(CONVENIENCE TRANSLATION OF
CONSOLIDATED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH- SEE NOTE 34)

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY-31 DECEMBER 2014 AND INDEPENDENT AUDITOR'S REPORT

EY
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Güney Bağımsız Denetim ve SMMM AŞ
Maslak Mahallesi Eski Büyükdere Caddesi No 27 Daire 54-57-59
Kat 2-3-4 Sarıyer / Istanbul, Turkey

Tel: +90 212 315 3000
Fax: +90 212 230 8291
ey.com
Ticaret Sicil No 479920
Mersis No: 0-4350-3032-6000017

(Convenience translation of a report and consolidated financial statements originally issued in Turkish)

INDEPENDENT AUDITORS' REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have audited the accompanying consolidated statement of financial position of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (the Company) and its subsidiaries (together will be referred to as "the Group") as at 31 December 2014 and the related consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and explanatory notes.

Management's responsibility for the financial statements

The Group management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Turkish Accounting Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA") of Turkey and for such internal controls as management determines is necessary to enable the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to error and/or fraud.

Independent auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our audit was conducted in accordance with standards on auditing issued by the Capital Markets Board of Turkey and standards on auditing issued by POA. Those standards require that ethical requirements are complied with and that the independent audit is planned and performed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Independent audit involves performing independent audit procedures to obtain independent audit evidence about the amounts and disclosures in the financial statements. The independent audit procedures selected depend on our professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error and/or fraud. In making those risk assessments, the entity's internal control system is taken into consideration. Our purpose, however, is not to express an opinion on the effectiveness of internal control system, but to design independent audit procedures that are appropriate for the circumstances in order to identify the relation between the financial statements prepared by the Group and its internal control system. Our independent audit includes also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company's management, as well as evaluating the overall presentation of the financial statements.

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

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(Convenience translation of a report and consolidated financial statements originally issued in Turkish)

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its subsidiaries as at 31 December 2014 and their financial performance and cash flows for the year then ended in accordance with the Turkish Accounting Standards.

Other Matters

Without qualifying our opinion; we draw attention to the matter in note 16 to the accompanying consolidated financial statements: The court cases related to CMB's claim that the Company had prepared its December 31, 2005 financial statements in accordance with International Financial Reporting Standards instead of the Communiqué Serial XI, No:25 on "Accounting Standards in Capital Markets" without the permission of the CMB in prior years were concluded against the Company at Council of State and such conclusions declared to the Company via notifications received in July 2012. On August 1, 2012, the Company has applied to Administrative Court to remove the conflicting decisions of these court; Administrative Court has decided to reject the application by the notification made on February 17, 2014. However Lawsuit filed by Privatization Administration (PA) of The Turkish Republic, is still pending as the reporting date.

Reports on Other Responsibilities Arising From Regulatory Requirements

1) Auditors' report on Risk Management System and Committee in accordance with subparagraph 4, Article 378 of Turkish Commercial Code no. 6102 ("TCC") is prepared to be submitted to the Board of Directors of the Company on February 10, 2015.

2) In accordance with subparagraph 4, Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January – 31 December 2014 and financial statements are not in compliance with the code and provisions of the Company's articles of association in relation to financial reporting.

3) In accordance with subparagraph 4, Article 402 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

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

Ethem Kutucular, SMMM
Partner

10 February 2015
İstanbul, Türkiye

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2014

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

ASSETS	Note	Current Period 31 December 2014 USD'000	(Audited) Current Period 31 December 2014 TRY'000	Previous Period 31 December 2013 USD'000	(Audited) Previous Period 31 December 2013 TRY'000
Current Assets		**3.178.814**	**7.371.353**	**2.815.209**	**6.008.498**
Cash and Cash Equivalents	4	943.038	2.186.810	356.609	761.111
Financial Derivative Instruments	5	15.795	36.628	3.455	7.374
Trade Receivables	7	757.626	1.756.860	800.515	1.708.538
Due From Related Parties	*29*	*15.701*	*36.409*	*17.193*	*36.694*
Other Trade Receivables	*7*	*741.925*	*1.720.451*	*783.322*	*1.671.844*
Other Receivables	8	1.639	3.800	1.959	4.181
Inventories	9	1.405.144	3.258.389	1.585.104	3.383.087
Prepaid Expenses	10	16.094	37.320	8.488	18.115
Other Current Assets	18	39.478	91.546	59.079	126.092
Non Current Assets		**3.692.406**	**8.562.321**	**3.760.478**	**8.025.986**
Other Receivables	8	10.237	23.738	10.641	22.711
Financial Investments		27	63	-	-
Financial Derivative Instruments	5	24.013	55.684	34.043	72.657
Investment Properties	11	24.879	57.691	24.199	51.647
Property, Plant and Equipment	12	3.535.882	8.199.357	3.595.350	7.673.556
Intangible Assets	13	72.689	168.559	74.568	159.150
Prepaid Expenses	10	10.931	25.348	13.320	28.429
Deferred Tax Assets	27	13.748	31.881	8.357	17.836
TOTAL ASSETS		**6.871.220**	**15.933.674**	**6.575.687**	**14.034.484**

The details of US Dollar amounts explained in Note 2.1.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2014

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

LIABILITIES	Note	Current Period 31 December 2014 USD'000	(Audited) Current Period 31 December 2014 TRY'000	Previous Period 31 December 2013 USD'000	(Audited) Previous Period 31 December 2013 TRY'000
Current Liabilities		**1.339.179**	**3.105.422**	**1.159.820**	**2.475.406**
Financial Liabilities	6	274.948	637.577	93.055	198.608
Short Term Portion of Long Term Fin. Liab.	6	615.918	1.428.252	600.285	1.281.188
Financial Derivative Instruments	5	2.629	6.096	6.832	14.582
Trade Payables	7	179.936	417.255	236.230	504.186
Due to Related Parties	*29*	*7.904*	*18.329*	*6.767*	*14.443*
Other Trade Payables	*7*	*172.032*	*398.926*	*229.463*	*489.743*
Other Payables	8	3.186	7.389	2.931	6.256
Deferred Revenue	19	32.972	76.458	43.568	92.988
Current Tax Liabilities	27	55.935	129.708	21.080	44.990
Short Term Provisions	16	101.138	234.528	96.062	205.026
Payables for Employee Benefits	15	53.354	123.722	50.974	108.794
Other Current Liabilities	18	19.163	44.437	8.803	18.788
Non Current Liabilities		**1.085.836**	**2.517.945**	**1.336.389**	**2.852.258**
Financial Liabilities	6	581.269	1.347.905	946.579	2.020.283
Financial Derivative Instruments	5	10.280	23.839	5.758	12.290
Provisions for Employee Benefits	15	210.326	487.724	183.775	392.232
Deferred Tax Liabilities	27	283.803	658.110	200.113	427.102
Other Non Current Liabilities	18	158	367	164	351
EQUITY		**4.446.205**	**10.310.307**	**4.079.478**	**8.706.820**
Equity Attributable to Equity Holders of the Parent		**4.313.813**	**10.003.303**	**3.967.015**	**8.466.790**
Share Capital	20	1.818.371	3.500.000	1.818.371	3.500.000
Inflation Adjustment to Capital	20	81.366	156.613	81.366	156.613
Treasury Shares (-)	20	(60.387)	(116.232)	(60.387)	(116.232)
Share Issue Premium	20	55.303	106.447	55.303	106.447
Other Comprehensive Income/Expense Not to be Reclassified to Profit/ (Loss)		(44.682)	(101.563)	(20.407)	(43.554)
Revaluation Reserve of Tangible Assets		*10.405*	*24.151*	*10.896*	*23.255*
Actuarial (Loss)/ Gain funds		*(55.087)*	*(125.714)*	*(31.303)*	*(66.809)*
Other Comprehensive Income/Expense to be Reclassified to Profit/ (Loss)		(4.007)	1.623.162	(5.697)	835.320
Cash Flow Hedging Reserves		*3.088*	*7.160*	*(4.378)*	*(9.344)*
Foreign Currency Translation Reserves		*(7.095)*	*1.616.002*	*(1.319)*	*844.664*
Restricted Reserves Assorted from Profit	20	313.307	617.355	260.261	500.949
Retained Earnings	20	1.422.232	2.616.106	1.354.568	2.607.273
Net Profit for the Period		732.310	1.601.415	483.637	919.974
Non-Controlling Interests		**132.392**	**307.004**	**112.463**	**240.030**
TOTAL LIABILITIES AND EQUITY		**6.871.220**	**15.933.674**	**6.575.687**	**14.034.484**

The details of US Dollar amounts explained in Note 2.1.

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

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

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

	Note	Current Period 1 January - 31 December 2014 USD'000	(Audited) Current Period 1 January - 31 December 2014 TRY'000	Previous Period 1 January - 31 December 2013 USD'000	(Audited) Previous Period 1 January - 31 December 2013 TRY'000
OPERATING INCOME					
Revenue	21	5.251.572	11.484.137	5.141.810	9.780.751
Cost of Sales (-)	21	(4.136.479)	(9.045.652)	(4.164.574)	(7.921.852)
GROSS PROFIT		**1.115.093**	**2.438.485**	**977.236**	**1.858.899**
Marketing, Sales and Distribution Expenses (-)	22	(54.777)	(119.786)	(56.775)	(107.997)
General Administrative Expenses (-)	22	(102.208)	(223.509)	(106.163)	(201.944)
Research and Development Expenses (-)	22	(3.201)	(6.999)	(2.030)	(3.862)
Other Operating Income	24	67.936	148.563	85.629	162.883
Other Operating Expenses (-)	24	(65.091)	(142.342)	(89.463)	(170.177)
OPERATING PROFIT		**957.752**	**2.094.412**	**808.434**	**1.537.802**
Finance Income	25	40.648	88.888	55.373	105.330
Finance Expense (-)	26	(106.496)	(217.729)	(218.844)	(394.970)
PROFIT BEFORE TAX		**891.904**	**1.965.571**	**644.963**	**1.248.162**
Tax Expense	27	(132.442)	(304.780)	(140.070)	(287.754)
- Current Corporate Tax Expense		(114.729)	(266.045)	(91.824)	(195.980)
- Deferred Tax Expense		(17.713)	(38.735)	(48.246)	(91.774)
NET PROFIT FOR THE PERIOD		**759.462**	**1.660.791**	**504.893**	**960.408**
- Non-Controlling Interests		27.152	59.376	21.256	40.434
- Equity Holders of the Parent		732.310	1.601.415	483.637	919.974
EARNINGS PER SHARE (TRY 1 Nominal value per share)	28		0,4575		0,2628

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

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

	Note	Current Period 1 January - 31 December 2014 USD'000	(Audited) Current Period 1 January - 31 December 2014 TRY'000	Previous Period 1 January - 31 December 2013 USD'000	(Audited) Previous Period 1 January - 31 December 2013 TRY'000
PROFIT FOR THE PERIOD		**759.462**	**1.660.791**	**504.893**	**960.408**
Other Comprehensive Income/(Expense):					
Not to be reclassified subsequently to profit or loss					
Change in Revaluation Reserve of Tangible Assets		(491)	896	(1.871)	(3.559)
Change in Actuarial (Loss)/ Gain		(30.472)	(75.386)	(7.508)	(14.282)
Tax Effect of Changes in Actuarial (Loss)/ Gain		6.094	15.077	1.501	2.856
To be reclassified subsequently to profit or loss					
Change in Cash Flow Hedging Reserves		9.445	20.842	14.628	27.826
Tax Effect of Change in Cash Flow Hedging Reserves		(1.889)	(4.168)	(2.926)	(5.565)
Change in Foreign Currency Translation Reserves		(7.038)	792.010	446.583	849.490
OTHER COMP. INCOME/ EXPENSE FOR THE PERIOD (AFTER TAX)	27	**(24.351)**	**749.271**	**450.407**	**856.766**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**735.111**	**2.410.062**	**955.300**	**1.817.174**
Distribution of Total Comprehensive Income					
- Non-controlling Interests		25.259	78.814	24.378	46.372
- Equity Holders of the Parent		709.852	2.331.248	930.922	1.770.802

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 CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

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

						Other comprehensive income/expense not to be reclassified subsequently to profit or loss		Other comprehensive income/expense to be reclassified subsequently to profit or loss			Retained Earnings				
(Audited)	Note	Share Capital	Inflation Adjustment to Capital	Treasury Shares (-)	Share Issue Premium	Revaluation Reserve of Tangible Assets	Actuarial loss/(gain) funds	Cash Flow Hedging Reserves	Foreign Currency Translation Reserves	Restricted Reserves Assorted from Profit	Retained Earnings	Net Profit For The Period	Equity Attributable to the Parent	Non-controlling Interests	Total Shareholders' Equity
1 January 2014		3.500.000	156.613	(116.232)	106.447	23.255	(66.809)	(9.344)	844.664	500.949	2.607.273	919.974	8.466.790	240.030	8.706.820
Net profit for the period		-	-	-	-	-	-	-	-	-	-	1 601 415	1.601.415	59 376	1.660.791
Other comprehensive income/(loss)		-	-	-	-	896	(58.905)	16.504	771 338	-	-	-	729.833	19 438	749.271
Total comprehensive income/(loss)		-	-	-	-	896	(58 905)	16 504	771 338	-	-	1 601 415	2.331.248	78 814	2.410.062
Dividends paid (*)		-	-	-	-	-	-	-	-	-	(794.735)	-	(794.735)	(11 840)	(806.575)
Transfers	20	-	-	-	-	-	-	-	-	116.406	803.568	(919 974)	-	-	-
31 December 2014	20	3.500.000	156.613	(116.232)	106.447	24.151	(125.714)	7.160	1.616.002	617.355	2.616.106	1.601.415	10.003.303	307.004	10.310.307
(Audited)															
1 January 2013 (previously reported)		3.090.000	342.195	(103.600)	106.447	26.814	-	(29.878)	(315)	432.878	2.888.254	452.017	7.204.812	211.100	7.415.912
Effect of changes in accounting policy		-	-	-	-	-	(55.683)	-	-	-	55.683	-	-	-	-
1 January 2013 Restated		3.090.000	342.195	(103.600)	106.447	26.814	(55.683)	(29.878)	(315)	432.878	2.943.937	452.017	7.204.812	211.100	7.415.912
Net profit for the period		-	-	-	-	-	-	-	-	-	-	919 974	919.974	40 434	960.408
Other comprehensive income/(loss)		-	-	-	-	(3 559)	(11 126)	20.534	844.979	-	-	-	850.828	5 938	856.766
Total comprehensive income/(loss)		-	-	-	-	(3 559)	(11 126)	20 534	844.979	-	-	919 974	1.770.802	46.372	1.817.174
Dividends paid (*)		-	-	-	-	-	-	-	-	-	(508.824)	-	(508.824)	(17 442)	(526.266)
Capital increase	20	410 000	(185 582)	(12.632)	-	-	-	-	-	-	(211 786)	-	-	-	-
Transfers	20	-	-	-	-	-	-	-	-	68 071	383 946	(452.017)	-	-	-
31 December 2013	20	3.500.000	156.613	(116.232)	106.447	23.255	(66.809)	(9.344)	844.664	500.949	2.607.273	919.974	8.466.790	240.030	8.706.820

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

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

	Note	Current Period 1 January 31 December 2014 US'000	(Audited) Current Period 1 January 31 December 2014 TRY'000	Previous Period 1 January 31 December 2013 US'000	(Audited) Current Period 1 January 31 December 2013 TRY'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax and non-controlling interests		891 904	1 965 571	644 963	1 248 162
Adjustments to reconcile net profit before tax to net cash provided by operating activities:					
Depreciation and amortization expenses	21/23	199 663	436 622	208 432	396 480
Provision for employee termination benefits	15	25.127	54 947	25 356	48 232
Provision for seniority incentive premium	15	4 632	10 130	(182)	(346)
(Gain)on sale of property plant and equipment	24	(482)	(1 054)	(646)	(1 228)
Loss on write off of property plant and equipment	24	1 887	4 127	1 052	2 002
Increase in provision for doubtful receivables	7/8	3 860	8 441	8 086	15 381
Decrease in the allowance for inventories	9	6 831	14 938	8 381	15 943
Increase in the impairment of tangible assets	12	8 485	18 555	10 762	20 472
Increase/ (decrease) in provision for unpaid vacations	15	3 883	8 492	4 440	8 445
Increase in provision for pending claims and lawsuits	16	9 641	21 082	47 759	90 847
Increase in penalty prov for obligatory empl t shortage of disabled people	16	698	1 527	570	1 085
Increase in provision for state right on mining activities	16	2 223	4 861	1 389	2 642
Increase in provision for civil defense fund	16	3 179	6 951	1 756	3 341
Interest expenses	26	84 265	184 271	114 791	218 356
Interest income from bank deposits	25	(24 545)	(53 675)	(36 670)	(69 754)
Interest income from overdue sales	24	(27 145)	(59 360)	(21 309)	(40 534)
Unrealized foreign currency loss of financial liabilities		(12 564)	(27 474)	(5 959)	(11 336)
Loss/(gain) on fair value changes of derivative financial instruments	25/26	(5 588)	(12 220)	(18 693)	(35 557)
Net cash provided by operating activities before changes in working capital		1.175.954	2.586.732	994.278	1.912.633
Changes in working capital	33	195 772	453 975	(265 186)	(504 437)
Interest income from overdue sales collected		27 750	60 683	15 336	29 172
Lawsuits paid	16	(3 447)	(7 537)	(3 897)	(7 412)
Penalty paid for the employment shortage of disabled people	16	(402)	(880)	(791)	(1 504)
Corporate tax paid	27	(82 919)	(181 327)	(85 795)	(163 199)
Employee termination benefits paid	15	(18 190)	(39 777)	(11 678)	(22 214)
State rights paid for mining activities	16	(1 381)	(3 019)	(1 916)	(3 645)
Unused vacation paid	15	(2 960)	(6 474)	(1.757)	(3 342)
Seniority incentive premium paid	15	(1 017)	(2 224)	(454)	(864)
Net cash provided by operating activities		1.289.160	2.860.152	638.140	1.235.188
CASH FLOWS FROM INVESTING ACTIVITIES					
Changes in financial investments		(29)	(63)	45	85
Payments for investment property	11	(680)	(1 488)	-	-
Cash used in the purchase of tangible assets	12	(151 042)	(330 298)	(160 812)	(305 897)
Cash used in the purchase of intangible assets	13	(6 783)	(14 834)	(6 061)	(11 530)
Cash provided by sales of tangible assets	12/13/24	569	1 245	877	1 669
Net cash used in investing activities		(157.965)	(345.438)	(165.951)	(315.673)
CASH FLOWS FROM FINANCING ACTIVITIES					
New borrowings		964 751	2 237 160	2 724 643	5 182 816
Repayment of borrowings		(1 125 564)	(2 610 071)	(3 658 297)	(6 958 812)
Interest paid		(78 671)	(172 037)	(109 641)	(208 560)
Interest received on bank deposits		22 839	49 945	37 044	70 465
Dividends paid		(380 040)	(794 735)	(267 492)	(508 824)
Dividends paid to non-controlling interests		(5.330)	(11 840)	(9 169)	(17 442)
Net cash used in by financing activities		(602.015)	(1.301.578)	(1.282.912)	(2.440.357)
NET CHANGES IN CASH AND CASH EQUIVALENTS		529.180	1.213.136	(810.723)	(1.520.842)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		355.997	759.804	1.025.299	1.827.698
Currency translation difference, net		55 689	208 833	141 421	452 948
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		940.866	2.181.773	355.997	759.804
Accrued interest income		2.172	5 037	612	1 307
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD INCLUDING ACCRUED INTEREST INCOME		943.038	2.186.810	356.609	761.111

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

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	2014 Share %	2013 Share %
İskenderun Demir ve Çelik A.Ş.	Turkey	Integrated Steel Production	95,07	95,07
Erdemir Madencilik San. ve Tic. A.Ş.	Turkey	Iron Ore and Pellet	90,00	90,00
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Turkey	Steel Service Center	100	100
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100	100
Erdemir Romania S.R.L.	Romania	Silicon Steel Production	100	100
Erdemir Asia Pacific Private Limited	Singapore	Trading	100	-

In order to carry out business activities in Far East, the Group has established "Erdemir Asia Pacific Private Limited (EAPPL)" with a share capital of USD 250.000 in Singapore in 4 July 2014, which is a 100% subsidiary of Erdemir.

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

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

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

	Paid Hourly Personnel	Paid Montly Personnel	31 December 2014 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.593	1.861	6.454
İskenderun Demir ve Çelik A.Ş.	3.795	1.818	5.613
Erdemir Madencilik San. ve Tic. A.Ş.	137	139	276
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	61	73	134
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	-	114	114
Erdemir Romania S.R.L.	227	51	278
Erdemir Asia Pacific Private Limited	-	3	3
	8.813	4.059	12.872

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

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 and tangible assets used for silicon steel and iron ore carried on fair value.

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").

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

2.1 Basis of Presentation (cont'd)

Functional and Reporting Currency

TRY is accepted as the functional currency of the Company's subsidiaries operating in Turkey and presentation currency of the consolidated financial statements until 30 June 2013. Due to changes in sale and collection policies of Company and its subsidiaries' İskenderun Demir ve Çelik A.Ş. "İsdemir" and Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş "Ersem", the functional currency of the Company and its subsidiaries İsdemir and Ersem changed from TRY to US Dollars in accordance with TAS 21 ("The Effects of Foreign Exchange Rates") starting from the beginning of third quarter, which is 1 July 2013. Therefore The Company's functional currency is US Dollars as of 31 December 2014 and 31 December 2013. The functional currency of the Company's subsidiaries, Erdemir Madencilik San. Ve Tic. A.Ş. "Ermaden" and Erdemir Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş "Erenco", operating in Turkey have been accepted in TRY, Erdemir Asia Pacific Private Limited in USD and Erdemir Romania S.R.L in Euro.

Presentation currency translation

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

a) For the purpose of presenting consolidated financial statements, the assets and liabilities are translated from USD Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 2,3189=US $ 1 and TRY 2,8207=EUR 1 on the balance sheet date (31 December 2013: TRY 2,1343= US $ 1, TRY 2,9365=EUR 1).

b) For the year ended 31 December 2014, income statements are translated from the average TRY 2,1868=US $ 1 and TRY 2,9059=EUR 1 rates of 2014 January-December period.

c) Exchange differences are shown in other comprehensive income as of foreign currency translation reserve.

d) The differences between presentation of statutory and historical figures are recognised as translation differences under equity. All capital, capital measures and other measures are represneted with their statutory figures in the accompanying financial statements.

USD amounts presented in the financial statements

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

Going concern

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

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

2.1 Basis of Presentation (cont'd)

Approval of the consolidated financial statements

The consolidated financial statements have been approved and authorized to be published on 10 February 2015 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

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

The Group's 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.

2.3 Consolidation Principles

The consolidated financial statements include the accounts of the parent company, Ereğli Demir ve Çelik Fabrikaları T.A.Ş., and its Subsidiaries on the basis set out in sections below. The financial statements of the companies included in the consolidation have been prepared as of the date of the consolidated financial statements and are based on the statutory records with adjustments and reclassifications for the purpose of presentation in conformity TAS/TFRS promulgated by the POA as set out in the communiqué numbered II-14.1, and Group accounting and disclosure policies.

Subsidiaries are the Companies controlled by Erdemir when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Subsidiaries are consolidated from the date on which the control is transferred to the Group and are no longer consolidated from the date that the control ceases.

The statement of financial position and statements profit or loss of the Subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by Erdemir and its Subsidiaries is eliminated against the related shareholders' equity. Intercompany transactions and balances between Erdemir and its Subsidiaries are eliminated on consolidation. The cost of, and the dividends arising from, shares held by Erdemir in its Subsidiaries are eliminated from shareholders' equity and income for the year, respectively.

The table below sets out all Subsidiaries included in the scope of consolidation and discloses their direct and indirect ownership, which are identical to their economic interests, as of 31 December 2014 and 31 December 2013 (%) and their functional currencies:

	31 December 2014			31 December 2013		
	Functional Currency	Ownership Interest	Effective Shareholding	Functional Currency	Ownership Interest	Effective Shareholding
İsdemir	US Dollars	95,07	95,07	US Dollars	95,07	95,07
Ersem	US Dollars	100,00	100,00	US Dollars	100,00	100,00
Ermaden	Turkish Lira	90,00	90,00	Turkish Lira	90,00	90,00
Erenco	Turkish Lira	100,00	100,00	Turkish Lira	100,00	100,00
Erdemir Romania S.R.L.	Euro	100,00	100,00	Euro	100,00	100,00
Erdemir Asia Pasific	US Dollars	100,00	100,00	-	-	-

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

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

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

Reclassifications of income statement are as follows:

Account	(Previously Reported) 1 January - 31 December 2013	(Restated) 1 January - 31 December 2013	(Difference) 1 January - 31 December 2013
Other Operating Income [(1)]	160.927	162.883	1.956
Other Operating Expenses (-) [(1)]	(146.818)	(170.177)	(23.359)
Financial Expense (-) [(1)]	(416.373)	(394.970)	21.403
			-

(1) Out of (net) TRY 21.403 thousand discount expense that was reported under "Financial Expenses (-)", is reclassified under "Financial Income" TRY 1.956 thousand as discount income and under "Financial Expenses (-)" TRY (23.359) thousand as discount expenses in consolidated income statement as of 31 December 2013.

2.5 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:

2.5.1 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 2.8.3 and 2.8.4 (Note 12, Note 13).

2.5.2 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).

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

2.5 Significant Judgments and Estimates of the Group on Application of Accounting Policies (cont'd)

2.5.3 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 (Note 5).

2.5.4 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 is 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 7 and Note 8.

2.5.5 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 9.

2.5.6 Provisions for employee benefits

Actuarial 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 15.

2.5.7 Provision for lawsuits

Provision for lawsuits is evaluated by the Group Management based on opinions of Group Legal Counsel 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 16.

2.5.8 Impairments on Assets

The Group, performs impairment tests for assets that are subject to depreciation and amortization in case of being not possible to prevent recovery of the assets at each reporting period. Assets are grouped at the lowest levels which there are separately identifiable cash flows for evaluation of impairment (cash generating units). As a result of the impairment works performs by the Group management, as of the reporting date any impairment except calculated provision on non-financial assets has not been estimated.

2.6 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.

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

2.7 Adoption of New and Revised Financial Reporting Standards

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2014 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of 1 January 2014. 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 2014 are as follows:

- 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 did not have an impact on the consolidated financial statements of the the Group.

- TFRS 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 not applicable for the Group and did not have any impact on the financial position or performance of the Group.

- TAS 36 Impairment of Assets (Amended) - Recoverable Amount Disclosures for Non-Financial assets

  As a consequential amendment to TFRS 13 Fair Value Measurement, some of the disclosure requirements in TAS 36 Impairment of Assets regarding measurement of the recoverable amount of impaired assets has been modified. The amendments required 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. These amendments did not have an impact on the consolidated financial statements of the Group.

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

  Amendments provides a narrow exception to the requirement for the discontinuation of hedge accounting in circumstances when a hedging instrument is required to be notated to a central counterparty as a result of laws or regulations. These amendments did not have an impact on the consolidated financial statements of the Group.

- TFRS 10 Consolidated Financial Statements (Amendment)

  TFRS 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 TFRS. This amendment does not have any impact on the financial position or performance of the the Group.

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

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

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 financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

- TFRS 9 Financial Instruments – Classification and measurement

  As amended in December 2012, 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. The Company / the Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is adopted by POA.

- TAS 19 Defined Benefit Plans: Employee Contributions (Amendment)

  TAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. The amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. These amendments are to be retrospectively applied for annual periods beginning on or after 1 July 2014. The amendments will not have an impact on the financial position or performance of the Group.

- TFRS 11 Acquisition of an Interest in a Joint Operation (Amendment)

  TFRS 11 is amended to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in TFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in TFRS 3 and other TFRSs except for those principles that conflict with the guidance in this TFRS. In addition, the acquirer shall disclose the information required by TFRS 3 and other TFRSs for business combinations. These amendments are to be applied prospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendments will not have an impact on the financial position or performance of the Group.

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

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

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

- TAS 16 and TAS 38 - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to TAS 16 and TAS 38)

  The amendments to TAS 16 and TAS 38, have prohibited the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortization for intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendments will not have an impact on the financial position or performance of the Group.

- TAS 16 Property, Plant and Equipment and TAS 41 Agriculture (Amendment) – Bearer Plants

  TAS 16 is amended to provide guidance that bearer plants, such as grape vines, rubber trees and oil palms should be accounted for in the same way as property, plant and equipment in TAS 16. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates. Because their operation is similar to that of manufacturing, either the cost model or revaluation model should be applied. The produce growing on bearer plants will remain within the scope of TAS 41, measured at fair value less costs to sell. Entities are required to apply the amendments for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Annual Improvements to TAS/TFRSs

In September 2014, Public Oversight Authority (POA) has issued the below amendments to the standards in relation to "Annual Improvements - 2010–2012 Cycle" and "Annual Improvements - 2011–2013 Cycle. The changes are effective for annual reporting periods beginning on or after 1 July 2014.

Annual Improvements - 2010–2012 Cycle

- TFRS 2 Share-based Payment:

  Definitions relating to vesting conditions have changed and performance condition and service condition are defined in order to clarify various issues. The amendment is effective prospectively.

- TFRS 3 Business Combinations

  Contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of TFRS 9 Financial Instruments. The amendment is effective for business combinations prospectively.

- TFRS 8 Operating Segments

  The changes are as follows: i) Operating segments may be combined/aggregated if they are consistent with the core principle of the standard. ii) The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments are effective retrospectively.

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

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

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

Annual Improvements to TAS/TFRSs (cont'd)

- TAS 16 Property, Plant and Equipment and TAS 38 Intangible Assets

  The amendment to TAS 16.35(a) and TAS 38.80(a) clarifies that revaluation can be performed, as follows: i) Adjust the gross carrying amount of the asset to market value or ii) determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the resulting carrying amount equals the market value. The amendment is effective retrospectively.

- TAS 24 Related Party Disclosures

  The amendment clarifies that a management entity – an entity that provides key management personnel services – is a related party subject to the related party disclosures. The amendment is effective retrospectively.

Annual Improvements – 2011–2013 Cycle

- TFRS 3 Business Combinations

  The amendment clarifies that: i) Joint arrangements are outside the scope of TFRS 3, not just joint ventures ii) The scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is effective prospectively.

- Amendment to the Basis for Conclusions on TFRS 13 Fair Value Measurement

  The portfolio exception in TFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective prospectively.

- TAS 40 Investment Property

  The amendment clarifies the interrelationship of TFRS 3 and TAS 40 when classifying property as investment property or owner-occupied property. The amendment is effective prospectively.

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

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

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

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

2.7 Adoption of New and Revised 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 Public Oversight Authority (POA) (cont'd):

Annual Improvements – 2010–2012 Cycle

- IFRS 13 Fair Value Measurement

  As clarified in the Basis for Conclusions short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment is effective immediately.

Annual Improvements – 2011–2013 Cycle

- IFRS 15 Revenue from Contracts with Customers

  In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 is effective for reporting periods beginning on or after 1 January 2017, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

- IFRS 9 Financial Instruments - Final standard (2014)

  In July 2014 the IASB published the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

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

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

Annual Improvements to IFRSs - 2012-2014 Cycle

In September 2014, IASB issued their annual cycle of improvements to IFRSs, Annual Improvements to IFRSs 2012-2014 Cycle. The document sets out five amendments to four standards, excluding those standards that are consequentially amended, and the related Basis for Conclusions. The standards affected and the subjects of the amendments are:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal
- IFRS 7 Financial Instruments: Disclosures – servicing contracts; applicability of the amendments to IFRS 7 to condensed interim financial statements
- IAS 19 Employee Benefits – regional market issue regarding discount rate
- IAS 34 Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'

The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application permitted. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

- IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

  In September 2014, IASB issued amendments to IFRS 10 and IAS 28, to address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognizes a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognized only to the extent of unrelated investors' interests in that former subsidiary. An entity shall apply those amendments prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group. or The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

- IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 and IAS 28)

  In December 2014, IASB issued amendments to IFRS 10, IFRS 12 and IAS 28, to address the issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments are applicable for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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

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

- IAS 1: Disclosure Initiative (Amendments to IAS 1)

In December 2014, IASB issued amendments to IAS 1. Those amendments include narrow-focus improvements in the following five areas: Materiality, Disaggregation and subtotals, Notes structure, Disclosure of accounting policies, Presentation of items of other comprehensive income (OCI) arising from equity accounted investments. The amendments are applicable for annual periods beginning on or after 1 January 2016. Earlier application is permitted. These amendments are not expected have significant impact on the notes to the consolidated financial statements of the Group.

2.8 Valuation Principles Applied / Significant Accounting Policies

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

2.8.1 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.

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

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

2.8.2 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.

2.8.3 Property, plant and equipment

Property, plant and equipment purchased before 30 June 2013 are disclosed in the financial statements at their indexed historical cost for inflation effects as at 30 June 2013, on the other hand the purchases made in 30 June 2013 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.

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

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

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

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

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

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

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

2.8.4 Intangible assets

Intangible assets purchased before 30 June 2013 are recognized at their acquisition cost indexed for inflation effects as at 30 June 2013, on the other hand the purchases made in and after 30 June 2013 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:

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

2.8.5 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.

2.8.6 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.

2.8.7 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.

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

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

2.8.8 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.

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.

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

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

2.8.8 Financial instruments (cont'd)

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.

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.

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

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

2.8.8 Financial instruments (cont'd)

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.

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 contracts 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.

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

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

2.8.8 Financial instruments (cont'd)

Derivative financial instruments and hedge accounting (cont'd)

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.

2.8.9 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.

The Group records foreign currency (currencies other than the functional currency of the related company) transactions using exchange rates of the date the transaction is completed. Foreign currency monetary items are evaluated with exchange rates as of reporting date and arising foreign exchange income/expenses are recorded in consolidated statement of income. All monetary assets and liabilities are evaluated with exchange rates of the reporting date and related foreign currency translation differences are transferred to consolidated statement of income. Non-monetary foreign currency items that are recognized at cost are evaluated with historic exchange rates. Non-monetary foreign currency items that are recognized at fair value are evaluated with exchange rates of the dates their fair values are determined.

2.8.10 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.

2.8.11 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.

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

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

2.8.12 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.

2.8.13 Related parties

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

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

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

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

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

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

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

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

2.8.14 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.

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.

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

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

2.8.14 Taxation and deferred income taxes (cont'd)

Deferred tax (cont'd)

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.

2.8.15 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 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 15.

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.

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

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

2.8.16 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.

2.8.17 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.

The translation difference that occurs due to translation from functional currency to presentation currency is shown as translation difference on cash flow statement.

2.8.18 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.

2.8.19 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.

NOTE 4 – CASH AND CASH EQUIVALENTS

The detail of cash and cash equivalents as of 31 December 2014 and 31 December 2013 is as follows:

	31 December 2014	31 December 2013
Cash	27	25
Banks – demand deposits	52.083	53.594
Banks – time deposits	2.134.700	707.492
	2.186.810	761.111
Time deposit interest accruals (-)	(5.037)	(1.307)
Cash and cash equivalents excluding interest accruals	2.181.773	759.804

The breakdown of demand deposits is presented below:

	31 December 2014	31 December 2013
US Dollars	19.530	15.437
TRY	15.511	30.599
EURO	10.146	6.571
Romanian Lei	6.746	978
GB Pound	13	8
Japanese Yen	137	1
	52.083	53.594

The breakdown of time deposits is presented below:

	31 December 2014	31 December 2013
US Dollars	1.768.703	679.583
TRY	357.129	17.734
EURO	8.745	10.052
Romanian Lei	123	123
	2.134.700	707.492

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.

NOTE 5 – FINANCIAL DERIVATIVE INSTRUMENTS

The detail of financial derivative instruments as of 31 December 2014 and 31 December 2013 is as follows:

	31 December 2014		31 December 2013	
	Asset	Liability	Asset	Liability
Fair value hedging derivative financial assets				
Forward contracts	18.776	3.957	7.388	14.548
Option contracts	2.353	659	21	212
Cross currency swap contracts	49.443	12.379	-	-
	70.572	16.995	7.409	14.760
Cash flow hedging derivative financial assets				
Forward contracts for cash flow hedges of currency risk of sales	17.028	-	-	-
Cross currency swap contracts for cash flow hedges of currency risk of borrowings	-	9.304	72.622	-
Interest rate swap contracts for cash flow hedges of interest rate risk of borrowings	4.513	2.369	-	12.112
Commodity swap contracts for cash flow hedges of price fluctuations of raw material purchases	199	1.267	-	-
	21.740	12.940	72.622	12.112
	92.312	29.935	80.031	26.872

NOTE 5 – FINANCIAL DERIVATIVE INSTRUMENTS (cont'd)

Derivative instruments for fair value hedge

As of 31 December 2014 and 31 December 2013, the details of forward, option and cross currency swap transactions for fair value hedge are as follows:

		Assets		Liabilities	
31 December 2014		Nominal Value	Fair Value	Nominal Value	Fair Value
Forward contracts					
Buy USD/Sell TRY	Less than 3 months	441.870	18.776	-	-
Buy TRY/Sell USD	Less than 3 months	-	-	77.876	3.957
		441.870	18.776	77.876	3.957
Options contracts					
Buy TRY/Sell USD	Less than 3 months	11.598	1.108	23.196	214
Buy USD/Sell EUR	Between 6-12 months	11.843	696	23.686	348
Buy USD/Sell EUR	More than 12 months	8.935	549	17.871	97
		32.376	2.353	64.753	659
Cross currency swap contracts					
Buy USD/Sell TRY	More than 12 months	50.066	18.630	50.066	9.126
Buy EUR/Sell TRY	More than 12 months	117.734	30.813	117.734	3.253
		167.800	49.443	167.800	12.379
		642.046	70.572	310.429	16.995

		Assets		Liabilities	
31 December 2013		Nominal Value	Fair Value	Nominal Value	Fair Value
Forward contracts					
Buy TRY/Sell USD	Less than 3 months	-	-	4.186	95
Buy USD/Sell EUR	Less than 3 months	-	-	161.768	5.025
Buy JPY/Sell USD	Less than 3 months	-	-	45.519	4.838
Buy USD/Sell EUR	Between 3-6 months	5.884	5	110.564	1.735
Buy JPY/Sell USD	Between 3-6 months	-	-	14.510	592
Buy USD/Sell EUR	Between 6-12 months	-	-	162.856	1.914
Buy JPY/Sell USD	Between 6-12 months	-	-	6.613	171
Buy USD/Sell EUR	More than 12 months	16.393	35	36.812	178
Buy EUR/Sell USD	Less than 3 months	13.329	237	-	-
Buy USD/Sell JPY	Less than 3 months	52.290	6.516	-	-
Buy USD/Sell JPY	Between 6-12 months	8.537	595	-	-
		96.433	7.388	542.828	14.548
Options contracts					
Buy TRY/Sell USD	Less than 3 months	4.230	21	8.461	212
		4.230	21	8.461	212
		100.663	7.409	551.289	14.760

NOTE 5 – FINANCIAL DERIVATIVE INSTRUMENTS (cont'd)

Derivative instruments for cash flow hedge

Forward contracts for cash flow hedges of currency risk of sales:

Buy USD – Sell EUR forward contracts measured at fair value through other comprehensive income are designated as hedging instruments in cash flow hedges of forecast sales in EUR. These forecast transactions are highly probable and their maturities vary between January 2014 and April 2016.

The terms and conditions of the forward contracts match the terms and conditions of the expected highly probable forecast sales in EUR. As a result, no hedge ineffectiveness arises requiring recognition through profit or loss.

In respect of these contracts which has a nominal value of TRY 390.056 thousand for the purpose of hedging cash flow risk, with related deferred tax effect TRY 17.028 thousand was included in other comprehensive income (31 December 2013: None).

As of 31 December 2014, there isn't any realised reclassification to sales from other comprehensive income during the year.

Cross currency and interest rate swap contracts for cash flow hedges of interest rate and currency risk of borrowings.

Group has fixing contracts for future interest and principle payments of floating interest rate borrowings. The fair values of these contracts match the floating rate borrowings and was included in other comprehensive income. The maturities of these transactions will be completed in June 2017.

The terms and conditions of those contracts match the terms and conditions of the floating rate borrowings. As a result, no hedge ineffectiveness arises requiring recognition through profit or loss.

In respect of these contracts which has a nominal value of TRY 634.729 thousand, for the purpose of hedging cash flow risk, with related deferred tax effect TRY (7.160) thousand was included in other comprehensive income (31 December 2013: TRY 60.510 thousand).

Commodity swap contracts for hedges of price risk of raw material purchases:

The Group purchases iron ore on an ongoing basis as its operating activities. The increased volatility in iron ore price over the past 12 months, the Group enter into iron ore forward contract.

Group's iron ore forward contracts measured at fair value through other comprehensive income match iron ore price risk associated with future long term sales contracts. These sales are highly probable and terms and conditions of iron ore forward contracts match sales terms. As a result, no hedge ineffectiveness arises requiring recognition through profit or loss.

The maturities of these 60 thousands tons of iron ore contracts which has a nominal value of TRY 10.892 thousand, are vary between January 2015 and January 2016 and fair value with related deferred tax effect, TRY (1.068) thousand was included in other comprehensive income.

As of 31 December 2014, there is no recycled portion of hedge reserve to cost of goods sales during the year.

NOTE 6 – FINANCIAL LIABILITIES

Breakdown of financial liabilities is as follows:

	31 December 2014	31 December 2013
Short term financial liabilities	637.577	198.608
Current portion of long term financial liabilities	1.222.019	1.275.113
Corporate bonds issued (*)	206.233	6.075
Total short term financial liabilities	2.065.829	1.479.796
Long term financial liabilities	1.347.905	1.820.381
Corporate bonds issued (*)	-	199.902
Total long term financial liabilities	1.347.905	2.020.283
	3.413.734	3.500.079

(*) As of 13 March 2013, completed sales of the Group is the total nominal value of TRY 200.000 thousand 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 31 December 2014, the breakdown of the Group's loans with their original currency and their weighted average interest rates is presented as follows:

Interest Type	Type of Currency	Weighted Average Rate of Interest (%)	Short Term Portion	Long Term Portion	31 December 2014
No interest	TRY	-	24.300	-	24.300
Fixed	TRY	9,10	196.110	166.462	362.572
Fixed	US Dollars	1,68	396.802	58.794	455.596
Fixed	EURO	5,50	955	2.971	3.926
Floating	TRY	Trlibor+1,5	206.233	-	206.233
Floating	US Dollars	Libor+2,18	1.113.305	889.051	2.002.356
Floating	EURO	Euribor+0,32	103.141	185.311	288.452
Floating	Japanese Yen	JPY Libor+0,22	24.983	45.316	70.299
			2.065.829	1.347.905	3.413.734

NOTE 6 – FINANCIAL LIABILITIES (cont'd)

As of 31 December 2013, the breakdown of the Group's loans with their original currency and their weighted average interest rates is presented as follows:

Interest Type	Type of Currency	Weighted Average Rate of Interest (%)	Short Term Portion	Long Term Portion	31 December 2013
No interest	TRY	-	61.487	-	61.487
Fixed	TRY	8,57	231.995	290.925	522.920
Fixed	US Dollars	1,96	62.618	41.281	103.899
Fixed	EURO	5,50	628	3.859	4.487
Floating	TRY	Trlibor+1,50	6.075	199.902	205.977
Floating	US Dollars	Libor+2,52	974.459	1.118.262	2.092.721
Floating	EURO	Euribor+0,33	114.956	295.301	410.257
Floating	Japanese Yen	JPY Libor+0,22	27.578	70.753	98.331
			1.479.796	2.020.283	3.500.079

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

	31 December 2014	31 December 2013
Within 1 year	2.065.829	1.479.796
Between 1-2 years	588.577	869.087
Between 2-3 years	522.255	577.900
Between 3-4 years	137.072	347.915
Between 4-5 years	16.680	154.698
Five years or more	83.321	70.683
	3.413.734	3.500.079

NOTE 7 – TRADE RECEIVABLES AND PAYABLES

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

	31 December 2014	31 December 2013
Short term trade receivables		
Trade receivables	1.784.623	1.740.796
Due from related parties (Note 29)	36.409	36.694
Notes receivables	42	834
Discount on receivables (-)	(2.107)	(8.406)
Provision for doubtful trade receivables (-)	(62.107)	(61.380)
	1.756.860	1.708.538

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

	1 January - 31 December 2014	1 January - 31 December 2013
Opening balance	61.380	41.271
Provision for the period	1.804	13.692
Provision released (-)	(62)	(432)
Translation loss/(gain)	(1.015)	6.849
Closing balance	62.107	61.380

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 provision according to the balances of all unsecured receivables under legal follow up.

NOTE 7 – TRADE RECEIVABLES AND PAYABLES (cont'd)

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

Short term trade payables	31 December 2014	31 December 2013
Trade payables	400.717	491.705
Due to related parties (Note 29)	18.329	14.443
Discount on trade payables (-)	(1.791)	(1.962)
	417.255	504.186

NOTE 8 – OTHER RECEIVABLES AND PAYABLES

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

Other current receivables	31 December 2014	31 December 2013
Receivables from water system construction	3.527	3.890
Deposits and guarantees given	273	291
	3.800	4.181

Other non current receivables	31 December 2014	31 December 2013
Receivables from Privatization Authority	62.403	55.958
Receivables from water system construction	22.836	21.958
Deposits and guarantees given	902	753
Provision for other doubtful receivables (-)	(62.403)	(55.958)
	23.738	22.711

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

	1 January - 31 December 2014	1 January - 31 December 2013
Opening balance	55.958	54.061
Provision for the period	6.699	2.121
Translation difference	(254)	(224)
Closing balance	62.403	55.958

	31 December 2014	31 December 2013
Taxes payable	951	1.817
Deposits and guarantees received	5.248	3.249
Dividend payables to shareholders (*)	1.190	1.190
	7.389	6.256

(*)Dividend payable represents the uncollected balances by shareholders related to the prior years.

NOTE 9 – INVENTORIES

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

	31 December 2014	31 December 2013
Raw materials	773.832	770.493
Work in progress	648.460	586.384
Finished goods	877.211	907.440
Spare parts	480.502	447.941
Goods in transit	361.212	553.101
Other inventories	228.924	206.467
Allowance for impairment on inventories (-)	(111.752)	(88.739)
	3.258.389	3.383.087

The movement of the allowance for impairment on inventories:

	1 January - 31 December 2014	1 January - 31 December 2013
Opening balance	88.739	60.395
Provision for the period (Note 21)	29.951	32.607
Provision released (-) (Note 21)	(15.013)	(16.664)
Translation difference	8.075	12.401
Closing balance	111.752	88.739

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. The provision released has been recognized under cost of sales (Note 21).

NOTE 10 – PREPAID EXPENSES

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

	31 December 2014	31 December 2013
Insurance expenses	20.250	4.776
Order advances given	4.200	3.133
Prepaid utility allowance to employees	6.622	6.775
Other prepaid expenses	6.248	3.431
	37.320	18.115

NOTE 10 – PREPAID EXPENSES (cont'd)

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

	31 December 2014	31 December 2013
Order advances given	18.949	25.800
Insurance expenses	3.787	-
Other prepaid expenses	2.612	2.629
	25.348	28.429

NOTE 11 – INVESTMENT PROPERTIES

	1 January - 31 December 2014	1 January - 31 December 2013
Cost		
As of 1 January	51.647	46.577
Additions	1.488	-
Translation difference	4.556	5.070
As of 31 December	57.691	51.647
Book value	57.691	51.647

According to the recent valuation reports, the fair value of the Group's investment properties is TRY 216.760 thousand (31 December 2013: TRY 214.315 thousand). The fair values of the investment properties have been determined in reference to the valuations of independent valuation firms authorized by the CMB of Turkey. The valuations are undertaken predominantly by using the precedent values of similar properties as references under market approach.

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

For the year ended 31 December 2014, the Group generated rent income amounting to TRY 256 thousand (31 December 2013: TRY 101 thousand) recognized under other operating income.

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Machinery and equipment	Vehicles	Furniture and Fixtures	Other Property, Plant and Equipment	Construction in Progress (CIP)	Total
Cost									
Opening balance as of 1 January	122.007	1.724.939	2.721.371	11.379.466	731.536	354.805	23.577	429.980	17.487.681
Translation difference	8.669	148.388	235.353	990.267	50.047	22.931	1.635	33.161	1.490.451
Additions (*)	400	381	560	59.157	3.810	12.682	4.425	248.883	330.298
Transfers from CIP (**)	4.985	43.843	47.952	208.186	1.770	7.039	78	(317.580)	(3.727)
Disposals	-	-	-	(14.193)	(1.137)	(12.869)	(653)	-	(28.852)
Closing balance as of 31 December 2014	136.061	1.917.551	3.005.236	12.622.883	786.026	384.588	29.062	394.444	19.275.851
Accumulated Depreciation									
Opening balance as of 1 January	-	(1.187.900)	(1.828.208)	(6.178.044)	(414.762)	(186.916)	(18.295)	-	(9.814.125)
Translation difference	-	(103.488)	(160.523)	(543.162)	(23.834)	(8.373)	(1.319)	(1.121)	(841.820)
Charge for the period	-	(40.083)	(63.677)	(285.197)	(22.121)	(13.885)	(1.565)	-	(426.528)
Impairment (***)	-	-	-	-	-	-	-	(18.555)	(18.555)
Disposals	-	-	-	11.403	1.041	11.437	653	-	24.534
Closing balance as of 31 December 2014	-	(1.331.471)	(2.052.408)	(6.995.000)	(459.676)	(197.737)	(20.526)	(19.676)	(11.076.494)
Net book value as of 31 December 2013	122.007	537.039	893.163	5.201.422	316.774	167.889	5.282	429.980	7.673.556
Net book value as of 31 December 2014	136.061	586.080	952.828	5.627.883	326.350	186.851	8.536	374.768	8.199.357

(*) The amount of capitalized borrowing cost is TRY 3.936 thousand for the current period (31 December 2013: TRY 2.008 thousand).

(**) TRY 3.727 thousand is transferred to intangible assets (Note 13).

(***) The Group review the amount of discared fixed asset which is not able to generate cash flows independently. Accordingly, the review led to the recognition of an impairment loss of TRY (18.555) thousand that has been recognized in profit or loss under other operating expenses (Note 24). (31 December 2013: TRY (20.472) thousand).

As of 31 December 2014, the Group has no collaterals or pledges upon its tangible assets. (31 December 2013: None).

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

	Land	Land Improvements	Buildings	Machinery and equipment	Vehicles	Furniture and Fixtures	Other Property, Plant and Equipment	Construction in Progress (CIP)	Total
Cost									
Opening balance as of 1 January	99.676	1.526.981	2.401.825	10.124.707	675.208	326.951	17.737	395.174	15.568.259
Translation difference	11.081	165.555	268.099	1.121.728	57.752	25.932	3.708	36.643	1.690.498
Additions	11.250	16.478	21	32.474	1.472	4.281	2.082	237.839	305.897
Transfers from CIP (*)	-	16.395	51.426	167.148	1.188	1.608	188	(239.676)	(1.723)
Disposals	-	(470)	-	(66.591)	(4.084)	(3.967)	(138)	-	(75.250)
Closing balance as of 31 December 2013	122.007	1.724.939	2.721.371	11.379.466	731.536	354.805	23.577	429.980	17.487.681
Accumulated Depreciation									
Opening balance as of 1 January	-	(1.040.695)	(1.594.363)	(5.381.246)	(370.660)	(169.164)	(14.233)	-	(8.570.361)
Translation difference	-	(115.511)	(180.266)	(611.919)	(26.824)	(9.492)	(2.634)	-	(946.646)
Charge for the period	-	(31.518)	(50.942)	(233.764)	(20.029)	(12.041)	(1.209)	-	(349.503)
Impairment	-	(378)	(2.637)	(15.872)	(1.228)	-	(357)	-	(20.472)
Disposals	-	202	-	64.757	3.979	3.781	138	-	72.857
Closing balance as of 31 December 2013	-	(1.187.900)	(1.828.208)	(6.178.044)	(414.762)	(186.916)	(18.295)	-	(9.814.125)
Net book value as of 31 December 2012	99.676	486.286	807.462	4.743.461	304.548	157.787	3.504	395.174	6.997.898
Net book value as of 31 December 2013	122.007	537.039	893.163	5.201.422	316.774	167.889	5.282	429.980	7.673.556

(*)TRY 1.723 thousand is transferred to intangible assets (Note 13).

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

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

	31 December 2014	31 December 2013
Associated with cost of production	402.224	333.003
General administrative expenses	10.507	6.046
Marketing, sales and distribution expenses	13.653	10.454
Research and development expenses	144	-
	426.528	349.503

NOTE 13 – INTANGIBLE ASSETS

	Rights	Exploration Costs and Other Assets with Specific Useful Life	Other Intangible Assets	Total
Cost				
Opening balance as of 1 January	220.331	91.881	7.105	319.317
Translation difference	18.771	290	1.111	20.172
Additions	10.747	3.648	439	14.834
Transfers from CIP	2.665	-	1.062	3.727
Closing balance as of 31 December 2014	252.514	95.819	9.717	358.050
Accumulated amortization				
Opening balance as of 1 January	(98.121)	(56.144)	(5.902)	(160.167)
Translation difference	(8.227)	(88)	(1.108)	(9.423)
Charge for the period	(13.328)	(6.371)	(202)	(19.901)
Closing balance as of 31 December 2014	(119.676)	(62.603)	(7.212)	(189.491)
Net book value as of 31 December 2013	122.210	35.737	1.203	159.150
Net book value as of 31 December 2014	132.838	33.216	2.505	168.559

As of 31 December 2014, the Group has no collaterals or pledges upon its intangible assets (31 December 2013: None).

NOTE 13 – INTANGIBLE ASSETS (cont'd)

	Rights	Exploration Costs and Other Assets with Specific Useful Life	Other Intangible Assets	Total
Cost				
Opening balance as of 1 January	190.819	88.394	5.386	284.599
Translation difference	20.599	329	1.659	22.587
Additions	8.312	3.158	60	11.530
Transfers from CIP	1.723	-	-	1.723
Disposals	(1.122)	-	-	(1.122)
Closing balance as of 31 December 2013	220.331	91.881	7.105	319.317
Accumulated amortization				
Opening balance as of 1 January	(77.871)	(49.648)	(4.169)	(131.688)
Translation difference	(8.678)	(62)	(1.617)	(10.357)
Charge for the period	(12.644)	(6.434)	(116)	(19.194)
Disposals	1.072	-	-	1.072
Closing balance as of 31 December 2013	(98.121)	(56.144)	(5.902)	(160.167)
Net book value as of 31 December 2012	112.948	38.746	1.217	152.911
Net book value as of 31 December 2013	122.210	35.737	1.203	159.150

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

	31 December 2014	31 December 2013
Associated with cost of production	17.374	17.800
General administrative expenses	2.013	1.100
Marketing, sales and distribution expenses	514	294
	19.901	19.194

NOT 14 – GOVERNMENT GRANTS AND INCENTIVES

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

	1 January - 31 December 2014	1 January - 31 December 2013
Research and development grants	364	130
Social security grants	1.895	1.348
Tax grants	167	-
	2.426	1.478

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

NOTE 15 – EMPLOYEE BENEFITS

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

	31 December 2014	31 December 2013
Due to personnel	74.611	66.871
Social security premiums payable	24.909	22.676
Employee's income tax payables	24.202	19.247
	123.722	108.794

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

	31 December 2014	31 December 2013
Provisions for employee termination benefits	393.478	307.528
Provisions for seniority incentive premium	25.389	17.667
Provision for unpaid vacations	68.857	67.037
	487.724	392.232

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

As of 31 December 2014, the amount payable consists of one month's salary limited to a maximum of TRY 3.438,22 (31 December 2013: TRY 3.254,44). As of 1 January 2015, the employee termination benefit has been updated to a maximum of TRY 3,541,37.

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

The employee termination benefit has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. TAS 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the Group's obligation under defined benefit plans. The obligation as of 31 December 2014 has been calculated by an independent actuary. The actuarial assumptions used in the calculation of the present value of the future probable obligation are as follows:

	31 December 2014	31 December 2013
Discount rate	8,00%	9,40%
Inflation rate	6,50%	6,30%
Salary increase	real 1.5%	real 1.5%
Maximum liability increase	6,50%	6,30%

NOTE 15 – EMPLOYEE BENEFITS (cont'd)

Discount rates are determined considering the expected duration of the retirement obligations and the currency in which the obligations will be paid. In calculations as of 31 December 2014, a fixed discount rate is used. Long term inflation estimates are made using an approach consistent with discount rate estimates and long term inflation rate fixed over years is used.

The anticipated rate of resignation which do not result in the payment of employee benefits is also considered in the calculation. The anticipated rate of resignation is assumed to be related with the past experience, therefore past experiences of employees are analyzed and considered in the calculation. In the actuarial calculation as of 31 December 2014, the anticipated rate of resignation is considered to be inversely proportional to the past experience. The anticipated rate of resignation is between 2%-0% for the employees with past experience between 0-15 years or over.

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

	1 January - 31 December 2014	1 January - 31 December 2013
Opening balance	307.528	265.083
Service cost	26.379	27.308
Interest cost	28.568	20.924
Actuarial loss	75.386	14.282
Termination benefits paid	(39.777)	(22.214)
Translation difference	(4.606)	2.145
Closing balance	393.478	307.528

The sensitivity analysis of the assumptions which was used for the calculation of provision for employment termination benefits as of 31 December 2014 as follows:

Sensitivity level	Discount rate	
Rate	1% increase	1% decrease
Chage in employee benefits liability	(38.033)	44.717

	Inflation rate	
Rate	1% increase	1% decrease
Chage in employee benefits liability	44.941	(38.862)

NOTE 15 – EMPLOYEE BENEFITS (cont'd)

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

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

	1 January - 31 December 2014	1 January - 31 December 2013
Opening balance	17.667	18.896
Service cost	2.312	1.642
Interest cost	1.870	1.313
Actuarial loss/(gain)	5.948	(3.301)
Termination benefits paid	(2.224)	(864)
Translation difference	(184)	(19)
Closing balance	25.389	17.667

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

	1 January - 31 December 2014	1 January - 31 December 2013
Opening balance	67.037	62.270
Provision for the period	48.475	53.765
Vacation paid during the period (-)	(6.474)	(3.342)
Provisions released (-)	(39.983)	(45.320)
Translation difference	(198)	(336)
Closing balance	68.857	67.037

NOTE 16 – PROVISIONS

The Group's short term provisions are as follows:

	31 December 2014	31 December 2013
Provision for lawsuits	214.722	194.475
Penalty prov. for employment shortage of disabled pers.	5.223	4.568
Provision for state right on mining activities (*)	4.484	2.642
Provision for civil defense fund (**)	10.099	3.341
	234.528	205.026

(*)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.

NOTE 16 – PROVISIONS (cont'd)

The movement of the short term provisions is as follows:

	1 January 2014	Provision for the period	Payments	Provision released	Translation difference	31 December 2014
Provision for lawsuits	194.475	43.919	(7.537)	(22.837)	6.702	214.722
Penalty prov. for employment shortage of disabled pers.	4.568	2.546	(880)	(1.019)	8	5.223
Provision for state right on mining activities	2.642	4.861	(3.019)	-	-	4.484
Provision for civil defense fund	3.341	6.951	-	-	(193)	10.099
	205.026	58.277	(11.436)	(23.856)	6.517	234.528

	1 January 2013	Provision for the period	Payments	Provision released	Translation difference	31 December 2013
Provision for lawsuits	104.472	101.753	(7.412)	(10.906)	6.568	194.475
Penalty prov. for employment shortage of disabled pers.	4.945	2.634	(1.504)	(1.549)	42	4.568
Provision for state right on mining activities	3.644	2.642	(3.644)	-	-	2.642
Provision for civil defense fund	-	3.341	-	-	-	3.341
	113.061	110.370	(12.560)	(12.455)	6.610	205.026

NOTE 16 – PROVISIONS (cont'd)

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

	31 December 2014	31 December 2013
Lawsuits filed by the Group	300.304	311.275
Provision for lawsuits filed by the Group	5.872	4.183

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

	31 December 2014	31 December 2013
Lawsuits filed against the Group	242.347	225.543
Provision for lawsuits filed against the Group	214.722	194.475

Company's Shareholders' General Assembly, which was held at 30 March 2006, decided dividend distribution according to the consolidated financial statements as of 31 December 2005, which was prepared according to IFRS. Privatization Administration, who has a usufruct right over 1 (one) equity share among the Company shares it transferred to Ataer Holding A.Ş., filed a lawsuit before the 3th Commercial Court of Ankara against the aforementioned General Assembly decision, and claimed that, dividend distribution decision must be abolished and TRY 35.673 thousand allegedly unpaid dividend must be paid to itself (E. 2006/218). The Court rejected the case on 23 October 2008; Privatization Administration appealed this rejection on 7 January 2009. Court of Appeals' 11th Chamber reversed this rejection judgment on 30 November 2010; this time the Company appealed the Chamber's decision on 18 February 2011. However, the Chamber rejected the Company's appeal on 14 July 2011. The case file, sent back to 3th Commercial Court of Ankara once again. Therefore the case is still pending (E. 2011/551). The next hearing day is 17 April 2015.

Had the Company started to prepare its consolidated financial statements in accordance with IFRS after 31 December 2005, it would also have to present the comparative consolidated financial statements in accordance with IFRS based on "IFRS 1: First-time adoption of International Financial Reporting Standards" and the previously recognized negative goodwill would be transferred directly to retained earnings on 1 January 2005 instead of recognizing in the consolidated income statement in accordance with "IFRS 3: Business Combinations". Therefore, the net profit for the periods ended 31 December 2014 and 31 December 2013 will not be affected from the above mentioned disputes.

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

NOTE 16 – PROVISIONS (cont'd)

Enerjia Metal Maden Sanayi ve Ticaret A.Ş. initiated a debt collection proceeding that might end with a bankruptcy judgment against the Company based on the Export Protocol No. 69187 of 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 USD 68.312.520 should be paid to itself (E. 2010/259). The Court dismissed the case, in favor of the Company, on 23 June 2011. Enerjia appealed this rejection. 23rd Chamber of the Court of Appeals accepted this rejection on 6 April 2012 (E. 2011/2915) and after this, the case file was sent back to the 7th Commercial Court of Ankara. Therefore the case is still pending (E. 2014/734) and the next court hearing is on 1 April 2015.

An action of debt was instituted by Messrs. Bor-San Isı Sistemleri Üretim ve Pazarlama A.Ş. against our company at the 3rd Civil Court of Kdz. Ereğli on 17 April 2013 under file no 2013/253 Esas claiming for the compensation of the loss arising from the sales contract of TRY 18 thousand,-, reserving the rights for surplus. The Company was informed from the amendment petition, which was served to the company on 1 November 2013 that the plaintiff pleaded from the court to raise the claim to TRY 10.838 thousand as assessed by the expert opinion submitted to the court. The Company contested to the expert opinion and the amendment petition within the statutory period. The court has given the judgment of dismissal on 11 March 2014. The plaintiff, Bor-San Isı Sistemleri Üretim ve Pazarlama A.Ş. has appealed against the judgment. Upon the reversal of judgment, the Company appealed the decision of Supreme Court of Appeal. The rejection decision of Supreme Court of Appeal has been notified to the Company on 28 January 2015. No hearing date has been notifed to the Company yet.

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

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

It is learnt through a notified made to the Company on 31 October 2012 that Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.) filed an action for compensation at amount of TRY 8.669 thousand (USD 4.800 thousand) together with accessory against the Company before Ankara 14th Commercial Court of First Instance. As a result of adjudication made; the court adjudged to dismiss the case on procedural grounds because of non-competence and to send the file to commissioned and competent Karadeniz Ereğli Commercial Court of First Instance in Duty when the judgment becomes definite and in case of request. The case still continues on file no. 2013/63 in Karadeniz Ereğli 2nd Civil Court of First Instance. The court file has been entrusted to the expert. Date of next hearing of the case is 2 April 2015.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	31 December 2014	31 December 2013
Letters of guarantees received	1.538.130	1.469.209
	1.538.130	1.469.209

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

	31 December 2014	31 December 2013
A. Total CPM given for the Company's own legal entity	73.574	69.757
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	1.155.440	1.577.126
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	-	-
D. Other CPM given	-	-
i. Total CPM given in favour of parent entity	-	-
ii. Total CPM given in favour of other Group companies out of the scope of clause B and C	-	-
iii. Total CPM given in favour of other 3rd parties out of the scope of clause C	-	-
	1.229.014	1.646.883

As of 31 December 2014, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2013: 0%). Total CPM given in favor of subsidiaries consolidated on line-by-line basis amounting to TRY 1.155.440 thousand has been given as collateral for financial liabilities explained in Note 6.

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

	31 December 2014	31 December 2013
US Dollars	771.816	973.629
TRY	144.474	236.352
EURO	274.778	381.965
Japanese Yen	37.946	52.906
Romanian Lei	-	2.031
	1.229.014	1.646.883

NOTE 18 – OTHER ASSETS AND LIABILITIES

As of the balance sheet date, the details of the Group's other assets and liabilities are as follows:

Other current assets

	31 December 2014	31 December 2013
Other VAT receivable	44.134	91.147
Deferred VAT	37.035	31.908
Prepaid taxes and funds	8.555	1.240
Other current assets	1.822	1.797
	91.546	126.092

Other current liabilities

	31 December 2014	31 December 2013
VAT payable	40.524	14.294
Expense accruals	324	1.046
Other current liabilities	3.589	3.448
	44.437	18.788

Other non-current liabilities

	31 December 2014	31 December 2013
Other non-current liabilities	367	351
	367	351

NOTE 19 – DEFERRED REVENUE

As of the balance sheet date, the details of the Group's short term deferred revenue are as follows:

	31 December 2014	31 December 2013
Advances received	73.839	92.882
Deferred income	2.619	106
	76.458	92.988

NOTE 20 – EQUITY

As of 31 December 2014 and 31 December 2013, the capital structure is as follows:

Shareholders	(%)	31 December 2014	(%)	31 December 2013
Ataer Holding A.Ş.	49,29	1.724.982	49,29	1.724.982
Quoted in Stock Exchange	47,63	1.667.181	47,63	1.667.181
Erdemir's own shares	3,08	107.837	3,08	107.837
Historical capital	100,00	3.500.000	100,00	3.500.000
Effect of inflation		156.613		156.613
Restated capital		3.656.613		3.656.613
Treasury shares		(116.232)		(116.232)
		3.540.381		3.540.381

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.

The issued capital of the Company in 2014 consists of 350.000.000.000 lots of shares (2013: 350.000.000.000 lots). The nominal value of each share is 1 Kr (Turkish cent) (2013: 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 numbered II-17,1 on 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. 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.

NOTE 20 – EQUITY (cont'd)

Article IV-K of Articles of Association "According to Turkish Commercial Code Article 329, transactions of an entity's own shares" allows Erdemir to purchase, hold, sell or transfer its own shares, without voting rights. As of 31 December 2014, the Company holds its own shares with a nominal value of TRY 107.837 thousand (31 December 2013: TRY 107.837 thousand). The Company's own shares have been reclassified with its inflation adjusted value in the consolidated balance sheet as a deduction under equity.

Other equity items	31 December 2014	31 December 2013
Share premium	106.447	106.447
Revaluation reserves	24.151	23.255
-Revaluation reserves of property, plant & equipment	*24.151*	*23.255*
Cash flow hedging reserves	7.160	(9.344)
Foreign currency translation reserves	1.616.002	844.664
Actuarial (loss)/ gain fund	(125.714)	(66.809)
Restricted reserves assorted from profit	617.355	500.949
-Legal reserves	*617.355*	*500.949*
Retained earnings	2.616.106	2.607.273
-Extraordinary reserves	*781.469*	*780.894*
-Accumulated profit	*1.076.610*	*846.367*
-Statutory reserves	*758.027*	*980.012*
	4.861.507	4.006.435

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.

Listed companies distribute dividend in accordance with the Communiqué No. II-19.1 issued by the CMB which is effective from February 1, 2014.

NOTE 20 – EQUITY (cont'd)

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate for the publicly-held subsidiaries. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of incorporation. In addition, dividend can be distributed by fixed or variable installments and advance dividend can be paid in accordance with profit on interim financial statements of the Company.

In accordance with the Turkish Commercial Code (TCC), unless the required reserves and the dividend for shareholders as determined in the article of association or in the dividend distribution policy of the company are set aside, no decision may be made to set aside other reserves, to transfer profits to the subsequent year or to distribute dividends to the holders of usufruct right certificates, to the members of the board of directors or to the employees; and no dividend can be distributed to these persons unless the determined dividend for shareholders is paid in cash.

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 960.741 thousand as of 31 December 2014 (31 December 2013: TRY 1.024.546 thousand).

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 519 numbered 6102 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 519 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 519 of TCC, is recorded as status reserve. Company's Shareholders' General Assembly, which was held at 30 March 2012, decided status reserves can be used as an internal source of capital increase and profit sharing.

NOTE 20 – EQUITY (cont'd)

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.

As it stated in Note 2.1, foreign currency translation reserve arises from expressing the assets and liabilities of the Group's foreign operations in reporting currency TRY by using exchange rates prevailing on the balance sheet date. Exchange differences arising, if any, are recognized under translation reserve in equity.

NOTE 21 – SALES AND COST OF SALES

	1 January - 31 December 2014	1 January - 31 December 2013
Sales Revenue		
Domestic sales	9.962.783	8.576.056
Export sales	1.230.427	972.019
Other revenues (*)	308.022	253.410
Sales returns (-)	(11.158)	(10.155)
Sales discounts (-)	(5.937)	(10.579)
	11.484.137	9.780.751
Cost of goods sold (-)	(9.045.652)	(7.921.852)
Gross profit	2.438.485	1.858.899

(*) The total amount of by product exports in other revenues is TRY 139.685 thousand (31 December 2013: TRY 130.926 thousand).

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

The breakdown of cost of goods sales for the periods 1 January – 31 December 2014 and 1 January – 31 December 2013 is as follows:

	1 January - 31 December 2014	1 January - 31 December 2013
Raw material usage	(6.376.176)	(5.748.149)
Personnel costs	(1.085.243)	(855.242)
Energy costs	(616.695)	(553.916)
Depreciation and amortization expenses	(409.791)	(378.586)
Factory overheads	(214.760)	(144.079)
Other cost of goods sold	(142.572)	(92.630)
Non-operating costs (*)	(67.390)	(52.696)
Freight costs for salles delivered to customers	(62.594)	(34.050)
Inventory write-downs within the period (Note 9)	(29.951)	(32.607)
Reversal of inventory write-downs (Note 9)	15.013	16.664
Other	(55.493)	(46.561)
	(9.045.652)	(7.921.852)

(*) Due to the planned/ unplanned halt production of plant of the Group's, operations were suspended temporarily in the current period. As a result of this, unallocated overheads, TRY (67.390) thousand, has been accounted directly under cost of goods sold (31 December 2013: TRY 52.696 thousand).

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

The breakdown of operational expenses according to their nature for the periods 1 January – 31 December 2014 and 1 January – 31 December 2013 is as follows:

	1 January - 31 December 2014	1 January - 31 December 2013
Marketing, sales and distribution expenses (-)	(119.786)	(107.997)
General administrative expenses (-)	(223.509)	(201.944)
Research and development expenses (-)	(6.999)	(3.862)
	(350.294)	(313.803)

NOTE 23 – OPERATING EXPENSES ACCORDING TO THEIR NATURE

The breakdown of operational expenses according to their nature for the periods 1 January – 31 December 2014 and 1 January – 31 December 2013 is as follows:

	1 January - 31 December 2014	1 January - 31 December 2013
Personnel expense (-)	(65.053)	(59.668)
Depreciation and amortization(-)	(14.167)	(10.748)
Service expenses (-)	(15.066)	(19.896)
Other (-)	(25.500)	(17.685)
	(119.786)	(107.997)

The breakdown of general administrative expenses for the periods 1 January – 31 December 2014 and 1 January – 31 December 2013 is as follows:

	1 January - 31 December 2014	1 January - 31 December 2013
Personnel expenses (-)	(135.299)	(127.755)
Depreciation and amortization (-)	(12.520)	(7.146)
Service expenses (-)	(15.245)	(18.962)
Tax, duty and charges (-)	(3.934)	(4.765)
Other (-)	(56.511)	(43.316)
	(223.509)	(201.944)

The breakdown of research and development expenses for the periods 1 January – 31 December 2014 and 1 January – 31 December 2013 is as follows:

	1 January - 31 December 2014	1 January - 31 December 2013
Personnel expenses (-)	(4.364)	(1.975)
Depreciation and amortization (-)	(144)	-
Other (-)	(2.491)	(1.887)
	(6.999)	(3.862)

NOTE 24 – OTHER OPERATING INCOME/(EXPENSES)

The breakdown of other operating income for the periods 1 January – 31 December 2014 and 1 January – 31 December 2013 is as follows:

	1 January - 31 December 2014	1 January - 31 December 2013
Other operating income		
Foreign exchange gain from trade receivables and payables (net)	-	57.901
Interest income from on credit sales	59.360	40.534
Discount income	15.479	1.956
Provisions released	23.896	12.050
Service income	18.389	8.512
Maintenance repair and rent income	7.243	6.934
Warehouse income	3.085	3.692
Indemnity and penalty detention income	4.079	2.367
Insurance indemnity income	738	8.732
Royalty income	606	7.122
Gain on sale of tangible assets	1.054	1.227
Other income and gains	14.634	11.856
	148.563	162.883

The breakdown of other operating expenses for the periods 1 January – 31 December 2014 and 1 January – 31 December 2013 is as follows:

	1 January - 31 December 2014	1 January - 31 December 2013
Other operating expenses (-)		
Provisions expenses	(49.560)	(69.643)
Donation expenses	(10.213)	(8.529)
Discount expenses	(9.155)	(23.359)
Port facility pre-licence expenses	(4.906)	(8.603)
Lawsuit compensation expenses	(3.765)	(3.994)
Penalty expenses	(3.485)	(3.471)
Service expenses	(2.638)	(4.465)
Rent expenses	(618)	(598)
Capital Markets Board registration expenses	(5.588)	(859)
Stock exchange registration expenses	(910)	(1.262)
Loss on disposal of tangible assets	(4.127)	(2.002)
Impairment of property, plant and equipment (Note 12)	(18.555)	(20.472)
Other expenses and losses	(28.822)	(22.920)
	(142.342)	(170.177)

NOTE 25 – FINANCE INCOME

The breakdown of finance income for the periods 1 January – 31 December 2014 and 1 January – 31 December 2013 is as follows:

Financial incomes	1 January - 31 December 2014	1 January - 31 December 2013
Interest income on bank deposits	53.675	69.754
Foreign exchange gains (net)	22.993	-
Fair value differences of derivative financial instruments (net)	12.220	35.557
Other financial income	-	19
	88.888	105.330

NOT 26– FINANCE EXPENSES

The breakdown of finance expenses for the periods 1 January – 31 December 2014 and 1 January – 31 December 2013 is as follows:

Financial expenses (-)	1 January - 31 December 2014	1 January - 31 December 2013
Interest expenses on financial liabilities	(184.271)	(218.356)
Foreign exchange loss (net)	-	(152.207)
Interest cost of employee benefits	(30.438)	(22.237)
Other financial expenses	(3.020)	(2.170)
	(217.729)	(394.970)

During the period, the interest expenses of TRY 3.936 thousand have been capitalized as part of the Group's property, plant and equipment (1 January - 31 December 2013: TRY 2.008 thousand).

NOTE 27 –TAX ASSETS AND LIABILITIES

	31 December 2014	31 December 2013
Corporate tax payable:		
Current corporate tax provision	266.045	195.980
Prepaid taxes and funds (-)	(136.337)	(150.990)
	129.708	44.990

	1 January - 31 December 2014	1 January - 31 December 2013
Taxation:		
Current corporate tax expense	266.045	195.980
Deferred tax expense	38.735	91.774
	304.780	287.754

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

Corporate tax

The Group, except its subsidiary in Romania and Singapore, 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%, 16% in Romania and 17% in Singapore as of 31 December 2014 (31 December 2013: in Turkey 20%, in Romania 16%). The total amount of the corporate tax paid by the Group in 2014 is TRY 181.327 thousand (31 December 2013: TRY 163.199 thousand).

In Turkey, advance tax returns are filed on a quarterly basis. The temporary tax of 2014 has been calculated over the corporate earnings using the rate 20%, during the temporary taxation period. (2013: 20%).

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

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

Income withholding tax

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

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

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

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 (2013: 20%).

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) are 20% for the subsidiaries in Turkey, 17% for the subsidiary in Singapore and 16% for the subsidiary in Romania (31 December 2013: in Turkey 20%, in Romania 16%). Deferred tax related with the temporary differences arising from land parcels is calculated with the tax rate of 5% (December 2013: 5%).

As the companies in Turkey cannot give a consolidated corporate tax declaration, subsidiaries that have deferred tax assets are not netted off with subsidiaries that have deferred tax liabilities and disclosed separately.

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

	31 December 2014	31 December 2013
Deferred tax assets:		
Carry forward tax losses	2.056	20.625
Provisions for employee benefits	97.545	78.445
Investment incentive	-	44.253
Provision for lawsuits	37.598	38.895
Inventories	15.601	6.519
Provision for other doubtful receivables	12.481	11.192
Tangible and intangible fixed assets	9.901	10.455
Fair values of the derivative financial instruments	923	2.952
Other	20.683	17.754
	196.788	231.090
Deferred tax liabilities:		
Tangible and intangible fixed assets	(788.481)	(593.509)
Fair values of the derivative financial instruments	(13.399)	(13.327)
Amortized cost adjustment on loans	(6.199)	(8.870)
Inventories	(10.828)	(20.399)
Other	(4.110)	(4.251)
	(823.017)	(640.356)
	(626.229)	(409.266)

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

Presentation of deferred tax assets/(liabilities):

	31 December 2014	31 December 2013
Deferred tax assets	31.881	17.836
Deferred tax (liabilities)	(658.110)	(427.102)
	(626.229)	(409.266)

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

Maturities of carry forward tax losses are as follows:

	Carry forward tax losses		Deferred tax assets (*)	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
1 year	-	511.825	-	51.716
2 year	-	-	-	-
3 year	-	51.411	-	51.411
4 year	19.100	-	1.629	-
5 year	8.651	-	8.651	-
	27.751	563.236	10.280	103.127

(*) The Company had written off TRY 92.022 thousand of deferred tax assets in 31 December 2012 assuming that recoverability of tax losses amounting to TRY 460.109 thousand is remote.

Deferred tax asset/(liability) movements:	1 January - 31 December 2014	1 January - 31 December 2013
Opening balance	(409.266)	(135.970)
Deferred tax expense	(38.735)	(91.774)
The amount in comprehensive income/(expense)	10.909	(2.709)
Translation difference	(189.137)	(178.813)
Closing balance	(626.229)	(409.266)

Reconciliation of tax provision:	1 January - 31 December 2014	1 January - 31 December 2013
Profit before tax	1.965.571	1.248.162
Statutory tax rate	20%	20%
Calculated tax acc. to effective tax rate	393.114	249.632
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	4.668	5.656
- Effect of tax losses unrecognised deferred tax assets in prior years	(92.022)	-
- Effect of currency translation to non taxable assets	(4.219)	28.629
- Investment incentives	-	(3.276)
- Effect of non-taxable adjustments	3.644	5.421
- Effect of the different tax rates due to foreign subsidiaries	75	1.849
- Other	(480)	(157)
Tax expense in reported in the consolidate statement of income	304.780	287.754

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

As of 1 January – 31 December 2014 and 2013, the details of the tax gains/(losses) of the other comprehensive income/(expense) are as follows:

	1 January – 31 December 2014		
Other comprehensive income/(loss) in the current period	Amount before tax	Tax income/ (expense)	Amount after tax
Change in revaluation reserves of fixed assets	896	-	896
Change in actuarial (loss)/gain	(75.386)	15.077	(60.309)
Change in cash flow hedging reserves	20.842	(4.168)	16.674
Change in foreign currency translation reserves	792.010	-	792.010
	738.362	10.909	749.271

	1 January – 31 December 2013		
Other comprehensive income/(loss) in the current period	Amount before tax	Tax income/ (expense)	Amount after tax
Change in revaluation reserves of fixed assets	(3.559)	-	(3.559)
Change in actuarial (loss)/gain	(14.282)	2.856	(11.426)
Change in cash flow hedging reserves	27.826	(5.565)	22.261
Change in foreign currency translation reserves	849.490	-	849.490
	859.475	(2.709)	856.766

NOTE 28 – EARNINGS PER SHARE

	1 January - 31 December 2014	1 January- 31 December 2013
Number of shares outstanding	350.000.000.000	350.000.000.000
Net profit attributable to equity holders - TRY thousand	1.601.415	919.974
Profit per share with 1 TRY nominal value TRY %	0,4575 / 45,75%	0,2628 / 26,28%

NOTE 29 –RELATED PARTY DISCLOSURES

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

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

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

	31 December 2014	31 December 2013
Due from related parties (short term)		
Oyak Renault Otomobil Fab. A.Ş.[2]	27.886	27.443
Bolu Çimento Sanayi A.Ş.[1]	3.887	4.263
Adana Çimento Sanayi T.A.Ş. [1]	4.071	4.689
Other	565	299
	36.409	36.694

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

	31 December 2014	31 December 2013
Due to related parties (short term)		
Omsan Lojistik A.Ş.[1]	3.306	2.531
Omsan Denizcilik A.Ş.[1]	4.982	2.469
Oyak Pazarlama Hizmet ve Turizm A.Ş.[1]	5.361	2.894
Oyak Savunma ve Güvenlik Sistemleri A.Ş.[1]	2.876	2.263
Omsan Logistica SRL[1]	-	479
OYAK Yatırım Menkul Değerler A.Ş. [1]	-	2.141
Other	1.804	1.666
	18.329	14.443

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

(1) Subsidiaries of the parent company
(2) Joint venture

NOTE 29 –RELATED PARTY DISCLOSURES (cont'd)

Major sales to related parties	1 January - 31 December 2014	1 January - 31 December 2013
Oyak Renault Otomobil Fab. A.Ş.[2]	128.005	97.797
Adana Çimento Sanayi T.A.Ş.[1]	19.262	15.465
Bolu Çimento Sanayi A.Ş.[1]	16.929	13.010
Aslan Çimento A.Ş.[1]	2.652	1.757
Mardin Çimento Sanayi ve Ticaret A.Ş.[1]	1.098	450
Other	2.564	892
	170.510	129.371

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

Major purchases from related parties	1 January - 31 December 2014	1 January - 31 December 2013
Omsan Denizcilik A.Ş.[1]	110.485	68.151
Oyak Pazarlama Hizmet ve Turizm A.Ş.[1]	42.422	26.841
Omsan Lojistik A.Ş.[1]	32.243	26.603
Oyak Savunma ve Güvenlik Sistemleri A.Ş.[1]	30.539	23.481
Omsan Logistica SRL[1]	7.758	7.021
Oyak Teknoloji Bilişim ve Kart Hizmetleri A.Ş.[1]	-	5.384
Other	7.018	6.712
	230.465	164.193

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

(1) Subsidiaries of the parent company
(2) Joint venture

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

The period end balances are un-secured, interest free and their collections will be done in cash. As of 31 December 2014, the Group provides no provision for the receivables from related parties (31 December 2013: None).

Salaries, bonuses and other benefits of the key management:

For the year ended 31 December 2014, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 18.448 thousand (31 December 2013: TRY 14.574 thousand).

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

As of 31 December 2014 and 31 December 2013 the net debt/equity ratio is as follows:

	Note	31 December 2014	31 December 2013
Total financial liabilities	6	3.413.734	3.500.079
Less: Cash and cash equivalents	4	2.186.810	761.111
Net debt		1.226.924	2.738.968
Total adjusted equity (*)		10.428.861	8.782.973
Total resources		11.655.785	11.521.941
Net debt/Total adjusted equity ratio		12%	31%
Distribution of net debt/ total adjusted equity		11/89	24/76

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

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

Additional information about financial instruments (cont'd)

(b) Significant accounting policies

The Group's accounting policies related to the financial instruments are disclosed in Note 2 "Summary of Significant Accounting Policies, 2.8.8 Financial Instruments".

(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 contracts 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.

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.

Credit risk of financial instruments	Receivables				Bank Deposits	Derivative financial instruments
	Trade Receivables		Other Receivables			
31 December 2014	Related party	Third party	Related party	Third party		
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	36.409	1.720.451	-	27.538	2.186.783	92.312
- Secured part of the maximum credit risk exposure via collateral etc.	-	1.659.676	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	36.409	1.712.411	-	27.538	2.186.783	92.312
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	-	8.040	-	-	-	-
- secured part via collateral etc.	-	8.040	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	62.107	-	62.403	-	-
- Impairment (-)	-	(62.107)	-	(62.403)	-	-
- 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	-	-	-	-	-	-

Trade receivables that are overdue but not impaired amounting to TRY 8.040 thousand, are past due up to 1-30 days and secured with guarantees.

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					
	Trade Receivables		Other Receivables		Bank Deposits	Derivative financial instruments
31 December 2013	Related party	Third party	Related party	Third party		
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	36.694	1.671.844	-	26.892	761.086	80.031
- Secured part of the maximum credit risk exposure via collateral etc.	-	1.650.165	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	36.694	1.669.257	-	26.892	761.086	80.031
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	-	2.587	-	-	-	-
- secured part via collateral etc.	-	2.587	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	61.380	-	55.958	-	-
- Impairment (-)	-	(61.380)	-	(55.958)	-	-
- 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.

Trade receivables that are overdue but not impaired amounting to TRY 2.587 thousand, are past due up to 1-30 days and secured with guarantees.

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 31 December 2014, stated in Note 2.8.9 the foreign currency position of the Group in terms of original currency is calculated as it as follows:

	31 December 2014				
	TRY (Total in reporting currency)	TRY (Original currency)	US Dollars (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)
1. Trade Receivables	105.778	19.224	204	30.458	7.433
2a. Monetary financial assets	382.516	370.877	565	3.608	6.603
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	105.294	105.193	-	36	-
4. Current assets (1+2+3)	**593.588**	**495.293**	**769**	**34.103**	**14.036**
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-	-
7. Other	36.867	31.348	-	1.956	-
8. Non-current assets (5+6+7)	**36.867**	**31.348**	-	**1.956**	-
9. Total assets (4+8)	**630.455**	**526.642**	**769**	**36.059**	**14.036**
10. Trade payables	254.101	230.220	494	4.047	533.504
11. Financial liabilities	555.509	426.430	-	36.904	1.203.596
12a. Other monetary financial liabilities	633.869	632.979	-	316	-
12b. Other non-monetary financial liabilities	127.120	127.120	-	-	-
13. Current liabilities (10+11+12)	**1.570.599**	**1.416.750**	**494**	**41.267**	**1.737.100**
14. Trade payables	-	-	-	-	-
15. Financial liabilities	399.791	166.194	-	66.750	2.183.187
16a. Other monetary financial liabilities	483.582	483.582	-	-	-
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. Non-current liabilities (14+15+16)	**883.373**	**649.776**	-	**66.750**	**2.183.187**
18. Total liabilities (13+17)	**2.453.972**	**2.066.525**	**494**	**108.017**	**3.920.287**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	**(578.049)**	**(335.054)**	-	**(86.147)**	-
19a. Off-balance sheet foreign currency derivative financial assets	326.618	208.885	-	41.739	-
19b. Off-balance sheet foreign currency derivative financial liabilities	904.667	543.939	-	127.886	-
20. Net foreign currency asset/liability position (9-18+19)	**(2.401.566)**	**(1.874.938)**	**275**	**(158.104)**	**(3.906.251)**
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**(1.838.558)**	**(1.549.305)**	**275**	**(73.950)**	**(3.906.251)**
22. Fair value of derivative financial instruments used in foreign currency hedge	66.168	18.777	-	16.801	-
23. Hedged foreign currency assets	904.667	543.939	-	127.886	-
24. Hedged foreign currency liabilities	326.618	208.885	-	41.739	-
25. Exports	1.370.112	-	517.458	82.086	-
26. Imports	5.301.714	-	2.420.516	2.935	-

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)

	31 December 2013				
	TRY (Total in currency)	TRY (Original currency)	US Dollars (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)
1. Trade Receivables	91.603	24.567	45	22.656	19.623
2a. Monetary financial assets	59.424	48.120	298	3.630	14
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	144.125	142.694	-	487	-
4. Current assets (1+2+3)	**295.152**	**215.382**	**343**	**26.773**	**19.638**
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	47.920	-	-	16.319	-
6b. Non- monetary financial assets	-	-	-	-	-
7. Other	41.812	26.495	-	4.883	44.924
8. Non-current assets (5+6+7)	**89.732**	**26.495**	**-**	**21.201**	**44.924**
9. Total assets (4+8)	**384.884**	**241.877**	**343**	**47.975**	**64.562**
10. Trade payables	220.202	177.812	465	8.671	717.437
11. Financial liabilities	442.092	298.928	-	39.361	1.363.208
12a. Other monetary financial liabilities	280.802	275.200	-	-	276.885
12b. Other non-monetary financial liabilities	50.800	50.800	-	-	-
13. Current liabilities (10+11+12)	**993.896**	**802.740**	**465**	**48.032**	**2.357.529**
14. Trade payables	-	-	-	-	-
15. Financial liabilities	860.740	490.827	-	101.876	3.497.293
16a. Other monetary financial liabilities	386.623	382.890	-	1.271	-
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. Non-current liabilities (14+15+16)	**1.247.363**	**873.716**	**-**	**103.147**	**3.497.293**
18. Total liabilities (13+17)	**2.241.259**	**1.676.457**	**465**	**151.180**	**5.854.822**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	**217.342**	**53.918**	**-**	**55.653**	**-**
19a. Off-balance sheet foreign currency derivative financial assets	333.237	169.813	-	55.653	-
19b. Off-balance sheet foreign currency derivative financial liabilities	115.895	115.895	-	-	-
20. Net foreign currency asset/liability position (9-18+19)	**(1.639.033)**	**(1.380.661)**	**(121)**	**(47.553)**	**(5.790.260)**
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**(1.991.512)**	**(1.552.969)**	**(121)**	**(108.575)**	**(5.835.184)**
22. Fair value of derivative financial instruments used in foreign currency hedge	65.197	65.197	-	-	-
23. Hedged foreign currency assets	115.895	115.895	-	-	-
24. Hedged foreign currency liabilities	333.237	169.813	-	55.653	-
25. Exports	1.102.945	-	518.695	46.003	-
26. Imports	4.891.486	-	2.566.578	3.695	-

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 TRY, EURO and Japanese Yen. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates.

As of 31 December 2014 asset and liability balances are translated by using the following exchange rates: TRY 2,3189 = US $ 1,TRY 2,8207 = EUR 1 and TRY 0,0193= JPY 1 (31 December 2013: TRY 2,1343 = US $ 1,TRY 2,9365 = EUR 1 and TRY 0,0202= JPY 1)

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2014	Appreciation of foreign currency	Depreciation of foreign currency
1- TRY net asset/liability	(153.988)	153.988
2- Hedged portion from TRY risk (-)	20.889	(20.889)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(133.099)	133.099
5- US Dollars net asset/liability	64	(64)
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- US Dollars net effect (5+6+7)	64	(64)
9- Euro net asset/liability	(20.297)	20.297
10- Hedged portion from Euro risk (-)	11.773	(11.773)
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	(8.524)	8.524
13- Jap. Yen net asset/liability	(8.108)	8.108
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(8.108)	8.108
TOTAL (4+8+12+16)	**(149.667)**	**149.667**

In addition to the Group's foreign currency sensitivity to a 10% (+/-) change in TRY, TRY 166.866 thousand of income / (TRY (56.859) thousand expense) will occur due to the decrease/ (increase) in deferred tax base.

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	
31 December 2013	Appreciation of foreign currency	Depreciation of foreign currency
1- TRY net asset/liability	(143.458)	143.458
2- Hedged portion from TRY risk (-)	16.981	(16.981)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(126.477)	126.477
5- US Dollars net asset/liability	(26)	26
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- US Dollars net effect (5+6+7)	(26)	26
9- Euro net asset/liability	(30.306)	30.306
10- Hedged portion from Euro risk (-)	16.342	(16.342)
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	(13.964)	13.964
13- Jap. Yen net asset/liability	(11.714)	11.714
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(11.714)	11.714
17- Other currencies net asset/liabilities	(133)	133
18- Hedged portion from other currency risk (-)	-	-
19- Effect of capitalization (-)	-	-
20- Other curriencies net effect (17+18+19)	(133)	133
TOTAL (4+8+12+16+20)	**(152.314)**	**152.314**

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

Additional information about financial instruments (cont'd)

(g) 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.

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

Additional information about financial instruments (cont'd)

(g) Liquidity risk management (cont'd)

31 December 2014

Contractual maturity analysis	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Borrowings from banks	3.413.734	3.578.406	1.194.804	878.607	1.402.728	102.267
Trade payables	417.255	419.046	419.046	-	-	-
Other financial liabilities (*)	154.888	154.888	154.888	-	-	-
Total liabilities	**3.985.877**	**4.152.340**	**1.768.738**	**878.607**	**1.402.728**	**102.267**
Derivative financial liabilities						
Derivative cash inflows	92.312	838.120	550.128	238.580	49.412	-
Derivative cash outflows	(29.935)	(826.931)	(667.490)	(73.841)	(85.600)	-
	62.377	**11.189**	**(117.362)**	**164.739**	**(36.188)**	-

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

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

Additional information about financial instruments (cont'd)

(g) Liquidity risk management (cont'd)

31 December 2013

Contractual maturity analysis	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Borrowings from banks	3.500.079	3.773.302	345.897	1.204.521	2.132.117	90.767
Trade payables	504.186	506.148	506.148	-	-	-
Other financial liabilities (*)	208.568	208.568	208.568	-	-	-
Total liabilities	**4.212.833**	**4.488.018**	**1.060.613**	**1.204.521**	**2.132.117**	**90.767**
Derivative financial liabilities						
Derivative cash inflows	80.031	911.732	278.036	390.281	243.415	-
Derivative cash outflows	(26.872)	(890.273)	(281.111)	(391.630)	(217.532)	-
	53.159	**21.459**	**(3.075)**	**(1.349)**	**25.883**	**-**

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

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

31 December 2014	Cash and cash equivalent	Loans and receivables	Available for sale financial assets	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	2.186.810	-	-	-	-	-	2.186.810	4
Trade receivables	-	1.756.860	-	-	-	-	1.756.860	7
Financial investments	-	-	63	-	-	-	63	
Other financial assets	-	27.538	-	-	-	-	27.538	8
Derivative financial instruments	-	-	-	-	21.740	70.572	92.312	5
Financial Liabilities								
Financial liabilities	-	-	-	3.413.734	-	-	3.413.734	6
Trade payables	-	-	-	417.255	-	-	417.255	7
Other liabilities	-	-	-	154.888	-	-	154.888	8/15/18
Derivative financial instruments	-	-	-	-	12.940	16.995	29.935	5
31 December 2013								
Financial Assets								
Cash and cash equivalents	761.111	-	-	-	-	-	761.111	4
Trade receivables	-	1.708.538	-	-	-	-	1.708.538	7
Financial investments	-	-	-	-	-	-	-	
Other financial assets	-	26.892	-	-	-	-	26.892	8
Derivative financial instruments	-	-	-	-	72.622	7.409	80.031	5
Financial Liabilities								
Financial liabilities	-	-	-	3.500.079	-	-	3.500.079	6
Trade payables	-	-	-	504.186	-	-	504.186	7
Other liabilities	-	-	-	208.568	-	-	208.568	8/15/18
Derivative financial instruments	-	-	-	-	12.112	14.760	26.872	5

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

Additional information about financial instruments

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Estimated fair values of financial instruments have been determined by the Group by using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data. Accordingly, estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange.

The following methods and assumptions are used to estimate the fair values of financial instruments:

Financial assets
Financial assets that are carried at cost value including cash and cash equivalents are assumed to reflect their fair values due to their short term nature.

The carrying value of receivables, with related impairments are assumed to reflect their fair values.

Financial liabilities
Fair values of short term borrowings and trade payables are assumed to approximate their carrying values due to their short term nature.

Fair values of long term financial liabilities are assumed to approximate their carrying values due to mostly they have floating interest rates and repricing at short term.

Financial asset and liabilities at fair value		Fair value level as of reporting date		
	31 December 2014	Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	70.572	-	70.572	-
Derivative financial liabilities	(16.995)	-	(16.995)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	21.740	-	21.740	-
Derivative financial liabilities	(12.940)	-	(12.940)	-
Total	62.377	-	62.377	-

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

Additional information about financial instruments

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

Financial asset and liabilities at fair value		Fair value level as of reporting date		
	31 December 2013	Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	7.409	-	7.409	-
Derivative financial liabilities	(14.760)	-	(14.760)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	72.622	-	72.622	-
Derivative financial liabilities	(12.112)	-	(12.112)	-
Total	53.159	-	53.159	-

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.

NOTE 32 – SUBSEQUENT EVENTS

According to the decision of İskenderun Demir ve Çelik A.Ş. Board of Directors, dated 12 January 2015 and numbered 333;

Within the frame of Turkish Commercial Code's provisions related "becoming a shareholder", according to the decision of The Board of Directors of our subsidiary Iskenderun Demir ve Çelik A.Ş. (Isdemir), dated 24 March 2014 and numbered 314, it is decided to record the 7.120 people to Isdemir's shareholders' stock register. By reason of the fact that number of the shareholders becomes more than 500 as of register date 24.03.2014, the Company applied to the Capital Markets Board (CMB) for approval of becoming a public company. The approval of the Capital Markets Board was announced to the public on the Board's Bulletin dated 27.06.2014 by CMB. In accordance with the 2. paragraph of article 16 of Capital Markets Law and CMB's "II-16.1 Communiqué on Principles Pertaining to Removal of Corporations From The Scope of Law and Obligation of Trading of Shares on Exchange"; General Management is authorized for applying to Borsa İstanbul A.Ş. and CMB and fulfilling the requirements to make its own shares tradable on Borsa İstanbul A.Ş. Free Trade Platform in a certain period of time.

NOTE 33 – ADDITIONAL INFORMATION FOR CASH FLOW STATEMENTS

Details of changes in working capital for the periods between 1 January – 31 December 2014 and 1 January – 31 December 2013 are as follows:

	1 January- 31 December 2014	1 January- 31 December 2013
Current trade receivables	102.712	(466.576)
Inventories	412.375	(20.648)
Other short term receivables / current assets	(58)	(1.198)
Other long term receivables / non current assets	28.129	(24.673)
Current trade payables	(130.540)	(8.324)
Other short term payables / liabilities	30.885	22.291
Other long term payables / liabilities	10.472	(5.309)
	453.975	(504.437)

NOTE 34 – OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION

Convenience translation to English:

As at December 31, 2014, the accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying financial statements differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting, certain reclassifications and also for certain disclosures requirement of the POA/CMB. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with IFRS.