18.404.660	18.404.660
Other Current Assets ⁽¹⁾	142.316.125	99.809.295	(42.506.830)	128.255.198	109.850.538	(18.404.660)
Prepaid Expenses ⁽²⁾	-	84.857.502	84.857.502	-	65.828.408	65.828.408
Other Non-Current Assets ⁽²⁾	84.978.204	120.702	(84.857.502)	65.828.408	-	(65.828.408)
Short Term Portion of Long Term Financial Liabilities ⁽³⁾	-	1.093.280.760	1.093.280.760	-	1.154.609.147	1.154.609.147
Short Term Financial Liabilities ⁽³⁾	1.487.868.881	394.588.121	(1.093.280.760)	2.022.433.668	867.824.521	(1.154.609.147)
Trade Payables ⁽⁴⁾	533.658.160	533.658.501	341	428.055.750	428.055.750	-
Payables for Employee Benefits ⁽⁴⁾	-	98.046.626	98.046.626	-	101.317.114	101.317.114
Other Current Liabilities ⁽⁴⁾	262.510.652	163.603.448	(98.907.204)	252.215.703	128.862.157	(123.353.546)
Other Payables ⁽⁴⁾	63.694.522	9.499.032	(54.195.490)	48.017.783	7.784.500	(40.233.283)
Provision of the employee termination benefits ⁽⁴⁾	218.122.934	273.178.661	55.055.727	283.979.209	346.248.924	62.269.715
Retained Earnings ⁽⁵⁾	1.273.384.263	1.287.337.399	13.953.136	1.730.124.661	1.760.073.286	29.948.625
Net Profit for the Period ⁽⁵⁾	1.005.562.503	1.020.567.649	15.005.146	424.181.040	452.016.769	27.835.729
Actuarial Losses/ Gains Funds	-	(28.958.282)	(28.958.282)	-	(57.784.354)	(57.784.354)

- (1) Prepaid expenses and advance given which was reported in “Other Current Assets” in 31 December 2011 and 31 December 2012 is reclassified to “Prepaid Expenses”.
- (2) Prepaid expenses and advances given for fixed assets which was reported in “Other Non-Current Assets” in 31 December 2011 and 31 December 2012 is reclassified to “Prepaid Expenses”.
- (3) Short term portion of long term financial liabilities which was reported in “Short Term Financial Liabilities” in 31 December 2011 and 31 December 2012 is reclassified to “Short Term Portion of Long Term Financial Liabilities”.
- (4) Due to personnel which was reported in “Other Current Liabilities” and social security premiums payable and income and stamp tax due to personnel which was reported in “Other Payables” is reclassified to “Payables for Employee Benefits”, payables to related parties which was reported in “Other Payables” is reclassified to “Trade Payables”, provision for unused vacation which was reported in “Other Current Liabilities” is reclassified to “Provision for Employee Termination Benefits” in 31 December 2011 and 31 December 2012.
- (5) In accordance with TAS 19, provision for employee termination benefits from actuarial loss/ gain recognized under income statement.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD
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**NOTE 33 – OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS
MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR,
UNDERSTANDABLE AND INTERPRETABLE PRESENTATION (cont’d)**

Reclassifications of income statement are as follows:

<u>Account</u>	(Previously reported) 1 January- 30 June 2012	(Restated) 1 January- 30 June 2012	Difference 1 January- 30 June 2012
Cost of sales (-) ⁽¹⁾	(4.359.631.361)	(4.334.340.362)	25.290.999
Marketing, sales and distribution expenses (-) ⁽¹⁾⁽²⁾	(55.371.962)	(55.228.605)	143.357
General administrative expenses (-) ⁽¹⁾⁽²⁾	(89.928.673)	(87.786.577)	2.142.096
Other operating income ⁽³⁾	30.879.801	59.199.511	28.319.710
Other operating income ⁽⁴⁾	(40.053.848)	(73.226.137)	(33.172.289)
Financial income ⁽³⁾	233.342.414	205.022.704	(28.319.710)
Financial expense (-) ⁽¹⁾⁽⁴⁾	(223.590.177)	(200.503.373)	23.086.804
Deferred tax income ⁽²⁾	(23.900.986)	(27.399.180)	(3.498.194)
			<u>13.992.773</u>

- (1) Employee termination benefit and interest cost of incentive are reclassified under “Operating Expenses (-)” as TRY 9.349.174 reported in “Cost of Sales (-)”, TRY 53.069 reported in “Marketing, sales and distribution expenses (-)”, TRY 683.242 reported in “General administrative expenses (-)” in consolidated income statement as of 30 June 2012.
- (2) TRY 15.941.825 reported in “Cost of Sales (-)”, TRY 90.288 reported in “Marketing, sales and distribution expenses (-)”, TRY 1.458.854 reported in “General administrative expenses (-)” are recognized under provision for employee termination benefits actuarial loss/ gain that is TRY 17.490.967. Deferred tax income TRY 3.498.194 which was reported in “Deferred Tax Income” is recognized under equity in “Actuarial Loss/ Gain Fund” in consolidated income statement as of 30 June 2012.
- (3) Interest income from overdue sales TRY 28.319.710 which was reported in “Financial Income” is reclassified to “Other Operating Income” in consolidated income statement as of 30 June 2012.
- (4) Foreign exchange loss from trade receivables and payables (net) TRY 33.172.289 which was reported in “Financial Expense (-)” is reclassified to “Other Operating Expense (-)” in consolidated income statement as of 30 June 2012.

Convenience translation to English:

As at 30 June 2013, the accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying interim consolidated financial statements differ from International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board with respect to the application of inflation accounting, certain reclassifications and also for certain disclosures requirement of the POA/CMB. Accordingly, the accompanying consolidated financial statements are not intended to present the financial position and results of operations in accordance with IFRS.