

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

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

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

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

CONSOLIDATED BALANCE SHEET AS OF 31 MARCH 2012

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

		(Unaudited)	(Audited)
		Current Period	Previous Period
		31 March	31 December
	Note	2012	2011
ASSETS			
Current Assets		5.787.848.490	6.026.987.737
Cash and Cash Equivalents	4	1.080.614.898	1.102.710.213
Financial Investments	5	1.368.501	9.232.974
Trade Receivables	8	1.060.820.775	1.141.698.002
<i>Due From Related Parties</i>	28	<i>10.963.891</i>	<i>9.723.604</i>
<i>Other Trade Receivables</i>	8	<i>1.049.856.884</i>	<i>1.131.974.398</i>
Other Receivables	9	246.729	277.962
Inventories	10	3.500.792.266	3.628.497.829
Other Current Assets	18	144.005.321	144.570.757
		<u>5.787.848.490</u>	<u>6.026.987.737</u>
Non Current Assets		7.363.207.509	7.365.849.568
Other Receivables	9	219.483	219.483
Financial Investments	5	25.621.359	47.541.529
Investment Properties	11	46.577.264	46.577.264
Property, Plant and Equipment	12	6.930.844.379	6.911.644.581
Intangible Assets	13	162.729.414	164.152.691
Deferred Tax Assets	26	92.859.421	110.735.816
Other Non Current Assets	18	104.356.189	84.978.204
		<u>7.363.207.509</u>	<u>7.365.849.568</u>
TOTAL ASSETS		<u>13.151.055.999</u>	<u>13.392.837.305</u>

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

CONSOLIDATED BALANCE SHEET AS OF 31 MARCH 2012

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

		(Unaudited)	(Audited)
		Current Period	Previous Period
		31 March	31 December
	Note	2012	2011
LIABILITIES			
Current Liabilities		2.627.045.671	2.472.663.550
Financial Liabilities	6	1.450.403.142	1.487.868.881
Other Current Financial Liabilities	7	2.576.397	558.936
Trade Payables	8	467.811.614	533.658.160
<i>Due to Related Parties</i>	28	9.225.034	9.852.395
<i>Other Trade Payables</i>	8	458.586.580	523.805.765
Other Payables	9	366.712.935	65.949.154
<i>Due to Related Parties</i>	28	582	341
<i>Other Payables</i>	9	366.712.353	65.948.813
Current Tax Liabilities	26	19.376.684	44.693.617
Provisions	15	87.172.232	77.424.150
Other Current Liabilities	18	232.992.667	262.510.652
Non Current Liabilities		3.417.729.405	3.632.625.683
Financial Liabilities	6	3.069.112.203	3.289.928.316
Other Non Current Financial Liabilities	7	11.272.222	10.400.444
Provisions for Employment Benefits	17	228.534.339	218.122.934
Deferred Tax Liabilities	26	108.063.007	113.234.445
Other Non Current Liabilities	18	747.634	939.544
EQUITY	19	7.106.280.923	7.287.548.072
Equity attributable to equity holders of the parent		6.912.631.691	7.086.723.062
Share Capital		2.150.000.000	2.150.000.000
Inflation Adjustment to Capital		731.967.735	731.967.735
Treasury Shares (-)		(74.637.969)	(74.637.969)
Share Issue Premium		231.020.042	231.020.042
Revaluation Reserve of Tangible Assets		26.735.231	27.228.155
Cash Flow Hedging Reserves		(21.792.566)	(14.783.355)
Foreign Currency Translation Reserves		(274.778)	(489.005)
Restricted Reserves Assorted from Profit		1.835.511.592	1.757.470.693
Retained Earnings		1.910.149.026	1.273.384.263
Net Profit for the Period		123.953.378	1.005.562.503
Non-controlling Interests		193.649.232	200.825.010
TOTAL LIABILITIES AND EQUITY		13.151.055.999	13.392.837.305

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 INCOME
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2012**

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

		(Unaudited) Current Period 1 January- 31 March 2012	(Unaudited) Previous Period 1 January- 31 March 2011
	Note		
OPERATING INCOME			
Revenue	20	2.435.338.933	2.027.880.495
Cost of Sales (-)	20	(2.244.368.215)	(1.606.233.439)
GROSS PROFIT		190.970.718	421.647.056
Marketing, Sales and Distribution Expenses (-)	21	(27.897.180)	(20.915.480)
General Administrative Expenses (-)	21	(44.849.257)	(39.205.697)
Research and Development Expenses (-)	21	(178.504)	(78.035)
Other Operating Income	23	18.834.577	19.660.459
Other Operating Expenses (-)	23	(23.111.824)	(18.849.922)
OPERATING PROFIT		113.768.530	362.258.381
Finance Income	24	254.658.662	87.431.530
Finance Expense (-)	25	(198.184.467)	(111.223.386)
PROFIT BEFORE TAX		170.242.725	338.466.525
Tax Expense	26	(33.840.458)	(67.178.150)
- Current Corporate Tax Expense		(19.377.276)	(42.066.925)
- Deferred Tax Expense		(14.463.182)	(25.111.225)
PROFIT FOR THE PERIOD		136.402.267	271.288.375
- Non-Controlling Interests		12.448.889	10.865.547
- Equity Holders of the Parent		123.953.378	260.422.828
EARNINGS PER SHARE	27	0,0577	0,1211
(TRY 1 Nominal value per share)			

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

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2012**

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

	(Unaudited)	(Unaudited)
	Current Period	Previous Period
	1 January-	1 January-
Note	31 March 2012	31 March 2011
PROFIT FOR THE PERIOD	136.402.267	271.288.375
Other Comprehensive Income/(Expense):		
Change in Revaluation Reserve		
of Tangible Assets	(492.924)	976.066
Change in Cash Flow Hedging Reserves	(7.539.743)	3.823.333
Change in Foreign Currency Translation Reserves	214.227	(5.289.212)
OTHER COMPREHENSIVE INCOME/ (EXPENSE) FOR THE PERIOD (AFTER TAX)	(7.818.440)	(489.813)
	26	
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	128.583.827	270.798.562
Distribution of Total Comprehensive Income		
- Non-controlling Interests	11.918.357	11.142.709
- Equity Holders of the Parent	116.665.470	259.655.853

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2012

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

	Note	Share Capital	Inflation Adjustment to Capital	Treasury Shares (-)	Share Issue Premium	Revaluation Reserve of Tangible Assets	Cash Flow Hedging Reserves	Foreign Currency Translation Reserves	Restricted Reserves Assorted from Profit	Retained Earnings	Equity Attributable to the Parent	Non-controlling Interests	Total Shareholders' Equity
(Unaudited)													
1 January 2012		2.150.000.000	731.967.735	(74.637.969)	231.020.042	27.228.155	(14.783.355)	(489.005)	1.757.470.693	2.278.946.766	7.086.723.062	200.825.010	7.287.548.072
Net profit for the period		-	-	-	-	-	-	-	-	123.953.378	123.953.378	12.448.889	136.402.267
Other comprehensive income/ (loss)		-	-	-	-	(492.924)	(7.009.211)	214.227	-	-	(7.287.908)	(530.532)	(7.818.440)
Total comprehensive income/ (loss)		-	-	-	-	(492.924)	(7.009.211)	214.227	-	123.953.378	116.665.470	11.918.357	128.583.827
Dividends to be paid (*)		-	-	-	-	-	-	-	-	(290.756.841)	(290.756.841)	(19.094.135)	(309.850.976)
Transfers from retained earnings	19	-	-	-	-	-	-	-	78.040.899	(78.040.899)	-	-	-
31 March 2012	19	2.150.000.000	731.967.735	(74.637.969)	231.020.042	26.735.231	(21.792.566)	(274.778)	1.835.511.592	2.034.102.404	6.912.631.691	193.649.232	7.106.280.923
(Unaudited)													
1 January 2011		1.600.000.000	731.967.735	(57.692.172)	231.020.042	25.241.672	(24.396.817)	4.845.393	1.696.170.542	2.303.873.875	6.511.030.270	180.214.055	6.691.244.325
Net profit for the period		-	-	-	-	-	-	-	-	260.422.828	260.422.828	10.865.547	271.288.375
Other comprehensive income/ (loss)		-	-	-	-	976.066	3.546.171	(5.289.212)	-	-	(766.975)	277.162	(489.813)
Total comprehensive income/ (loss)		-	-	-	-	976.066	3.546.171	(5.289.212)	-	260.422.828	259.655.853	11.142.709	270.798.562
Dividends to be paid		-	-	-	-	-	-	-	-	(436.135.258)	(436.135.258)	(13.714.050)	(449.849.308)
Transfers from retained earnings	19	550.000.000	-	(16.945.797)	-	-	-	-	61.300.151	(594.354.354)	-	-	-
31 March 2011	19	2.150.000.000	731.967.735	(74.637.969)	231.020.042	26.217.738	(20.850.646)	(443.819)	1.757.470.693	1.533.807.091	6.334.550.865	177.642.714	6.512.193.579

(*) On the Regular General Assembly dated 30 March 2012, dividend distribution amounting to TRY 300.000.000 (31 Mart 2011: TRY 450.000.000) from 2011 net profit was approved. As the Company holds 3,08% of its shares with a nominal value of TRY 66.242.638 as of 30 March 2012, dividends for treasury shares are netted off under dividends paid. The dividend distribution will be completed until 31 May 2012.

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

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2012**

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

		(Unaudited) Current Period 1 January- 31 March 2012	(Unaudited) Previous Period 1 January- 31 March 2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax and non-controlling interests		170.242.725	338.466.525
Adjustments to reconcile net profit before tax to net cash provided by operating activities:			
Depreciation and amortization expenses	20/22	90.203.452	78.343.621
Provision for employee termination benefits	17	10.527.938	8.391.149
Provision for seniority incentive premium	17	1.000.488	1.393.950
Gain on sale of property plant and equipment	23	(23.344)	(430.562)
Income from sale of financial assets	23	-	(7.962.073)
Loss on write off of property plant and equipment	23	196.751	4.038.679
Decrease in provision for doubtful receivables	8/9	(354.989)	(352.867)
Decrease in the allowance for inventories	10	(4.653.614)	(2.090.163)
Increase in provision for unpaid vacations	18	982.809	258.097
Increase in provision for pending claims and lawsuits	15	14.885.938	1.804.665
Increase/(decrease) in penalty provision for obligatory employment shortage of disabled people	15	88.846	(104.682)
Increase in personel provisions	15	-	11.538.321
Increase in provision for state right on mining activities	15	992.140	503.793
Interest expenses	25	60.183.661	69.417.814
Interest income	24	(30.348.581)	(46.047.783)
Unrealized foreign currency (gain)/loss of financial liabilities		(222.096.010)	32.765.502
Loss/(gain) on fair value changes of derivative financial instruments	24/25	16.770.639	(16.143.804)
Net cash provided by operating activities before changes in working capital		108.598.849	473.790.182
Changes in working capital	32	113.056.490	(63.745.073)
Interest paid		(26.735.982)	(46.779.570)
Interest received		28.728.910	49.184.596
Lawsuits paid	15	(5.524.126)	(685.838)
Penalty paid for the employment shortage of disabled people	15	(694.716)	(996.060)
Taxes paid	26	(44.694.209)	(7.796.031)
Employee termination benefits paid	17	(1.117.021)	(1.373.140)
Net cash provided by operating activities		171.618.195	401.599.066
CASH FLOWS FROM INVESTING ACTIVITIES			
Changes in financial assets held as available for sale	5	(2.336)	(2.061)
Proceeds from sale of financial assets		-	34.143.200
Cash used in the purchase of tangible assets	12	(101.947.005)	(82.345.476)
Cash used in the purchase of intangible assets	13	(4.138.108)	(1.790.879)
Cash provided by sales of tangible assets	12/13/23	23.798	460.628
Net cash used in investing activities		(106.063.651)	(49.534.588)
CASH FLOWS FROM FINANCING ACTIVITIES			
New borrowings		317.612.860	552.980.258
Repayment of borrowings		(387.653.492)	(1.781.573.886)
Dividends paid to non-controlling interests		(19.094.135)	(8.485.012)
Net cash used in by financing activities		(89.134.767)	(1.237.078.640)
NET CHANGES IN CASH AND CASH EQUIVALENTS		(23.580.223)	(885.014.162)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	1.100.335.205	2.866.694.086
Currency translation difference, net		(134.763)	(1.261.264)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	1.076.620.219	1.980.418.660
Accrued interest income	4	3.994.679	7.959.372
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD INCLUDING ACCRUED INTEREST INCOME	4	1.080.614.898	1.988.378.032

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2012

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

NOTE 1 – GROUP’S ORGANIZATION AND NATURE OF OPERATIONS

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

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

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

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

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

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

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

Erdemir Gaz San. ve Tic. A.Ş. as disclosed in non-current financial investments is excluded from consolidation, as it has been dormant since its establishment and it does not significantly affect the consolidated financial statements of the Group (Note 5).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2012

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

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

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

	31 March 2012	31 December 2011
	Personnel	Personnel
Monthly paid personnel (A)	3.390	3.368
Hourly paid personnel (B)	8.904	8.640
Candidate worker (C)	1.017	1.293
Contractual personnel (D)	20	20
Contractual personnel (SZ)	74	112
Total	13.405	13.433

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

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

CMB, in accordance with Communiqué Serial: XI, No: 29 on “Communiqué on Financial Reporting in the Capital Markets”, regulates the comprehensive set of principles, procedures and basis of preparation, presentation and announcement of financial statements prepared by the entities. This communiqué is effective for the periods from the first interim financial statements prepared subsequent to 1 January 2008 and supersedes the Communiqué Serial XI, No: 25 “Accounting Standards in Capital Markets”. According to the Communiqué, entities shall prepare their financial statements in accordance with International Financial Reporting Standards (“IAS/IFRS”) endorsed by the European Union (EU). However, IAS/IFRS issued by the IASB shall be applied until the differences between IAS/IFRS that are endorsed by the European Union and the standards issued by the International Accounting Standards Board (“IASB”) are announced by Turkish Accounting Standards Board (“TASB”). Accordingly, Turkish Accounting Standards/ Turkish Financial Reporting Standards (“TAS/TFRS”) issued by the TASB which are in line with the aforementioned standards are essential.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2012

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

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

2.1 Basis of Presentation (cont’d)

Functional and Reporting Currency

TRY is accepted as the functional and reporting currency of the Company’s subsidiaries and affiliates operating in Turkey.

Functional and reporting currency for the subsidiary abroad

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

As a result, the differences between closing and average foreign exchange rates and due to the deviation arising from differences between the value of the equity accounts of the consolidated partnership and the subsidiary are followed under the foreign currency translation reserves in equity. The functional and national currency of the subsidiary established in Romania is Romanian Lei.

The foreign subsidiary has been established as a foreign legal entity.

Approval of the consolidated financial statements

The consolidated financial statements have been approved and authorized to be published on 7 May 2012 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

2.2 The Adjustment of the Financial Statements in Hyperinflationary Periods

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

2.3 Changes in Accounting Estimates and Errors

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

2.4 Basis of Consolidation

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

Subsidiaries

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

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

2.4 Basis of Consolidation (cont’d)

Subsidiaries (cont’d)

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

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

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

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

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

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

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

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

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

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

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

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

2.6.2 Deferred tax

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

2.6.3 Fair values of derivative financial instruments

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

2.6.4 Provision for doubtful receivables

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

2.6.5 Provision for inventories

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

2.6.6 Provisions for employee benefits

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

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

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

2.7 Offsetting

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

2.8 Adoption of New and Revised International Financial Reporting Standards

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

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

IAS 12 (Amended) ‘Deferred Taxes: Recovery of Underlying Assets’ This amendment has not yet been endorsed by the EU. Adoption of this amendment did not have any impact on the financial position or performance of the Group.

IFRS 7 (Amended) ‘Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements’ This amendment has not yet been endorsed by the EU. The amendment affects disclosures only and did not have any impact on the financial position or performance of the Group.

Standards issued but not yet effective and not early adopted

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

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

IAS 19 (Amended) ‘Employee Benefits’ (Effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. With very few exceptions retrospective application is required). This amendment has not yet been endorsed by the EU. The Group is assessing the effects of the amendment.

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

IAS 28 (Amended) ‘Investments in Associates and Joint Ventures’ (Effective for annual periods beginning on or after 1 January 2013 and are applied on a modified retrospective basis). This amendment has not yet been endorsed by the EU. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

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

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

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

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

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

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

IFRS 10 ‘Consolidated Financial Statements’ (Effective for annual periods beginning on or after 1 January 2013 and are applied on a modified retrospective basis). This amendment has not yet been endorsed by the EU. The Group is assessing the effects of the standard.

IFRS 11 ‘Joint Arrangements’ (Effective for annual periods beginning on or after 1 January 2013 and are applied on a modified retrospective basis). This standard has not yet been endorsed by the EU. The Group does not expect that this standard will have an impact on the financial position or performance of the Group.

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

IFRS 13 ‘Fair Value Measurement’ (Effective for annual periods beginning on or after 1 January 2013 and will be adopted prospectively). This amendment has not yet been endorsed by the EU. The Group is considering the impact on the financial position or performance of the Group.

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

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

2.9 Valuation Principles Applied / Significant Accounting Policies

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

2.9.1 Revenue recognition

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

Sale of goods

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

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

Dividend and interest revenue

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

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

Rental income

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

2.9.2 Inventories

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

2.9.3 Property, plant and equipment

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

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

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

2.9.3 Property, plant and equipment (cont’d)

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

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

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

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

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

2.9.4 Intangible assets

Purchased intangible assets

Intangible assets purchased before 1 January 2005 are recognized at their acquisition cost indexed for inflation effects as at 31 December 2004, on the other hand the purchases made in and after 1 January 2005 are recognized at acquisition cost less any amortization and impairment loss. Intangible assets are amortized principally on a straight-line basis over their estimated useful lives. 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%

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

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

2.9.5 Impairment of assets

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

2.9.6 Borrowing costs

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

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

2.9.7 Financial instruments

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

Financial assets

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

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

Effective interest method

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

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

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

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

2.9.7 Financial instruments (cont’d)

Financial assets (cont’d)

Available for sale financial assets

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

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

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

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

Receivables

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

Impairment of financial assets

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

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

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

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

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

2.9.7 Financial instruments (cont’d)

Financial assets (cont’d)

Impairment of financial assets (cont’d)

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

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

Cash and cash equivalents

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

Financial liabilities

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

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

Other financial liabilities

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

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

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

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

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

2.9.7 Financial instruments (cont’d)

Derivative financial instruments and hedge accounting

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

On the date a derivative contract is entered into, the Group designates certain derivatives as either a hedge of the fair value of a recognized asset or liability (fair value hedge) or a hedge from changes that could affect the statement of income due to a specific risk in cash flow of a forecasted transaction (cash flow hedge).

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

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

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

2.9.8 The effects of foreign exchange rate changes

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

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

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

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

2.9.9 Earnings per share

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

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

2.9.10 Subsequent events

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

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

2.9.11 Provisions, contingent liabilities and contingent assets

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

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

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

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

2.9.12 Related parties

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

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

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

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

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

2.9.13 Investment properties

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

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

2.9.14 Taxation and deferred income taxes

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

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

Current tax

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

Deferred tax

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

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

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

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

2.9.14 Taxation and deferred income taxes (cont’d)

Deferred tax (cont’d)

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

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

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

Current and deferred tax for the period

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

2.9.15 Provisions for employment benefits

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

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

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

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

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

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

2.9.16 Statement of cash flows

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

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

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

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

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

2.9.17 Share capital and dividends

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

2.9.18 Treasury shares

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

NOTE 3 – SEGMENTAL REPORTING

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

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NOTE 4 – CASH AND CASH EQUIVALENTS

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

	31 March 2012	31 December 2011
Cash	45.734	41.790
Banks – demand deposits	40.518.003	84.343.351
Banks – time deposits	1.040.051.161	1.018.325.072
	<u>1.080.614.898</u>	<u>1.102.710.213</u>
Time deposit interest accruals (-)	(3.994.679)	(2.375.008)
Cash and cash equivalents excluding interest accruals	<u>1.076.620.219</u>	<u>1.100.335.205</u>

The breakdown of demand deposits is presented below:

	31 March 2012	31 December 2011
US Dollars	15.235.501	49.734.756
TRY	23.277.319	30.710.792
EURO	1.107.750	3.189.345
Romanian Lei	869.662	532.391
GB Pound	27.261	24.026
Japanese Yen	510	152.041
	<u>40.518.003</u>	<u>84.343.351</u>

The breakdown of time deposits is presented below:

	31 March 2012	31 December 2011
US Dollars	996.792.801	877.785.945
TRY	32.919.737	124.546.150
EURO	10.338.623	15.290.338
Romanian Lei	-	702.639
	<u>1.040.051.161</u>	<u>1.018.325.072</u>

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NOTE 5 – FINANCIAL INVESTMENTS

Current financial investments:

	31 March 2012	31 December 2011
Derivative financial assets at fair value through income statement (*)	1.368.501	9.232.974
Total	1.368.501	9.232.974

Non-current financial investments:

	31 March 2012	31 December 2011
Available for sale financial assets:	68.422	66.086
Derivative financial assets at fair value through other comprehensive income statement (*)	25.552.937	47.475.443
Total	25.621.359	47.541.529

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

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

<u>Company</u>	<u>Rate %</u>	<u>31 March</u>		<u>31 December</u>	
		<u>2012</u>	<u>Rate %</u>	<u>2011</u>	
Erdemir Gaz San. ve Tic. A.Ş. (*)	100	68.422	100	66.086	

(*) The financial statements of Erdemir Gaz San. ve Tic. A.Ş., which has a total asset of TRY 3.144 and has been dormant since its establishment, are not consolidated as their effects on the consolidated financial statements are immaterial and disclosed at cost. There are no off balance sheet liabilities and contingencies given between the Group companies and Erdemir Gaz in favor of each other. In the Extraordinary General Meeting of Erdemir Gaz San. ve Tic. A.Ş. dated 7 May 2012, liquidation of the Company has been decided.

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6 – FINANCIAL LIABILITIES

Breakdown of financial liabilities is as follows:

	31 March 2012	31 December 2011
Short term financial liabilities	453.908.866	394.588.121
Current portion of long term financial liabilities	996.494.276	1.093.280.760
Total short term financial liabilities	1.450.403.142	1.487.868.881
Long term financial liabilities	3.069.112.203	3.289.928.316
Total long term financial liabilities	3.069.112.203	3.289.928.316
	<u>4.519.515.345</u>	<u>4.777.797.197</u>

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

Interest Type	Type of Currency	Weighted Average Rate of Interest (%)	31 March 2012	
			Short Term Portion	Long Term Portion
No interest	TRY	-	12.612.515	-
Fixed	TRY	10,60	161.297.574	884.027.779
Fixed	US Dollars	1,97	683.452.980	24.175.907
Floating	US Dollars	Libor+2,50	469.200.771	1.620.480.442
Floating	EURO	Euribor+0,33	97.254.249	408.354.732
Floating	Jap. Yen	JPY Libor+0,22	26.585.053	132.073.343
			<u>1.450.403.142</u>	<u>3.069.112.203</u>
				<u>4.519.515.345</u>

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

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

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

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NOTE 6 – FINANCIAL LIABILITIES (cont’d)

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

Type of Currency	Fixed rate of interest (%)	Short Term Portion	Long Term Portion	31 March 2012
US Dollars	2,38	24.004.727	59.865.829	83.870.556
US Dollars	4,18	22.888.032	10.428.824	33.316.856
US Dollars	3,29	12.252.202	42.217.472	54.469.674
US Dollars	3,28	25.256.006	-	25.256.006
US Dollars	1,09	24.193.517	60.245.689	84.439.206
US Dollars	4,47	85.426.723	362.638.636	448.065.359
US Dollars	4,46	6.799.385	61.245.636	68.045.021
EURO	2,18	5.846.725	17.179.515	23.026.240
EURO	1,82	1.434.587	-	1.434.587
EURO	1,75	2.713.510	2.691.546	5.405.056
EURO	1,79	1.187.944	2.922.679	4.110.623
EURO	1,80	2.841.053	13.483.689	16.324.742
EURO	4,43	1.221.201	10.756.364	11.977.565
EURO	2,29	6.074.894	20.646.516	26.721.410
EURO	1,66	1.505.955	5.150.058	6.656.013
US Dollars (*)	7,22	15.983.197	85.447.827	101.431.024
EURO (**)	10,65	31.554.522	152.904.460	184.458.982
		<u>271.184.180</u>	<u>907.824.740</u>	<u>1.179.008.920</u>

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

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

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

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NOTE 6 – FINANCIAL LIABILITIES (cont’d)

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

Type of Currency	Fixed rate of interest (%)	Short Term Portion	Long Term Portion	31 December 2011
US Dollars	2,38	25.474.382	63.585.894	89.060.276
US Dollars	3,29	12.847.838	44.945.655	57.793.493
US Dollars	3,28	27.091.672	13.473.527	40.565.199
US Dollars	1,09	25.663.313	64.012.278	89.675.591
US Dollars	4,47	86.320.936	386.365.909	472.686.845
US Dollars	4,46	6.602.483	65.252.909	71.855.392
EURO	2,18	5.911.534	17.725.829	23.637.363
EURO	1,82	1.496.538	739.797	2.236.335
EURO	1,75	2.776.405	2.772.153	5.548.558
EURO	1,79	1.209.043	2.999.046	4.208.089
US Dollars (*)	7,22	18.777.561	101.800.109	120.577.670
EURO (**)	10,65	31.695.819	157.669.001	189.364.820
		<u>245.867.524</u>	<u>921.342.107</u>	<u>1.167.209.631</u>

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

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

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

	31 March 2012	31 December 2011
Within 1 year	1.450.403.142	1.487.868.881
Between 1-2 years	766.043.538	827.447.833
Between 2-3 years	739.422.163	771.380.960
Between 3-4 years	681.029.488	712.334.875
Between 4-5 years	541.155.487	610.130.802
Five years or more	341.461.527	368.633.846
	<u>4.519.515.345</u>	<u>4.777.797.197</u>

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NOTE 7 - OTHER FINANCIAL LIABILITIES

	31 March 2012	31 December 2011
<u>Other current financial liabilities</u>		
Derivative financial liabilities at fair value through other comprehensive income statement (*)	247.392	-
Derivative financial liabilities at fair value through income statement (*)	2.329.005	558.936
	<u>2.576.397</u>	<u>558.936</u>
<u>Other non-current financial liabilities</u>		
Derivative financial liabilities at fair value through other comprehensive income statement (*)	11.272.222	10.400.444
	<u>11.272.222</u>	<u>10.400.444</u>

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

NOTE 8 – TRADE RECEIVABLES AND PAYABLES

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

	31 March 2012	31 December 2011
<u>Short term trade receivables</u>		
Trade receivables	1.087.915.822	1.174.653.003
Due from related parties (Note 28)	10.963.891	9.723.604
Notes receivables	2.672.859	2.201.537
Discount on receivables (-)	(1.197.579)	(3.460.040)
Provision for doubtful trade receivables (-)	(39.534.218)	(41.420.102)
	<u>1.060.820.775</u>	<u>1.141.698.002</u>

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

	1 January – 31 March 2012	1 January – 31 March 2011
Opening balance	41.420.102	41.094.211
Provision for the period	13.249	12.158
Doubtful receivables collected (-)	-	(1.696.200)
Provision released (-)	(613.164)	(365.025)
Translation loss/(gain)	(1.285.969)	2.255.532
Closing balance	<u>39.534.218</u>	<u>41.300.676</u>

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

	31 March 2012	31 December 2011
<u>Long term trade receivables</u>		
Trade receivables	1.619.793	1.619.793
Provision for doubtful trade receivables (-)	(1.619.793)	(1.619.793)
	-	-

The movements of the provision for long term doubtful trade receivables are as follows:

	1 January – 31 March 2012	1 January – 31 March 2011
Opening balance	1.619.793	1.619.793
Closing balance	1.619.793	1.619.793

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

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

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

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

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

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

	31 March 2012	31 December 2011
<u>Short term trade payables</u>		
Trade payables	459.547.824	524.975.798
Due to related parties (Note 28)	9.225.034	9.852.395
Discount on trade payables (-)	(961.244)	(1.170.033)
	467.811.614	533.658.160

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NOTE 9 – OTHER RECEIVABLES AND PAYABLES

Other current receivables

	31 March 2012	31 December 2011
Deposits and guarantees given	246.729	252.962
Due from related parties (Note 28)	-	25.000
	<u>246.729</u>	<u>277.962</u>

Other non-current receivables

	31 March 2012	31 December 2011
Receivables from Privatization Authority	52.703.272	52.458.346
Deposits and guarantees given	219.483	219.483
Provision for other doubtful receivables (-)	(52.703.272)	(52.458.346)
	<u>219.483</u>	<u>219.483</u>

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

	1 January- 31 March 2012	1 January- 31 March 2011
Opening balance	52.458.346	25.854.055
Provision for the period	244.926	-
Closing balance	<u>52.703.272</u>	<u>25.854.055</u>

Other current payables

	31 March 2012	31 December 2011
Social security deductions payable	39.211.936	38.454.834
Taxes and funds payable	27.397.568	17.995.565
Deposits and guarantees received	5.046.946	4.754.217
Dividend payables to shareholders (*)	293.211.799	2.489.565
Non trade payables to related parties (Note 28)	582	341
Deferred and installed payables to public institutions	1.844.104	2.254.632
	<u>366.712.935</u>	<u>65.949.154</u>

(*) On the Regular General Assembly dated 30 March 2012, dividend distribution amounting to TRY 300.000.000 from 2011 net profit was approved. The dividend distribution will be completed till 31 May 2012. TRY 290.756.841 of dividend payables as of 31 March 2012 is related to 2011 dividend distribution, while TRY 2.454.958 (31 December 2011: TRY 2.489.565) is uncollected dividends related to previous years by shareholders.

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NOTE 10 – INVENTORIES

	31 March 2012	31 December 2011
Raw materials	849.409.557	1.046.863.873
Work in progress	577.940.555	531.166.124
Finished goods	807.099.196	976.530.545
Spare parts	372.089.979	358.331.015
Goods in transit	726.450.164	550.025.922
Other inventories	216.674.204	219.105.353
Allowance for impairment on inventories (-)	(48.871.389)	(53.525.003)
	<u>3.500.792.266</u>	<u>3.628.497.829</u>

The movement of the allowance for impairment on inventories:

	1 January – 31 March 2012	1 January – 31 March 2011
Opening balance	53.525.003	38.781.046
Provision for the period (Note 20)	2.353.283	965.368
Provision released (-) (Note 20)	(7.006.897)	(3.055.531)
Closing balance	<u>48.871.389</u>	<u>36.690.883</u>

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

NOTE 11 – INVESTMENT PROPERTIES

	1 January – 31 March 2012	1 January – 31 March 2011
<u>Cost</u>		
As of 1 January	46.577.264	46.577.264
As of 31 March	<u>46.577.264</u>	<u>46.577.264</u>
<u>Book value</u>	<u>46.577.264</u>	<u>46.577.264</u>

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

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

For the three months period ended 31 March 2012, the Group recognized rent income amounting to TRY 23.447 (31 March 2011: TRY 20.878) under other operating income.

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

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

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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 2012	99.970.596	1.502.021.260	2.371.470.716	9.939.412.661	669.521.997	322.062.397	15.692.249	303.035.174	15.223.187.050
Translation difference	(350.534)	-	(546.820)	(1.070.001)	(158.773)	-	(83.935)	(41.061)	(2.251.124)
Additions (*)	-	401.076	3.676	8.064.579	633.991	1.092.561	548.481	91.609.752	102.354.116
Disposals	-	-	-	(1.621.279)	(759.655)	(96.583)	(59.695)	-	(2.537.212)
Transfers from CIP (**)	-	10.443.806	2.040.897	30.006.756	1.054.670	90.552	-	(43.982.824)	(346.143)
Closing balance as of 31 March 2012	99.620.062	1.512.866.142	2.372.968.469	9.974.792.716	670.292.230	323.148.927	16.097.100	350.621.041	15.320.406.687
Accumulated Depreciation									
Opening balance as of 1 January 2012	-	(1.016.431.739)	(1.545.595.586)	(5.225.691.075)	(353.940.724)	(156.076.545)	(13.806.800)	-	(8.311.542.469)
Translation difference	-	-	147.757	731.684	27.375	-	54.051	-	960.867
Charge for the period	-	(7.248.976)	(12.224.407)	(52.797.364)	(5.266.801)	(3.648.180)	(134.985)	-	(81.320.713)
Disposals	-	-	-	1.434.555	759.201	86.556	59.695	-	2.340.007
Closing balance as of 31 March 2012	-	(1.023.680.715)	(1.557.672.236)	(5.276.322.200)	(358.420.949)	(159.638.169)	(13.828.039)	-	(8.389.562.308)
Net book value as of 31 December 2011	99.970.596	485.589.521	825.875.130	4.713.721.586	315.581.273	165.985.852	1.885.449	303.035.174	6.911.644.581
Net book value as of 31 March 2012	99.620.062	489.185.427	815.296.233	4.698.470.516	311.871.281	163.510.758	2.269.061	350.621.041	6.930.844.379

(*) The amount of capitalized financial expense is TRY 407.111 for the current period (The capitalized financial expenses for the three months period ended 31 March 2011 is TRY 1.202.964).

(**) TRY 346.143 is transferred to intangible assets (Note 13).

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

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

	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other property, plant and equipment	Construction in progress (CIP)	Total
Cost									
Opening balance as of 1 January 2011	94.744.073	1.453.704.231	2.110.488.192	9.333.046.763	657.405.179	310.281.131	14.806.588	842.035.068	14.816.511.225
Translation difference	686.047	-	850.314	2.024.043	78.755	-	173.109	190.135	4.002.403
Additions	3.707.705	1.110.764	1.034.496	15.078.008	3.142.535	571.398	1.222.442	57.681.092	83.548.440
Disposals	-	(729.995)	-	(15.601.064)	(283.947)	(709.485)	(31.881)	-	(17.356.372)
Transfer from CIP (*)	-	83.576	-	16.824.056	-	2.669	25.225	(16.998.161)	(62.635)
Closing balance as of 31 March 2011	99.137.825	1.454.168.576	2.112.373.002	9.351.371.806	660.342.522	310.145.713	16.195.483	882.908.134	14.886.643.061
Accumulated Depreciation									
Opening balance as of 1 January 2011	-	(992.566.781)	(1.501.610.257)	(5.048.615.511)	(337.081.439)	(143.268.011)	(13.374.450)	-	(8.036.516.449)
Translation difference	-	-	(266.027)	(1.370.267)	(42.784)	-	(109.942)	-	(1.789.020)
Charge for the period	-	(5.710.451)	(10.341.780)	(46.688.342)	(4.740.089)	(3.461.040)	(1.282.208)	-	(72.223.910)
Disposals	-	728.453	-	11.611.725	283.947	633.393	30.109	-	13.287.627
Closing balance as of 31 March 2011	-	(997.548.779)	(1.512.218.064)	(5.085.062.395)	(341.580.365)	(146.095.658)	(14.736.491)	-	(8.097.241.752)
Net book value as of 31 December 2010	94.744.073	461.137.450	608.877.935	4.284.431.252	320.323.740	167.013.120	1.432.138	842.035.068	6.779.994.776
Net book value as of 31 March 2011	99.137.825	456.619.797	600.154.938	4.266.309.411	318.762.157	164.050.055	1.458.992	882.908.134	6.789.401.309

(**) TRY 62.635 is transferred to intangible assets (Note 13).

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2012**

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

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

	31 March 2012	31 March 2011
Cost of sales	35.630.403	35.939.398
Capitalized on inventories	41.997.726	32.444.026
General administrative expenses	1.372.570	2.141.575
Marketing, sales and distribution expenses	2.320.014	1.698.911
	<u>81.320.713</u>	<u>72.223.910</u>

As of 31 December 2011, the amount of depreciation capitalized on inventories is TRY 44.797.497 (31 December 2010: TRY 34.278.145).

NOTE 13 – INTANGIBLE ASSETS

	Rights	Exploration costs and other assets with specific useful life	Other intangible assets	Total
<u>Cost</u>				
Opening balance as of 1 January 2012	181.438.363	88.324.945	4.912.952	274.676.260
Translation difference	(14.555)	-	(53.901)	(68.456)
Additions	4.068.573	-	69.535	4.138.108
Transfers from CIP	346.143	-	-	346.143
Closing balance as of 31 March 2012	<u>185.838.524</u>	<u>88.324.945</u>	<u>4.928.586</u>	<u>279.092.055</u>
<u>Accumulated amortization</u>				
Opening balance as of 1 January 2012	(61.991.877)	(44.794.501)	(3.737.191)	(110.523.569)
Translation difference	12.757	-	42.763	55.520
Charge for the period	(4.133.194)	(1.566.519)	(194.879)	(5.894.592)
Closing balance as of 31 March 2012	<u>(66.112.314)</u>	<u>(46.361.020)</u>	<u>(3.889.307)</u>	<u>(116.362.641)</u>
Net book value as of 31 December 2011	<u>119.446.486</u>	<u>43.530.444</u>	<u>1.175.761</u>	<u>164.152.691</u>
Net book value as of 31 March 2012	<u>119.726.210</u>	<u>41.963.925</u>	<u>1.039.279</u>	<u>162.729.414</u>

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

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NOTE 13 – INTANGIBLE ASSETS (cont’d)

	Rights	Exploration costs and other assets with specific useful life	Other intangible assets	Total
<u>Cost</u>				
Opening balance as of 1 January 2011	167.280.421	61.593.885	5.123.670	233.997.976
Translation difference	29.885	-	108.588	138.473
Additions	1.616.239	-	174.640	1.790.879
Transfers from CIP	62.635	-	-	62.635
Closing balance as of 31 March 2011	168.989.180	61.593.885	5.406.898	235.989.963
<u>Accumulated amortization</u>				
Opening balance as of 1 January 2011	(47.821.557)	(38.665.482)	(3.854.123)	(90.341.162)
Translation difference	(17.210)	-	(51.169)	(68.379)
Charge for the period	(3.362.371)	(675.483)	(253.299)	(4.291.153)
Closing balance as of 31 March 2011	(51.201.138)	(39.340.965)	(4.158.591)	(94.700.694)
Net book value as of 31 December 2010	119.458.864	22.928.403	1.269.547	143.656.814
Net book value as of 31 March 2011	117.788.042	22.252.920	1.248.307	141.289.269

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

	31 March 2012	31 March 2011
Cost of sales	4.837.693	3.520.612
Capitalized on inventories	716.339	543.116
General administrative expenses	330.755	221.838
Marketing, sales and distribution expenses	9.805	5.587
	5.894.592	4.291.153

As of 31 December 2011, the amount of amortization capitalized on inventories is TRY 904.715 (31 December 2010: TRY 537.555).

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NOTE 14 – GOVERNMENT GRANTS AND INCENTIVES

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

	1 January- 31 March 2012	1 January- 31 March 2011
Research and development grants	-	28.626
Social security grants	123.485	110.044
	<u>123.485</u>	<u>138.670</u>

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

There is an investment incentive right of the Group amounting to TRY 46.316.010, deductible in the next periods within the concept of the law numbered 5479, article 2 which repealed the 19th article of Income Tax Law (ITL) as of 1 January 2006 (31 March 2011: TRY 42.796.975).

NOTE 15 – PROVISIONS

	31 March 2012	31 December 2011
Provision for lawsuits	77.846.462	68.484.650
Penalty provision for employment shortage of disabled personnel	4.629.206	5.235.076
Provision for state right on mining activities (*)	4.696.564	3.704.424
	<u>87.172.232</u>	<u>77.424.150</u>

(*) According to “Mining Law” numbered 3213 and regulation on “Mining Law Enforcement” published in the Official Gazette, numbered 25716 on 3 February 2005, the Group is obliged to pay state right on mining activities based on the sales profit. %25 of the state right is paid to Special Provincial Administration and %25 is paid to Village Service Association while remaining %50 is paid to Government Treasury.

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NOTE 15 – PROVISIONS (cont’d)

The movement of the provisions is as follows:

	1 January 2012	Provision for the period	Payments	Provision released (-)	31 March 2012
Provision for lawsuits	68.484.650	22.595.242	(5.524.126)	(7.709.304)	77.846.462
Penalty provision for employment shortage of disabled personnel	5.235.076	641.552	(694.716)	(552.706)	4.629.206
Provision for state right on mining activities	3.704.424	992.140	-	-	4.696.564
	<u>77.424.150</u>	<u>24.228.934</u>	<u>(6.218.842)</u>	<u>(8.262.010)</u>	<u>87.172.232</u>
	1 January 2011	Provision for the period	Payments	Provision released (-)	31 March 2011
Provision for lawsuits	29.398.275	3.036.050	(685.838)	(1.231.385)	30.517.102
Penalty provision for employment shortage of disabled personnel	5.968.311	560.120	(996.060)	(664.802)	4.867.569
Provision for state right on mining activities	1.755.048	503.793	-	-	2.258.841
	<u>37.121.634</u>	<u>4.099.963</u>	<u>(1.681.898)</u>	<u>(1.896.187)</u>	<u>37.643.512</u>

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NOTE 15 – PROVISIONS (cont’d)

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

	31 March 2012	31 December 2011
<u>Lawsuits filed by the Group</u>		
TRY	152.205.906	79.312.909
US Dollars	89.925.533	95.389.450
	<u>242.131.439</u>	<u>174.702.359</u>
<u>Provision for lawsuits filed by the Group</u>		
TRY	55.877.554	3.161.033
	<u>55.877.554</u>	<u>3.161.033</u>

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

	31 March 2012	31 December 2011
<u>Lawsuits filed against the Group</u>		
TRY	55.975.611	62.418.405
US Dollars	131.593.461	140.203.558
	<u>187.569.072</u>	<u>202.621.963</u>
<u>Provision for lawsuits filed against the Group</u>		
TRY	65.067.597	55.202.748
US Dollars	12.778.865	13.281.902
	<u>77.846.462</u>	<u>68.484.650</u>

Competition Board, decided by its decision no. 08-27/313-M of 2 April 2008 that ArcelorMittal Ambalaj Çeliği San. ve Tic. A.Ş., Borçelik Çelik San. ve Tic. A.Ş. and the Company had breached the Article 4 of the Law on the Protection of Competition no. 4054 within flat iron and steel products market by signing and implementing some shareholders’ agreements amongst themselves, and gave the Company a fine equal to 0,4% of its gross revenue of 2008 which amounts to TRY 20.114.464,98, and also asked the Company to dissolve its partnerships in ArcelorMittal Ambalaj Çeliği San. ve Tic. A.Ş. and Borçelik Çelik San. ve Tic. A.Ş. The Company challenged this decision before 13th Chamber of the Council of State on 23 October 2009 (E. 2009/7029). This case is still pending. Meanwhile the Company paid the aforementioned fine, by enjoying a prepayment discount right, as TRY 15.085.848 on 26 October 2009. This payment was recorded as an expense. The partnership between the Company and Borçelik Çelik San. ve Tic. A.Ş was dissolved on 4 November 2010, and the partnership between the Company and ArcelorMittal Ambalaj Çeliği San. ve Tic. A.Ş. was dissolved on 28 February 2011.

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NOTE 15 – PROVISIONS (cont’d)

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

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

The Company challenged the aforementioned decision before the 11th Administrative Court of Ankara (E. 2006/1396). This lawsuit was rejected on 29 March 2007, but the Company appealed this rejection on 11 September 2007. 13th Chamber of the Council of State rejected the appeal on 12 May 2010; however the Company also appealed this rejection on 2 September 2010. Therefore the case is still pending before the Council of State (E. 2010/4196).

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

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

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NOTE 15 – PROVISIONS (cont’d)

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

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

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 27.03.2010 claiming that the objection should be overruled and US Dollars 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, and the file was sent to the Court of Appeals. Therefore the case is still pending. The Company does not allocate any provision for that lawsuit as of 31 March 2012.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	31 March 2012	31 December 2011
Letters of guarantees received	1.077.932.824	1.150.323.715
	<u>1.077.932.824</u>	<u>1.150.323.715</u>

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

	31 March 2012	31 December 2011
A. Total CPM given for the Company's own legal entity	93.059.417	104.831.403
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	3.034.728.730	3.223.049.554
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	-	-
D. Other CPM given	-	-
i. Total CPM given in favour of parent entity	-	-
ii. Total CPM given in favour of other Group companies out of the scope of clause B and C	-	-
iii. Total CPM given in favour of other 3rd parties out of the scope of clause C	-	-
	<u>3.127.788.147</u>	<u>3.327.880.957</u>

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NOTE 16 – COMMITMENTS AND CONTINGENCIES (cont’d)

As of 31 March 2012, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2011: 0%). Total CPM given in favor of subsidiaries consolidated on line-by-line basis amounting to TRY 3.034.728.730 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 March 2012	31 December 2011
US Dollars	1.596.596.790	1.751.124.659
TRY	986.973.820	998.772.894
EURO	458.264.589	481.334.789
Japanese Yen	84.600.152	95.477.706
Romanian Lei	1.352.796	1.170.909
	<u>3.127.788.147</u>	<u>3.327.880.957</u>

NOTE 17 – PROVISIONS FOR EMPLOYMENT BENEFITS

	31 March 2012	31 December 2011
Provisions for employee termination benefits	208.783.208	199.372.291
Provisions for seniority incentive premium	19.751.131	18.750.643
	<u>228.534.339</u>	<u>218.122.934</u>

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

As of 31 March 2012, the amount payable consists of one month’s salary limited to a maximum of TRY 2.805,04 (31 December 2011: TRY 2.731,85).

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

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

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

	<u>31 March 2012</u>	<u>31 December 2011</u>
Discount rate	% 9.2-% 11.55 (floating)	% 9.2-% 11.55 (floating)
Inflation rate	% 4.5-% 8.75 (floating)	% 4.5-% 8.75 (floating)
Salary increase	reel % 1.5	reel % 1.5
Maximum liability increase	% 4.5-% 8.75 (floating)	% 4.5-% 8.75 (floating)

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 March 2012, discount rates floating over years are used. Long term inflation estimates are made using an approach consistent with discount rate estimates and long term inflation rates floating over years are 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 March 2012, the anticipated rate of resignation is considered to be inversely proportional to the past experience. The anticipated rate of resignation is between 2%-0% for the employees with past experience between 0-15 years or over.

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

	<u>1 January- 31 March 2012</u>	<u>1 January- 31 March 2011</u>
Opening balance	199.372.291	161.033.388
Service cost	5.918.332	6.539.925
Interest cost	4.609.606	1.851.224
Termination benefits paid	(1.117.021)	(1.373.140)
Closing balance	<u>208.783.208</u>	<u>168.051.397</u>

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

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

	<u>1 January- 31 March 2012</u>	<u>1 January- 31 March 2011</u>
Opening balance	18.750.643	7.255.683
Provision for the period	1.000.488	1.393.950
Closing balance	<u>19.751.131</u>	<u>8.649.633</u>

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NOTE 18 – OTHER ASSETS AND LIABILITIES

Other current assets

	31 March 2012	31 December 2011
Other VAT Receivable	80.461.234	91.518.318
Prepaid expenses	34.601.720	29.425.273
Advances given	13.426.259	13.081.557
VAT carried forward	5.189.233	4.382.712
Prepaid taxes and funds	4.639.448	1.798.153
Due from personnel	137.780	241.247
Job advances given	190.624	56.744
Other current assets	5.359.023	4.066.753
	<u>144.005.321</u>	<u>144.570.757</u>

Other non-current assets

	31 March 2012	31 December 2011
Prepaid expenses	45.653.691	46.535.047
Advances given for fixed assets	58.693.011	38.322.455
Other non-current assets	9.487	120.702
	<u>104.356.189</u>	<u>84.978.204</u>

Other current liabilities

	31 March 2012	31 December 2011
Advances received	73.186.029	133.778.985
Provision for unpaid vacations	56.038.536	55.055.727
Due to personnel	47.242.374	43.851.477
VAT payable	51.147.629	25.351.881
Expense accruals	3.149.356	896.361
Deferred income	517.497	212.410
Other current liabilities	1.711.246	3.363.811
	<u>232.992.667</u>	<u>262.510.652</u>

Other non-current liabilities

	31 March 2012	31 December 2011
Other non-current liabilities	747.634	939.544
	<u>747.634</u>	<u>939.544</u>

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NOTE 19 – EQUITY

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

<u>Shareholders</u>	<u>(%)</u>	<u>31 March</u>		<u>31 December</u>	
		<u>2012</u>	<u>(%)</u>	<u>2011</u>	
Ataer Holding A.Ş.	49,29	1.059.632.159	49,29	1.059.632.159	
Quoted in Stock Exchange	47,63	1.024.125.203	47,63	1.024.125.203	
Erdemir’s own shares	3,08	66.242.638	3,08	66.242.638	
Historical capital	100,00	2.150.000.000	100,00	2.150.000.000	
Effect of inflation		731.967.735		731.967.735	
Restated capital		2.881.967.735		2.881.967.735	
Treasury shares		(74.637.969)		(74.637.969)	
		2.807.329.766		2.807.329.766	

The Company is subject to registered capital limit. The board of directors may, at any time it may think necessary, increase the capital by means of issuing bearer shares each with a nominal value of 1 Kr (one Kurus) up to the amount of the registered capital, which is TRY 5.000.000.000 in accordance with the requirements as set forth herein.

The issued capital of the Company in 2012 consists of 215.000.000.000 lots of shares (2011: 215.000.000.000 lots). The nominal value of each share is 1 Kr (Turkish cent) (2011: 1 Kr). This capital is split between A and B group shares. Group A shares consist of 1 share with a share value of 1 Kr and Group B shares consist of 2.149.999.999,99 shares representing TRY 214.999.999.999 of the issued capital.

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

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 March 2012, the Company holds its own shares with a nominal value of TRY 66.242.638 (31 December 2011: TRY 66.242.638). The Company’s own shares have been reclassified with its inflation adjusted value in the consolidated balance sheet as a deduction under equity.

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NOTE 19 – EQUITY (cont’d)

	31 March 2012	31 December 2011
Other equity items		
Share premium	231.020.042	231.020.042
Revaluation reserves	26.735.231	27.228.155
<i>-Revaluation reserves of property, plant & equipment</i>	<i>26.735.231</i>	<i>27.228.155</i>
Cash flow hedging reserves	(21.792.566)	(14.783.355)
Foreign currency translation reserves	(274.778)	(489.005)
Restricted reserves assorted from profit	1.835.511.592	1.757.470.693
<i>-Legal reserves</i>	<i>628.584.275</i>	<i>550.543.376</i>
<i>-Statutory reserves</i>	<i>1.206.927.317</i>	<i>1.206.927.317</i>
Retained earnings	1.910.149.026	1.273.384.263
<i>-Extraordinary reserves</i>	<i>536.207.372</i>	<i>86.748.517</i>
<i>-Accumulated profit</i>	<i>1.373.941.654</i>	<i>1.186.635.746</i>
	<u>3.981.348.547</u>	<u>3.273.830.793</u>

However, in accordance with the Communiqué Serial: XI, No: 29 issued on 1 January 2008 and other related CMB’s announcements, “Paid-in capital”, “Restricted profit reserves” and “Share premium” should be presented by using their registered amounts in the statutory records. The restatement differences (e.g. inflation restatement differences) arising from the application of this Communiqué should be associated with the:

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

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

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

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NOTE 19 – EQUITY (cont’d)

Listed companies perform dividend distributions as envisaged by Turkish Capital Market Board as explained below:

In accordance with the CMB Communiqué IV No:27 Clause:5 and other several decisions of CMB, in case of dividend distribution the rate of first dividend could not be less than %20 of remaining distributable profit after deducting the prior year losses if any. Depending on the decisions taken by General Assemblies, publicly traded joint stock companies are free to distribute dividends in cash, in share certificates, in partial distribution within cash or share certificates while retaining a portion within the company or retain as a whole with distributing neither cash nor stocks.

As required by CMB decision numbered 7/242 dated 25 February 2005; amount of distributable profit, calculated from net distributable profit in accordance with CMB regulations related to minimum dividend distribution requirements shall be fully distributed, wherein the amount could be compensated by net distributable profit per statutory books, otherwise full amount of net distributable profit per statutory books will be distributed. No profit distribution shall be made in the case of net loss in either statutory books or the financial statements prepared in accordance with CMB regulations.

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

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

Other sources which might be used in dividend distribution, except the profit for the period, in statutory books of the Company are equal to TRY 1.840.422.487 as of 31 March 2012 (31 December 2011: TRY 2.448.860.832).

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

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NOTE 19 – EQUITY (cont’d)

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

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

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

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

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

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NOTE 20 – SALES AND COST OF SALES

	1 January – 31 March 2012	1 January – 31 March 2011
<u>Sales Revenue</u>		
Domestic sales	2.108.801.291	1.591.570.056
Export sales	271.077.692	402.008.809
Other revenues (*)	63.465.454	42.263.566
Sales returns (-)	(473.043)	(251.743)
Sales discounts (-)	(7.532.461)	(7.710.193)
	<u>2.435.338.933</u>	<u>2.027.880.495</u>
<u>Cost of Sales (-)</u>	<u>(2.244.368.215)</u>	<u>(1.606.233.439)</u>
Gross profit	<u>190.970.718</u>	<u>421.647.056</u>

(*) The total amount of by product exports in other revenues is TRY 23.430.506 (31 March 2011: TRY 11.585.560).

The breakdown of cost of sales for the periods 1 January – 31 March 2012 and 1 January – 31 March 2011 is as follows:

	1 January – 31 March 2012	1 January – 31 March 2011
Raw material usage	(1.508.392.463)	(1.071.551.923)
Personnel expenses	(213.821.289)	(203.012.120)
Auxiliary material expenses	(128.897.277)	(100.343.531)
Energy expenses	(128.124.328)	(98.328.789)
Depreciation and amortization expenses	(86.170.308)	(74.275.710)
Inventory write-downs within the period (Note 10)	(2.353.283)	(965.368)
Change of finished goods and work in progress inventories	(119.668.771)	25.653.113
Reversal of inventory write-downs (Note 10)	7.006.897	3.055.531
Other	(63.947.393)	(86.464.642)
	<u>(2.244.368.215)</u>	<u>(1.606.233.439)</u>

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NOTE 21 – RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

The breakdown of operating expenses for the periods 1 January – 31 March 2012 and 1 January – 31 March 2011 is as follows:

	1 January – 31 March 2012	1 January – 31 March 2011
Marketing, sales and distribution expenses (-)	(27.897.180)	(20.915.480)
General administrative expenses (-)	(44.849.257)	(39.205.697)
Research and development expenses (-)	(178.504)	(78.035)
	<u>(72.924.941)</u>	<u>(60.199.212)</u>

NOTE 22 – OPERATING EXPENSES ACCORDING TO THEIR NATURE

The breakdown of marketing, sales and distribution expenses according to their nature for the periods 1 January – 31 March 2012 and 1 January – 31 March 2011 is as follows:

	1 January – 31 March 2012	1 January – 31 March 2011
Personnel expense (-)	(15.833.060)	(11.938.145)
Depreciation and amortization(-)	(2.329.819)	(1.704.498)
Other (-)	(9.734.301)	(7.272.837)
	<u>(27.897.180)</u>	<u>(20.915.480)</u>

The breakdown of general administrative expenses for the periods 1 January – 31 March 2012 and 1 January – 31 March 2011 is as follows:

	1 January – 31 March 2012	1 January – 31 March 2011
Personnel expense (-)	(27.667.900)	(23.500.012)
Depreciation and amortization (-)	(1.703.325)	(2.363.413)
Other (-)	(15.478.032)	(13.342.272)
	<u>(44.849.257)</u>	<u>(39.205.697)</u>

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NOTE 23 – OTHER OPERATING INCOME/(EXPENSE)

	1 January – 31 March 2012	1 January – 31 March 2011
<u>Other operating income</u>		
Provisions released	8.262.010	3.592.386
Revenue from sale of financial assets	-	7.962.073
Service income	1.625.935	1.891.689
Maintenance and repair income	513.748	554.324
Indemnity and penalty detention income	739.395	681.323
Insurance indemnity income	141.950	69.295
Client deposits income	1.322.129	662.662
Gain on sale of tangible assets	23.344	430.562
Rent income	1.099.130	1.172.519
Other income and gains	5.106.936	2.643.626
	<u>18.834.577</u>	<u>19.660.459</u>
	1 January –	1 January –
	31 March 2012	31 March 2011
<u>Other operating expenses (-)</u>		
Provisions expenses	(13.271.628)	(3.603.527)
Penalty expenses	(1.585.222)	(3.816.892)
Lawsuit compensation expenses	(2.965.432)	(727.710)
Loss on disposal of tangible assets	(196.751)	(4.038.679)
Service expenses	(696.813)	(1.481.222)
Rent expenses	(735.012)	(338.979)
Other expenses and losses	(3.660.966)	(4.842.913)
	<u>(23.111.824)</u>	<u>(18.849.922)</u>

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NOTE 24 – FINANCE INCOME

	1 January – 31 March 2012	1 January – 31 March 2011
Foreign exchange gains from trade receivables and payables (net)	-	24.490.025
Foreign exchange gains from financial liabilities (net)	222.145.156	-
Interest income on bank deposits	15.201.298	35.372.776
Fair value differences of derivative financial instruments	-	16.143.804
Interest income from sales with maturity	15.147.283	10.675.007
Discount income	2.068.231	742.965
Other financial income	96.694	6.953
	<u>254.658.662</u>	<u>87.431.530</u>

NOTE 25 – FINANCE EXPENSES

	1 January – 31 March 2012	1 January – 31 March 2011
Foreign exchange loss from financial liabilities (net)	-	(34.824.948)
Interest expenses on financial liabilities	(60.183.661)	(69.417.814)
Foreign exchange loss from bank deposits (net)	(66.229.508)	(4.630.809)
Foreign exchange loss from trade receivables and payables (net)	(48.802.046)	-
Fair value differences of derivative financial instruments	(16.770.639)	-
Foreign exchange loss from forward contracts	(3.471.342)	(210.004)
Other financial expenses	(2.727.271)	(2.139.811)
	<u>(198.184.467)</u>	<u>(111.223.386)</u>

During the period, TRY 277.072 of financial expenses related to foreign currency translation losses and TRY 130.039 of interest expenses in total TRY 407.111, have been capitalized as part of the Group’s property, plant and equipment (1 January – 31 March 2011: the foreign currency translation losses of TRY 341.118, the interest expenses of TRY 861.846, in total TRY 1.202.964 has been capitalized).

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NOTE 26 –TAX ASSETS AND LIABILITIES

	31 March 2012	31 December 2011
<u>Corporate tax payable:</u>		
Current corporate tax provision	19.377.276	200.150.105
Prepaid taxes and funds (-)	(592)	(155.456.488)
	<u>19.376.684</u>	<u>44.693.617</u>
	1 January – 31 March 2012	1 January – 31 March 2011
<u>Taxation:</u>		
Current corporate tax expense	19.377.276	42.066.925
Deferred tax expense	14.463.182	25.111.225
	<u>33.840.458</u>	<u>67.178.150</u>

Corporate tax

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

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

The effective corporate tax rate in Turkey is 20% and 16% in Romania as of 31 March 2012 (31 December 2011: in Turkey 20%, in Romania 16%). The total amount of the corporate tax paid by the Group in 2012 is TRY 44.694.209 (31 March 2011: TRY 7.796.031).

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NOTE 26 –TAX ASSETS AND LIABILITIES (cont’d)

Corporate tax (cont’d)

In Turkey, advance tax returns are filed on a quarterly basis. The temporary tax of 2012 has been calculated over the corporate earnings using the rate 20%, during the temporary taxation period. (2011: 20%).

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

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

Income withholding tax

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

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

Investment allowance application

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

Regarding the cancellation decision taken by the Constitutional Court, an amendment was made in the 69th article in Income Tax Regulation using the regulation numbered 6009 and dated 23 July 2010. Consequently, in compliance with the cancellation decision of the Constitutional Court, the year limitation has been abolished and investment allowance has been limited to 25% of the profit. As limitation of investment allowance to 25% of the profit by regulation numbered 6009 is found to be contrary to law by the Constitutional Court, the Constitutional Court cancelled the regulation and stayed an execution. Corporate tax ratio of 30% in the previous regulation for the ones who benefit from investment allowance has been decreased to the effective corporate tax with the amendment made (2011: 20%).

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NOTE 26 –TAX ASSETS AND LIABILITIES (cont’d)

Deferred tax

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

Tax rate used in the calculation of deferred tax assets and liabilities (excluding land) is 20% for the subsidiaries in Turkey and, 16% for the subsidiary in Romania (31 December 2011: in Turkey 20%, in Romania 16%). Deferred tax related with the temporary differences arising from land parcels is calculated with the tax rate of 5% (December 2011: 5%).

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

	31 March 2012	31 December 2011
<u>Deferred tax assets:</u>		
Carry forward tax losses	161.321.474	159.246.770
Provision for employee benefits	45.706.867	43.624.587
Tangible and intangible fixed assets	8.883.831	9.233.224
Inventories	27.096.716	30.132.341
Provision for unpaid vacations	11.207.707	11.011.145
Investment incentive	9.263.202	9.203.380
Provision for lawsuits	15.569.292	13.696.930
Fair values of the derivative financial instruments	959.307	591.063
Provision for other doubtful receivables	10.540.654	10.491.669
Prepaid expenses	1.674.518	1.410.058
Other	5.515.586	7.094.479
	<u>297.739.154</u>	<u>295.735.646</u>
<u>Deferred tax liabilities:</u>		
Tangible and intangible fixed assets	(294.916.743)	(272.804.755)
Amortized cost adjustment on loans	(10.918.152)	(12.695.491)
Fair values of the derivative financial instruments	(3.573.871)	(9.740.870)
Other	(3.533.974)	(2.993.159)
	<u>(312.942.740)</u>	<u>(298.234.275)</u>
	<u>(15.203.586)</u>	<u>(2.498.629)</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2012

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NOTE 26 –TAX ASSETS AND LIABILITIES (cont’d)

Deferred tax (cont’d)

Maturities of carry forward tax losses are as follows:

	<u>31 March 2012</u>	<u>31 December 2011</u>
1 year	-	-
2 year	-	-
3 year	691.648.567	740.554.728
4 year	-	-
5 year	116.420.184	56.904.175
	<u>808.068.751</u>	<u>797.458.903</u>

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

	<u>31 March 2012</u>	<u>31 December 2011</u>
<u>Presentation of deferred tax assets/(liabilities):</u>		
Deferred tax assets	92.859.421	110.735.816
Deferred tax (liabilities)	(108.063.007)	(113.234.445)
	<u>(15.203.586)</u>	<u>(2.498.629)</u>
<u>Deferred tax asset/(liability) movements:</u>	<u>1 January – 31 March 2012</u>	<u>1 January – 31 March 2011</u>
Opening balance	(2.498.629)	57.827.206
Deferred tax expense	(14.463.182)	(25.111.225)
The amount netted under equity	1.884.935	(955.833)
Translation difference	(126.710)	(319.347)
Closing balance	<u>(15.203.586)</u>	<u>31.440.801</u>

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2012**

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

NOTE 26 – TAX ASSETS AND LIABILITIES (cont’d)

<u>Reconciliation of tax provision:</u>	1 January – 31 March 2012	1 January – 31 March 2011
Profit before tax	170.242.725	338.466.525
Effective tax rate	20%	20%
Calculated tax acc. to effective tax rate	34.048.545	67.693.305
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	700.168	1.797.532
- Non-taxable income	(1.741.498)	(9.389)
- Effect of non-taxable adjustments	-	(914.176)
- Effect of the different tax rates due to foreign subsidiaries	75.891	(191.621)
- Other	757.352	(1.197.501)
Tax expense in income statement	<u>33.840.458</u>	<u>67.178.150</u>

As of 1 January – 31 March 2012 and 2011, the details of the tax gains/(losses) of the other comprehensive income/(expense) are as follows:

<u>Other comprehensive income/(loss) in the current period</u>	1 January – 31 March 2012		
	Amount before tax	Tax income/ (expense)	Amount after tax
Change in revaluation reserves of fixed assets	(492.924)	-	(492.924)
Change in cash flow hedging reserves	(9.424.678)	1.884.935	(7.539.743)
Change in foreign currency translation reserves	214.227	-	214.227
	<u>(9.703.375)</u>	<u>1.884.935</u>	<u>(7.818.440)</u>
<u>Other comprehensive income/(loss) in the current period</u>	1 January – 31 March 2011		
	Amount before tax	Tax income/ (expense)	Amount after tax
Change in revaluation reserves of fixed assets	976.066	-	976.066
Change in cash flow hedging reserves	4.779.166	(955.833)	3.823.333
Change in foreign currency translation reserves	(5.289.212)	-	(5.289.212)
	<u>466.020</u>	<u>(955.833)</u>	<u>(489.813)</u>

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NOTE 27 – EARNINGS/ (LOSS) PER SHARE

	1 January – 31 March 2012	1 January – 31 March 2011
<u>Number of shares outstanding(*)</u>	215.000.000.000	215.000.000.000
Net profit attributable to equity holders – TRY	123.953.378	260.422.828
Profit per share with 1 TRY nominal value TRY %	0,0577 / % 5,77	0,1211 / % 12,11

NOTE 28 –RELATED PARTY DISCLOSURES

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

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

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

	31 March 2012	31 December 2011
<u>Due from related parties (short term)</u>		
Oyak Renault Otomobil Fab. A.Ş. ⁽²⁾	6.525.481	6.481.336
Bolu Çimento Sanayi A.Ş. ⁽¹⁾	1.285.929	1.619.752
Adana Çimento Sanayi T.A.Ş. ⁽¹⁾	2.658.749	1.467.240
Other	493.732	155.276
	<u>10.963.891</u>	<u>9.723.604</u>

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

	31 March 2012	31 December 2011
<u>Due to related parties (short term)</u>		
Omsan Denizcilik A.Ş. ⁽¹⁾	3.041.587	2.232.146
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	1.065.609	2.151.205
Omsan Lojistik A.Ş. ⁽¹⁾	1.865.791	1.921.699
Omsan Logistica SRL ⁽¹⁾	740.113	606.069
Oyak Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	308.051	546.664
Oyak Telekomünikasyon A.Ş. ⁽¹⁾	-	88.610
Oyak Beton A.Ş. ⁽¹⁾	20.914	63.720
Other	2.182.969	2.242.282
	<u>9.225.034</u>	<u>9.852.395</u>

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

⁽¹⁾Subsidiaries of the parent company

⁽²⁾Investment in associates of the parent company

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NOTE 28 –RELATED PARTY DISCLOSURES (cont’d)

	31 March 2012	31 December 2011
<u>Non trade receivables due from related parties (short term)</u>		
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽²⁾	-	25.000
	-	25.000
	31 March 2012	31 December 2011
<u>Non trade payables due to related parties (short term)</u>		
Other	582	341
	582	341
	1 January – 31 March 2012	1 January – 31 March 2011
<u>Major sales to related parties</u>		
Oyak Renault Otomobil Fab. A.Ş. ⁽³⁾	14.040.756	11.546.532
Adana Çimento Sanayi T.A.Ş. ⁽²⁾	2.167.894	2.225.963
Bolu Çimento Sanayi A.Ş. ⁽²⁾	1.569.426	1.480.254
ArcelorMittal Amb.Çel. San. ve Tic. A.Ş. ^{(1) (*)}	-	7.087.445
Ünye Çimento Sanayi ve Ticaret A.Ş. ⁽²⁾	245.216	357.085
Oytaş İç ve Dış Ticaret A.Ş. ⁽²⁾	33.277	345.600
Aslan Çimento A.Ş. ⁽²⁾	869.617	47.040
Çimsa Çimento Sanayi ve Ticaret A.Ş. ⁽²⁾	390.860	-
Other	105.951	-
	19.422.997	23.089.919

⁽¹⁾ Investment in associate

⁽²⁾ Subsidiaries of the parent company

⁽³⁾ Investment in associates of the parent company

^(*) The Group sold its shares in ArcelorMittal Ambalaj Çeliği San ve Tic. A.Ş. on 28 February 2011. Sales amounts refer to the revenue from sales realized till the date of share transfer.

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

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NOTE 28 –RELATED PARTY DISCLOSURES (cont’d)

	1 January – 31 March 2012	1 January – 31 March 2011
<u>Major purchases from related parties</u>		
Omsan Denizcilik A.Ş. ⁽¹⁾	15.052.155	2.555.907
Omsan Lojistik A.Ş. ⁽¹⁾	2.186.195	5.518.617
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	3.187.336	3.657.069
Omsan Logistica SRL ⁽¹⁾	-	2.753.372
Oyak Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	852.038	526.385
Oyak Teknoloji Bilişim ve Kart Hizmetleri A.Ş. ⁽¹⁾	2.036.179	1.461.418
Oyak Telekomünikasyon A.Ş. ⁽¹⁾	128.520	112.115
Oyak Genel Müdürlüğü	140.400	111.050
Other	156.037	228.372
	<u>23.738.860</u>	<u>16.924.305</u>

⁽¹⁾Subsidiaries of the parent company

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

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

The period end balances are non-secured, interest free and their collections will be done in cash. As of 31 March 2012, the Group provides no provision for the receivables from related parties (31 December 2011: none).

Salaries, bonuses and other benefits of the key management

For the three months period ended 31 March 2012, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 6.406.400 (31 March 2011: TRY 2.768.611).

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NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

Additional information about financial instruments

(a) Capital risk management

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

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

The capital structure of the Group consists of debt which includes the financial liabilities disclosed in Note 6, cash and cash equivalents and equity attributable to equity holders of the parent company, comprising issued capital, reserves and retained earnings as disclosed in Note 19.

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

As of 31 March 2012 and 31 December 2011 the net debt/equity ratio is as follows:

	Note	31 March 2012	31 December 2011
Total financial liabilities	6	4.519.515.345	4.777.797.197
Less: Cash and cash equivalents	4	1.080.614.898	1.102.710.213
Net debt		3.438.900.447	3.675.086.984
Total adjusted equity (*)	19	7.128.073.489	7.302.331.427
Total resources		10.566.973.936	10.977.418.411
Net debt/Total adjusted equity ratio		48%	50%
Distribution of net debt/ total adjusted equity		33/67	33/67

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

(b) Significant accounting policies

The Group’s accounting policies related to the financial instruments are disclosed in Note 2 “Summary of Significant Accounting Policies, 2.9.8 Financial Instruments”.

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NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

(c) Financial risk management objectives

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

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

(d) Market risk

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

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

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

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NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

(e) Credit risk management

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

Credit risk of financial instruments

	Receivables					
	Trade receivables		Other receivables		Bank Deposits	Derivative financial instruments
	Related Party	Third Party	Related Party	Third Party		
31 March 2012						
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	10.963.891	1.049.856.884	-	466.212	1.080.569.164	26.921.438
- Secured part of the maximum credit risk exposure via collateral etc.	-	977.800.008	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	10.963.891	1.036.150.228	-	466.212	1.080.569.164	26.921.438
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	-	13.706.656	-	-	-	-
- secured part via collateral etc.	-	13.222.687	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	41.154.011	-	52.703.272	-	-
- Impairment (-)	-	(41.154.011)	-	(52.703.272)	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
- Not overdue (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-

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

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

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NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

(e) Credit risk management (cont’d)

Credit risk of financial instruments

	Receivables					
	Trade receivables		Other receivables		Bank Deposits	Derivative financial instruments
	Related Party	Third Party	Related Party	Third Party		
31 December 2011						
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	9.723.604	1.131.974.398	25.000	472.445	1.102.668.423	56.708.417
- Secured part of the maximum credit risk exposure via collateral etc.	-	1.037.498.382	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	9.723.604	1.130.749.701	25.000	472.445	1.102.668.423	56.708.417
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	1.224.697	-	-	-	-
- secured part via collateral etc.	-	1.224.697	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	43.039.895	-	52.458.346	-	-
- Impairment (-)	-	(43.039.895)	-	(52.458.346)	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
- Not overdue (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-

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

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

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NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

(e) Credit risk management (cont’d)

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

31 March 2012	<u>Receivables</u>			<u>Derivative financial instruments</u>	<u>Other</u>	<u>Total</u>
	<u>Trade receivables</u>	<u>Other receivables</u>	<u>Bank deposits</u>			
Overdue 1-30 days	13.706.656	-	-	-	-	13.706.656
Overdue 1-3 months	-	-	-	-	-	-
Overdue 3-12 months	-	-	-	-	-	-
Overdue 1-5 years	-	-	-	-	-	-
Overdue 5 years or more	-	-	-	-	-	-
Total overdue receivables	13.706.656	-	-	-	-	13.706.656
Secured part via collateral etc.	13.222.687	-	-	-	-	13.222.687

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

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NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

(e) Credit risk management (cont’d)

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

31 December 2011	<u>Receivables</u>			<u>Derivative</u>	<u>Other</u>	<u>Total</u>
	<u>Trade receivables</u>	<u>Other receivables</u>	<u>Bank deposits</u>	<u>financial instruments</u>		
Overdue 1-30 days	1.224.697	-	-	-	-	1.224.697
Overdue 1-3 months	-	-	-	-	-	-
Overdue 3-12 months	-	-	-	-	-	-
Overdue 1-5 years	-	-	-	-	-	-
Overdue 5 years or more	-	-	-	-	-	-
Total overdue receivables	1.224.697	-	-	-	-	1.224.697
Secured part via collateral etc.	1.224.697	-	-	-	-	1.224.697

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2012**

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NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**Additional information about financial instruments (cont’d)**

(f) Foreign currency risk management

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

	31 March 2012				
	TRY (Functional currency)	US Dollars (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	GB Pound (Original currency)
1. Trade Receivables	924.829.468	506.970.436	10.796.465	21.883.674	304
2a. Monetary financial assets	1.023.502.447	570.832.141	4.837.041	23.655	9.610
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	18.927.521	10.485.974	142.384	-	-
4. Current assets (1+2+3)	1.967.259.436	1.088.288.551	15.775.890	21.907.329	9.914
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-	-
7. Other	29.413.280	6.184.295	7.560.649	8.438.300	132.420
8. Non-current assets (5+6+7)	29.413.280	6.184.295	7.560.649	8.438.300	132.420
9. Total assets (4+8)	1.996.672.716	1.094.472.846	23.336.539	30.345.629	142.334
10. Trade payables	308.085.641	169.549.705	2.557.006	51.451.301	116.480
11. Financial liabilities	1.276.493.050	650.151.587	41.097.975	1.232.672.764	-
12a. Other monetary financial liabilities	39.296.537	20.788.617	1.031.270	-	-
12b. Other non-monetary financial liabilities	-	-	-	-	-
13. Current liabilities (10+11+12)	1.623.875.228	840.489.909	44.686.251	1.284.124.065	116.480
14. Trade payables	34.992	19.737	-	-	-
15. Financial liabilities	2.185.084.427	927.664.477	172.563.697	6.123.862.498	-
16a. Other monetary financial liabilities	380.357	214.540	-	-	-
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. Non-current liabilities (14+15+16)	2.185.499.776	927.898.754	172.563.697	6.123.862.498	-
18. Total liabilities (13+17)	3.809.375.004	1.768.388.663	217.249.948	7.407.986.563	116.480
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	315.774.180	66.687.385	83.478.750	-	-
19a. Off-balance sheet foreign currency derivative financial assets	306.909.680	61.687.385	83.478.750	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	8.864.500	5.000.000	-	-	-
20. Net foreign currency asset/liability position (9-18+19)	(1.496.928.108)	(607.228.432)	(110.434.659)	(7.377.640.934)	25.854
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(1.861.043.089)	(690.586.086)	(201.616.442)	(7.386.079.234)	(106.566)
22. Fair value of derivative financial instruments used in foreign currency hedge	25.737.354	7.571.346	5.263.967	-	-
23. Hedged foreign currency assets	8.864.500	5.000.000	-	-	-
24. Hedged foreign currency liabilities	306.909.680	61.687.385	83.478.750	-	-
25. Exports	294.508.198	60.359.189	79.495.150	-	-
26. Imports	975.059.489	303.679.489	183.964.423	-	-

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2012**

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

NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**Additional information about financial instruments (cont’d)****(f) Foreign currency risk management (cont’d)**

As of 31 December 2011, the foreign currency position of the Group in terms of original currency is as follows:

	31 December 2011				
	TRY (Functional currency)	US Dollars (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	GB Pound (Original currency)
1. Trade Receivables	859.689.568	451.515.152	2.574.695	21.761.408	304
2a. Monetary financial assets	946.176.451	491.037.483	7.561.864	6.246.549	8.237
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	7.117.464	3.763.488	3.524	-	-
4. Current assets (1+2+3)	1.812.983.483	946.316.123	10.140.083	28.007.957	8.541
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-	-
7. Other	27.774.470	7.303.997	5.701.334	1.850.000	-
8. Non-current assets (5+6+7)	27.774.470	7.303.997	5.701.334	1.850.000	-
9. Total assets (4+8)	1.840.757.953	953.620.120	15.841.417	29.857.957	8.541
10. Trade payables	354.424.226	187.547.723	-	-	56.679
11. Financial liabilities	1.376.759.037	662.690.764	38.882.613	1.231.763.542	-
12a. Other monetary financial liabilities	64.263.192	33.914.986	82.321	-	-
12b. Other non-monetary financial liabilities	-	-	-	-	-
13. Current liabilities (10+11+12)	1.795.446.455	884.153.473	38.964.934	1.231.763.542	56.679
14. Trade payables	74.562	39.474	-	-	-
15. Financial liabilities	2.362.150.538	943.966.810	175.694.134	6.151.614.847	-
16a. Other monetary financial liabilities	516.294	273.330	-	-	-
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. Non-current liabilities (14+15+16)	2.362.741.394	944.279.614	175.694.134	6.151.614.847	-
18. Total liabilities (13+17)	4.158.187.849	1.828.433.087	214.659.068	7.383.378.389	56.679
sheet derivative financial instruments (19a-19b)	320.526.672	61.687.385	83.478.750	-	-
19a. Off-balance sheet foreign currency derivative financial assets	320.526.672	61.687.385	83.478.750	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	-	-	-	-	-
20. Net foreign currency asset/liability position (9-18+19)	(1.996.903.224)	(813.125.582)	(115.338.901)	(7.353.520.432)	(48.138)
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(2.352.321.830)	(885.880.452)	(204.522.509)	(7.355.370.432)	(48.138)
22. Fair value of derivative financial instruments used in foreign currency hedge	47.048.393	12.009.961	9.969.219	-	-
23. Hedged foreign currency assets	-	-	-	-	-
24. Hedged foreign currency liabilities	320.526.672	61.687.385	83.478.750	-	-
25. Exports	1.555.730.905	855.271.379	75.513.067	-	-
26. Imports	5.583.434.612	3.445.541.072	3.659.131	-	-

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

NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

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

Foreign currency sensitivity

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

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

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

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

	31 Mart 2012	31 December 2011
Foreign Currency Position Parametric VaR	24.867.056	34.998.091

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

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

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

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

NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

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

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

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

As of 31 March 2012 asset and liability balances are translated by using the following exchange rates: TRY 1,7729 = US \$ 1, TRY 2,3664 = EUR 1 and TRY 0,02156= JPY 1 (31 December 2011: TRY 1,8889 = US \$ 1, TRY 2,4438 = EUR 1 and TRY 0,0243 = JPY 1)

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency against	Depreciation of foreign currency against
31 March 2012		
1- US Dollars net asset/liability	(119.478.535)	119.478.535
2- Hedged portion from US Dollars risk (-)	10.936.557	(10.936.557)
3- Effect of capitalization (-)	-	-
4- US Dollars net effect (1+2+3)	<u>(108.541.978)</u>	<u>108.541.978</u>
5- EURO net asset/liability	(45.887.669)	45.887.669
6- Hedged portion from EURO risk (-)	19.754.411	(19.754.411)
7- Effect of capitalization (-)	1.183.200	-
8- EURO net effect (5+6+7)	<u>(24.950.058)</u>	<u>24.950.058</u>
9- Jap. Yen net asset/liability	(15.911.358)	15.911.358
10- Hedged portion from Jap. Yen risk (-)	-	-
11- Effect of capitalization (-)	-	-
12- Jap. Yen net effect (9+10+11)	<u>(15.911.358)</u>	<u>15.911.358</u>
13- Other currencies net asset/liability	-	-
14- Hedged portion from other currency risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Other currencies net effect (13+14+15)	<u>-</u>	<u>-</u>
TOTAL (4+8+12+16)	<u>(149.403.394)</u>	<u>149.403.394</u>

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

NOTE 29– NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

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

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency against	Depreciation of foreign currency against
31 December 2011		
1- US Dollars net asset/liability	(165.243.421)	165.243.421
2- Hedged portion from US Dollars risk (-)	11.652.130	(11.652.130)
3- Effect of capitalization (-)	-	-
4- US Dollars net effect (1+2+3)	(153.591.291)	153.591.291
5- EURO net asset/liability	(48.587.058)	48.587.058
6- Hedged portion from EURO risk (-)	20.400.537	(20.400.537)
7- Effect of capitalization (-)	1.221.900	-
8- EURO net effect (5+6+7)	(26.964.621)	26.964.621
9- Jap. Yen net asset/liability	(17.898.469)	17.898.469
10- Hedged portion from Jap. Yen risk (-)	-	-
11- Effect of capitalization (-)	-	-
12- Jap. Yen net effect (9+10+11)	(17.898.469)	17.898.469
13- Other currencies net asset/liability	-	-
14- Hedged portion from other currency risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Other currencies net effect (13+14+15)	-	-
TOTAL (4+8+12+16)	(198.454.381)	198.454.381

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

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

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NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

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

Cross currency and interest rate swap agreements:

As of 31 March 2012 and 31 December 2011 the details of the cross currency and interest rate swap agreements are provided in the table below:

31 March 2012	Average agreement exchange rate	Sales with original currency	Purchases with original currency	Original currency (TRY equivalent)	Agreement value (TRY equivalent)	Fair value
Cross currency and interest rate swap agreements:						
TRY sale/ US Dollars purchase	1,4568	89.863.099	61.687.385	89.863.099	76.766.813	13.096.286
Between 1-5 years						
TRY sale/ EURO purchase	2,0825	173.843.160	83.478.750	173.843.160	161.386.509	12.456.651
More than 5 years						
						25.552.937
						25.552.937
31 December 2011	Average agreement exchange rate	Sales with original currency	Purchases with original currency	Original currency (TRY equivalent)	Agreement value (TRY equivalent)	Fair value
Cross currency and interest rate swap agreements:						
TRY sale/ US Dollars purchase	1,4568	89.863.099	61.687.385	89.863.099	67.177.484	22.685.615
TRY sale/ EURO purchase	2,0825	173.843.160	83.478.750	173.843.160	149.480.382	24.362.778
More than 5 years						
						47.048.393
						47.048.393

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

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

Additional information about financial instruments (cont’d)

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

Forward agreements

As of 31 March 2012 and 31 December 2011 the details of the forward agreements of the Group are provided in the table below:

31 March 2012	Average agreement exchange rate	Sales with original currency	Purchases with original currency	Original currency (TRY equivalent)	Agreement value (TRY equivalent)	Fair value
Forward agreements:						
EURO sale/ US Dollars purchase	1,3236	58.549.395	77.991.115	138.551.288	138.939.274	(387.986)
US Dollars sale/ EURO purchase	1,3212	2.668.824	2.020.000	4.731.558	4.681.440	50.118
US Dollars sale/ TRY purchase	1,8409	5.000.000	9.204.500	8.864.500	8.680.083	184.417
Less than 3 months						
EURO sale/ US Dollars purchase	1,3143	22.795.308	29.991.518	53.942.817	54.749.870	(807.053)
3-6 months						
						(960.504)

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

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

Additional information about financial instruments (cont’d)

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

Forward agreements

31 December 2011	Average agreement exchange rate	Sales with original currency	Purchases with original currency	Original currency (TRY equivalent)	Agreement value (TRY equivalent)	Fair value
Forward agreements:						
EURO sale/ US Dollars purchase	1,3838	38.520.000	53.220.574	94.135.176	87.724.410	6.410.766
US Dollars sale/ EURO purchase	1,3479	3.369.750	2.500.000	6.365.121	6.620.123	(255.002)
Less than 3 months						
EURO sale/ US Dollars purchase	1,3619	18.412.803	25.335.830	44.997.208	42.175.000	2.822.208
US Dollars sale/ EURO purchase	1,3478	4.043.250	3.000.000	7.637.699	7.941.633	(303.934)
3-6 months						
						8.674.038

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

NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

(g) Interest rate risk management

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

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

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

Interest rate sensitivity

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

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

Interest position table

	<u>31 March 2012</u>	<u>31 December 2011</u>
Floating interest rate financial instruments		
Financial liabilities	1.574.939.670	1.794.671.472

In addition to these, as of 31 March 2012, the amount of the Group’s financial loans is TRY 1.179.008.920 of which the floating interest rates have been fixed by the hedge purposed agreements (31 December 2011: TRY 1.167.209.631) (Note 6).

For the year round, if the US Dollars, EURO and Jap. Yen denominated interest rates increase/decrease by 100 base points in TRY, 50 base points in US Dollars and EURO and 25 base points in Jap.Yen respectively ceteris paribus, the profit before taxation and non-controlling interest after considering the effect of capitalization and hedging would be lower/higher TRY 1.898.308 (31 March 2011: TRY 4.868.057).

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

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NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

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

Interest rate swap agreements

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

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

31 March 2012

<u>Unrealized agreements with fixed payments and floating interest receipts</u>	<u>Average fixed interest rate of the agreements</u>	<u>Nominal amount(*)</u>	<u>Fair Value</u>
Less than 1 year	1,83%	26.760.251	(247.392)
Between 1-5 years	1,52%	333.938.811	(5.212.701)
More than 5 years	1,47%	539.715.340	(6.059.521)
		<u>900.414.402</u>	<u>(11.519.614)</u>

31 December 2011

<u>Unrealized agreements with fixed payments and floating interest receipts</u>	<u>Average fixed interest rate of the agreements</u>	<u>Nominal amount(*)</u>	<u>Fair Value</u>
Between 1-5 years	1,87%	327.771.624	(5.206.901)
More than 5 years	1,37%	544.003.200	(4.766.493)
		<u>871.774.824</u>	<u>(9.973.394)</u>

(*) In order to hedge against the interest rate risk of the borrowings with floating rates, the Group trades floating interest rates with fixed rates by making swap agreements. The fair value of the interest rate swap agreements with a nominal amount of TRY 900.414.402 (31 December 2011: TRY 871.774.824) is found to be effective. The fair value of such agreements which is categorized as cash flow hedges, is recognized under equity with its deferred tax effect and non-controlling interest deducted as TRY (8.702.257) (31 December 2011: TRY (7.548.947)).

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NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

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

Cross currency and interest rate swap agreements

31 March 2012

Unrealized agreements with fixed payments and floating interest receipts	Average fixed interest rate of the agreements	Nominal amount(*)	Fair Value
TRY sale / US Dollars purchase Between 1-5 years	7,22%	89.863.099	13.096.286
TRY sale / EURO purchase Over 5 years	10,65%	173.843.160	12.456.651
		<u>263.706.259</u>	<u>25.552.937</u>

31 December 2011

Unrealized agreements with fixed payments and floating interest receipts	Average fixed interest rate of the agreements	Nominal amount(*)	Fair Value
TRY sale / US Dollars purchase Over 5 years	7,22%	89.863.099	22.685.615
TRY sale / EURO purchase Over 5 years	10,65%	173.843.160	24.362.778
		<u>263.706.259</u>	<u>47.048.393</u>

(*) In order to hedge against the interest and foreign exchange rate risk of the Euro and US Dollars borrowings, the Group trades floating interest rates with fixed rates and Euro and US Dollars amounts with TRY amounts by making cross currency swap agreements. The fair value of such agreements which are categorized as cash flow hedges and found to be effective, with nominal amount of TRY 263.706.259 (31 December 2011: TRY 263.706.259) is recognized under equity net off its deferred tax effect, unrealized foreign exchange gain/losses and non-controlling interests as TRY (13.090.309) (31 December 2011: TRY (7.234.408)).

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NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

(h) Liquidity risk management

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

Liquidity risk tables

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

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

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

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NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

(h) Liquidity risk management (cont’d)

31 March 2012

<u>Contractual maturity analysis</u>	<u>Book value</u>	<u>Total cash outflow per agreement (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Non derivative financial liabilities						
Borrowings from banks	4.519.515.345	5.097.596.154	731.708.317	858.827.113	3.157.165.910	349.894.814
Trade payables	467.811.614	468.772.858	266.693.471	202.079.387	-	-
Other financial liabilities (*)	420.398.976	420.398.976	415.352.030	5.046.946	-	-
Total liabilities	5.407.725.935	5.986.767.988	1.413.753.818	1.065.953.446	3.157.165.910	349.894.814
Derivative financial liabilities						
Derivative cash inflows	26.921.438	615.013.671	198.955.335	100.405.388	281.022.409	34.630.539
Derivative cash outflows	(13.848.619)	(630.050.293)	(202.686.828)	(104.721.319)	(290.532.906)	(32.109.240)
	13.072.819	(15.036.622)	(3.731.493)	(4.315.931)	(9.510.497)	2.521.299

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

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NOTE 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

(h) Liquidity risk management (cont’d)

31 December 2011

<u>Contractual maturity analysis</u>	<u>Book value</u>	<u>Total cash outflow per agreement (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Non derivative financial liabilities						
Borrowings from banks	4.777.797.197	5.425.640.574	220.981.276	1.401.912.625	3.423.854.220	378.892.453
Trade payables	533.658.160	534.828.193	209.559.162	325.269.031	-	-
Other financial liabilities (*)	188.173.615	188.173.615	165.871.553	22.212.299	89.763	-
Total liabilities	5.499.628.972	6.148.642.382	596.411.991	1.749.393.955	3.423.943.983	378.892.453
Derivative financial liabilities						
Derivative cash inflows	56.708.417	687.940.218	106.987.584	166.805.142	414.147.492	-
Derivative cash outflows	(10.959.380)	(449.425.721)	(101.178.862)	(46.858.278)	(301.388.581)	-
	45.749.037	238.514.497	5.808.722	119.946.864	112.758.911	-

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2012

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

NOTE 30 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES)

Additional information about financial instruments

Categories of the financial instruments and their fair values

	Cash and cash equivalent	Loans and receivables	Available for sale financial assets	Held for trading financial instruments	Financial liabilities at amortized cost	Derivative financial instruments through other comprehensive income/loss	Derivative financial instruments through profit/loss	Carrying value	Note
31 March 2012									
<u>Financial Assets</u>									
Cash and cash equivalents	1.080.614.898	-	-	-	-	-	-	1.080.614.898	4
Trade receivables	-	1.060.820.775	-	-	-	-	-	1.060.820.775	8
Financial investments	-	-	68.422	-	-	-	-	68.422	5
Other financial assets	-	466.212	-	-	-	-	-	466.212	9
Derivative financial instruments	-	-	-	-	-	25.552.937	1.368.501	26.921.438	5
<u>Financial Liabilities</u>									
Financial liabilities	-	-	-	-	4.519.515.345	-	-	4.519.515.345	6
Trade payables	-	-	-	-	467.811.614	-	-	467.811.614	8
Other liabilities	-	-	-	-	420.398.976	-	-	420.398.976	9/18
Derivative financial instruments	-	-	-	-	-	11.519.614	2.329.005	13.848.619	7
31 December 2011									
<u>Financial Assets</u>									
Cash and cash equivalents	1.102.710.213	-	-	-	-	-	-	1.102.710.213	4
Trade receivables	-	1.141.698.002	-	-	-	-	-	1.141.698.002	8
Financial investments	-	-	66.086	-	-	-	-	66.086	5
Other financial assets	-	497.445	-	-	-	-	-	497.445	9
Derivative financial instruments	-	-	-	-	-	47.475.443	9.232.974	56.708.417	7
<u>Financial Liabilities</u>									
Financial liabilities	-	-	-	-	4.777.797.197	-	-	4.777.797.197	6
Trade payables	-	-	-	-	533.658.160	-	-	533.658.160	8
Other liabilities	-	-	-	-	188.173.615	-	-	188.173.615	9/18
Derivative financial instruments	-	-	-	-	-	10.400.444	558.936	10.959.380	7

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2012**

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

**NOTE 30 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK
MANAGEMENT DISCLOSURES) (cont’d)**

Additional information about financial instruments (cont’d)

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

<u>Financial asset and liabilities at fair value</u>	31 March 2012	Fair value level as of reporting date		
		Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Financial assets held for trading	-	-	-	-
Derivative financial assets	1.368.501	-	1.368.501	-
Derivative financial liabilities	(2.329.005)	-	(2.329.005)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	25.552.937	-	25.552.937	-
Derivative financial liabilities	(11.519.614)	-	(11.519.614)	-
Total	13.072.819	-	13.072.819	-

<u>Financial asset and liabilities at fair value</u>	31 December 2011	Fair value level as of reporting date		
		Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Financial assets held for trading	-	-	-	-
Derivative financial assets	9.232.974	-	9.232.974	-
Derivative financial liabilities	(558.936)	-	(558.936)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	47.475.443	-	47.475.443	-
Derivative financial liabilities	(10.400.444)	-	(10.400.444)	-
Total	45.749.037	-	45.749.037	-

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2012**

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

NOTE 31 – SUBSEQUENT EVENTS

In accordance with the decision of the Board of Directors dated 15 February 2012 and numbered 9111, it was decided non-cash increase of the registered capital by 43,7209% from retained earnings and inflation adjustments to capital in total TRY 940.000.000 from TRY 2.150.000.000 to TRY 3.090.000.000 within the registered authorized capital, TRY 5.000.000.000. New shares resulting from non-cash capital increase are registered to shareholders in accordance with percentage of ownership on current shares. The procedures for the increase in capital have been completed with the registration and publication of the Capital Market Board document dated 12 April 2012 and numbered 1061 in the Turkish Trade Registry Gazette dated 17 April 2012 and numbered 8050.

**NOTE 32 – OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS
MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR,
UNDERSTANDABLE AND INTERPRETABLE PRESENTATION**

Changes in working capital are as follows:

	1 January- 31 March 2012	1 January- 31 March 2011
Current trade receivables	82.763.111	(41.414.953)
Inventories	129.371.030	(25.065.171)
Other short term receivables / current assets	8.461.142	29.342.163
Non current trade receivables	-	810.956
Other long term receivables / non current assets	2.299.595	(14.081.505)
Current trade payables	(65.846.546)	8.656.547
Other short term payables / liabilities	(44.671.710)	(6.305.825)
Other long term payables / liabilities	679.868	(15.687.285)
	<u>113.056.490</u>	<u>(63.745.073)</u>

Convenience translation to English:

The effect of differences between the Financial Reporting Standards published by the Capital Market Board in Turkey and accounting principles generally accepted in countries in which the consolidated financial statements are to be distributed and International Financial Reporting Standards (IFRS) have not been quantified in the consolidated financial statements. The differences with IFRS mainly related to the application of inflation accounting which was ceased one year later in IFRS, and the presentation of the basic consolidated financial statements and the notes to them. Accordingly, the consolidated financial statements are not intended to present the consolidated financial position and consolidated financial performance of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its subsidiaries in accordance with the accounting principles generally accepted in such countries and IFRS.